

## Stage 01: Modification

# 0440:

## Project Nexus – iGT Single Service Provision.

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 is one of three complementary Proposals seeking to implement the requirements identified under Project Nexus. This Proposal identifies changes to the UNC to enable Independent Gas Transporters to utilise the services of the Transporters Agent Xoserve to administer relevant Supply Points downstream of the Connected Systems Exit Point (LDZ CSEP).



The Proposer recommends that this modification should be assessed by a workgroup



High Impact:  
Users, Large and Small Transporters

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## About this document:

This modification will be presented by the proposer to the panel on 20 December 2013.

The panel will consider the proposer's recommendation, and agree whether this modification should be subject to self-governance; and whether it should be issued for consultation or be referred to a workgroup for assessment.


<b>Any questions?</b>
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# 1 Summary

## Is this a Self-Governance Modification?

Self Governance procedures are not proposed. This is on the basis that the Modification Proposal, if implemented would have a material effect on relevant commercial activities as set out in the Uniform Network Code (UNC), these being connected with shipping arrangements and the transportation of gas.

## Why Change?

As part of the outcome of the last Gas Distribution price control review, it was agreed that funding should be available to support a major IT systems investment programme by the Transporters agent, Xoserve. This major systems investment for UK-Link Replacement provides an opportunity to consider whether the existing UNC requirements remain appropriate. Rather than asking Xoserve to procure replacement systems that deliver the existing functionality, there is an expectation that introducing regime enhancements at this stage would be the most economic time to implement any such change. This is particularly opportune since it is coincident with the development of smart metering, such that requirements can be specified that recognise changes to metering arrangements rather than any changes to accommodate smart metering being retrofitted in due course. The requirements gathering exercise for the enhancements is entitled Project Nexus. This Modification Proposal is one of three which reflects the requirements. Complementary Modification Proposals have been or are anticipated to be raised shortly in the following areas:

- Settlement
- Retrospective adjustment
- Demand estimation
- Non functional
- Implementation (including non-business/non effective days)

Ofgem stated with its Gas Distribution Price Control (GDPCR1) Final Proposals that GDNs' allowed revenues for 2008-13 include funding for the replacement of UK-Link on a like for like basis. The Proposals anticipated that:

- Replacement of the UK-Link system towards the end of the GDPCR1 period would provide a cost effective opportunity for the industry to rationalise and put in place revised systems that are fit for purpose: and
- Xoserve's planned consultation with stakeholders on the potential scope and design of revised systems would provide opportunity to consider future 'user driven' developments, and cited the specific examples of changes that might be required due to smart metering and the potential opportunity for iGTs to use a common industry platform.

During the GDPCR1 consultation process, Ofgem proposed an industry dialogue leading to an agreement between Users and Transporters on what central information system services would be required from Xoserve in its capacity as the Transporters' agent and how the associated costs should be met. Ofgem prepared a Terms of Engagement for the dialogue, which took place under the auspices of a Xoserve Services Workgroup.

The Workgroup's activities included consideration of the potential high level features of UK-Link replacement and identified that the contractual and governance framework

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would be developed by the GTs and Shippers in agreement with Ofgem. The group identified that following this agreement the Transporters would, through the UNC Modification Process, raise and progress the required UNC Modification.

Entitled 'Project Nexus' the gathering of requirements for the contractual framework was undertaken under UNC governance and a dedicated Workgroup established for this purpose. The Workgroup is nearing completion of its work and has identified that it is now timely that relevant UNC Modification Proposals be raised.

## Solution

In August 2011, under Independent Gas Transporter (iGT) UNC governance E.ON raised iGT UNC Modification Proposal iGT039 'Use of a Single Gas Transporter Agency for the common services and systems and processes required by the IGT UNC'. The iGT UNC Modification Panel subsequently established a Workgroup to identify and develop the requirements.

The output in terms of systems requirements have been published as a Business Requirement Document (BRD)<sup>1</sup>. Subsequent to this, the principal requirements for a contractual regime has been identified and discussed within the iGT 039 group. The proposed arrangements would require modification of the UNC and iGT UNC.

## Relevant Objectives

Implementation of the changes identified within this Modification Proposal would be expected to facilitate Relevant Objective d) the securing of effective competition between Users. Accurate cost allocations arising from a single database and associated Supply Point Administration and settlement processes for GTs and iGTs. Implementation of the proposed changes would also be expected to increase the predictability of cost allocations for individual Users. This would result from the use of more accurate and up to date data, such that costs allocated to a given portfolio would more accurately reflect actual consumption that the User would expect to be aware of. Increased predictability would reduce the risk and uncertainty faced by Users, and consequently could be expected to reduce risk premiums that may be reflected in tariffs and/or prices. In addition to facilitating competition for existing Users, the reduction in risk and uncertainty could reduce barriers to entry.

## Implementation

1st October 2015 if an Authority decision is made by 31st March 2014

1st April 2016 if an Authority decision is made by 30th September 2014

With a backstop lead time of 18 months (549 calendar days) should the Authority makes its decision after 30th September 2014.

If implemented, this text would take effect no earlier than the Project Nexus Implementation Date. Consequently, following Authority direction (should this occur) the text would need to be monitored and amended as part of any relevant Modification which may arise to ensure that it remains in line with the version of the Code applicable at any one time.

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<sup>1</sup> <http://www.gasgovernance.co.uk/nexus/brd>

## 2 Why Change?

### Background to Project Nexus

At the time of the current Gas Distribution Price Control Xoserve anticipated the need for a major IT systems investment programme. Stakeholder consultation was initiated, under the banner of 'Project Nexus' to inform the scope and nature of Xoserve's future services that IT systems would need to support – the detailed Business Requirement Documents that support this document form a key input to the design of that investment programme.

The initial phase of Project Nexus was a consultation exercise, in which interested parties were asked for their views on the long-term strategic requirements for Xoserve's services. The consultation also developed a preferred approach to further definition of stakeholder requirements.

Following the consultation phase of Project Nexus, an Initial Requirements Register (IRR) was compiled, identifying all the topics that respondents to the Consultation had raised.

Topics were grouped into three broad categories:

- UNC changes
- Independent Gas Transporter (iGT) services
- Data management

A UNC Workgroup was established to consider the UNC topics and develop requirements. In respect of iGT services, the requirements have been considered largely within the remit of iGT UNC governance.

### Development of Requirements

In 2009 the UNC Modification Panel agreed a Workstream (later renamed Workgroup) should be set up to define industry requirements for the development and enhancement of the UNC in areas that are relevant to Xoserve's services. The Initial Requirements Register (IRR) formed the basis of the discussions. Consultation responses were grouped into related topics and relevant as-is process models were reviewed and agreed. The Project Nexus Workgroup discussed the responses and reached a consensus on whether to carry forward or close the requirement. The outputs from the Workgroup Topic meetings were baselined Business Requirements Documents (BRDs) and to-be process models (i.e. future state processes).

### Overview of Business Requirements

The original comments in the IRR were grouped into a number of topics, loosely based on existing industry process areas. These topics were tackled in sequential order, to minimise the amount of re-work. The 8 topic areas covered under the UNC Project Nexus Workgroup were:

- Settlement (i.e. submission of Meter Readings and use in Daily Allocation)
- Annual Quantity
- Reconciliation
- Invoicing
- Supply Point Register
- Retrospective Updates

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- Non-Functional requirements
- iGT Agency Services (Single Service Provision)

Business Requirements Documents (BRDs) have been documented for each of these topics and have been reviewed by stakeholders.

The scope of this Modification Proposal is limited to the following BRD:

- iGT Agency Services

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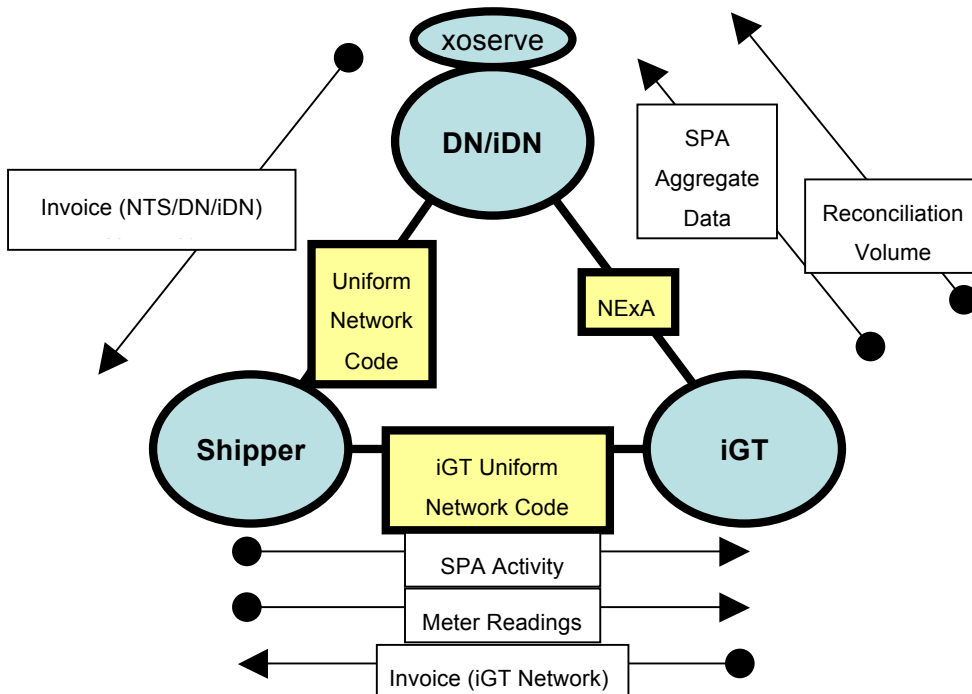
### 3 Solution

The BRDs identify detailed business rules which form the foundation for the necessary changes to the UNC. The following BRD is relevant to this Modification Proposal:

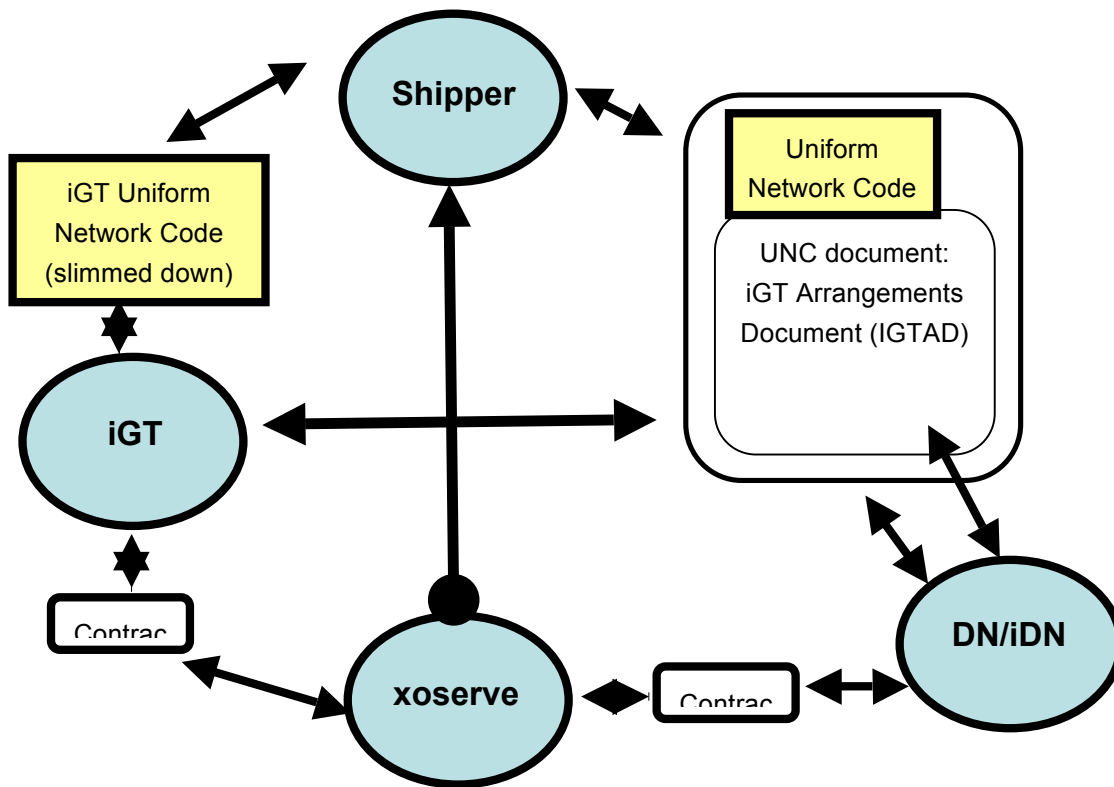
Document Name	Version and Date	Current Location (12/09/12)
Business Requirements Document for iGT Agency Services	v2.0 31/07/2013	www.gasgovernance.co.uk/nexus/brd

#### Introduction

The following information outlines arrangements under which the UNC would be modified to provide for arrangements with iGTs which are currently contained in Annex A of the Local Distribution Zone (LDZ) Connected System Exit Point (CSEP) Network Exit Agreement (NExA) which would enable iGTs to use the services of the Transporters agent Xoserve to administer both their relationships with Users and their relationships with Transporters. This is commonly termed ‘Single Service Provision’. The current arrangements are known to be sub-optimal and inefficient. The existing contractual framework and principal data flows are shown below.



Modification of the UNC is required to remove the LDZ CSEP NExA and to replace this with a new framework which introduces a new UNC document being the iGT Arrangements Document (IGTAD). The following diagram illustrates this.



It is proposed that iGTs become signatories to the UNC through an iGT Framework Agreement.

Changes to the UNC Modification Rules would be required to facilitate iGT participation in governance of the new regime. These include amendments to the UNC Modification Panel constitution including providing voting rights to the iGT member and incorporation of an additional Shipper voting member.

Relevant provisions are required within the UNC Transportation Principal Document (TPD) for Supply Point Capacity, Output Nominations, User Daily Offtake Quantities (UDQO) determination and reconciliation to apply directly to Users having CSEP Supply Points. This would remove the need for LDZ CSEP NExA Annex A Part 12. Where relevant, the cited provisions of TPD would directly refer to CSEPs.

In the absence of a meter (and allocation agency) at the LDZ CSEP, the UNC rules for determination of End User Categories (EUCs) and calculation of (Annual Quantities) AQs must be applied. Instead of being contained in the LDZ CSEP NExA, it is proposed that these rules be incorporated within the UNC.

The LDZ CSEP NExA contains provisions for determining Connected System (CS) Shrinkage (presently contained within Annex A part 9). It is not proposed that relevant Shrinkage provisions are built into the relevant provisions of TPD other than identifying that this be treated as Unidentified Gas.

Elimination of Annex A part 13 (currently constituted in a document separate to Annex A) which provides for Transporters to provide Daily Metered (DM) services is also proposed. It is proposed that relevant provisions be incorporated within the UNC to reflect an on-going requirement for Transporters to provide DM read services for the limited number of iGT Supply Points subject to the Daily Read Requirement.

### IGT Arrangements Document (IGTAD)

The IGTAD would be created as a new document in the UNC (in addition to the Transition Document (TD), Transportation Principal Document (TPD), Offtake Arrangements Document (OAD), General Terms (GTs) and Modification Rules).

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The IGTAD would be binding on GTs, iGTs and Users to the extent that it contains rules which affect them. Each Transporter would enter into a new Framework Agreement (iGT Framework Agreement) with the iGTs which binds the GT and iGTs to the GT's individual network code.

The IGTAD would replace the entire LDZ CSEP NExA (including Annex A).

The contents of the IGTAD have for convenience been divided into three sections below:

- Classification and general;
- Connection and offtake rules;
- Rules associated arrangements with Users;

### Classification and general

This would define a Supply Meter Point (SMP) CSEP and Supply Point (SP) CSEP as a 'virtual' CSEP (under UNC TPD A3.3.5) corresponding to each SMP and SP on the iGT System. It would also confirm the scope of the IGTAD – i.e. its application in respect of LDZ CSEPs.

General provisions governing the relationship between GT and iGT such as those in clause 4 and 5 of the LDZ CSEP NExA would be included.

It would also be necessary to include accession rules for new iGTs equivalent to UNC TPD Section V2.

### Connection and offtake

The IGTAD would allow iGTs to have their Connected Offtake System (COS) connected at LDZ CSEPs.

Generic provisions would be required addressing issues being:

1. Commissioning new CSEPs/COSs;
2. Required equipment, compatibility, modifications of plant, rights of inspection;
3. System validation, network load information exchange, etc;
4. Coordinated maintenance;
5. Liability as respects each other's systems;
6. Emergency cooperation;
7. Other information exchange;
8. CS Shrinkage.

The IGTAD would also include rules relating to aggregated offtake information to be provided by the iGT (as per LDZ CSEP NExA Annex A part 11).

### Arrangements with Users

These arrangements in the IGTAD would substitute for the current LDZ CSEP NExA requirements for the iGT to adopt and apply UNC rules for Supply Point classification, EUCs, AQs, Non-Daily Metered (NDM) and DM Meter Reading, etc. It would be required for the following reasons:

1. The existing requirement (at the LDZ CSEP) to enable Transporters to determine capacity, offtake quantities, etc using existing rules;
2. The requirement (at Supply Points on the iGT's system) for the iGT to have in force the rules which largely mirror those for Supply Points on the Transporters' system.

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The terms would replicate the existing LDZ CSEP NExA provisions which require the iGT to adopt and apply rules corresponding to those of the UNC.

There is a requirement for the Transporters and iGTs to exchange information, as currently provided in the LDZ CSEP NExA. For example, the Transporters are required to provide EUCs and the iGTs are required to provide the AQs and Supply Point numbers.

These data flows are required between GTs/iGTs as principles, even though they would be implemented by Xoserve within its own systems.

### **Other Uniform Network Code Changes**

Treating CSEPs as Supply Points.

Changes are necessary to the TPD such that the provisions of Sections B, C, E, F and H which provide for determining Supply Point Capacity, Output Nominations, UDQOs, NDM Reconciliation, etc would operate directly in respect of iGT CSEPs rather than through the medium of the LDZ CSEP NExA.

This would be done by deeming references to SPs, and SMPs in the relevant provisions of TPD to include SP CSEPs and SMP CSEPs (and where necessary excluding Unmetered CSEPs from equivalent provisions which relate to CSEPs).

In respect of CS Shrinkage it is not proposed to include specific arrangements for the identification and treatment of such other than recognising that this would constitute Unidentified Gas.

As noted above, provisions equivalent to NExA Annex A part 12 'Network Code Application' would not be required, since the TPD would directly identify where it applies to a iGT CSEP.

### **Changes to other relevant provisions of the UNC**

Changes to several other provisions of the UNC would be required as outlined below.

#### UNC Introduction

Add to Section 2 (UNC comprises) the IGTAD setting out arrangements between Transporters and iGTs

Add to Section 4 that each Transporter's Network Code would be made binding between it and iGTs pursuant to the IGT Framework Agreement.

#### Transportation Principal Document

##### Section A

Add after A3.3.7 that where so provided in TPD a reference to a Supply Meter Point or Supply Point includes a SMP CSEP or SP CSEP.

##### Sections B, C, E, F, H and M

Deeming of references to SMP CSEPs, etc.

##### Section J

In paragraph 1.5.4, Network Exit Provisions in relation to a CSEP are contained in the IGTAD.

Paragraphs 4.3.7 and 6.4 (modification of Network Exit Provisions) – amend to reflect the IGTAD arrangements for CSEPs.

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Paragraph 6.1.3 – this may be unnecessary for CSEPS, since Users may be directly bound by relevant provisions of the IGTAD.

Paragraphs 6.5.3 to 6.5.7 can be deleted (because they are replaced by the [IGTAD](#)).

### Modification Rules

These require modification so that iGTs participate in the UNC modification procedures in relation to modifications of:

1. the IGTAD;
2. any provisions of the UNC which are expressly referred to in the IGTAD;
3. other provisions of the UNC which bind iGTs including the GTs and relevant parts of the Transition Document;
4. the Modification Rules It is proposed that the existing iGT Panel member is provided with voting rights and there would be an additional Shipper voting member.

### General Terms

GTB – general – would be amended to refer to the IGTAD and the IGTAD Framework Agreement, to iGTs and possibly to Users in their capacity as iGT Users. Party is extended to include iGT. Some other definitional and architectural changes would be needed.

### Other documents

Agency Services Agreement

An agreement would be required between iGTs and Xoserve (note: this is outside of the scope of this Modification Proposal).

### User Pays

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

Since substantial changes to central systems are envisaged in this modification, and those changes involve enhancements to the existing UNC regime, this modification technically could fall within the definition of a User Pays Modification. Xoserve has indicated that the additional costs of implementing this modification, over and above the cost of replacing UK Link systems on a like for like basis with existing functionality, amount to about £4 - 8m. The actual difference in costs between a like for like and enhanced systems development will never be known since only one procurement and development exercise will be undertaken, based on the identified requirements. Ofgem believes that all reasonably foreseen costs arising from the UK Link replacement have been considered when price controls were set, and funding provided. If significant additional costs beyond this can be demonstrated and justified, these should be considered in the context of the arrangements for funding which are in place following the review of Xoserve's governance and funding. On this basis, given this change is embedded with a wider system replacement it is not proposed to include a User Pays element in the funding equation.

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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.	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 the changes identified within this Modification Proposal would be expected to facilitate the securing of effective competition between Users. Accurate cost allocations arising from a single database and associated Supply Point Administration and settlement processes for GTs and iGTs are a fundamental underpinning for effective competition and the changes are expected to lead to more accurate allocation of costs between Users. This results from making use of more accurate, timely and up to date information than is currently achieved.

Implementation of the proposed changes would also be expected to increase the predictability of cost allocations for individual Users. This would result from the use of more accurate and up to date data, such that costs allocated to a given portfolio would more accurately reflect actual consumption that the User would expect to be aware of. Increased predictability would reduce the risk and uncertainty faced by Users, and consequently could be expected to reduce risk premiums that may be reflected in tariffs and/or prices. This would therefore facilitate the securing of effective competition among existing Users.

In addition to facilitating competition for existing Users, the reduction in risk and uncertainty could reduce barriers to entry. Entrants could come to the market with greater confidence that they could align their costs and revenues, and greater

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assurance that any changes they bring to the market through innovative approaches would be reflected in the costs allocated to them.

## 5 Implementation

1st October 2015 if an Authority decision is made by 31st March 2014

1st April 2016 if an Authority decision is made by 30th September 2014

With a backstop lead time of 18 months (549 calendar days) should the Authority makes its decision after 30th September 2014.

If implemented, this text would take effect no earlier than the Project Nexus Implementation Date. Consequently, following Authority direction (should this occur) the text would need to be monitored and amended as part of any relevant Modification which may arise to ensure that it remains in line with the version of the Code applicable at any one time.

## 6 Legal Text

Legal text is to be provided at a later date.

## 7 Recommendation

The Proposer invites the Panel to:

- Determine that this modification should not be subject to self-governance;
- Determine that this modification should progress to Workgroup assessment.