

UNC Workgroup Report	At what stage is this document in the process?
<h1>UNC 0609 0609A:</h1> <h2>Transitional arrangements for gas settlement and replacement of Meter Readings (retaining AQ2017) (Project Nexus transitional modification)</h2>	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">01</span> Modification         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">02</span> Workgroup Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">03</span> Draft Modification Report         </div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; gap: 10px;"> <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px 5px;">04</span> Final Modification Report         </div> </div>
<p><b>Purpose of Modification:</b></p> <p>These modifications identify arrangements relating to Supply Point classification, energy settlement &amp; 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'. <a href="#">In addition, 0609AS seeks to ensure that the AQ2017 process remains in place until the final decision is taken on the go-live of Project Nexus.</a></p>	
	<p>The Workgroup recommends that these modifications should:</p> <ul style="list-style-type: none"> <li>not be subject to self-governance procedures</li> <li>proceed to Consultation</li> </ul> <p>The Panel will consider this Workgroup Report on 16 March 2017. The Panel will consider the recommendations and determine the appropriate next steps.</p>
	<p>High Impact: Large Transporters and Shipper Users</p>
	<p>Medium Impact: None</p>
	<p>Low Impact: None</p>

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<b>Modification timetable:</b>		
Initial consideration by Workgroup	03 February 2017	
Amended Modifications considered by Workgroup	10 March 2017	
Workgroup Report presented to Panel	16 March 2017	 07789 577327
Draft Modification Report issued for consultation	16 March 2017	Transporter: <b>National Grid Distribution</b>
Consultation Close-out for representations	06 April 2017	
Final Modification Report available for Panel	10 April 2017	 andy.clasper@nationalgrid.com
Modification Panel decision	20 April 2017	Systems Provider: <b>Xoserve</b>
		 <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>

# 1 Summary

## What

The prevailing UNC transition provisions for Project Nexus are based on a PNID of 01 October 2016. These modifications are 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'.

These modifications are 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').

**0609A** 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

These modifications are 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.

0609A seeks 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 Urgency, Authority Direction or Self-Governance

The Modification Panel determined that both of these Modifications were not suitable for self-governance as, if implemented, they would have a material effect on relevant commercial activities as set out in the Uniform Network Code (UNC). This is because the changes are 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.

## Requested Next Steps

These modifications should:

- issued to consultation

The Workgroup agreed with the Modification Panels view that these modifications are not suitable for self-governances for the reasons provided above.

## 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 & 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 1 October 2016.

As PNID has been deferred from 1 October 2016 to 1 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).

### 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.

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

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

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. Some participants consider Modification 0609S 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 Unidentified Gas (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. Some participants believe 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. It is considered with 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 mitigate 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
- Clarification of the 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.

**The following text in RED applies to 0609 only and is absent from 0609A**

- Clarification of the transitional rules regarding treatment of AQ
  - Reflecting that a 'full' AQ 'review process' will not be taking place
  - Clarification of 'Appeal' dates
  - Clarification of Formula Year Annual Quantity

**The Following text in Blue applies to 0609A only and is absent from 0609**

- Clarification of the transitional rules regarding 'Appeal' dates 2 months prior to PNID.

**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 Modification 0609A maintains the 2017 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?**

Implementation of one of these modifications is essential to the implementation of the UK Link Replacement programme (which incorporates the changes required for 'Project Nexus').

#### **Pre Project Nexus Implementation**

Implementation of one of these modifications 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**

These modifications contain 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**

These modifications contain transitional terms and the obligations, which will expire over time.

#### **Consumer Impacts**

## Consumer Impact Assessment

Criteria	Extent of Impact
Which Consumer groups are affected?	<ul style="list-style-type: none"> <li>• Domestic Consumers</li> <li>• Small non-domestic Consumers</li> <li>• Large non-domestic Consumers</li> <li>• Very Large Consumers</li> </ul>
What costs or benefits will pass through to them?	<p><i>Please explain what costs will ultimately flow through to each Consumer group. If no costs pass through to Consumers, please explain why. Use the General Market Assumptions approved by Panel to express as 'cost per consumer'.</i></p> <p>Insert text here</p>
When will these costs/benefits impact upon consumers?	<p><i>Unless this is 'immediately on implementation', please explain any deferred impact.</i></p> <p>Insert text here</p>
Are there any other Consumer Impacts?	<p><i>Prompts:</i></p> <p><i>Are there any impacts on switching?</i></p> <p><i>Is the provision of information affected?</i></p> <p><i>Are Product Classes affected?</i></p> <p>Insert text here</p>

## Cross Code Impacts

Non identified.

## EU Code Impacts

Non identified.

## Central Systems Impacts

*The Workgroup must provide an assessment of the impacts on central systems (inc. Gemini and UK Link) that may be affected; this will be supported by further input from the Central Data Services Provider (Xoserve) later in the process. If 'none', please also explain.*

Implementation of one of these Modifications is required to support implementation of the UK Link Replacement programme (which incorporates the changes required for Project Nexus), to ensure a smooth transition from existing settlement arrangements to those being implemented under Project Nexus.

## Workgroup Impact Assessment

It was noted that these modifications provide transitional arrangements to support the implementation of UK Link replacement systems for 01 June 2017. Therefore, should there be a delay to PNID, these modifications would need to be amended or if already implemented, transition arrangements put in place to amend their effect to the new PNID. These modifications do not anticipate a delay to the PNID and as

consequence provides no proposals to manage process changes between the 01 June 2017 and an amended PNID.

0609

Some participants were concerned that this modification removes the AQ review process from Code which then results in a material risk that should the implementation of Project Nexus be delayed, gas allocations could be significantly compromised.

The risk was based on information from the 2015 AQ review, where submitted meter reads for approximately 250,000 meter points were given proposed AQs with a consolidated value of 350TWh (approximately £7b (SAP-2p per kWh). Some challenged this value as there are other AQ related processes which can be used to reduce this risk.

It was argued, by removing the AQ review process, any delay to Nexus could result in a significant risk that AQs would be overstated on a significant number of meter points which would require the impacted Shippers to buy unnecessary volumes of gas, potentially creating cash flow problems and be required to establish higher levels of security than would normally be required.

Other participants consider this risk to be overstated as there is more certainty on Project Nexus implementation. In addition, Shippers could manage the submission of meter readings to ensure the correct AQs are established.

0609A

Some participants noted that the 2017 AQ review was unlikely to run as Project Nexus implementation would change the settlement regime, therefore there was no reason to establish the 2017 AQ review team as was the usual practice and the resource has not been included in the Xoserve business plan. However, some participants challenged that this aspect had not been clearly identified in the business plan. Some participants consider that the time to establish the team had passed and that it was not in the best interests of Code to maintain a requirement that could/would not be provided.

It was also noted that Code does not specifically place an obligation on Transporters to run the AQ review process to the extent it has been carried out in previous years. Transporters have an obligation to run an AQ review process but some of the processes on which Shippers rely on are not direct obligations in Code – validation processes.

Other participants were concerned that the failure to establish the 2017 AQ team had placed a material risk on Shippers which could be argued to be in the region of £7b, on the anticipation of reducing Xoserve costs by £300,000 and that this had been done without any formal agreement or consultation.

Some participants argued that the establishment of the 2017 AQ review would dilute the resources available for Project Nexus and put implementation at risk and that the best interests of the industry would be served by mitigating any such risk to Nexus implementation, which in itself would then reduce any potential settlement risk caused by implementation delay.

Others felt that the Xoserve resource plan should have anticipated the need for additional resources and that as its indicated headcount was already increasing from around 250 to 287, these additional numbers could have been anticipated. Therefore, an additional 6 to 12 people could have been factored in to

support the AQ review.

<b>User Pays</b> <i>(Workgroup assessment of proposer initial view or subsequent information)</i>	
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 one of these modifications and they are not, therefore, classified as a User Pays modifications.
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
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.	0609 - Impacted  0609A - Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are	None

satisfied as respects the availability of gas to their domestic customers.	
f) Promotion of efficiency in the implementation and administration of the Code.	0609 - Impacted  0609A - Impacted
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

These modifications 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 these modifications 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. These modifications therefore also facilitates relevant objective d) Securing of effective competition between Shipper Users.

#### 0609 - impacts

Some participants were concerned that this modification removes the AQ review process from Code should the implementation of Project Nexus be delayed and in such circumstances, it was argued that this would create a material allocation risk which could increase costs for some Shippers. This would potentially have a material impact on competition between Shippers and Suppliers, therefore having a negative impact on Relevant Objective d) Securing of effective competition between Shipper Users.

Some participants were concerned that this modification is proposing to remove rules from Code that would not be effective after Project Nexus implementation, therefore this is an unnecessary administrative burden and would have a negative impact on Relevant Objective f) Promotion of efficiency in the implementation and administration of the Code.

#### 0609A – impacts

Some participants were concerned that establishing an AQ review team would dilute the resources available for Project Nexus and could delay implementation resulting in a negative impact on Relevant Objective d) Securing of effective competition between Shipper Users.

Some participants noted that the 2017 AQ review was unlikely to run as Project Nexus implementation would change the settlement regime, therefore there was no reason to establish the 2017 AQ review team, as was the usual practice and maintaining the obligation to do so would have a negative impact on Relevant Objective f) Promotion of efficiency in the implementation and administration of the Code.

## 8 Implementation

No implementation timescales are proposed. However, these modifications could be implemented immediately upon direction.

## 9 Legal Text

Legal Text and Legal Text Commentary has been provided by National Grid Gas Distribution and is published alongside this report. The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

## 10 Recommendations

### **Workgroup's Recommendation to Panel**

The Workgroup asks Panel to agree that:

- These modifications should proceed to consultation.