

Future of Gas Forum Steering Group Note of First Meeting

*11 September 2019, 10:30-13:45 hrs, at National Grid, 1-3 The Strand, London WC2N 5EH
Note prepared by National Grid Gas System Operator as Steering Group Secretariat.*

Welcome and introductions

Chris Logue (Acting Chair) welcomed members of the Group, noting the importance of bringing together representatives of such a diverse range of stakeholders to evolve gas market frameworks within a common structure as we move through the energy transition. The Group would drive the Gas Markets Plan (GMaP) strategic direction, agree priorities and sponsor projects.

Chris explained that Cathy McClay (Head of Future Markets, National Grid System Operator) was due to Chair the Group but had recently announced she was leaving National Grid. Chris will Chair on an interim basis.

Members of the Group, and alternates for members unable to attend, introduced themselves before moving on to discussion of agenda items.

1. Starting the Gas Markets Plan (GMaP)

Neil Rowley, National Grid, reminded Members of the context of the Steering Group and GMaP. The progress with decarbonisation has been good to date, largely due to the reduction of coal power generation but the view of many that the challenge from here gets greater:

- How we will further decarbonise power generation: carbon, capture, usage and storage (CCUS development, role of demand side response (DSR), interconnectors and nuclear, to provide the necessary support to renewables?
- Transport: although we have a clear trajectory from the Government ambition to stop selling fossil fuel cars by 2040, there are many 'how' questions on achieving this.
- Heat: arguable the most challenging sector to manage due to higher costs to decarbonise and the potential disruption to home owners.

These require big decisions, many to be made in the 2020s. There is still a great deal of uncertainty about future direction, which will be influenced by energy policy, commercial developments and environmental priorities.

The GMaP initiative aims to bring a collective gas industry plan for evolving market frameworks in agile ways, so that whatever future we move towards, the market does not become a blocker and we continue to deliver fantastic value to end consumers.

Members discussed how the GMaP fits with Ofgem's Governance Review and the proposal to form a strategic body, independent of the industry. It was agreed that actions that can be taken to evolve the gas market frameworks in response to stakeholder feedback need to be progressed now. If a strategic body is formed in the future, the Group will review how the GMaP process can be positioned with that.

The GMaP was a commitment in the Future of Gas: How gas can support a low carbon future (March 2018). Since then we've seen the target move to net zero by 2050 which increases the urgency for action and for markets to play their parts. The GMaP approach to delivering proactive gas market change can be summarized as follows:

- Industry collaboration: on how best to address the challenges of the future. This is about how we come together to share two-way information that can aid in future direction of the market. This will include the Future of Gas Forum, through research and projects, and educating stakeholders to enable broad participation, as well as the Future of Gas website.
- Industry planning: Development of the GMaP aims to provide a process to help us collaboratively evaluate and agree what things should be taken forward and prioritise those. The Group will take a leading role, giving cross sector representation, to help steer and prioritise the issues under GMaP.
- Industry action: we need to undertake projects that address the issues identified. These should complement and be collaborative with other relevant projects. The outputs should further our understanding of market evolution, leading to appropriate market change. Projects do not necessarily need to be taken forward by National Grid, although it recognises this may be the case initially.

The aim is to create a process whereby future states can be considered in relation to market requirements in anticipation of when they may be needed. Members asked what is meant by gas: natural gas or gas flowing through a pipe? There is a lot of confusion in the industry so it is important to be clear. National Grid explained the intention was gas in the broadest sense.

In response to questions, National Grid confirmed that the GMaP would be a rolling 12-month programme. Projects could provide a range of outputs, which could include reports, recommendations, Unified Network Code (UNC) or licence change proposals. It is anticipated that Group members will sponsor projects relevant to their knowledge and skills, with strategic leadership provided by the whole Group. While National Grid has led the GMaP initiative to date, the ambition is for it to move rapidly from stakeholder-informed to stakeholder-led, with their agreement on priorities which the Group agreed was likely to achieve.

Evolving this process is important, and feedback to shape the work will be valued. The Group supported an annual GMaP publication, the first in November 2019, to communicate the aims and priorities, highlight policy, regulatory and market developments, and report on progress with active work packages.

Members were asked for the following outcomes from this first Group meeting:

- their views on the approach
- debate on the areas the Group would like to focus on over the first year
- agreement to the next steps proposed covering the first year milestones
- agreement to the Terms of Reference.

2. GMaP Approach and Projects

National Grid presented its proposed approach to identifying the market frameworks projects needed in the uncertain, medium-term future, which is to consider change in two categories:

- i) Likely change: those we expect due to, eg, existing policy and/or market developments that will cause gas to be supplied or used differently in some way. This category allows for planning with more clarity, developing more detailed problem statements and isolating particular areas of market impacts.

- ii) Potential change: less certain, as policy and market direction not set. For example, shale gas, where there is some progress but it is far from clear whether it will develop to any significant volume. This brings in higher levels of uncertainty yet is typically something not explicitly managed in the UNC. This kind of issue may require a broader look at how such changes could affect the frameworks. There are two ways to approach this category: i) wait until more certainty is available; or ii) start by considering the issue more broadly. It is considered that the latter will allow GMaP to match other industry developments and narrow down topics as appropriate.

Members asked whether National Grid has used Future Energy Scenarios (FES) to inform which scenarios fall into which category and whether GMaP is intended to reflect regionalised change. National Grid explained that it has considered whether a change is a trend in categorising it. On regionalisation, if a change can happen anywhere then there will be a market impact to consider through GMaP.

National Grid gave an overview of a map out to 2030, which illustrated the main issues within the “Likely” and “Future” change categories. Members suggested the focus of this diagram could be helpfully changed to show where there would and would not be methane, and also to show the gas and electricity interactions. In response to an observation that electricity stakeholders were not represented on the Group, it was agreed that they could be drawn in as appropriate and, in the case of the Electricity System Operator, in line with ring-fencing arrangements.

The discussion moved to identifying projects and how to prioritise them, using two charts to show the relative placement of projects on axes of certainty of future v consumer value. For “Likely” projects the key aspect is to consider what work packages would lead to the highest consumer value, as project output can be linked to more direct change and hence direct consumer value. For the “Potential” category topics the focus is the disruptor factor and the speed at which the situation could develop.

The charts are a concept to narrow options down, not a fully mechanistic approach with scoring criteria behind each item.

Members gave considerable focus to consumer value being at the heart of GMaP. Several suggesting that a societal benefit focus/ranking may be a more holistic way to prioritise the projects, to bring in aspects such as air pollution. It was agreed that the Group would spend more time on considering how best to measure consumer value at future meetings.

Members noted the huge role that Ofgem and BEIS have to play in policy development but also the importance of the GMaP in influencing that policy. BEIS commented that it is important not to wait for policy decisions but instead to progress low regrets work, being aware of the sensitivities if a policy decision were to come. BEIS noted the huge challenge around gas in the energy sector and society, and welcomed National Grid’s initiative in pushing ahead to get some of the answers.

It was suggested that the Group should consider the move towards multiple energy vectors and to sophisticated energy trading towards 2030. Joe Howe agreed to share information on Energy Revolution Funding around the country to inform this.

Discussion of “Likely” work packages

Bill Goode of National Grid presented the “Likely” work packages identified: balancing; charging; capacity and gas quality, recommending that balancing be taken forward as a GMaP project. It could consider aspects such as DSR, cash-out methodologies but a

scoping workshop would be held to confirm the focus. The Group was asked for its views on this recommendation.

A member sought further information on the underlying detail of what aspects of the existing balancing regime were not fit for purpose, or whether we foresee an issue with people not balancing the network, or commercial reasons. Or is it just that the industry has not considered this issue for around ten years? National Grid explained that the project would consider if the current regime is maximising consumer value and driving the right behaviours. Members went on to question whether this could be broader than balancing and bring in scheduling, with demand becoming unpredictable. It was accepted that not all projects would result in a recommendation for change.

On the prioritisation process, the Group commented that where there is on-going industry work a topic should be deprioritised. It was agreed that a gap analysis to identify areas not currently being investigated should be conducted. Linked to that, the Group felt there was a role for GMaP and its engagement processes in educating stakeholders about ongoing initiatives. Charging Futures and Power Responsive were given as good examples. It was noted that many of those projects will provide data but not deliver real change, so it was important to make people aware of that.

It was also noted that the messaging from the Group and in the GMaP publication was important. For example, we did not want to say merely that it was deprioritising charging but explain the rationale was to let the imminent charging amendments bed-in before any review.

A member suggested that a valuable and impactful project that could deliver quick results was to consider widening the GSMR range soon, in readiness for various new gases to be accommodated. The possible benefits were likened to the electricity system “connect and manage” approach from Government which had resulted in a more agile market. Chris Logue acknowledged that widening the gas specification had already been done in some European countries. Others noted that details of gas quality projects do not always reach a wide audience and hence GMaP could help to clarify technical versus commercial aspects.

It was agreed that GMaP will include a gas quality project in 2020. This would give an overview of gas quality work in the industry and recommend how to address the gaps, considering the Government announcement in the Spring Statement that a requirement for a greener gas grid is likely.

Discussion of “Potential” work packages

Imran Abdulla, National Grid, presented the Potential work packages: hydrogen; shale; biomethane and bioSNG; EU future energy trends; and gas and electricity market coupling. It was recommended to the Group that the hydrogen work package be prioritised.

It was agreed that hydrogen was a good, no regrets area of work and to plan a pathway up to and including 100% H₂ networks. The GMaP should pull together a comprehensive view of what is already going on for hydrogen across the industry. The project should not be focused too narrowly, and should consider different market models (localised and national), interdependency with CCUS and have no aspects pre-determined by the existing gas market design. It should have the potential to consider public acceptability. By focusing on this topic, the Group would also be sending market signals that hydrogen is viewed as a possibility. The Group noted that it may be helpful to distinguish between hydrogen and the supplying technology, and reference gas as vector for harnessing surplus renewable power.

On other Potential work packages, BEIS considered that these should reflect that the uncertainty of the EU/single energy market impacts on all aspects of the potential timeframe, and should not be treated as a specific work area. This was agreed.

Project components and principles

Neil Rowley, National Grid, explained the project components and principles the GMaP process proposed to adopt and sought feedback:

The minimum project components would be: Problem Statements; scope of Project; Project Structure and Governance; Benefits and Success Criteria; Engagement Model; Defined Timescales; Costs and Resources; Implement Next Steps.

Project principles:

- **Open, transparent and collaborative projects**, with publicly available project scopes and outputs
- **Clear ways for all stakeholders to engage and input**, all stakeholders given opportunity to be kept abreast of projects' progress and a route to input into the projects
- **Agile, fast moving projects**, projects that focus on delivering consumer benefits at the earliest opportunity
- **Facilitation of change to frameworks through existing market change mechanisms**, GMaP projects are **not** an alternative route to changing market frameworks, but could be utilised in accordance with existing market change mechanisms
- **Independent**, a Steering Group Sponsor(s) could provide vital project leadership and independent governance
- **Forward thinking strategic market change**, avoiding the gas market being a barrier to the energy transition

3. Programme next steps

Bill Goode gave an overview of the critical points for GMaP over the next year:

- First GMaP publication, November 2019
- Second Future of Gas Forum, January 2019
- Second Steering Group, 12 February 2020 (subject to agreement)
- Third Steering Group, 13 May 2020 (subject to agreement)
- Third Future of Gas Forum, June 2020.

It was agreed that education pieces in between on the Future of Gas website and articles or videos by Steering Group members on key topics would be important to keep the discussion going with stakeholders.

4. Terms of Reference

- Elaine Baker, National Grid, explained that this review had deliberately been left until the end of the first meeting so that the Group could bring that experience to bear in providing comments. Elaine gave an overview of the **2019-20 objectives**: stakeholder engagement and education; and leadership on gas market framework changes.

The scope of the Group had been amended from the first draft ToR to remove the restriction to just NTS market frameworks, which the Group agreed.

On membership, one vacancy had arisen as soon as the Group was announced as Tony Diccio had left Energy Systems Catapult and that organisation could not fill the role. It was proposed that the vacancy remain for now, for review at the third Steering Group meeting when members may identify a stakeholder group not representative.

Members agreed they would prefer to fill the vacancy now so the new member could contribute to the debate at the start. It was suggested that contact be made with Innovate UK and UKERC to invite nominations.

5. AOB and meeting close

National Grid reminded members that minutes would be circulated within five working days of the meeting, together with slides that could be shared with stakeholders.

National Grid had issued a Press Notice to mark the first Steering Group and to communicate the GMaP objectives, which would be made available on the website.

It was agreed that a list of members' contact details would be circulated to the Group.