

Gas Day Change Hosted Meeting

This meeting comprised a series of presentations by industry participants and representative groups on progress and thinking around the legislative requirement to change GB's gas day

Date and time of Meeting	12 February 2014 at 14:15pm
Location	Ofgem's offices, 9 Millbank, London SW1P 3GE

1. Welcome

- 1.1. The purpose of the meeting was to continue to provide an industry open forum regarding the change to Great Britain's ("GB's") gas day. At participants' request, the meeting was held under Chatham House Rule.
- 1.2. Ofgem's Head of European Wholesale Markets welcomed attendees, and observed that implementing the gas day change successfully will require collaboration between Ofgem, the Department of Energy and Climate Change ("DECC"), National Grid Gas ("NGG") and stakeholders across industry. He noted that European Union ("EU") law requires GB to change its gas day and the change is not optional. He noted that EU infraction penalties may be a fixed lump sum, a recurring fine until the infraction is rectified, or a combination of the two.
- 1.3. A representative from DECC introduced himself and commented that DECC is currently recruiting for a long-term contact for the European Network Codes following a personnel change.
- 1.4. The chair set out the running order for the afternoon and welcomed participants.

2. Modification 0461 Update

- 2.1. NGG presented an update on Uniform Network Code ("UNC") modification proposal UNC0461, which seeks to align the gas day in the UNC with the EU legislative definition of gas day. UNC0461 will be voted upon by the UNC Panel at the meeting on Thursday 20 February. This follows an industry consultation on UNC0461 from 19 December 2013 to 27 January 2014.
- 2.2. The changes proposed in UNC0461 consist of changing the time gas day starts and ends, as well as other times within the UNC that would need to be adjusted to accommodate the change. This is a minimal impact approach that was worked up with industry at UNC workgroup.
- 2.3. NGG presented a summary of the industry consultation responses. There were 18 respondents: 9 in support, 1 qualified supporting, 6 not in support and 2 with comments.
- 2.4. Those supporting (consisting of 3 gas transporters and 6 GB shippers) agreed that UNC0461 met the Relevant Objectives of the UNC but had concerns over the wider impacts of changing the gas day. These concerns were raised across all the responses. The qualified supporting responses also raised concerns over the wider impacts and requested that an impact assessment is undertaken.
- 2.5. The responses not in support of UNC0461 (all from upstream parties, some of which have shipping arms) saw significant costs with no real benefit in GB. The responses suggested that UNC0461 extends beyond the requirements of the Capacity Allocation

Mechanism in Gas Transmission Systems ("CAM") Network Code; that no detailed cost-benefit analysis had been done; and, that there would be difficulties with operating two gas days if upstream decided to remain on a 6am-6am gas day while downstream changed to 5am-5am.

2.6. The comments received in the last two responses reiterated the concerns of the other respondents: that CAM is only applicable at interconnection points meaning UNC0461 goes beyond CAM, and that operating two gas days is not a viable option, as it would complicate balancing arrangements.

2.7. Following the UNC Panel vote on UNC0461 on 20 February 2014 and subject to Ofgem's decision to approve or reject UNC0461, the proposed implementation date is 1 October 2015. NGG believe this is a challenging but achievable timeline.

2.8. There were no questions following NGG's presentation.

3. An Upstream View on Proposed Gas Day Change

3.1. A representative from Oil and Gas UK ("OGUK") presented their view that EU Network Codes do not mandate a change in GB's gas day.

3.2. OGUK summarised some of their views and arguments for keeping the current gas day, including that: DECC's 2010 impact assessment on the Third Package didn't mention the change in gas day; that changing the gas day would, in OGUK's view, fail a cost-benefit analysis as the costs are so great; UK terminal and offshore operators cannot meet the proposed 1 October 2015 deadline. Additionally, the change poses unnecessary risks to the operation and commercial integrity of the National Transmission System ("NTS") and National Balancing Point ("NBP") market if upstream remain on 6am-6am gas day while the downstream changes its gas day to 5am-5am. The costs would be passed on to NTS users and indirectly, at least in part, on to consumers.

3.3. With regard to the EU Network Codes, OGUK argued that: (i) the Capacity Allocation Mechanism ("CAM") Network Code only applies to interconnection points ("IPs") (Article 2, paragraph 1) and that domestic points are excluded, so it therefore does not require a change to GB's domestic gas day; (ii) the Balancing Network Code ("Balancing") (in Article 3) refers to the CAM Network Code definitions (Article 2) and details separate provisions for IPs (Article 14-17) and domestic points (Article 18) and doesn't change the scope of CAM; and, Balancing is aimed at Member States without entry/exit systems, not at the UK.

3.4. OGUK therefore argued that UNC0461 is being pursued on a false premise and goes beyond the legislative requirements. They argued this does not align with the Third package aim to liberalise the markets and that since raising UNC0461, the 'wider industry impacts' have become clearer. Overall, OGUK argue that the primary aim of the EU Network Codes to facilitate cross-border trading of gas at IPs is not being fulfilled by changing the GB gas day.

3.5. Offshore is not legally obliged to change their gas day but is negatively affected by the change. The conclusion of the current course of action proposed by Ofgem is a mismatch between the UK upstream (6am-6am) and downstream (5am-5am) gas days with likely adverse consequences for the commercial and physical integrity of the NTS. In the event that the UK upstream is forced to follow the change in the GB downstream gas day, then commercial agreements will have to be revised, IT systems changed and meters changed. Changing the downstream gas day alone does not require these changes upstream.

3.6. OGUK commented that it is essential that gas which is identified at the NTS-entry is attributed fairly to shippers and that this depends on the Claims Validation ("CV") process to avoid misallocations of revenues.

3.7. A summary of the upstream costs of changing the gas day upstream were presented. The costs have been divided into three categories: (i) IT systems, which are often bespoke and never before updated; (ii) Metering systems changes, which require manual change with some operators unsure as to whether theirs can be altered; and, (iii) Commercial agreements, many pre-dating the UNC. Estimated costs for upstream are 'at least £40-50 million.'

3.8. OGUK talked through the steps they have so far taken to resolve the issues they see, which include: participating in the open meetings hosted by Ofgem since July 2013; convening joint Gas Forum / OGUK meetings since August 2013; organising industry meetings (for example with National Grid) since December 2013; meetings with Ofgem and DECC; and writing to the DECC Minister, Michael Fallon, with the Gas Forum.

3.9. OGUK presented their recommended course of action. They would like UNC0461 to return to workgroup for further assessment of the wider industry impacts, or a postponement of the approval process and implementation. OGUK no longer see it as necessary to modify CAM; if the European Commission does not accept OGUK's arguments that CAM and Balancing do not require a change to GB's gas day then they will explore clarification of this position through another code, for example, the Interoperability Network Code, to make GB exempt from changing its downstream gas day by demonstrating there is no adverse effect on other Member States. The change to the gas day could therefore be limited to IPs i.e. Bacton, to ensure UK compliance. OGUK recommended that Ofgem and NGG engage with the interconnectors and also liaise with other National Regulatory Authorities ("NRAs") and Transmission System Operators ("TSOs") on the Irish side in this regard. OGUK also recommended that Ofgem and DECC conduct a full cost-benefit analysis including 'wider industry impacts' focusing on the impacts on Claims Validation issues and running GB on a different day from the continent.

3.10. OGUK went over their view of the consequences of keeping the gas day unchanged. They said the least cost option is to keep the change limited to IPs and for the interconnectors to manage the difference with the continent, which they consider should not adversely affect any EU consumer and would not require a change to the Claims Validation Agreement ("CVA").

3.11. OGUK were asked if they had received legal advice on their arguments, to which they responded that the comments presented were also the view of their internal legal advisor.

3.12. When asked how GB would be compliant if the IP on the GB side remained on a 6am-6am gas day, OGUK replied that they considered that a solution could be found by relevant TSOs and their respective regulators.

3.13. An audience member commented that running a different gas day upstream from downstream would result in misallocation of revenue and gas, leading to cash flow problems. They considered that industry is therefore concerned about the early abandonment of gas fields and disincentivising new ventures. They felt that if producers have no confidence that they will be paid for what they supply they could opt to sell at the beach to aggregators, as opposed to the NBP, reducing competition. Another participant commented that the allocation system is hard-coded at a 6am-6am gas day.

3.14. NGG confirmed that UNC0461 is to ensure compliance with both CAM and Balancing Network Codes. It was also confirmed that Ofgem's and NGG's interpretation of the European Network Codes is the same.

3.15. A participant said that to run a dual gas day, an amendment to the rules at Bacton would be needed, and it could be an issue with required bundling rules. The OGUK representative commented that it would probably be easier with a two TSO bundle.

4. Shipper view of gas day change

4.1. A representative for the Gas Forum spoke by phone on shippers' views on the change. The impact on downstream is quite limited and has been expressed through the UNC modification process. They noted that industry is still waiting for definitive costs from NGG and Xoserve. The main concern has always been upstream and associated commercial risks and therefore the Gas Forum has been supportive of OGUK to date. The Gas Forum has yet to explore OGUK's legislative interpretation point.

4.2. A participant gave the view that the Gas Forum would like to explore the least cost way of making the change, and address safety issues. They considered that if GB can comply in a different way to that which Ofgem is proposing, then that would be most welcome.

5. Claims Validation

5.1. A representative of Claims Validation Services Limited ("CVSL") presented an overview of the potential impacts of the gas day change on the current claims validation services. He observed that claims validation is central to data flows across industry, as a result of two key agreements: the Claims Validation Services Agreement ("CVSA") between shippers and trader principals, and the Claims Validation Information Agreement ("CVIA") between shippers and producers. He also observed that offshore trades are a significant data flow that the CVSA covers.

5.2. He considers the gas day change is likely to have a significant impact on CVSL. The CVSA and CVIA specifically require data to be submitted to CVSL with a gas day commencing at 6:00. The CVSA can be amended, but any change would require 75% of the votes to be cast in favour. The CVIA requires unanimous consent to amend, which in practice may be impossible to obtain. Producers have so far expressed reluctance to amend the CVIA as they remain uncertain that the gas day change will be implemented.

5.3. CVSL summarised the methodology used to estimate the misallocated costs of running a dual gas day upstream and downstream. The Daily Quantity ("DQ") in October 2013 was used as an example DQ for estimation purposes as it fell neither in mid-summer nor mid-winter. As set out in more detail in CVSL's presentation document, some terminals anticipate changing to 5:00-5:00, so these and interconnectors and Liquefied Natural Gas ("LNG") facilities were subtracted from this DQ figure. On the assumption that the system will be 0.3% oversold and using a gas price of 70p/therm, the presenter estimated that the monthly total would be £3.6 million (£43 million/year). The presenter stressed that this is one of several possible scenarios and is dependent on the assumption of what percentage is oversold. He also commented that he considered that costs could diverge from his estimates and did not wish them to be considered binding.

5.4. CVSL noted that fields approaching the end of their lifespan may feel the effects disproportionately, so it is possible that the estimated recurring cost could dwindle over time. Based on historical precedent, the presenter expected the estimated costs to fall predominantly on shippers. He suggested that the estimated cost might provoke a behavioural response in the industry for their future development of small fields. He also noted that dual gas days may affect market liquidity. He added that there will be winners and losers across industry.

5.5. The calculation of the DQ is a process rather than an event, as the DQ can be revised (generally upwards) for up to six weeks following any given gas day. CVSL has the ability to query NGG's estimates, and there is a concern about a bias towards terminals being oversold if the CVIA were not in effect. The presenter observed that no one appears to have factored in the possibility of requiring a UNC mod every time a gas day needed to be reopened, and he could not see any benefits to this.

5.6. Shipper cash calls are another impact that has not previously been raised. Shipper cash calls spiked following the financial crisis as a means of reducing shipper credit limits. CVSL frequently reruns gas flow days on request to reduce cash calls on shippers by NGG.

5.7. CVSL suggested that paying an infraction fine might be a suitable alternative. Another solution suggested to ensure that CVSL can continue to run as it currently does might be for NGG to ensure that CVSL can process data from upstream and shippers on a 6:00am gas day regardless of timings across other parts of industry, as CVSL will be unable to manage a difference.

5.8. An attendee asked if anyone stood to gain from the costs outlined above, as they appear to be misallocations of revenue rather than additional costs. The presenter responded that on any one individual day, the cost of overselling may be regarded as a misallocation. But over a series of days market participants will modify their behaviour to avoid the burden of misallocations. What measures they take may remove misallocations, but impose other costs elsewhere. For example, someone who is not getting paid for all their gas at the beach may stop delivering to the beach - the true cost is not therefore a misallocation, but the loss of liquidity in the beach market or reduction in competition that may ensue.

5.9. An attendee asked what the process would be for moving to a 5:00am gas day. The presenter responded that producers would have to sign a document stating that they could match the new 5:00am DQ, with a disadvantage to anyone unable to do so. It would not be possible for upstream to run both gas days; they would either all have to change or all remain on 6:00am. He expressed doubt that producers would all agree to sign a new CVIA operating on a 5:00am gas day.

5.10. An attendee asked what small fields might expect in return for signing a new CVIA. Another attendee commented that it took 2.5 years to sign the current CVIA, which did not involve additional metering or allocation changes. He also commented that this process could be chaotic and costly but did not wish to imply that it was impossible.

6. NTS Wider Industry Impacts (Beyond the UNC)

6.1. National Grid expressed their thanks for the interesting range of views expressed at the meeting so far. The presenter reiterated her expectation that the gas day will change due to legal requirements.

6.2. The presenter outlined NGG's view of an overall timeline for implementing the gas day change, with aspects including UNC0461, a licence modification process, contractual changes, gas measurement equipment changes and ongoing stakeholder engagement. She also outlined the estimated system implementation timeline for Xoserve and NGG Information Systems ("NG IS"), which covers "Phase 2" of NGG's EU Network Code implementation as well as the gas day change.

6.3. NGG have been working with key upstream stakeholders, including OGUK, CVSL and the Gas Forum, to assess the feasibility of operating dual gas days. They have so far identified key information flows between onshore and offshore parties, and are assessing the impacts of operating on a dual gas day basis. Their initial assessment suggested that dual gas days could be feasible as long as stakeholders could deliver Delivery Flow Notifications and nominations according to a 5:00am gas day. The likelihood of this has yet to be determined.

6.4. An attendee asked whether NGG had considered the safety case. The presenter responded that NGG have not yet discussed this question with the Health and Safety Executive ("HSE") but further work would be done as this is potentially a risk area.

6.5. An attendee asked what NGG plan to do in the event that industry is unable to provide the necessary agreements. The presenter responded that NGG is considering this and would make Ofgem aware of any risks as early as possible.

7. Closing Remarks

7.1. The chair noted industry's desire for an impact assessment. She explained that Ofgem considers whether to conduct impact assessments when carrying out any of its functions, for example taking a decision on a code modification. In the case of a decision on a code modification proposal, Ofgem's impact assessment would consider the impacts of a decision to approve, or reject, the modification proposal to assist us in reaching an informed decision.

7.2. An attendee asked whether the impacts considered would also include upstream. The chair noted that if an impact assessment were conducted on UNC0461, then wider impacts may be considered but that industry would need to provide cost information. The attendee commented that, although he does not consider the gas day change beneficial, he would be willing to provide anonymised cost information if requested. He encouraged Ofgem to focus on areas where it can benefit consumers through its work. The chair expressed her gratitude for the willingness to provide cost information for a possible impact assessment.

7.3. An attendee asked if Ofgem can reject a code modification proposal if it considers that the relevant objectives are disadvantaged. The chair responded that the code panel would assess whether the proposal better facilitates the code objectives. Ofgem, in reaching its decision, would consider any impacts against each of the UNC relevant objectives and, if necessary weigh up these impacts (if some are positive and some are negative). Ofgem would then consider its principal objective and statutory duties in reaching the final decision.

7.4. Ofgem's Head of European Wholesale commented that he had heard a variety of views during the meeting, which is reflective of Ofgem's commitment to open discussion. He expressed concern at the lack of clarity expressed regarding GB's legal obligations to implement the gas day change, and emphasised that the clock is ticking on the time available for implementation. He made it clear that Ofgem understands the need to implement the change at least cost, but reiterated that the legal obligation exists and is not an open question. Ofgem and DECC will provide further clarity on this point.

7.5. The chair said she hoped attendees had found the meeting helpful and interesting. The next milestone will be the UNC Panel vote on UNC0461 on 20 February 2014, and following that Ofgem will decide whether it is appropriate to conduct an impact assessment. She concluded by inviting ongoing dialogue via gasday@ofgem.gov.uk.