

This message is being issued at the request of National Grid Distribution

Dear Colleagues,

I refer to my action arising for the Project Nexus Workgroup held on 9th December 2014 which I have recorded as follows: *Chris Warner is to provide clarity around the need for transitional provisions associated with the AQ Backstop date requirements.*

I have taken the opportunity to discuss this with Dentons and they have provided the following advice:

Begins:

You asked for our view on the need for a transitional rule concerning the inception of the new AQ regime under Nexus. As we discussed, the enduring Nexus rules were drafted with the assumption (reflected in the final modification report) that there would be a separate code modification to introduce transitional rules to cover the transition from the old world to the post-Nexus world. Therefore the enduring Nexus drafting does not address this issue. I don't think in general that it is helpful or even possible to try to answer the question 'on what basis do the Nexus rules start as of 1 October 2015' by reference only to the enduring Nexus drafting.

On the specific question of AQs, if the enduring Nexus rules are taken as new, then arguably an Annual Quantity (under the new Nexus rules) is a new thing - and so the question needs to be answered 'what is the AQ (in the new world) on 1 October 2015'. If the answer is that it is to be the same as the AQ (under the old rules) on 30 September 2015, that is itself a transitional provision which needs a transitional rule. In other words some transitional provisions relating to AQ are going to be needed.

This gives rise to the question we have discussed, whether the new AQ calculation process would only operate by reference to opening meter readings from 1 October 2015 onwards, on the basis that only those meter readings will be Valid (as defined under the new rules). As I have said, I don't think this is a good question, since there was always an understanding there would be transition rules. Viewed in isolation (and if there ultimately were no transition rules) you

could take the view that you have to interpret the new rules like that. But there would be considerable ambiguity as to the position, and risk of dispute. It would in turn cast doubt on reconciliation and other provisions using meter readings with read dates before 1 September 2015 - if they are not Valid how can they be used for reconciliation? If the answer is 'well, we will have transitional rules to cover those issues', that begs the question why no transitional rule about AQ inception. The goal should be to ensure the UNC is as clear and unambiguous as possible.

I think there would be considerable merit in providing drafting now for each of the main options, in the interests of maximum clarity. I don't think this is very onerous as a drafting task (once we have developed one option the others will use the same building blocks), but it would be very helpful in terms of allowing us to progress other transitional drafting on a firm and consistent basis.

Ends.

We are presently working on the Nexus transitional text in anticipation of bringing forward a number of UNC Modification Proposals, most likely to the February 2015 Modification Panel.

For your information, our provisional thinking is that the following will be necessary:

Mod Title	Proposer	Scope	Mod Panel
1. Project Nexus – Core transitional requirements	NGD	SP Classification, Settlement, Reconciliation, non-effective days, etc.	February 2015
2. Project Nexus – Annual Quantity (AQ) transition	Shipper?	AQ Backstop calculation date	February – March 2015
3. Project Nexus – Retrospective Adjustment transition	NGD	Pre-Nexus implementation invoice adjustments	February 2015
4. Project Nexus –	NGD	Primes and Subs reading,	March/April 2015

Miscellaneous transition

5. Possible 'error
rectification/sweep up' NGD

SSMPs, sundry, etc.
*Changes identified as a
result of Xoserve systems
analysis/build and legal
drafting errors (fast track
self-governance)*

est. August 2015

You will note that I am not minded to propose a Modification in the AQ area while there is no consensus and I am intending at the next meeting to seek an opinion from participants as to whether they intend to bring forward Modification Proposals and alternatives for their own preferred solution for AQ on the basis that consensus is not likely to be achieved. Of course if we can gain agreement on a solution, all the better. However, if no modification/s are forthcoming then based on the above advice (that transitional provisions will be required in some form for AQ). I would need to consider raising a Modification Proposal no later than by March 2015.

To aid ensuing discussion on AQ Modification development, illustrative drafting is provided (attached). You'll appreciate that this is an early iteration (including query comments) and is provided for your information.

I look forward to discussing the above at the next Workgroup planned for 23rd December.

<AQ transition options - CW 12.12.2014>