

# 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 Proposer recommends that this modification should be:

- assessed by a Workgroup



High Impact: Large Transporters and Shipper Users

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<b>About this document:</b>		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
This modification will be presented by the proposer to the panel on 19 February 2015.		
The panel will consider the proposer's recommendation and agree whether this modification should be:		
<ul style="list-style-type: none"> <li>referred to a workgroup for assessment.</li> </ul>		
The Proposer recommends the following timetable:		
Initial consideration by Workgroup	10 March 2015	
Amended Modification considered by Workgroup	n/a	
Workgroup Report presented to Panel	18 June 2015	
Draft Modification Report issued for consultation	18 June 2015	
Consultation Close-out for representations	09 July 2015	
Final Modification Report published for Panel	10 July 2015	
UNC Modification Panel decision	16 July 2015	

# 1 Summary

## Is this a Self-Governance Modification?

Self-Governance procedures are not requested as this modification is expected to have a material impact on existing gas consumers.

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

Fast track procedures are not requested for the reasons described above.

## 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: this modification is one of a suite of 3 'complementary' proposals, the others being associated with Supply Point Administration, gas settlement & 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.	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.	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.

The consequences of failure to implement this modification are that there would be a detrimental effect on competition through inaccurate cost targeting on by Shipper Users as a consequence of inaccurate AQs, which in turn would have an adverse financial effect on consumers. This modification therefore also facilitates relevant objective d) Securing of effective competition between Shipper Users.

## 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**

Suggested Legal Text is provided below.

NEXUS TRANSITION - INDICATIVE LEGAL TEXT  
UNIFORM NETWORK CODE – TRANSITION DOCUMENT  
PART IIE – NEXUS IMPLEMENTATION  
AQ TRANSITION

Notes:

*This indicative legal text is for the transitional AQ Modification.*

*This is preliminary and indicative text, prepared to illustrate the modification, and is subject to amendment and additional text being added.*

*Amend text at paragraph 5.4 of TD Part IIE (as introduced by Nexus Core Transitional Modification) as follows:*

5.4.3 For the purposes of this paragraph 5.4:

- (a) a Pre-Nexus Meter Reading is a Meter Reading with a Read Date before the Nexus Implementation Date;
- (b) a Pre-Nexus Meter Reading is **Qualifying** where:
  - (i) it was a Valid Meter Reading under (and as defined in) the Old Rules; and
  - (ii) if paragraph 5.4.6 applies in relation to a Supply Meter Point, the Read Date of the Pre-Nexus Meter Reading is not earlier than the Backstop Read Date or (if more than one) the latest Backstop Read Date;
- (c) [/].

5.4.6 This paragraph 5.4.6 applies in relation to a Supply Meter Point where (under the Old Rules), for any Gas Year ending before the Implementation Date:

- (a) the Annual Quantity was determined pursuant to OR Section G1.6.7(a) as the User Provisional Annual Quantity following a notification by a User under OR Section G1.6.4, or
- (b) the Annual Quantity was substituted pursuant to OR Section 1.6.13(d) following an appeal by a User under OR Section G1.6.13(a)[(i)], or
- (c) in a case where the Annual Quantity was not determined pursuant to OR Section as the User Provisional Annual Quantity, the Transporter determined that the Provisional Annual Quantity (determined under OR Section G1.6.2) manifestly did not satisfy the requirement in OR Section G1.6.6, and as a result no new Annual Quantity was established under OR Section G1.6.7 (and the prevailing Annual Quantity for the preceding Gas Year continued to apply for the Gas Year in question);

and where this paragraph 5.4.6 applies the **Backstop Read Date** is:

- (i) in a case in paragraph (a) or (b), the Read Date of the later or latest of the Meter Readings provided by the User pursuant to OR Section G1.6.5(a)(ii) or (where applicable) (b)(i) in connection with such determination or substitution, or
- (ii) in a case in paragraph (c), the Read Date of the ending Meter Read (as referred to in OR Section H3.2.2) on the basis of which the Provisional Annual Quantity was calculated.

Commentary will be provided at an appropriate point during assessment at Workgroup.

## 8 Recommendation

The Proposer invites the Panel to:

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