

The Joint Office, relevant Gas
Transporters and other interested
parties

Email: jonathan.dixon@ofgem.gov.uk

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Dear Colleague

UNC700: 'Enabling large scale utilisation of Class 3'

We¹ have received a request from Gazprom that its modification proposal Uniform Network Code (UNC) Modification UNC700: Enabling large scale utilisation of Class 3 (UNC700)² is given urgent status and follows expedited modification procedures. This letter confirms that we have agreed to that request, and sets out the timetable under which the modification will proceed.

Background

Unidentified gas (UIG) refers to the differential between the volume of gas known to have flowed through a Local Distribution Zone (LDZ) and the volume that can be allocated to individual shippers³. In the case of daily metered supply points this allocation is based on nominations and subsequent meter reads, whereas allocation to non-daily metered supply points is based on estimated consumption derived from an algorithm. Daily UIG value can therefore be a positive or negative value.

Daily UIG is apportioned across all supply points on a daily basis, in accordance with a weighted scaling factor determined by an independent Allocation of Independent Gas Expert (AUGE). Those scaling factors are intended to reflect the extent to which a supply point of a particular category contribute to UIG, based on their End User Category (EUC) and settlement product.

The AUGE considers that permanent UIG (i.e. the residual volume once all practicable reconciliation has been undertaken) is composed largely of theft. The AUGE further considers that there is a greater propensity for theft when the supply point is in settlement class 4, requiring only an annual read.⁴ A supply point within EUC1 (i.e. typical domestic size) that is in settlement class 3 will therefore attract a weighted UIG allocation that is lower than an otherwise equivalent supply point in settlement class 4. For the gas year 2019/20 the EUC1 class 3 weighting is around 85% lower than that of a class 4 supply point.⁵

This revised weighting of UIG provides greater incentive for shippers to register supply points in settlement class 3, which is based upon daily reads being submitted to the Central

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem', 'the Authority', 'we', 'our' and 'us' are used interchangeably in this letter.

² www.gasgovernance.co.uk/0700

³ Some gas is also allocated for gas transporters own use, or calculated to be system leakage.

⁴ See: [Final Allocation of Unidentified Gas Statement for 2019/20](#).

⁵ See: <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/book/2019-05/AUG%20Table%20for%202019%2020.pdf>

Data Service Provider (CDSP) on a batched monthly basis. This has accelerated the expected take up of class 3 beyond the levels originally projected by the CDSP as part of the business requirements for its UK link replacement, otherwise known as Project Nexus. As of 1 July 2019 there are around 170,000 class 3 supply points. Shippers have indicated to the CDSP that this number could grow to around 4.5m as a direct result of the 2019/20 AUGE weighting factors which come into effect 1 October 2019.

Given that the prevailing UNC rules do not preclude shippers from submitting all of their class 3 reads on the same day, the CDSP could receive an unprecedented volume of meter reads, going beyond the capabilities that its current systems have been scaled and tested to accommodate. The CDSP has identified that this may pose a risk to the effective operation of its UK Link systems and functioning of other processes conducted within those systems.

The CDSP held a workshop on 12 July 2019 to raise shipper awareness of the issue and to discuss potential mitigating actions.⁶ One of the options identified was a change to the rules around batched read submission.

The modification proposal

UNC700 proposes to revise the class 3 meter read batch submission rules in order to reduce the peak processing that may be required. This would be done by loading meter reads into an interim *staging table* that sits outside of the UK Link systems. From this table, the CDSP would extract a safe number of reads – currently identified to be a one per week for each supply point – to be utilised with the downstream processes with UK Link. Any remaining valid meter reads will be retained by the CDSP for performance monitoring and demand estimation purposes.

We understand that UNC700 may be an interim measure, subject to further scaling of UK Link capacity being proven to be necessary and cost efficient.

The proposer requests that UNC700 be granted Urgent status and proceed on a timetable approved by the Authority to ensure that these mitigating actions can be given effect ahead of 1 October 2019, allowing shippers to benefit from the commercial advantages of migrating their supply points into class 3, whilst safeguarding the operation of central systems.

UNC Modification Panel View

Whilst UNC700 had not been formally raised by the time the UNC Panel met on 18 July 2019, the potential for such a modification proposal to be raised was signalled as one of the conclusions of the 12 July CDSP workshop. In anticipation of this, we asked the UNC Panel to provide a view on whether the proposal should follow urgent procedures, in accordance with paragraph 10.1.1(b) of the Modification Rules.⁷

The Proposer of the draft Modification together with the CDSP representative outlined the severity of the issue and the proposed solution to Panel. Based on the information available at the time, the Panel members unanimously indicated that the issue warranted urgent consideration.

Authority decision

We have considered the Proposer's justification for urgency in respect of UNC700. We have assessed the request against the urgency criteria set out in Ofgem's published guidance.⁸

⁶ See: www.xoserve.com/news/class-3-supply-point-migration/

⁷ UNC Modification Rules: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

⁸ Ofgem Guidance on Code Modification Urgency Criteria: <https://www.ofgem.gov.uk/publications-and-updates/ofgem-guidance-code-modification-urgency-criteria-0>

general, we consider that an urgent modification should be linked to an imminent issue or a current issue that, if not urgently addressed, may cause a:

- i. significant commercial impact on parties, consumers or other stakeholder(s); or
- ii. significant impact on the safety and security of the electricity and/or gas systems, or;
- iii. party to be in breach of any relevant legal requirements.

In reaching our decision, we have considered the details contained within the modification proposal, the view given by UNC Panel at its 18 July 2019 meeting, and the options presented and discussion at the CDSP workshop on 12 July 2019.

Given the CDSP's assessment of the risk to its systems, we are satisfied that there is "*an imminent issue or a current issue that if not urgently addressed may cause a: (i) significant commercial impact on parties, consumers or other stakeholder(s)*". This would appropriately apply to both the risk to the effective operation of the UK Links systems, and the commercial impact on shippers if they are otherwise precluded from the benefit of their investment in migrating supply points from class 4 to class 3. We therefore consider that the proposal meets our published criteria for urgency.

We have considered the timetable presented by the Proposer. As we have been in a position to decide upon urgency earlier than requested, an additional day is available for the consultation period by a day. The timetable will therefore be as follows:

Process	Date
Ofgem Decision on Urgency	19 July 2019
Consultation Commences	22 July 2019
Consultation Close-out for representations	7 August 2019
Final Modification Report available for Panel	9 August 2019
Modification Panel recommendation	15 August 2019
Ofgem Decision expected by	28 August 2019

For the avoidance of doubt, our decision on urgency should not be treated as any indication of our view on the merits of modification proposal UNC700.

Yours sincerely

Jonathan Dixon
Senior Policy Manager