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Modification proposal:	**Uniform Network Code (UNC) 531: Provision of an industry user test system**		
Decision:	The Authority[1] has decided to reject this modification proposal[2]		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	20 October 2016	Implementation date:	Not applicable

Background

The current UK Link system, operated by Xoserve for energy settlements, supply point administration and other functions for the Great Britain gas market, is in the process of being replaced. Project Nexus aims to ensure that the replacement systems meet the current and anticipated requirements of market participants and consumers and that these participants have updated their own IT systems to interface with the new Xoserve systems.

The modification proposal

UNC531 seeks to put an obligation on the Gas Transporters (GTs) to provide a testing system and regime that will provide flexibility to Users to support their testing requirements for changes post-Nexus go-live. This will enable all parties to gain confidence that any post-Nexus changes to their systems will not have any detrimental impacts. These future testing requirements fall under the governance of the UK Link Committee.

UNC531 would place an obligation on GTs to create a test environment, the arrangements for which would be set out in a new UNC subsidiary document entitled the "*UK Link Testing System and Procedures*". That document will be reviewed annually by the UK Link Committee (or equivalent authority) and approved by the UNC Committee.

UNC Panel recommendation

At its meeting of 15 September 2016 the UNC Panel determined by a majority to recommend that UNC531 be implemented.

Our decision

We have considered the issues raised by the proposal and the Final Modification Report (FMR) together with the consultation responses published alongside that FMR.[3] We have considered and taken into account the vote of the UNC Panel on the proposals, but have been unable to conclude that the implementation of UNC531 will better facilitate the achievement of the relevant objectives of the UNC.[4]

Reasons for our decision

We agree with the UNC Panel that UNC531 should be assessed against relevant objective d) and f), and that it would have a neutral impact upon the other relevant objectives.

[1] 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.
[2] 'Change' and 'modification' are used interchangeably in this document.
[3] UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk
[4] 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

We note that of the eight respondents to the consultation on UNC531, five were in support of it being implemented, while another offered qualified support. Only one respondent was clearly opposed to it being implemented. The remaining respondent offered comments without specifically coming down for or against the proposal.

(d) Securing of effective competition between relevant shippers

We note that some respondents considered that on balance the implementation of UNC531 would have a positive impact as it would allow UNC users to test system changes prior to their implementation, and provide assurance that the market will operate effectively when such system changes are made. These views were echoed by the UNC Panel members. Some respondents also considered the availability of a testing environment would make entry to the market easier for new participants.

We agree that robust and effective IT systems are a fundamental part of the gas market arrangements and that anything which adversely impacted those systems could therefore have an adverse effect on competition and upon consumers. It is for these reasons that Ofgem stepped in to oversee the delivery of Project Nexus. The benefits of a test environment and associated regime have been self-evident over the course of market trials. Arguably, this fulfils the intent of UNC531 in its original pre-Nexus incarnation. However, we sympathise with the concern of UNC users that there is no similar provision for any systems testing that may be required post Nexus when the UNC and UK Link governance revert to *business as usual.*

We therefore agree with those respondents who suggested that even the availability of such a test environment may be beneficial for market participants and therefore by extension, to the effectiveness of competition. However, without prior knowledge of what changes are forthcoming and the likely usage of the test environment, it is not possible to quantify the extent of any benefit and therefore whether it would outweigh the cost of implementation.

(f) the promotion of efficiency in the implementation and administration of the Code

We note that the UNC Panel members recognised that in the absence of the likely usage levels of the proposed testing system, it was difficult to draw a firm conclusion on the benefits against the implementation costs. Whilst at this stage a detailed cost assessment has not been produced, we note that the high-level cost estimate[5] produced by Xoserve suggests that the test environment proposed by UNC531 would cost in excess of £2m and take more than 12 months to implement.

However, we are concerned that there is no evidence available as to the likely usage of this service and it is therefore not possible to draw any firm conclusions that the cost of implementing it would be efficient expenditure.

We agree that following the conclusion of the Nexus programme and the dissolution of the bespoke governance put in place for that purpose, any *business as usual* testing requirements should appropriately come under the governance of the UK Link committee.

[5] See: http://www.gasgovernance.co.uk/sites/default/files/Cost%20Estimate%20(HLC)%200531_0.pdf

Conclusion

We note that when UNC531 was first raised in February 2015 it sought the provision and development of an industry testing regime prior Project Nexus go live. This need was subsequently acknowledged and provided for through the bespoke programme governance set up to support the delivery of Project Nexus. Since then, Ofgem and industry have witnessed the value of thorough and integrated industry testing. Whilst we do not anticipate any imminent changes to systems requirements of the same scale as Project Nexus, the energy industry continues to face a number of challenges which will require changes to the way it operates and consequentially, to the requirements of its IT systems. In particular, it is likely that changes will be required fairly shortly in order to meet the needs of faster more reliable customer switching. In addition, the provision of a testing environment could provide confidence that new entrants were able to connect to the new UK Link systems and test processes which impact on consumers. We therefore strongly support the intent of UNC531, noting the potential benefits to the ongoing operation of the gas market from ensuring all participants have the ability to test post-Nexus go-live changes to UK Link.

However, as noted above, we do not consider that there is sufficient information contained within the UNC531 FMR on which to base a decision at this time. Nor do we consider that this deficiency in the FMR that can be remedied through the use of send-back provisions. In particular, the UNC Panel would be wholly reliant upon the provision of a detailed cost-assessment from Xoserve, and we share Xoserve's concern that to conduct one at this stage would divert critical resources away from Project Nexus delivery at a crucial juncture in the programme. Therefore we are rejecting UNC531.

Further, we note that with effect from 1 September 2016 the Xoserve Board has been reconstituted to include for the first time four shipper nominated Directors[6]. We consider this to be a key milestone in the package of reforms brought forward in response to our review of Xoserve's funding, governance and ownership. Notwithstanding our support for the underlying principle of UNC531, now that the Xoserve Board is better placed to reflect the cross-sectoral interests of the wider industry, as well as its usual fiduciary duties, we consider that this issue is best considered in the future alongside any considerations Xoserve give to ongoing market participant support in the new UK Link environment.

We also consider that the Board would be better placed to consider the basis of cost recovery for such a service. Although UNC531 anticipates that the test environment would be utilised solely by shippers and sought to recover costs solely from that group of market participants on a *user pays* basis, we have clear evidence through Project Nexus market trials, that changes to UK Link can also have a significant impact upon GT and IGT parties whose testing requirements may be no less than those of shippers.

Rob Salter-Church
Partner, Consumers and Competition
Signed on behalf of the Authority and authorised for that purpose

[6] See: http://www.xoserve.com/wp-content/uploads/Appointment-of-Shipper-Nominated-Directors-Sept-2016.pdf