

## Stage 02: Workgroup Report

# 0440:

## Project Nexus – iGT Single Service Provision

At what stage is this document in the process?



This modification is one of number of complementary modifications seeking to implement the requirements identified under Project Nexus. This modification 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 Workgroup recommends that this modification should now proceed to consultation.



High Impact:  
Users, Large and Small Transporters

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## About this document:

This report will be presented by the Workgroup to the panel on 16 January 2014.

The panel will consider whether the modification is sufficiently developed to proceed to Consultation and to submit any further recommendations in respect of the definition and assessment of this modification.


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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification.

## 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.

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 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.

## Solution

In August 2011, under 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

01 October 2015 if an Authority decision is made by 31 March 2014.

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

01 April 2016 if an Authority decision is made by 30 September 2014.

With a backstop lead-time of 18 months (549 calendar days) should the Authority makes its decision after 30 September 2014. It is assumed that any implementation date would be outside the winter operations period for the Gemini system, being 02 October – 31 March in any year and that it should be on the first day of the month.

If Ofgem issues a direction that this modification should be made, this text would take effect on the Project Nexus Implementation Date. Consequently, following Authority direction (should this occur) the modified text would need to be monitored and amended as necessary 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.

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

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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

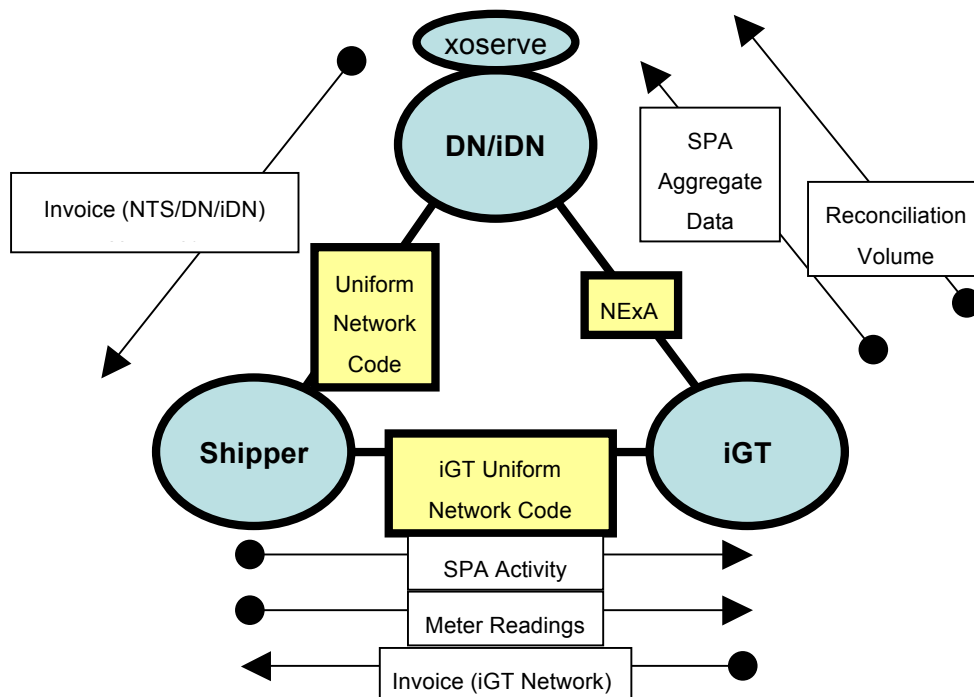
### 3 Solution

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:

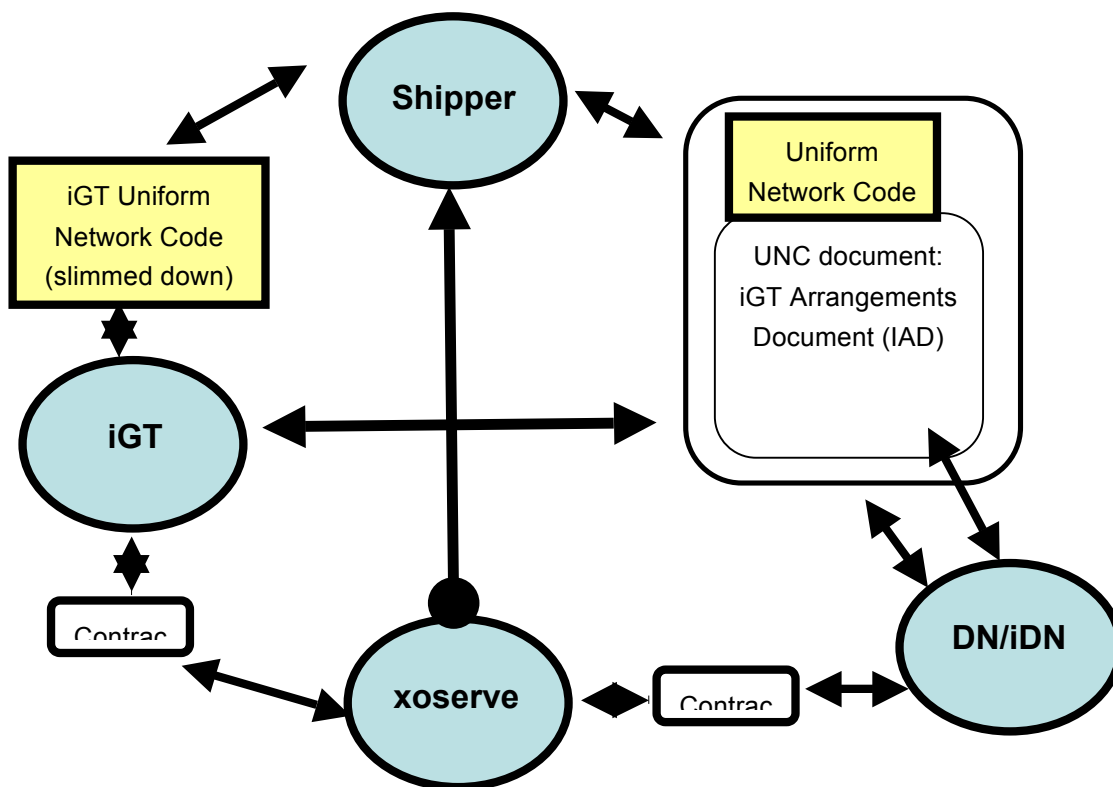
Document Name	Version and Date	Current Location (12/09/12)
Business Requirements Document for iGT Agency Services	v1.0 17/08/2012	www.gasgovernance.co.uk/nexus/brd

#### 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 LDZ CSEP 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 or substantially pare down the content of the LDZ CSEP NExA and to replace this with a new framework which introduces a new UNC document being the iGT Arrangements Document (IAD). The following diagram illustrates this.



Changes to the UNC Modification Rules would be required to facilitate iGT participation in governance of the new regime.

Relevant provisions are required within the UNC Transportation Principal Document (TPD) for Supply Point Capacity, Output Nominations, 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). However these do not appear to be referred to in (or otherwise affect) the NExA provisions which operate to determine shipper capacity and offtake quantities. It is proposed that relevant Shrinkage provisions are built into the relevant provisions of TPD.

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. This would enable iGTs to make their own arrangements for DM read provision.

### IGT Arrangements Document (IAD)

The IAD would be created as a new document in the UNC (in addition to the TD, TPD, OAD, GTs and Modification Rules).

The IAD 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

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Framework Agreement) with the iGTs which binds the GT and iGTs to the GT's individual network code (or possibly all GTs and all iGTs enter into a single framework agreement binding them to the UNC).

The IAD would replace LDZ CSEP NExA Annex A (subject to a comprehensive review of the Annex A contents and verification of redundancy) and possibly the entire LDZ CSEP NExA.

The contents of the IAD have for convenience been divided into four sections below:

- Classification and general;
- Connection and offtake rules;
- Rules associated arrangements with Users;
- Role of Xoserve.

### Classification and general

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

For each CSEP an IAD Supplemental Agreement would be entered into by the GT and iGT.

A proforma IAD Supplemental Agreement would be an Annex to the IAD. The IAD Supplemental Agreement would set out specific details for each CSEP/Connected Offtake Systems (COS) as in Annex B of the LDZ CSEP NExA and any other specific details required. A procedure would be required for nominating new LDZ CSEPs and for entering into new IAD Supplemental Agreements.

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 *[unless these were contained in UNC TPD Section B]*.

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

### Connection and offtake

The IAD would allow iGTs to have their 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.

Where appropriate these would refer to site-specific details in IAD Supplemental Agreements.

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

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## Arrangements with Users

These arrangements in the IAD would substitute for the current LDZ CSEP NExA requirements for the iGT to adopt and apply UNC rules for Supply Point classification, EUCs, AQs, 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 Xoserve's systems are designed to implement.

*[This could be done in a number of different ways – workgroup to determine:]*

1. The terms could replicate the existing LDZ CSEP NExA provisions which require the iGT to adopt and apply rules corresponding to those of the UNC. That ignores the fact that the iGT rules are now in a iGT UNC which is itself subject to regulatory modification procedures;
2. The terms could refer to the existing iGT UNC (assuming it has been verified that it does achieve this) and then aim to keep the UNC and iGT UNC in tandem so far as relevant provisions are concerned. Given that both are subject to regulatory modification processes, it could not impose an absolute requirement, but it could require 'linked' modification proposals and transparency to Ofgem over the implications of divergent modifications. The assumption is that Ofgem would not sanction diverging modifications unless there was a good reason (in which case the costs would ultimately be visited on consumers). It would be possible to include new provisions within the Transporter and iGT licence conditions on network code which supported this (e.g. by requiring modification reports to address the matter);
3. The terms could be framed on the basis that relevant parts of the iGT UNC were modified so that they simply referred to, and incorporated by reference, relevant parts of the UNC. This would (from a UNC perspective) be the neatest and simplest approach. Any modification of the relevant provisions of the UNC would automatically be carried over into the iGT UNC. It would require wholesale amendment of relevant provisions of the iGT UNC;
4. Another option would be to include, within the IAD, the full rules to be applied by the iGT in its iGT UNC. This does not seem a particularly good solution since it falls between 2 and 3 above.

There is a requirement for the Transporters and iGTs to exchange information, as currently provided in the LDZ CSEP NExA. The Transporters are required to provide EUCs *[and other data]*; the iGTs have to provide the AQs and Supply Point numbers *[and other data]*.

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

## Transporter Agency

Provisions are required within the IAD which would entitle iGTs to use the services of the Transporter Agency (Xoserve) for specified purposes.

## Other Uniform Network Code Changes

Treating CSEPs as Supply Points

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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 most simply]* by deeming references to Supply Points (SP), Supply Point Components (SPC) and Supply Meter Points (SMP) in the relevant provisions of TPD to include SP CSEPs, SPC CSEPs and SMP CSEPs (and where necessary excluding Unmetered CSEPs from equivalent provisions which relate to CSEPs). An alternative would be to insert a reference to SP CSEPs, SPC CSEPs and SMP CSEPs in each provision.

In respect of CS Shrinkage adjustment, where this would apply to iGT quantities relevant rules would be added to the relevant provisions of TPD *(or possibly as a generic rule applying to all relevant quantities determined under those provisions of TPD)*. Certain provisions of TPD Section J would no longer be needed in respect of LDZ CSEPs.

As noted above, provisions equivalent to NExA Annex A part 12 would not be required, since the TPD would directly identify where it applies to a iGT CSEP (assuming that all iGT CSEPs were to be treated uniformly for all purposes of TPD – *to be verified*). *In some cases it may be simpler to retain the ‘relevant CSEP’ approach and provide a parameter value in the IAD (as for*

### 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 IGT Arrangements Document (IAD) 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, Supply Point Component or Supply Point includes a SMP CSEP, SPC CSEP or SP CSEP.

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

Deeming of references to SMP CSEPs, etc.

It will be necessary to review every relevant provision of these Sections to ensure the rules operate correctly.

##### Section J

In paragraph 1.5.4, Network Exit Provisions in relation to a CSEP are contained in the IAD and relevant IAD Supplemental Agreement.

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

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

Paragraphs 6.5.3 to 6.5.7 can be deleted (because they are replaced by the IAD).

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## Sections U and V

Possible amendments to Section U, and amendment to Transporter Agency provisions in Section V, to reflect Xoserve functions for iGTs.

## *Other TPD Sections*

*It would be necessary to review all of TPD to ensure that any other interaction with the IAD is identified.*

## Modification Rules

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

1. the IAD;
2. any provisions of the UNC which are expressly referred to in the IAD;
3. other provisions of the UNC which bind iGTs including the GTs and relevant parts of the Transition Document;
4. the Modification Rules (to include the constitution of the UNC Modification Panel).

## Transition Document

Subject to confirmation of redundancy, each existing LDZ CSEP NExA would be terminated with effect from the corresponding Supplemental Agreement(s) being entered into.

Other transitional arrangements may be required. *(It would be preferable however to enter into new IAD Supplemental Agreements rather than deem the old LDZ CSEP NExAs converted into them).*

## General Terms

GTA – rules for dispute resolution – would be extended to apply to disputes between GTs and iGTs. If expert determination were to be used in relation to any part of IAD, some changes would be needed to the expert appointment process.

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

## Other documents

Agency Services Agreement

As noted above an agreement would be required between iGTs and xoserve.

## Licences

*The GT licence conditions relating to UNC will need to be reviewed to establish whether any modification was necessary or desirable to extend the UNC scope to include the subject matter of the IAD, whether the relevant objectives were suitable criteria for decisions on modifications of the IAD, whether the requirements for the modification rules need to be amended to reflect the role of iGTs (or indeed to address parallel modification of the UNC and iGT UNC as referred to above).*

*The iGT licence condition relating to 'network code' would also need to be reviewed to establish whether any modification is needed to reflect these proposals.*

<b>User Pays</b>
Classification of the modification as User Pays, or not, and the justification for such classification.
To be determined
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.
To be determined
Proposed charge(s) for application of User Pays charges to Shippers.
To be determined
Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.
To be determined

## 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 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

01 October 2015 if an Authority decision is made by 31 March 2014.

01 April 2016 if an Authority decision is made by 30 September 2014.

With a backstop lead time of 18 months (549 calendar days) should the Authority makes its decision after 30 September 2014. It is assumed that any implementation date would be outside the winter operations period for the Gemini system, being 02 October – 31 March in any year and that it should be on the first day of the month.

If Ofgem issues a direction that this modification should be made, this text would take effect on the Project Nexus Implementation Date. Consequently, following Authority direction (should this occur) the modified text would need to be monitored and amended as necessary 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.

It should be noted that the industry may be working at risk should a decision be made after 31 March 2014, as system development may be undertaken with no certainty that the modification is to be approved. Xoserve intends to let a contract for the design and build work by 01 April 2014.

The Workgroup notes that there are a number of industry risks that may impact the implementation date for this modification, these include:

- i) Changes to European Legislation and Regulations – these may include potential impacts on the Gemini system and/or similar implementation timescales which would put the Project Nexus effective date at risk;
- ii) Project Nexus impacts on Gemini – at this time the impacts on the Gemini System due to changes in the settlement regime are unknown. An impact assessment is to be undertaken once Xoserve have put in place a design and build contractor.

For the proposed Demand Estimation component of this modification, there is no expectation of any immediate change to other Demand Estimation processes. For instance, the current NDM sample of Supply Meter Points should still be fit for purpose and not require any immediate change to support the new approach.

A lead time of approximately 12 months would be required to enable DESC to agree the detailed approach to developing the new algorithms (similar to the current Spring Approach document) prior to the new algorithm going live. For example, agreement in principle by 30 September 2014 for a 01 October 2015 implementation would be necessary.

### Consideration of Wider Industry Impacts

#### Smart Metering

The measures identified within this modification would provide a mechanism by which the full opportunities and benefits of smart metering and automated meter reading can be realised.

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## 6 Legal Text

### Text

The Text for this modification has been prepared by National Grid Distribution and is published along side this report, and no issues were raised by the Workgroup regarding its content.

The Workgroup considers a transitional mechanism for providing the visibility of both current and future state legal text for Project Nexus modifications is required. The proposal will be for the UNC TPD Sections to reflect the prevailing state and will include footnotes and links to the future state Legal Text.

## 7 Recommendation

The Workgroup invites the Panel to:

- AGREE that this modification should be submitted for consultation.