













UNC Final Modification Report		At what stage is this document in the process?
<h1>UNC 0609:</h1> <h2>Transitional arrangements for gas settlement and replacement of Meter Readings (Project Nexus transitional modification)</h2>		<div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div>
<p><b>Purpose of Modification:</b></p> <p>This 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'.</p>		
	Panel consideration is due on <b>20 April 2017</b> ( <i>at short notice by prior agreement</i> )	
	High Impact: Large Transporters and Shipper Users	
	Medium Impact: None	
	Low Impact: None	

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Timetable		 Any questions? Contact: <b>Joint Office of Gas Transporters</b>  <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>  0121 288 2107 Proposer: <b>Andy Clasper</b>  <a href="mailto:andy.clasper@nationalgrid.com">andy.clasper@nationalgrid.com</a>  07884 113385 Transporter: <b>National Grid Distribution</b>  <a href="mailto:andy.clasper@nationalgrid.com">andy.clasper@nationalgrid.com</a> Systems Provider: <b>Xoserve</b>  <a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a>
<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	
Draft Modification Report issued for consultation	16 March 2017	
Consultation Close-out for representations	06 April 2017	
Final Modification Report available for Panel	07 April 2017	
Modification Panel recommendation	20 April 2017	

## 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'.

This 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').

### 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.

### 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 01 June 2017.

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

## 2 Governance

### Justification for Authority Direction

The Modification Panel determined that this modification was not suitable for self-governance as, if implemented, it could 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

The Workgroup agreed with the Modification Panel's view that this modification was not suitable for self-governance for the reasons provided above. The Workgroup agreed that this modification was sufficiently developed to be issued to consultation.

The consultation having been concluded, the Authority's decision in respect of implementation is now sought.

### 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).

### 4 Code Specific Matters

#### Reference Documents

Transition Business Rules (BR) for Project Nexus' Version 3.0.

#### 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.
- 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

**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

## 6 Impacts & Other Considerations

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

Implementation of this modification is essential for the implementation of the UK Link Replacement programme (which incorporates the changes required for 'Project Nexus').

### Pre Project Nexus Implementation

Implementation of this modification will affect the UK Link Replacement programme prior to implementation. This is because it is necessary to determine for the purpose of 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.

### Consumer Impacts

Consumer Impact Assessment	
Criteria	Extent of Impact
Which Consumer groups are affected?	None identified.
What costs or benefits will pass through to them?	No costs or benefits identified.
When will these costs/benefits impact upon consumers?	Not applicable.
Are there any other Consumer Impacts?	No direct consumer impacts were identified should this modification be implemented. However, some Workgroup participants believed that there might be indirect consumer impacts because of this modification should Project Nexus implementation be delayed.

### Cross Code Impacts

None identified.

### EU Code Impacts

None identified.

### Central Systems Impacts

Implementation of this modification 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 this modification provides transitional arrangements to support the implementation of UK Link replacement systems for 01 June 2017. Therefore, should there be a delay to PNID, this modification would need to be amended or if already implemented, transition arrangements put in place to amend the effect to the new PNID. This modification does not anticipate a delay to the PNID and consequently provides no proposals to manage process changes between the 01 June 2017 date and an amended PNID.

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 then gas allocations could be significantly compromised. If this risk materialises this could have a material impact on consumers and market participants due to AQ misallocations based on the previous year's AQs.

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 participants challenged this value as there are other AQ related processes that can be used to reduce this risk. It should be noted that market breaker tolerances included in the Nexus Transitional AQ Validation Rules might help to mitigate some of this risk.

It was argued that, by removing the AQ review process, any delay to Project 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 that they would be required to establish higher levels of security than they would usually need.

Other participants considered 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 correct AQs are established.

Some participants noted that during the final Distribution Workgroup meeting, Xoserve highlighted a risk that the alternate Modification 0609A was unworkable and could impact the June Nexus delivery date. It is likely that Xoserve must stop all AQ Amendment activity by 20 March 2017. This includes issuing the T04 file, which if issued would amend AQs in the old and new systems and this now adds an uncontrolled risk across the Shipper community of inflated AQs.

Following the withdrawal of Modification 0609A, it was agreed that Xoserve would provide a paper explaining the AQ Amendment process issues for presentation to the Project Nexus Steering Group and that the paper should be published alongside this report.

In addition, should the implementation of Project Nexus be delayed past 01 June 2017, it is expected that Xoserve, under a reasonable endeavours basis, should reopen the AQ Appeals process to help manage AQ manifest errors.

<b>User Pays</b> <i>(Workgroup assessment of Proposer's 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 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
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.	Impacted
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.	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

This modification provides 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 consequence of failure to implement this modification is 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 relevant Shippers'.

Some Workgroup 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 relevant Shippers'.



Some Workgroup 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'.

## 8 Implementation

No implementation timescales are proposed. However, this modification 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 Consultation

Panel invited representations from interested parties on 16 March 2017. The summaries in the following table are provided for reference on a reasonable endeavours basis only. It is recommended that all representations be read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 10 representations received 8 supported implementation, 1 offered qualified support and 1 provided comments.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
Centrica	Support	d - negative f - positive	<ul style="list-style-type: none"><li>• Notes that there is no other option, and that Nexus Transitional arrangements are required to support Nexus implementation; and that</li><li>• Xoserve cannot support the 2017 AQ Review, because it has not funded or staffed the process, plus the technical solution cannot support the issuing of the AQ (T04) files, without significant detriment to the industry due to a 350TWh (-7£bn) misallocation risk.</li><li>• Implementation should follow as soon after the Authority decision as possible.</li></ul>
E.ON Energy Solutions Ltd	Qualified Support	d - negative f - none	<ul style="list-style-type: none"><li>• Support is qualified because the inability of Xoserve to carry on its usual approach it takes to mitigation of the risk from erroneous data during the AQ Review may lead to data being used when Nexus is implemented that would have been prevented from having affected the live</li></ul>

			<p>AQs that will go live.</p> <ul style="list-style-type: none"> <li>When Nexus was to be implemented in October 2016, there was very little risk to the industry that sites that normally feature in the “Warnings Report” would have gone live with an AQ that had not been subject to the validation processes. When Nexus was again delayed, this issue was brought to the Distribution Workgroup. The industry was advised a subset of the normal activities undertaken in the AQ Review for a June implementation date would still go ahead. Those assurances were accepted, however they turned out to be incorrect.</li> <li>The risk those sites present can only be mitigated now to a lesser degree. If a party is the current Shipper it can take steps to address missing/erroneous metering data, however if it is not, it is limited to what actions the previous Shipper may take. The validation rules and the replacement rules will also only protect the market to a degree, subject to the meter reading validation rules isolating the market by use of the market breaker tolerances. A number of sites will have data that will inevitably be used to calculate rolling AQs that are suspect – but are accepted. The consequences for some Shippers may be disastrous, impacting both security requirements and cash flow.</li> <li>Having said that, it is now not possible for Xoserve to undertake the work in the wider landscape of Nexus delivery and therefore our support is pragmatic and qualified.</li> <li>The “Warnings Report” that Xoserve provides each year as part of the AQ Review process, which is based on its assessment of AQs that have calculated but present a risk to the industry. There are significant amounts of energy and supply points that continue to present risks that may still contaminate settlements as they are unshackled from this validation activity.</li> </ul>
ESPUG	Support	d - none f - positive	<ul style="list-style-type: none"> <li>Agrees that this should be subject to Authority approval; implementation should be prior to PNID.</li> <li>Observes that diverting resource from Project Nexus at this stage, to alleviate the possible risk of incorrectly stated AQs impacting parties should PNID be delayed beyond 01 June 2017, does not appear to be proportionate to the impact of implementing this change.</li> <li>Agrees that legal text will deliver the intent of the solution.</li> </ul>
National Grid Gas Distribution	Support	f - positive	<ul style="list-style-type: none"> <li>Will enable an efficient transition to the new UK Link systems.</li> <li>Transitional terms are required to address the impacts of the change of PNID to 01 June 2017, to introduce terms regarding the replacement of Meter Readings, and clarify transitional terms regarding Annual Quantity (AQ) and unidentified gas.</li> <li>Agrees with the implementation timescales identified.</li> </ul>
Northern Gas Networks	Support	d - positive f - positive	<ul style="list-style-type: none"> <li>Agrees that this should proceed for Authority decision as it could have a material impact on commercial activities of the UNC such as settlement and reconciliation.</li> </ul>

			<ul style="list-style-type: none"> <li>• Implementation of this modification will ensure the effective and efficient implementation of Project Nexus on 01 June 2017 by introducing transitional arrangements and miscellaneous required changes to the UNC.</li> <li>• Agrees with the suggested implementation timescale.</li> </ul>
Npower	Support	d - negative f - positive	<ul style="list-style-type: none"> <li>• This modification provides transitional arrangements for gas settlements to facilitate Project Nexus delivery. Re-alignment of these arrangements was necessary due to the change of the PNID to 01 June 2017.</li> <li>• Has noted in industry Workgroups that there are some industry risks due to the absence of an AQ Review in 2017 as a result of the June PNID. This is due to the reduced ability of Shippers to correct problematic data being used in AQ calculations prior to Nexus go-live.</li> <li>• Is disappointed that these highlighted risks have not been mitigated at least in part through the calculation and distribution of calculated provisional Aqs. Modification 0609 removes the obligation to send this data during 2017. Receipt of this data would have provided Shippers with further useful intelligence to undertake final mitigating actions to correct data or prevent the calculation of problematic Aqs post Nexus go-live.</li> <li>• While some measures are in place at Nexus go-live to validate initial rolling Aqs, additional risk has been introduced to the process due to the absence of an AQ review process. Further mitigating activity would have been preferable.</li> <li>• In addition, both the lack of calculated AQ data for 2017, and the absence of the routine validation work usually undertaken by Xoserve, means that in the event of an unexpected further delay to Nexus, there will be no opportunity to retrieve the situation and complete a full AQ review for 2017. While at the time of writing delay to go-live looks unlikely, full contingency in this area would have been preferable.</li> <li>• Notes the contingency arrangements related to AQ appeals that have been proposed in the event of such a delay, and believes that while they are not an optimum contingency arrangement, they do go some way to affording some mitigation in such a scenario.</li> <li>• Would expect Xoserve to take reasonable endeavours to undertake this proposal in such an event.</li> <li>• Notes the risk stated by Xoserve to project delivery of the aforementioned potential mitigations, and while noting this is not an ideal state of affairs, believes that project delivery takes precedence.</li> <li>• Implementation should follow as soon after the Authority decision as possible.</li> </ul>

Scotland Gas Networks and Southern Gas Networks (SGN)	Support	d - positive f - positive	<ul style="list-style-type: none"> <li>• Enables an orderly and efficient transition from old to new arrangements and ensures PNID is accurately reflected in the transition arrangements within the UNC.</li> <li>• An Authority decision and implementation as soon as reasonably practicable is requested to provide parties with certainty in arrangements.</li> <li>• Given the non-application of both ratchet charges and the associated increased capacity charges during the non-effective period, SGN will lose the income usually anticipated in the event of an excess consumption. Operational costs may also be incurred due to the consequent necessity to undertake additional monitoring of Network usage during this period.</li> </ul>
ScottishPower	Comments	d - negative f - positive	<ul style="list-style-type: none"> <li>• While supporting the central aims of Modification 0609 to cater for the delayed PNID date of June 2017, it cannot offer support to this proposal due to the inclusion of clauses to remove the AQ Review.</li> <li>• It would appear that prior to consideration of this proposal that a decision had been taken by Xoserve that there would be no AQ Review in 2017, irrespective of any subsequently delay to the implementation of Project Nexus. This is despite on-going discussions between Xoserve and the Shippers on budget and business plans from April 2017 through the Funding, Governance and Ownership of Xoserve programme, where this decision was not apparent. It was also despite there being a UNC requirement to undertake a Review process. It therefore came as a surprise that National Grid Gas Distribution had introduced a modification to remove the requirement to undertake an AQ Review from the UNC.</li> <li>• An alternative modification was brought forward by British Gas to preserve the opportunity to have an AQ Review, given the potential misallocation of energy volumes, if the PNID was delayed. It took some weeks for Xoserve to determine that the alternative was technically unworkable and presented additional risks to the existing PNID.</li> <li>• Welcomes the suggestion by Xoserve that it could look at re-opening the appeals process, should the PNID be delayed beyond June 2017. However, at this stage they remain concerned that no proposal for this contingency has been forthcoming. ScottishPower would propose that an SSP and LSP appeals process should be explored at the earliest possible opportunity if there are any indications that the PNID date will be missed.</li> <li>• There are no direct costs envisaged, however in the event of PNID being delayed, there is a potential for the significant misallocation of costs between Shipper parties where AQs from October 2016 will be used for a longer period.</li> <li>• Implementation should be as soon as possible following an Authority decision to give certainty of the arrangements.</li> </ul>

SSE Supply	Support	d - positive f - positive	<ul style="list-style-type: none"> <li>• This is necessary in order for the Industry to successfully deliver the full functionality under Project Nexus.</li> <li>• Implementation should be as soon as possible to provide clarity on the transitional arrangements.</li> </ul>
Wales & West Utilities	Support	f - positive	<ul style="list-style-type: none"> <li>• Believes that the opportunity costs that this modification presents (such as the early curtailment of the ratchet window) are less than the cost resulting from a delay to the PNID.</li> <li>• Recognises that there were Shipper concerns regarding the removal of the 2017 AQ review process but they believe that the industry need to proceed on the basis that the PNID will be 1st June (in line with the decision to exit Market Trials Regression testing).</li> <li>• Notes that following the implementation of Project Nexus Shippers will have the benefit of the new rolling AQ process which should significantly improve allocations of energy.</li> </ul>

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report, and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

## 11 Panel Discussions

## 12 Recommendations

### Panel Recommendation to Authority

Members recommended that Modification 0609 should **[not]** be implemented.