

0529:

## Implementation of Retrospective Adjustment arrangements (Project Nexus transitional modification)

This modification identifies requirements relating to Retrospective Adjustment to enable an orderly and efficient transition from current UNC arrangements to the UNC regime identified within UNC Modification 0434 - Project Nexus – Retrospective Adjustment.



The Panel recommends implementation



High Impact: Large Transporters and Shipper Users



Medium Impact: None



Low Impact:  
None

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<b>About this document:</b>		
This Final Modification Report was considered by the Panel on 16 July 2015.		
The Panel unanimously determined that this modification should be implemented.		
The Authority will consider the Panel's recommendation and decide whether or not this change should be made.		
Initial consideration by Workgroup	10 March 2015	
Workgroup Report presented to Panel	21 May 2015	
Draft Modification Report issued for consultation	21 May 2015	
Consultation Close-out for representations	22 June 2015	
Final Modification Report published for Panel	23 June 2015	
UNC Modification Panel recommendation	16 July 2015	

# 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 the Panel's determination that this modification is not suitable for self-governance as it provides a transition route from existing to new process for retrospective adjustments, which might have a material impact on Shippers due to changes in allocation and therefore impact cost targeting and competition.

## Why Change?

UNC Modification 0434 - 'Project Nexus – Retrospective Adjustment' will be implemented on 01 October 2015. There are presently no terms by which Shipper Users can request adjustment to relevant reconciliation invoices for adjustment periods prior to the Project Nexus Implementation Date. The consequences of this are that there could be an adverse financial impact of Shipper Users and ultimately to consumers through inaccurate cost targeting in the period immediately following implementation of Project Nexus.

## Solution

Modification of the UNC is required to identify the terms under which Shipper Users may request retrospective adjustments to relevant invoices in accordance with the framework to be implemented under UNC Modification 0434. The Business Rules for this are set out in Section 3. There are no implementation costs.

## Relevant Objectives

This modification would enable maximum flexibility for Shipper Users in respect of arrangements concerned with reconciliation invoice adjustments under the proposed 'Project Nexus' regime and currently due for implementation on 01 October 2015 and therefore further Relevant Object f).

## Implementation

No implementation timescales are proposed. However, this modification could be implemented immediately upon direction to do so, although it would be desirable if this modification were implemented in coordination with Modification 0434 - Project Nexus – Retrospective Adjustment.

## 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 retrospective adjustments are 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 0434 'Project Nexus – Retrospective Adjustment' has been approved by Ofgem and is currently 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.

UNC Modification 0434 identifies the enduring arrangements concerned with reform of reconciliation invoice adjustments. However, at all stages of development of the regime, it was recognised by the industry that 'transition' arrangements under the UNC would be required. In this case terms are required to enable Shipper Users to request adjustment of relevant reconciliation invoices following implementation of Project Nexus with respect to adjustment periods prior to Project Nexus Implementation. Without this there could be an adverse financial impact of Shipper Users and ultimately to consumers through inaccurate cost targeting in the period immediately following implementation of Project Nexus.

**Note:** This modification is one of a suite of 'complementary' proposals, the others being associated with Supply Point Administration, gas settlement and reconciliation and Annual Quantity (AQ).

## 3 Solution

Modification of the UNC is required to facilitate the retrospective adjustment of relevant invoices (under the rules specified within UNC Modification 0434) for periods prior to the Project Nexus Implementation Date.

Transitional terms are required as follows:

- A Shipper User is able to request the retrospective update of a relevant reconciliation invoice in accordance with the terms under UNC Modification 0434 for an adjustment period prior to the Project Nexus Implementation Date
- Where appropriate the relevant invoice adjustment would be processed as follows:
  - For Larger Supply Points (LSPs) subject to validation of the request there would be a financial adjustment.
  - For Smaller Supply Points (SSPs) there would be no financial adjustment made with respect of any period prior to the Project Nexus Implementation Date
- No invoice adjustments will be processed for any period prior to the Code Cut Off Date
- If the retrospective update request applies to a period prior to the Code Cut Off date, the amendment date must be set to the Code Cut Off 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 would enable maximum flexibility for Shipper Users in respect of arrangements concerned with reconciliation invoice adjustments under the proposed 'Project Nexus' regime and currently due for implementation on 01 October 2015 and therefore further Relevant Objective f).

## 5 Implementation

No implementation timescales are proposed. However, implementation of this modification should be aligned to the implementation date for Modification 0434 - Project Nexus – Retrospective Adjustment, which is assumed to be the same as the Project Nexus Implementation Date.

## 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 retrospective adjustments are to be addressed.

#### 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

Text commentary has been provided by National Grid Distribution and is published alongside this Workgroup Report.

### Text

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

## 8 Consultation Responses

Of the three 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>• Provides the transitional arrangements for Modification 0434, as it will provide an automated solution to correct historical data issues and the adjustment of incorrect costs. This will result in a more cost-efficient way of managing any errors that occur and the transition rules enable amendments to errors that pre date Go Live.</li> <li>• Have some concerns, as there are still design objects for Retrospective Updates to be closed out by Xoserve, this modification may need to be subject to amendment.</li> <li>• Whilst Xoserve have confirmed they are able to deliver the read replacement elements of Retrospective Updates, the replacement of asset related issues remains less clear.</li> <li>• Retrospective updates is clearly a complex area, otherwise design would have been completed by now, so there is a risk of pressing a modification through the regulatory process that cannot be fully implemented.</li> </ul>
EDF Energy	Support	f - positive	<ul style="list-style-type: none"> <li>• This modification clarifies the terms under which Shipper Users can request adjustment of relevant reconciliation invoices following implementation of Project Nexus with respect to adjustment periods prior to Project Nexus Implementation. Without this there could be an adverse financial impact of Shipper Users and ultimately to consumers through inaccurate cost targeting in the period immediately following implementation of Project Nexus.</li> <li>• An early decision on this modification would be welcomed to provide the industry with certainty.</li> </ul>
National Grid Distribution	Support	f - positive	<ul style="list-style-type: none"> <li>• Considers the measures identified within the modification would facilitate an orderly transition to arrangements identified under Modification 0434 'Project Nexus – Retrospective Adjustment'.</li> <li>• Confirms this modification can be implemented with effect from the Project Nexus Implementation Date as being 1st October 2015. Should such date be</li> </ul>

			<p>changed, this modification can also be implemented without amendment.</p> <ul style="list-style-type: none"> <li>Notes that the Project Nexus Implementation Date is under scrutiny by the industry. It is also aware that, based on the recommendations of the Project Nexus Steering Group and the Project Assurance Managers, the implementation date is likely to be deferred. However, this modification is sustainable in that the Legal Text is designed to 'track' the Project Nexus Implementation Date as defined in UNC (irrespective of what the actual date might be).</li> </ul>
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Representations are published alongside the Final Modification Report.

## 9 Panel Discussions

The Panel Chair summarised that Modification 0529 would identify the terms under which Shipper Users may, following Project Nexus implementation, request retrospective adjustments to relevant invoices relating to the time prior to the Project Nexus Implementation Date. This ensures an effective transition between the existing and new arrangements.

Members noted the concerns raised by one respondent about the potential changes required should the system build be amended. However, it was noted that all respondents supported implementation and this was not an issue that would require further analysis. Members also noted that implementation was tied to the Project Nexus Implementation Date and, should such date be changed, this modification can also be implemented without amendment.

Members considered the representations made noting that, of the three representations received implementation was unanimously supported.

Members considered the relevant objectives, agreeing that implementation would further objective f) since it ensured that invoices could continue to be amended for pre- and post-Nexus dates.

Members voted unanimously to recommend implementation of Modification 0529.

## 10 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends that:

- proposed Modification 0529 should be made.