

Modification proposal:	Uniform Network Code (UNC) 440: Project Nexus – Independent Gas Transporters (iGT) Single Service Provision (UNC440)		
	UNC467: Project Nexus - iGT Single Service Provision; data preparation (UNC467)		
Decision:	The Authority ¹ directs that UNC440 and UNC467 be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	14 January 2015	Implementation Date:	UNC440: 1 October 2015 UNC467: To be confirmed by the Joint Office

Background to the modification proposals

The UK Link is an IT system which enables the exchange of information between Gas Shippers and Gas Transporters (GTs), relating to supply point administration, the balancing of the gas system and other matters. UK Link is operated by Xoserve as the Agent of the GTs. It is scheduled to be replaced in October 2015. This has presented an opportunity to extend the scope of services provided by that system, to incorporate for the first time those supply points connected to independent GT (iGT) networks.

IGTs operate independently from the regional monopoly Gas Distribution Networks (GDNs) and compete with them to provide connections. Both the GTs and iGTs are obliged under the terms of their respective licences to operate in accordance with the Network Code, which incorporates by reference the UNC and the iGT UNC respectively. Both GTs and iGTs are obligated to provide certain services relating to supply point administration, which encompasses functions such as customer switching.

However, the manner in which they discharge those obligations can vary greatly. This causes additional cost and inefficiencies for those shippers who operate across the different networks and have to adopt differing back office systems and procedures to carry out what is effectively the same function. It may also preclude gas suppliers from offering a uniform service to their whole customer base, resulting in differing standards of service for those customers connected to iGT networks.

The modification proposals

UNC440

The industry's requirements of replacement systems have been identified by Xoserve through a number of consultations and refined into a series of Business Requirements Definitions (BRDs) documents³. These BRDs were subsequently developed into a series of UNC modification proposals, including UNC440, which covers the scope of iGT Agency services⁴.

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

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

³ See: www.gasgovernance.co.uk/nexus/brd

⁴ www.gasgovernance.co.uk/sites/default/files/IGT%20BRD%20v2.0_Baselined.pdf

UNC440 seeks to incorporate the iGTs, which currently sit outside of the UK Link framework, into the replacement systems. It is proposed that a Single Service Provision (SSP) by a common Agency (currently Xoserve) will introduce efficiencies for both the iGTs and the Shippers, who often must duplicate their efforts when dealing with differing arrangements between networks.

A new document would be inserted into the UNC to govern the relationship between the GTs and the iGTs. The 'iGT Arrangements Document' would replace the existing LDZ CSEP NExA⁵, and bring the governance arrangements between GTs and iGTs more into line with the inter-GT governance of the Off-take Arrangement Document, which also forms part of the UNC.

As iGTs become party to the UNC, representation would be provided through the modification rules and a dedicated seat on the UNC Panel. It is also proposed that a further UNC Panel seat will also be created for a shipper in order to maintain the current balance of representation.

UNC467

UNC467 seeks to obligate iGTs to participate in a data preparation exercise that will facilitate the implementation of the SSP regime proposed by UNC440. This will include the resolution of any missing or inaccurate data wherever possible. In order to achieve this, bespoke systems will be built to handle the transition and cleansing of iGT data. The costs expected to be incurred by Xoserve are in the range of £400,000-£650,000. The implementation of UNC467 would also allow Xoserve to recover these costs from the relevant Users as a non-code User Pays service. Charges will be allocated on the basis of each shipper's market share of iGT connected supply points.

As UNC440 and UNC467 are mutually dependent, we have considered both of these proposals together.

We also consider that changes to the standard conditions of the GT licence would be necessary in order to give full effect to these proposals. On 4 December 2014 we issued a Notice⁶ (the Notice) proposing to make such licence changes, introducing a common services Agent for iGTs. The letter that accompanied the Notice also set out and sought views on our initial thinking on UNC440 and UNC467.

UNC Panel⁷ recommendation

At its meeting of 17 April 2014 the UNC Panel voted unanimously to recommend the implementation of UNC440. The Panel considered that UNC440 would better facilitate relevant objectives d) and f) of the UNC.

⁵A Connected System Exit Point (CSEP) is a point where gas may flow out of the relevant Gas Transporters (GTs) system, typically from a Local Distribution Zone (LDZ) into the network of an Independent GT (IGT). Whilst the relationship between the GT and each gas shipper is governed by the relevant Network Code, the relationship between the upstream GT and an iGT is currently managed through a separate document known as the CSEP Network Exit Agreement (NExA).

⁶www.ofgem.gov.uk/publications-and-updates/statutory-consultation-licence-modifications-and-further-consultation-unc-modifications-introduce-igt-single-service-provision

⁷The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

At a subsequent meeting on 21 August 2014 the UNC Panel also voted unanimously to recommend the implementation of UNC467. The Panel considered that UNC467 would better facilitate relevant objective d).

The Authority's decision

We have had regard to our statutory duties and functions in reaching this decision. We have considered the issues raised by the UNC440 and UNC467 Final Modification Report (FMRs) dated 17 April 2014 and 21 August 2014 respectively, and the consultation responses published alongside and summarised within those FMRs⁸. We have also considered the responses⁹ to our own consultation on these proposals and have concluded that:

1. implementation of both UNC440 and UNC467 will better facilitate the achievement of the relevant objectives of the UNC¹⁰; and
2. directing that the UNC440 and UNC467 be made is consistent with our principal objective and statutory duties¹¹.

Reasons for the Authority's decisions

We note that the responses to the Joint Office's consultations overwhelmingly supported the implementation of both UNC440 and UNC467. Fourteen of the sixteen respondents on UNC440 offered full support, while the remaining two respondents offered qualified support. All eight respondents on UNC467 supported its implementation.

NG NTS offered only qualified support to UNC440, citing its concerns about the lack of clarity over the changes required to Gemini¹² and associated funding, together with concerns at the implementation timescale. These were concerns about the UK Link replacement programme generally rather than specific to UNC440 and were subsequently addressed in our decision letters on UNC432¹³ and UNC491¹⁴.

The other respondent GTC, which was also the only the iGT respondent to either Joint Office consultation, offered qualified support to UNC440 on the basis that the costs to it of adopting the single service provision were not at that time known. However, in its response to our 'minded to' position set out alongside the Notice, GTC confirmed that subsequent work had allayed its concerns and that it was now able to offer full support.

All other respondents to the Notice who commented on UNC440 and UNC467 supported their implementation.

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁹ Published on the Ofgem website at: www.ofgem.gov.uk/publications-and-updates/statutory-consultation-licence-modifications-and-further-consultation-unc-modifications-introduce-igt-single-service-provision

¹⁰ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

¹¹ 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.

¹² Gemini is the IT system through which energy balancing and system entry and exit capacity booking activities are undertaken.

¹³ UNC432: '[Project Nexus – Gas demand estimation, allocation, settlement and reconciliation reform](#)'

¹⁴ UNC491: '[Change implementation date of Project Nexus to 1 April 2016](#)'

We agree with the proposer and the UNC Panel that UNC440 should be assessed against relevant objectives (d) and (f) and that UNC467 should be assessed against relevant objective (d). We consider that the proposals would have a neutral or no impact against the other UNC objectives.

Relevant objective (d): the securing of effective competition between relevant shippers and suppliers

UNC440 represents one of the key elements of the Project Nexus proposals. Xoserve has provided an individual cost estimate for each proposal, with UNC440 estimated to cost in the region of £4m-£8m if implemented on a standalone basis. However, the intention is to deliver all of the Project Nexus modifications as an integral package, the aggregate costs of which are expected to be in the region of £20m.

Set against these costs, the FMR suggest that there would be direct one off savings of £2m-£3.7m, followed by annual benefits in the region of £5.5m-£6.9m. These figures were based on a shipper submissions to a draft cost-benefit assessment conducted by Xoserve in late 2013 and subsequently approved at both the UNC440 and iGT039¹⁵ working groups. Even allowing for a large margin of error, the benefits are therefore expected to comfortably outweigh costs. To the extent that these cost savings will give scope for suppliers to offer lower tariffs to consumers we consider that they will facilitate further competition between relevant suppliers.

In the Notice we also set out our view that the introduction of a common Agency will ensure that all consumers achieve the same standards of service around functions such a switching, and reduce barriers to entry for new entrants wishing to service iGT connected consumers. We considered that this would potentially have a greater positive effect on competition than the already significant cost savings mentioned above. This is particularly welcome given that iGT connected consumers have not always received the same benefits of competitions, relative to other consumers.

All of the respondents to the Notice who commented on our minded to position supported our rationale for accepting UNC440 and/or supported its implementation. Given the above, we retain our view that the UNC440 would reduce costs for gas shippers and suppliers and improve processes such as customer switching at iGT connected supply points. We therefore consider that the implementation of UNC440 would better facilitate relevant objective d).

UNC467

A common theme amongst respondents on UNC467 was that the modification was necessary in order to facilitate the cleansing and preparation of data ahead of the anticipated implementation of UNC440.

We agree that the preparation and cleansing of data currently held by several different iGTs will be crucial to the effective integration of iGT connected supply points under a single service provision. We also acknowledge that the cleansing and migration of data outwith that already held by Xoserve has not been necessitated by the replacement of UK

¹⁵ iGT039: 'Use of a Single Gas Transporter Agency for the common services and systems and processes required by the iGT UNC' seeks to complement UNC440, replacing those sections of the IGT UNC relating to services which will no longer be provided by each of the IGTs, and instead incorporating by reference the relevant sections of the UNC

Link systems. Further, whilst the integration of iGT supply point administration services is a core part of the added value that Project Nexus has sought to gain from the replacement of UK Link systems, this did not necessarily require the responsibility and associated costs for the preparation and cleansing of iGT data to fall to Xoserve.

However, we agree that this appears to be an efficient way of handling the migration and that it will mitigate future data discrepancies that would otherwise need to be addressed by Users, at potentially greater cost. Therefore, whilst the UK Link replacement and associated Project Nexus UNC modifications have been fully funded, we consider it reasonable for the costs of this preparation exercise and associated transitional systems, which are technically outwith the UNC arrangements, to be recovered directly from relevant users as a non-code User Pays service.

Given the above, our current view is that the implementation of UNC467 would better facilitate relevant objective d).

Relevant objective (f): the promotion of efficiency in the implementation and administration of the UNC

Some respondents to UNC440 suggested that the removal of the CSEP NExA would improve the governance of arrangements between GTs and iGTs and therefore promote efficiency in the administration of the respective codes. We agree that the current governance arrangements are fragmented which can lead to inconsistencies or duplication. This can be inefficient and can create confusion for code parties. We also agree with the respondent who suggested that some parties can be disenfranchised when changes which impact them are given effect, or at least commenced, under documents over which they have little visibility and no influence.

Whilst the potential administrative efficiencies offered by UNC440 are of secondary importance to those set out above, we agree with those respondents who stated that its implementation will further relevant objective f).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposals:

- UNC440: '*Project Nexus – iGT Single Service Provision*', and
- UNC467: '*Project Nexus – iGT Single Service Provision data preparation*'.

be made.

Rob Church
Partner, Retail Markets

Signed on behalf of the Authority and authorised for that purpose