

UNC Modification

At what stage is this document in the process?

# UNC 0609A:

Transitional arrangements for gas settlement and replacement of Meter Readings, retaining AQ2017 (Project Nexus transitional modification)

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

**Purpose of Modification:**

This Alternate modification identifies arrangements relating to Supply Point classification, energy settlement and reconciliation and replacement of Meter Readings to enable an orderly and efficient transition from current UNC terms to the UNC regime identified within UNC Modification 0432, 'Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform' and Modification 0434, 'Project Nexus – Retrospective Adjustment'. In addition, it seeks to ensure that the AQ2017 process remains in place until the final decision is taken on the go-live of Project Nexus.











The Proposer recommends that this modification should be:

- assessed by the Workgroup.



High Impact:  
Transporters and Shipper Users

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Timetable		Transporter: <b>National Grid Distribution</b>
<b>The Proposer recommends the following timetable:</b>		
Initial consideration by Workgroup	20 February 2017	
Amended Modification considered by Workgroup	10 March 2017	<a href="mailto:andy.clasper@nationalgrid.com">andy.clasper@nationalgrid.com</a>
Workgroup Report presented to Panel	16 March 2017	
Draft Modification Report issued for consultation	16 March 2017	07884 113385
Consultation Close-out for representations	06 April 2017	Systems Provider: <b>Xoserve</b>
Final Modification Report available for Panel	10 April 2017	
Modification Panel decision	20 April 2017	<a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>

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## 1 Summary

### What

The prevailing UNC transition provisions for Project Nexus are based on a Project Nexus Implementation Date (PNID) of 01 October 2016. This modification is required to address the impacts of the new PNID of 01 June 2017 and to clarify the transitional rules regarding the treatment of AQ and rules relating to 'Unidentified Gas – Allocation Factors'.

The modification is also required to ensure that transitional terms exist for replacement of meter readings (as introduced under UNC Modifications 0432 'Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform' and 0434, 'Project Nexus – Retrospective Adjustment').

**This Alternate proposal** is required because it is important that no part of the AQ Review process is sacrificed ahead of the final go/no-go decision on June 2017 Nexus implementation, to ensure that if the PNID slips beyond the June date, that the industry still has the option to run the Review and ensure that the most accurate AQs are used in the new system. Shippers do not want it to transpire that it is too late for Xoserve to recover the process should PNID be delayed.

### Why

This modification is necessary to ensure that the Code is accurate with respect to PNID and to ensure that the rules for replacement of meter readings are clear to all parties.

Modification 0432 removes the AQ Review provisions from the UNC when Nexus is delivered. Therefore, no transitional modification is required to remove the 2017 AQ Review arrangements, as the 2017 AQ Review process is superseded when Modification 0432 is implemented.

### How

It is necessary to amend the terms identified within the UNC governing arrangements for implementation of Project Nexus. This is to reflect the PNID of 1st June 2017.

The UNC Transition Document is proposed to be updated to provide rules to enable implementation of replacement of Meter Readings.

To ensure the full 2017 AQ Review process remains, this Alternate maintains the UNC provision and related processes, and does not seek a premature removal of the Transporter obligation.

## 2 Governance

### Justification for Self-Governance

The Modification Panel determined this modification is not suitable self-governance as, if implemented, it would have a material effect on relevant commercial activities as set out in the Uniform Network Code (UNC) or have a likely material impact between and on consumers. This is because the changes are

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either associated with the realignment of terms already implemented or include clarification of treatment of relevant activities in the transitional period leading to Project Nexus implementation.

Notwithstanding this, as the original proposal Modification 0609 is likely to have a material impact to consumers, should Project Nexus be delayed, and the AQ Review not be run, the alternate modification must follow the same governance criteria as Modification 0609 and therefore Self-Governance criteria may not be appropriate.

### Requested Next Steps

This modification should:

- be assessed by a Workgroup.

## 3 Why Change?

UNC Modification 0528V 'Implementation of Supply Point Administration, gas allocation and settlement arrangements (Project Nexus transitional modification) was approved by Ofgem with an implementation date of 11 February 2016. It identified arrangements relating to Supply Point classification, energy settlement and reconciliation and other 'core' provisions 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 relevant business rules which informed the drafting of 0528V were documented within baseline Version 2.0 of the Transition Business Rules document produced by the Transporter Agency Xoserve; the Business Rules were predicated on a PNID of 01 October 2016.

As PNID has been deferred from 01 October 2016 to 01 June 2017, an updated Transition Rules document has been created and as a consequence the transition arrangements require updating within the UNC.

Additional changes are also required to take account of the PNID now occurring mid-year which has a consequential impact on UNC processes including the treatment of Annual Quantities (AQs) and to include those elements of UNC Modification 0529 (Implementation of Retrospective Adjustment arrangements (Project Nexus transitional modification)) relating to replacement of Meter Readings only. UNC Modification 0529 was not implemented as the Retrospective Adjustment of Address and Supply Point (RAASP) elements of Modification 0434 'Project Nexus – Retrospective Adjustment' now have a different implementation date presently (01 October 2017) to the 'core' Nexus elements (01 June 2017).

### Alternate Modification 0609A

The UK Link Replacement programme, known as Project Nexus, is designed amongst other areas, to introduce individual meter point reconciliation and rolling AQs. The AQ Review process runs during the gas year and finalises on 30 September. The mid-gas year (June) implementation of Nexus has raised the question; should the 2017 AQ Review process be maintained? As discussed at the October 2016 Distribution Workgroup meeting, the AQ Review corrects consumption values and cleans a lot of poor data, Shippers could be exposed to an increased level of risk should Nexus be delayed and no AQ Review takes place.

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Considering the June PNID date remains at risk (IDR1 failure, red and ambers risks record by Xoserve on the Programme Risk Landscape<sup>1</sup>) there is a possibility that PNID will be delayed and Shippers will require the 2017 AQ Review process and related data. This is important because customer AQs derive Shipper Transportation and Energy charges. The AQ is also carried across to another Shipper through the Change of Supply process. The Pre-Nexus AQ also carries across into the new Nexus arrangements. Therefore, the 2017 AQ Review process must be maintained until Project Nexus is delivered.

Area	Milestones Impacted	RAG	Trend	Outlook	Mitigations
Market Trials Regression - Ability to complete to schedule	MT2.6	Amber/Green	↑	↔	<ul style="list-style-type: none"> <li>Continue to monitor through MTR and escalate if required Inflight working group formed.</li> </ul>
IDR - Inflight - Ability to have inflight solution in place	D1.5	Amber/Red	↓	↔ or ↓	<ul style="list-style-type: none"> <li>Inflight working group formed.</li> <li>Xoserve/Wipro joint working in India.</li> </ul>
IDR - Catch-up - Clarity on volumes and procedures and volumes	T3.4	Amber	↓	↔ or ↑	<ul style="list-style-type: none"> <li>Requires action from Xoserve to clearly document catch-up batch process.</li> </ul>
IDR - IGT Data Load performance - Ability to support 9 NEDs	D1.2	Green	↑	↔	<ul style="list-style-type: none"> <li>Monitor during IDR2.</li> </ul>
IDR - Delta - Requirement for CP3 contingency	D1.4	Amber/Green	↑	↑	<ul style="list-style-type: none"> <li>Xoserve to report on status 31 Jan 17.</li> </ul>
IDR - Bulk load - Success of Bulk Load 2	D2.3	Green	↑	↑	<ul style="list-style-type: none"> <li>Monitor daily reports from Xoserve.</li> </ul>

Modification 0432 removes the AQ Review provisions from the UNC when Nexus is delivered. Therefore, no transitional modification is required to remove the 2017 AQ Review arrangements, as the 2017 AQ Review process is superseded when Modification 0432 is implemented. The Proposer believes Modification 0609 is a Transporter sponsored proposal, which is trying, via the backdoor, to remove their AQ obligation, when Shippers have been clear the 2017 AQ Review process is required and necessary to ensure accurate allocation of cost.

It should be noted that Modification 0229, Allocation of Unidentified Gas Expert (AUGE) arrangements were suspended in 2015 on the premise that Project Nexus would be implemented on 01 October 2015. The AUGE arrangements were originally approved by Ofgem in 2010, to better allocate UG cost. When the 2015 delay was confirmed, the AUGE arrangements were not resurrected, which probably results in UG allocations being less accurate. Shippers do not want a repeat situation, by which an existing service is removed, only to discover through a delay to Project Nexus that the service is still required.

Specifically, the T04 file data, which drives the new AQ values, is validated by Xoserve in April each year, before being issued to Shippers in May. Historically, un-cleansed data held within the T04 file would have resulted in a swing of up to 350 TWh of energy. Considering this risk of circa ~£7bn of energy which could be misallocated between Shippers and their customers, it appears unreasonable to introduce such a distortion into the market.

When considered against the resource implications for Xoserve, to retain the option to keep 2017 AQ Review, and cleanse/validate the data, it seems misguided to assume that there is no need for a further Review, especially when considering half of the AQ Review team is temporary and why operational employees who are employed to deliver a Shipper Service are so critical in supporting the Nexus Programme. The Proposer believes it is very unreasonable and unlikely the operational staff are so critical to supporting a SAP IS solution and that their support of the AQ Review should not have a detrimental impact to the Nexus Programme, should they also support the 2017 AQ Review. We find with

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<sup>1</sup> Project Nexus Steering Group Presentation 06 Feb 2017 (Final)

interest that to deliver the UK Link Transporter obligation the resource impact is on Shipper funded services, when Transporter services are maintained.

It must be noted that should Nexus be implemented in June 2017, the T04 file is still useful to Shippers for managing erroneous AQs that carry over into the new arrangements. If Nexus does go live in October or later it must be recognised that the new rolling AQ values will be very slow to update throughout the winter period because readings before implementation would not generate new AQ values, plus the time lag of accepted meter readings entering settlements and new AQ values only going live after the rolling AQ calculation. In addition the amended rolling AQ updates the energy, but there is a lag to update T&D invoicing, which means any manifest charging errors for the Capacity invoice will exist for at least 6 months.

To get rid of the risk presented in Modification 0609, which removes the requirement to run an AQ Review, this alternate modification maintains the Transporter obligation to run the full 2017 AQ Review. For the avoidance of doubt, if Project Nexus is implemented in June 2017, as is the current aim, then the 2017 AQ Review process will be suspended by the implementation of Modification 0432 Legal Text.

## 4 Code Specific Matters

### Reference Documents

Transition Business Rules (BR) for Project Nexus' v3.

### Knowledge/Skills

Specific Project Nexus knowledge and involvement in development of the regime would be useful.

## 5 Solution

Modification of the UNC is required as follows:

- Realigning relevant dates originally identified within Modification 0528 to reflect the new PNID
- Implement rules relating to 'Unidentified Gas – Allocation Factors' as documented in UNC Modification 0473 (Project Nexus – Allocation of Unidentified Gas) to be implemented at PNID
  - Table of interim Allocation Factors
- Transitional changes to the Ratchet Process
  - Where the quantity of gas offtaken between 27<sup>th</sup> May 2017 and 31<sup>st</sup> May 2017 inclusive exceeds the Registered DM Supply Point Capacity
    - The enduring Supply Point Capacity will not be increased
    - A Supply Point Ratchet Charge will not be applied
- Transitional rule concerning Supply Point Withdrawals that have yet to be effective which shall need to be resubmitted following Project Nexus Implementation Date.
- Clarification of the transitional rules regarding 'Appeal' dates 2 months prior to PNID

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**Additional changes are required to incorporate Modification 0565 (Central Data Service Provider: General framework and obligations) implications**

- The inclusion of the CDSP as a consequence of the Funding, Governance and Ownership (FGO) review of Xoserve changes

**Replacement of Meter Reading only:**

- A Shipper User is able to replace a Meter Reading in accordance with the terms under UNC Modification 0434 (Project Nexus – Retrospective Adjustment) for an adjustment period prior to the PNID
- 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

For the avoidance of doubt the alternate proposal maintains the AQ Review process, until Project Nexus is implemented.

## 6 Impacts & Other Considerations

### 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').

### 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 how relevant data (including AQ, Meter Readings, etc) concerned with energy allocation, settlement and reconciliation is to be processed.

### Project Nexus Implementation

This modification contains transitional terms required to enable an orderly and efficient transition from current UNC terms to the UNC regime identified within UNC Modification 0432, 'Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform' and Modification 0434, 'Project Nexus – Retrospective Adjustment'.

### Post Project Nexus Implementation

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

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## Consumer Impacts

None identified.

## Cross Code Impacts

None identified.

## EU Code Impacts

None identified.

## Central Systems Impacts

This Modification is required to support implementation of the UK Link Replacement programme (which incorporates the changes required for Project Nexus).

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

## 7 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

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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 data existing and provided under the UNC before and during implementation of UK Link Replacement (including Project Nexus). 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 Shipper Users, 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.

## 8 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 no later than the end of April 2017 to add certainty to the transition process.

## 9 Legal Text

### Text Commentary

To be provided

### Text

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## 10 Recommendations

### Proposer's Recommendation to Workgroup

Workgroup is asked to:

- Assess this modification;
- Agree this modification is suitable to be issued to consultation.

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