

Modification proposal:	<b>Uniform Network Code (UNC) 609: Transitional arrangements for gas settlement and replacement of Meter Readings (Project Nexus transitional modification) (UNC609)</b>		
Decision:	The Authority <sup>1</sup> directs this modification be made <sup>2</sup>		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	19 May 2017	Implementation date:	To be confirmed by the Joint Office

## Background

The suite of industry code modifications developed as part of Project Nexus aims to ensure that the systems underpinning the competitive gas market meet the current and anticipated business requirements of participants in that market. The principal UNC modifications that will give effect to these changes are UNC432<sup>3</sup> and 434<sup>4</sup>, which were accepted in February 2014. These modifications will be implemented together on the *Project Nexus implementation date* (PNID).

The PNID was originally defined within UNC432 as being 1 October 2015. This date was subsequently deferred by UNC548<sup>5</sup> to 1 October 2016, or such other date as may be determined by the Authority. The Authority subsequently determined that a 1 October 2016 PNID could not be met, and following a thorough re-planning exercise revised the target date to 1 June 2017. At today's meeting of the Project Nexus Steering Group, it was agreed that the criteria to go-live had been substantively met, and that the Project Nexus systems would therefore go-live on 1 June 2017.<sup>6</sup>

Further to the implementation of UNC602<sup>7</sup>, in order to facilitate the cutover to the new systems there will be a period of nine non-effective days commencing 23 May, during which time Gas Shippers should not send any UK Link communications to Xoserve. This non-effective period will be followed by a period of five days, including three *variant non-business days*, which will in effect be an extended weekend for code purposes, allowing Xoserve to catch up on processing all of the files that have been held over during the non-effective period. From 6 June all systems will be operating and code parties will be able to send and receive files as usual.

## The modification proposal

The prevailing UNC transitional provisions for Project Nexus are predicated on the earlier implementation date of 1 October 2016. Now that the actual PNID is known, it is appropriate to bring those transitional provisions into line. UNC609 seeks to give effect to those revisions.

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> UNC432: '[Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform](#)'

<sup>4</sup> UNC434: '[Project Nexus – Retrospective Adjustment](#)'

<sup>5</sup> UNC548: '[Project Nexus – deferral of implementation date](#)'

<sup>6</sup> Further information on Project Nexus is available on the Ofgem website at: [www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/project-nexus](http://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/project-nexus)

<sup>7</sup> UNC602: '[Project Nexus – Implementation of Non-effective days and variant non-business days for Project Nexus implementation](#)'

UNC609 also seeks to:

- revise the provisions relating to the application of ratchet charges, clarifying that where the quantity of gas off taken between 27 May and 31 May (the last day on which the ratchet provisions would ordinarily apply) exceeds the Registered Daily Metered Supply Point Capacity:
  - the enduring Supply Point Capacity will not be increased; and
  - a Supply Point Ratchet Charge will not be applied.

This would obviate the need for a bespoke process to be developed in order to handle any *in-flight* ratchet issues during the non-effective period. Xoserve analysis of the application of ratchet changes in previous years suggested that the development of any transitional solution to this issue would be disproportionate.

- reflect the implementation of UNC565A<sup>8</sup>, establishing Xoserve's role as the Central Data Service Provider
- clarify the rules regarding the replacement of a meter reading and subsequent reconciliation adjustment
- clarify the transitional rules regarding the treatment of Annual Quantities (AQs), in particular that a full AQ review process will not be carried out in 2017 (having been superseded by Project Nexus).

### **UNC Panel's recommendation**

At its meeting of 20 April 2017, the UNC Panel voted unanimously to recommend that UNC609 be implemented.

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 April 2017. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR<sup>10</sup>. We have concluded that:

- implementation of UNC609 will better facilitate the achievement of the relevant objectives of the UNC;<sup>11</sup> and
- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>12</sup>

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<sup>8</sup> UNC565: '[Central Data Service Provider – General framework and obligations](#)'

<sup>9</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>10</sup> UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at [www.gasgovernance.co.uk](http://www.gasgovernance.co.uk)

<sup>11</sup> As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

<sup>12</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986 as amended.

## **Reasons for our decision**

We note that most respondents recognised the need for transitional arrangements to support the implementation of the Project Nexus modifications and associated replacement systems. There was therefore a strong support for UNC609, with eight of the ten respondents supporting implementation, and another offering qualified support. The final respondent provided comments only; there were no respondents opposed. However, there were varying degrees of concern at the particular approach being taken to AQs, and the potentially detrimental impacts upon settlement accuracy.

We have therefore considered UNC609 against relevant objectives d) and f), and agree with the majority of respondents and the UNC Panel that it would have a neutral impact on the other relevant objectives.

### ***Relevant objective d) - the securing of effective competition between relevant shippers;***

The concern of some shippers centred around the fact that Xoserve would not be undertaking an AQ review in 2017. Some shippers felt that it was premature for Xoserve to have ceased these activities in advance of the PNID being certain. At one stage an alternative proposal was raised which would have required Xoserve to continue all existing AQ activities up to PNID, notwithstanding the likelihood of those actions being nugatory and all preparation for an AQ review defunct at the point a go-live decision is taken. This alternative proposal was subsequently withdrawn when it became clear that it would of itself impose risks to the Nexus programme.

Given that we have today issued our decision not to intervene to prevent the go-live of Project Nexus on 1 June, we consider that the concerns regarding the absence of an AQ review have largely been superseded. We acknowledge the point made by some respondents that the validation of AQ values that would ordinarily have been carried out in the preliminary stages of the AQ review may still have been of benefit in preventing anomalous AQ values from being carried over into the post-Nexus environment. However, that issue does not stem from UNC609, nor can it at this stage be influenced by the decision we take on this proposal.

In supporting the implementation of Project Nexus, we consider implementing UNC609 would have a positive impact on competition between shippers and therefore objective d) because it supports the realisation of the benefits identified in relation to UNC432. The Competition and Markets Authority in their recent report on competition in the energy market identified the current gas settlements which will be replaced by Project Nexus as an Adverse Effect on Competition.

### ***Relevant objective f) - the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code***

The majority of respondents considered that the implementation of UNC609 would address some of the obvious drafting anomalies that had arisen as a result of the delays to the PNID.

We consider that provision accurate meter reads are fundamental to the gas allocation and settlement processes. We therefore approved the earlier Project Nexus transitional

modifications UNC527 and UNC528<sup>13</sup> on the basis that they would allow for the continuing use of existing meter read data and facilitate a more orderly transition to the new classification of Supply Points than would otherwise be the case. We considered that those transitional rules would ensure that the benefits of the earlier modification UNC432 would be realised at the earliest opportunity, thereby better facilitating objective f).

To the extent that UNC609 builds upon those earlier modifications, as well as updating references to matters that have already been given effect through other means, we consider that UNC609 would also improve the administrative efficiency of the UNC and therefore further objective f).

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC609: *'Transitional arrangements for gas settlement and replacement of Meter Readings (Project Nexus transitional modification)'* be made.

**Rob Salter-Church**

**Partner, Consumers and Competition**

Signed on behalf of the Authority and authorised for that purpose

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<sup>13</sup> [UNC527: 'Implementation of Annual Quantity arrangement'](#) and [528V: 'Implementation of Supply Point Administration, gas allocation and settlement arrangements'](#)