

Modification proposal:	Uniform Network Code (UNC) 491: Change Implementation Date of Project Nexus to 1 April 2016		
Decision:	The Authority ¹ has decided to reject this proposal ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	15 May 2014	Implementation date:	N/A

Background to the modification proposal

On 28 February 2014 the Authority directed the implementation of UNC432³ and UNC434⁴. These were two of a suite of UNC modification proposals related to Project Nexus that also includes UNC440⁵, UNC467⁶ and UNC473⁷. Project Nexus aims to ensure that the systems operated by Xoserve that underpin the competitive gas market meet the current and anticipated business requirements of participants in that market. The proposals provide for:

- **enhanced system capacity.** This will allow for the increasing volume and granularity of consumption data captured by smart meters, in turn providing for accurate allocation of costs to the appropriate parties;
- **substantial administrative efficiencies.** Elimination of a number of existing processes that have evolved in order to work around the constraints imposed by, or reconcile the inaccuracies of, existing systems;
- **incorporation of the independent Gas Transporters (iGTs)** into rebuilt central systems. This will incorporate those GTs who currently sit outside of the UK Link framework. This will deliver efficiencies for iGTs and the Shippers who often must duplicate their efforts when dealing with differing arrangements between networks.

The Project Nexus modifications are due to be implemented with effect 1 October 2015.

On 28 March 2014 the Authority directed the implementation of UNC461, one of a series of modifications bringing the UNC into line with the European Network Codes. Specifically, UNC461 changes time references within the UNC to align with the gas day definition set out in the Capacity Allocation Mechanisms in Gas Transmission Systems⁸ and the Gas Balancing of Transmission Systems Network Code⁹.

UNC461, together with other modifications to align with the EU Network Codes, is also scheduled to be implemented 1 October 2015. Both Project Nexus and the changes to the gas day will impact upon Xoserve's systems. Some UNC Parties and Xoserve have raised concerns at the volume of system changes scheduled for implementation in Q3 2015 and the risks of pursuing two sets of changes at the same time.

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

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

³ UNC432: 'Project Nexus - Gas Demand Estimation, Allocation, Settlement and Reconciliation reform'

⁴ UNC434: 'Project Nexus - Retrospective Adjustment'

⁵ UNC440: 'Project Nexus - iGT Single Service Provision'

⁶ UNC467: 'Project Nexus - iGT Single Service Provision; data preparation'

⁷ UNC473: 'Project Nexus - Allocation of Unidentified Gas'

⁸Commission Regulation (EU) No 984/2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009 of the European Parliament and of the Council: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:273:0005:0017:EN:PDF>

⁹Commission Regulation (EU) No 312/2014 of 26 March 2014 establishing a Network Code on Gas Balancing of Transmission Networks:

http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:JOL_2014_091_R_0015_01&from=EN

The modification proposal

UNC491 seeks to delay the implementation of Project Nexus until 1 April 2016 *or* such other later date as may be determined by the Uniform Network Code Committee (UNCC). The Proposer, National Grid (NG) Gas Transmission, considers that this would ensure Xoserve resources are targeted delivering of the EU alignment and thereby better facilitate relevant objectives (c) and (g).

UNC Panel¹⁰ recommendation

At its meeting on 7 April 2014 the UNC Panel determined by a majority to recommend implementation of UNC491.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has also considered the issues raised by the modification proposal, the Final Modification Report (FMR) dated 7 April 2014, and the responses to the Joint Office's consultation¹¹. The Authority has concluded that the implementation of UNC491 would not better facilitate the achievement of the relevant objectives of the UNC¹².

Reasons for Authority decision

Of the seventeen responses to the Joint Office consultation, ten supported the implementation of UNC491. Those respondents generally agreed with the proposer that the implementation of UNC491 would further relevant objectives (c) and (g). The seven respondents who were opposed to UNC491 stated that it would have a negative impact on competition and therefore be detrimental to relevant objective (d). Some of those respondents also considered that it would be detrimental to relevant objectives (c) and (f). We have considered UNC491 against each of these relevant objectives, as set out below. We agree that it would have a neutral or no impact on the other objectives.

Relevant Objective (c) – efficient discharge of the licensees obligations

The proposer argued that by delaying the Nexus changes, the implementation of UNC491 would mitigate the risk of failing to implement the gas day change in October 2015 and its consequential failure to meet its licence obligations.

We note that there was no reference to NG complying with licence conditions in the UNC461 FMR or our subsequent decision on that modification. Whilst we consider that there may need to be some change to NG's GT licence in order to fully reflect its new obligations stemming from the EU Network Codes, we do not consider that UNC491 is necessary in order to comply with the prevailing version. We therefore do not consider that UNC491 would have any effect on relevant objective (c).

Relevant Objective (d) –the securing of effective competition between relevant shippers

Our decision letters on UNC432 and UNC434 set out the reasons why we considered that their implementation would help promote competition between shippers.

¹⁰ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

¹¹ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹² As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/EPRFiles/Gas%20Transporter%20Standard%20Licence%20Conditions%20-%2010-11-2011%20-%20Current%20Version.pdf>

UNC491 would delay the implementation of Project Nexus for at least six months. We agree with those respondents who stated that this delay would reduce the benefits highlighted in our UNC432 and UNC434 decision letters. We therefore consider that UNC491 would be detrimental to relevant objective (d).

Relevant Objective (f) - the promotion of efficiency in the implementation and administration of the UNC

In addition to the principle benefit of furthering effective competition, we also consider that the Project Nexus modifications will improve the efficient administration of the UNC and we explained this in our earlier decision letters.

It is not clear from the UNC491 FMR what the impact of a delay would be on the UNC procedures, though it may be a delay for the whole 2015/16 Gas Year. We therefore agree with those respondents who noted that the implementation of UNC491 would be detrimental to relevant objective (f).

Relevant Objective (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

Respondents considered that the implementation of UNC491 would mitigate the risk of the failure to implement the gas day change in October 2015, and as such the risk of non-compliance with the EU Network Codes.

However, the material provided in the FMR, the earlier correspondence from the Change Overview Board¹³ and subsequent discussions with Xoserve provide limited information on the risks of pursuing the gas day and Nexus changes at the same time.

While the detailed systems design work is ongoing, the high level design which was completed in April¹⁴ did not suggest that the two sets of changes to Xoserve's systems will be incompatible. Moreover, Xoserve has not stated that the deadlines cannot be met and recently signed contracts with its delivery partner which target the 1 October 2015 date. We also understand that the delivery of the two projects could be separated later this year without jeopardising the EU Network Code deadline being met.

Because of a lack of substantive information provided to Ofgem, we have been unable to assess the likelihood or impact of the risks identified by the proposer. Therefore we do not have sufficient evidence to judge whether UNC491 would have a positive effect on relevant objective (g).

Conclusion

Based on the information provided, we consider that it would be premature to defer the implementation of Project Nexus in favour of the gas day changes at this time. A sufficient case for doing so has yet to be made. However, we have identified clear downsides to accepting UNC491 in terms of delaying the benefits of Project Nexus identified in our earlier decision letters. Consequently, we are in a position where Ofgem has to reject UNC491 as there is no evidence that its implementation would further the relevant objectives of the UNC.

¹³ www.gasgovernance.co.uk/sites/default/files/COB%20letter%20to%20Ofgem%20v1.0.pdf

¹⁴ www.gasgovernance.co.uk/sites/default/files/COB%20Dashboard%20May.ppt

The arguments presented in the FMR suggest that the modification was raised as a risk mitigation measure for industry parties and Xoserve. We do not consider that it is Ofgem's role to manage these risks or through the code governance process to take a decision on delaying benefits from another area of work in advance of evidence being presented of such risks materialising. It is for industry parties and Xoserve in particular to manage these pressures and risks.

While a sufficient case has not been made for a delay to Project Nexus at this time, we recognise that circumstances may change. Should evidence arise that risks crystallise which cannot be mitigated and which are likely to result in costs or consumer detriment then Ofgem will of course consider the issues again based on the evidence presented. However, in making such a case we would expect Xoserve and the GTs to demonstrate that all options have been fully explored and to set out a robust plan for how any revised deadline will be met.

We further consider that whilst the UNC makes reference to the 1 October 2015 implementation date, the UNC modification process does not of itself provide the dynamic governance that a project of this nature requires. We therefore welcome the work that is currently being undertaken on establishing a robust governance framework for the implementation phase of the project that incorporates the Change Overview Board, the Uniform Network Code Committee and other fora, as appropriate.

Rob Church

Associate Partner, Smart Metering and Smarter Markets

Signed on behalf of the Authority and authorised for that purpose.