

## Stage 01: Modification

# 0473A:

## Project Nexus – Allocation of Unidentified Gas

At what stage is this document in the process?

- 01 Modification
- 02 Workgroup Report
- 03 Draft Modification Report
- 04 Final Modification Report

This modification proposal provides an alternative solution to Mod 0473, to determine the extent to which Unidentified Gas should be allocated following the implementation of Project Nexus.



The Proposer recommends that this modification should be:

- assessed by a Workgroup



High Impact:  
Shipper organisations holding a supply point portfolio



Medium Impact:  
None



Low Impact:  
None

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## About this document:

This modification will be presented by the proposer to the panel on 15 May 2014.

The panel will consider the proposer's recommendation and agree whether this modification should be referred to a workgroup for assessment.



3 Any questions?

5 Contact:  
Code Administrator



7 [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)



8 0121 288 2107

8 Proposer:  
Graham Wood



[graham.wood@britishgas.co.uk](mailto:graham.wood@britishgas.co.uk)



07979 567686

Transporter:  
Northern Gas  
Networks, Alex Ross-  
Shaw



[aross@northerngas.co.uk](mailto:aross@northerngas.co.uk)



0113 397 5326

Systems Provider:  
Xoserve



[commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)

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# 1 Summary

## Is this a Self-Governance Modification?

The proposer does not consider that this modification meets the self governance criteria as it is likely to have a material impact upon the following self-governance criteria

- (i) (bb) *competition in the shipping, transportation or supply of gas conveyed through pipes or any commercial activities connected with the shipping, transportation or supply of gas conveyed through pipes.*

## Is this a Fast Track Self-Governance Modification?

No as Self Governance is not proposed.

## Why Change?

UNC Modification Proposal 0432 was approved by Ofgem on 21 February 2014. 0432 was raised following many years of development activity and the production of a series of agreed Business Requirements Documents, including the introduction of the 'Allocation Scaling Adjustment' methodology. The approved proposal removes the existing arrangements associated with the Allocation of Unidentified Gas Expert (AUGE) with effect from the implementation date of Project Nexus.

UNC Modification Proposal 0473 has been raised seeking to re-introduce AUGE style arrangements to determine the extent to which Unidentified Gas should be shared between market sectors.

The new individual supply point reconciliation arrangements being introduced by Project Nexus are significantly different to the incumbent RbD arrangements, therefore it is not appropriate to take a simplistic approach of re-instating the current AUGE processes and arrangements. Any future independent expert role should be suitably developed to support the new Project Nexus arrangements.

This modification proposal provides a different approach to that which is proposed by 0473, which a number of Users believe will provide a more appropriate and equitable solution.

## Solution

It is proposed that a new Independent Expert be appointed in readiness for Project Nexus go live Day 1. The Expert will be responsible, if required following assessment and analysis of evidence/data, for the development of a methodology for correcting Project Nexus allocation arrangements, which subject to consultation and approval processes will be modified and applied on an annual basis.

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## Relevant Objectives

Implementation of this modification proposal would be expected to positively impact the following Relevant Objective:

- d) Securing of effective competition
  - (i) between relevant Shippers and
  - (ii) between relevant Suppliers

The changes would result in a more accurate allocation of costs between Shippers and Suppliers.

## Implementation

No implementation timescales are proposed. However, the appointment of the independent expert is proposed to be undertaken in readiness for Project Nexus Go live Day 1, with the expert's role and activities commencing from this date.

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## 2 Why Change?

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This modification proposal provides a different approach to that which is proposed by 0473, which a number of Users believe will provide a more appropriate and equitable solution. In particular:

- Sufficient time will be available to facilitate an appropriately robust appointment process, ahead of Project Nexus Go-Live Day 1.
- Any adjustment required to allocation volumes will only be made following appropriate analysis of sufficiently matured and actually observed information/data.
- There will be a transparent fact based approach, with no attempt to presuppose the outcome of brand new settlement arrangements in the absence of any supporting evidence/data.
- Robustness of solution, no estimate of the total balancing number is required – this would be actually measured.
- Intervention only if demonstrably required, following detailed assessment and analysis by the Expert.
- No product class or AQ banding is advantaged or disadvantaged by design.
- All industry participants are appropriately incentivised to reduce Unidentified Gas in the market.

## 3 Solution

High level overview of the solution being proposed, which will require further development.

- A new Independent Expert (Unidentified Gas Independent Expert) is appointed in readiness for Project Nexus Go Live Day 1.
- The purpose of the Expert will be to assess the quantity of Unidentified Gas associated with the new settlements arrangements introduced by Project Nexus, based upon actual evidence/data, and make a recommendation as to whether any further intervention over and above the 'Allocation Scaling Adjustment' is required.
- The Independent Expert will make a determination as to whether the 'Allocation Scaling Adjustment' is an appropriate mechanism for allocating Unidentified Gas across industry participants. Key to this consideration will be the desired outcome that no sector/product class/AQ banding is unfairly advantaged or disadvantaged by the allocation arrangements.
- The overall aim is to reduce Unidentified Gas and an independent, evidenced-based assessment as to the correct allocation of this cost is critical to ensure that all industry participants are equally incentivised to this end.

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- During the initial 12 month 'measurement period' following Nexus implementation (Day 1) the Expert will be responsible for gathering data (in accordance with their Terms of Reference) and performing analysis – this is necessary as there is no available data to indicate the quantum or constitution of the balancing number within Project Nexus. A 12 month minimum period is required to allow for full seasonality.
- At the end of the initial 12 month 'measurement period' a report will be produced by the Expert detailing the results of the data gathered and analysis conducted, making an independent recommendation as to whether or not, further amendment to the existing Nexus allocation is required and an estimate as to when this could be achieved given the need to allow for data maturity and completion of analysis. The Expert would need to demonstrate that the existing Project Nexus allocation arrangements vary materially from the 'correct' allocation and that a need for intervention is required.
- During this 'measurement period' the Reconciliation by Difference (RbD) pot will be subject to existing AUGE arrangements (based upon the last approved AUGS prior to Project Nexus implementation date) and the Project Nexus balancing number is subject to the Project Nexus 'Allocation Scaling Adjustment' arrangements as defined by Modification Proposal 0432.
- Should the measurement period extend beyond the initial 12 months following the Project Nexus implementation date, based on any such recommendation by the Expert, the RbD pot will cease to exist and the total balancing number will be subject to Project Nexus 'Allocation Scaling Adjustment' arrangements until such a time that this is superseded by the Expert's approved methodology.
- It is envisaged that a data maturity period will be required to allow for sufficient reconciliation of the initial 12 month measurement period – potentially a period of 12 to 18 months (based on existing reconciliation data), though the actual timeframe may be defined by the Expert.
- At completion of the 'data maturity' period the Expert, where an intervention is required, will produce a methodology for correcting the Project Nexus 'Allocation Scaling Adjustment' arrangements.
- The methodology will be subject to a robust, transparent consultation process, which will be detailed within the UNC.
- Following completion of the consultation process the methodology will be subject to an approval process, which will be detailed within the UNC.
- Following approval, the methodology will go live at an appropriate point as defined by the supporting governance arrangements.
- The methodology will be updated and consulted upon annually in accordance with an agreed process, with any amendments made based on actual observed evidence/data.

### User Pays

#### Classification of the modification as User Pays, or not, and the justification for such classification.

This proposal will introduce new arrangements for the introduction of a new independent expert, which will result in Xoserve incurring costs associated with procurement and appointment, thus resulting in User Pays charges.

#### Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.

100% Users

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Proposed charge(s) for application of User Pays charges to Shippers.
To be confirmed
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
To be confirmed

## 4 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	None
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Implementation of this modification proposal would be expected to positively impact Relevant Objective d) Securing of effective competition (i) between relevant Shippers and (ii) between relevant Suppliers, as the changes are would result in a more accurate allocation of costs between Shippers and Suppliers.

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## 5 Implementation

No implementation timescales are proposed. However, the appointment of the independent expert is proposed to be undertaken in readiness for Project Nexus Go live Day 1, with the expert's role and activities commencing from this date.

## 6 Legal Text

Legal Text will be provided by the relevant Gas Transporter upon completion of modification proposal development.

## 7 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance; and
- Progress to Workgroup assessment