

# 0527:

## Implementation of Annual Quantity arrangements (Project Nexus transitional modification)

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

This modification identifies requirements relating to Annual Quantity ‘backstop’ calculation to enable an orderly and efficient transition from current UNC arrangements to the UNC regime identified within UNC Modification 0432 - Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform.



The Panel recommends implementation



High Impact: Large Transporters and Shipper Users



Medium Impact: None



Low Impact: None

<b>Contents</b>		 <b>Any questions?</b>												
<b>1 Summary</b>	<b>3</b>	Contact: <b>Code Administrator</b>												
<b>2 Why Change?</b>	<b>4</b>	 <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>												
<b>3 Solution</b>	<b>5</b>													
<b>4 Relevant Objectives</b>	<b>6</b>	 <b>0121 288 2107</b>												
<b>5 Implementation</b>	<b>6</b>	Proposer: <b>Chris Warner</b>												
<b>6 Impacts</b>	<b>7</b>	 <a href="mailto:chris.warner@nationalgrid.com">chris.warner@nationalgrid.com</a>												
<b>7 Legal Text</b>	<b>7</b>													
<b>8 Consultation Responses</b>	<b>8</b>	 <b>07778 150668</b>												
<b>9 Panel Discussions</b>	<b>9</b>	Transporter: <b>National Grid Distribution</b>												
<b>10 Recommendation</b>	<b>9</b>	Systems Provider: <b>Xoserve</b>												
<b>About this document:</b>		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>												
<p>This Final Modification Report was presented to the Panel on 21 May 2015. The Authority will consider the Panel's recommendation and decide whether or not this change should be made.</p> <p>The Workgroup recommended the following timetable:</p> <table border="1"> <tr> <td>Initial consideration by Workgroup</td> <td>10 March 2015</td> </tr> <tr> <td>Workgroup Report presented to Panel</td> <td>16 April 2015</td> </tr> <tr> <td>Draft Modification Report issued for consultation</td> <td>16 April 2015</td> </tr> <tr> <td>Consultation Close-out for representations</td> <td>12 May 2015</td> </tr> <tr> <td>Final Modification Report published for Panel</td> <td>13 May 2015</td> </tr> <tr> <td>UNC Modification Panel decision</td> <td>21 May 2015</td> </tr> </table>		Initial consideration by Workgroup	10 March 2015	Workgroup Report presented to Panel	16 April 2015	Draft Modification Report issued for consultation	16 April 2015	Consultation Close-out for representations	12 May 2015	Final Modification Report published for Panel	13 May 2015	UNC Modification Panel decision	21 May 2015	
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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification because it is likely to have material effect on competition. The Workgroup agreed with Panel determination on self-governance as the proposals set out in this modification support the establishment of the new settlement regime and likely to have a material impact on competition in the shipping, transportation or supply of gas conveyed through pipes.

## Why Change?

UNC Modification 0432 'Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform' will be implemented on 01 October 2015. To enable a smooth and efficient transition it is necessary to set out terms within the UNC Transition Document which clarify how relevant AQ source data existing prior to implementation being that concerned with the application of a 'backstop' Meter Reading is used for the purposes of deriving AQs during the period leading up to UK-Link replacement implementation.

## Solution

Modification of the UNC is required to set out the arrangements necessary to migrate from the existing UNC Annual Quantity (AQ) 'backstop' calculation arrangements to those to be implemented under UNC Modification 0432. Transitional terms are required to ensure that only appropriate source data (being those Meter Readings identified as eligible within Section 3), are used for the purposes of AQ derivation under the new 'rolling' AQ arrangements in circumstances where such data exists prior to the Project Nexus Implementation Date.

## Relevant Objectives

This modification would enable a smooth, orderly and efficient transition from the existing UNC AQ arrangements to those identified under the proposed 'Project Nexus' regime and due for implementation on 01 October 2015. This can therefore be expected to better facilitate Relevant Objective f) Promotion of efficiency in the implementation and administration of the Code and relevant objective d) Securing of effective competition between Shippers.

## Implementation

No implementation timescales are proposed. However, this modification could be implemented immediately upon direction and it would be desirable if this modification were implemented by 02 July 2015 to add certainty to the transition process.

## Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This modification impacts the industry programme for replacement of UK-Link systems. This is because the requirements contained within this modification govern how relevant data is treated during the implementation period (see Section 6 of this Proposal).

It is essential to the success of the UK Link Replacement Programme.

## 2 Why Change?

UNC Modification 0432 'Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform' has been approved by Ofgem and is planned for implementation on 01 October 2015. Closely associated with this are implementation of the relevant systems and process changes by the Transporter Agency, Xoserve within the remit of the 'UK-Link Replacement' programme.

Transitional terms are required to ensure that only appropriate source data (being those 'backstop' Meter Readings identified as eligible within Section 3) are used for the purposes of AQ derivation under the new 'rolling' AQ arrangements in circumstances where such data exists prior to the Project Nexus Implementation Date.

Modification 0432 identifies the enduring arrangements concerned with AQ reform. However, at all stages of development of the regime, it was recognised by the industry that 'transition' arrangements under the UNC would be required. The reason for this is that the 0432 arrangements concerned with AQ derivation differ markedly from the present framework. On this basis, while it is possible to implement an enduring framework in the absence of transitional terms the consequences of such are that significant uncertainty on treatment of existing relevant data, used for deriving AQs, during the period of implementation or 'cut over' would arise. This would have a consequential and detrimental financial effect on Shipper Users.

This modification is solely concerned with the calculation of AQs using a 'backstop' Meter Reading, which exists or has been provided prior to implementation of Project Nexus. More general terms regarding the transitional requirements for AQ are contained within a separate UNC modification.

Note: Under the revised file formats the 'backstop' date will be communicated to Shipper Users on receipt of the first reading accepted following Project Nexus implementation date.

Note: This modification is one of a suite of 3 'complementary' proposals, the others being associated with Supply Point Administration, gas settlement and reconciliation and Retrospective Adjustment.

### 3 Solution

Modification of the UNC is required as follows:

To define a 'backstop' date for the purposes of AQ calculation:

The 'backstop' date is determined as being the date of the last (most recent) Meter Reading used for the calculation of the AQ, such Reading being that with a read date in the period prior to the Project Nexus Implementation Date.

Such 'backstop' date is set following a successful AQ Amendment or Appeal or where in the opinion of the Transporter the AQ calculation is manifestly erroneous.

No Meter Reading will be used for the calculation of an AQ in the period following the Project Nexus Implementation Date where the date of such Reading was prior to the 'backstop' date.

Note; 'general' transitional terms governing treatment of AQ during Project Nexus Implementation will be addressed separately within the 'core' transition modification described above, being Supply Point Administration, gas settlement & reconciliation. This modification is concerned solely with the determination of the AQ 'backstop' date.

User Pays	
Classification of the modification as User Pays, or not, and the justification for such classification.	Costs arising from the UK Link replacement and including enhancements to the existing UNC regime have been considered when price controls were set and funding provided. On this basis, no User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays modification.
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.	Not applicable
Proposed charge(s) for application of User Pays charges to Shippers.	Not applicable
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.	Not applicable

## 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.	None
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.	Positive
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

This modification is required to provide clear rules and guidance to Transporters and Shipper Users on the treatment of relevant AQ source data (existing and provided under the UNC prior to implementation of UK-Link Replacement (including Project Nexus)). Such data is to be used for the purposes of deriving AQs in the new 'rolling' arrangements. The measures identified can be expected to facilitate relevant objective f) 'Promotion of efficiency in the implementation and administration of the Code.

## 5 Implementation

No implementation timescales are proposed. However, this modification could be implemented immediately upon direction and it would be desirable if this modification were implemented by 02 July 2015 to add certainty to the transition process.

## 6 Impacts

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This modification is essential to the implementation of the UK Link Replacement programme (which incorporates the changes required for 'Project Nexus'). The rationale for this is explained below.

#### Pre Project Nexus Implementation

The changes will affect the UK Link Replacement programme prior to implementation. This is because it is necessary to determine for the purposes of systems build how and which Meter Readings (being those existing and provided prior to the Project Nexus Implementation Date) are used for AQ derivation following implementation.

#### Project Nexus Implementation

As above.

#### Post Project Nexus Implementation

This modification contains transitional terms and the obligations, which will expire over time.

## 7 Legal Text

### Text Commentary

Legal Text Commentary prepared by National Grid Distribution has been published alongside this report.

### Text

Legal Text has been prepared by National Grid Distribution and published alongside this report; no issues were raised by the Workgroup regarding its content.

## 8 Consultation Responses

Of the 6 representations received implementation was unanimously supported.

Representations were received from the following parties:			
Organisation	Response	Relevant Objectives	Key Points
British Gas	Support	f) - positive	<ul style="list-style-type: none"> <li>Believes this applies a pragmatic approach and only allows reads that have already been used for AQ calculation to be used within Nexus AQ calculation arrangements, and provides the industry with the necessary security of using reads in a post Nexus environment that pre date the new read validation processes under Nexus.</li> <li>Notes that some Shippers were advocating that no pre Nexus reads could be used, however in BG's view this would prevent any new rolling AQs being calculated until 9 months after the Nexus implementation date.</li> <li>Supports the introduction of a more equitable and fairer settlement regime as soon as possible.</li> </ul>
EDF Energy	Support	f) - positive	<ul style="list-style-type: none"> <li>Believes it to be important to appropriately define the AQ "backstop" date and meter reading to be used prior to Project Nexus go-live, and to ensure that only appropriate source data are used for the purposes of AQ derivation under the new 'rolling' AQ arrangements.</li> </ul>
National Grid Distribution	Support	f) - positive	<ul style="list-style-type: none"> <li>Believes this facilitates an orderly transition of arrangements identified under UNC Modification 0432 'Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform'</li> </ul>
RWE npower	Support	f) - positive	<ul style="list-style-type: none"> <li>This enables Shippers and the market to take advantage of the rolling AQ process as soon as possible following the implementation of Project Nexus whilst providing some protection as to the validity of reads sourced pre Nexus.</li> </ul>
ScottishPower	Support	d) - positive f) - positive	<ul style="list-style-type: none"> <li>Believes maintaining a similar approach to that currently adopted will go some way to ensuring that all Shippers have equal opportunities to submit valid meter readings which can be used in the AQ review process and the derivation of the AQ Backstop Date.</li> <li>Setting the Backstop Date in this way will allow Shippers to take advantage of the Rolling AQ mechanism as soon as valid meter readings are available which meet the qualifying criteria to allow an AQ revision to take place.</li> <li>Believes this would also have a positive impact on Relevant Objective (d).</li> </ul>

SSE	Support	f) - positive	<ul style="list-style-type: none"> <li>Believes the rules proposed are in line with the current backstop date rules and will provide a high degree of protection, and will prevent significant amounts of erroneous readings from being used in the rolling AQ process post go live. At the same time significant numbers of meter readings taken pre Nexus will not be prevented from being used and so will help rolling AQ to operate effectively from the first month it is implemented.</li> </ul>
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Representations are published alongside the Final Modification Report.

## 9 Panel Discussions

The Panel Chair summarised that Modification 0527 is one of a suite of transitional modifications designed to enable a smooth transition to the replacement UK Link system under Project Nexus. Modification 0527 sets out how AQ source data will be used to derive Aqs during the period up to implementation.

Members considered the representations made noting that, of the 7 representations received (including one late representation) implementation was unanimously supported.

Members considered relevant objective f) promotion of the efficient implementation and administration of the Code. Members agreed with the Proposer that implementation of the modification would have a positive effect on objective f) on the basis that early agreement of a clear set of transitional rules was an essential pre-requisite for effective cutover.

Members voted unanimously to recommend implementation of Modification 0527.

## 10 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommended that:

- proposed Modification 0527 should be made.