

Modification proposal:	<b>Uniform Network Code (UNC) 535: Implementation of non-effective days to enable Annual AQ Review</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:	23 July 2015	Implementation date:	To be confirmed by the Joint Office

## Background

Annual Quantity (AQ) represents the expected volume of gas to be used at a particular Supply Point in a year. It is an input to capacity planning, energy balancing, charging and reconciliation. The accuracy of AQs are therefore important to consumers, shippers and the Gas Transporters (GTs).

The UNC requires GTs and Shippers to engage every year in a process for reviewing AQs at supply points. Under this AQ review process, each year GTs will provide Shippers with a provisional AQ for the supply points in their portfolios, and Shippers will then have a period – the AQ review amendment period – to review the AQ values before revisions become effective for the next gas year. In 2014 the AQ of around 8.5 million supply points was adjusted as a result of the AQ review.

In previous years it has taken several days for the revised AQ data to be uploaded, associated with the relevant registered shippers, and fed into the Gemini system for use in gas allocation and balancing purposes. Completion of the AQ revision will be further complicated this year - and the amount of data to be processed greater – as it will incorporate adjustments resulting from the five-yearly review of seasonal normal weather. This will reflect latest data on factors such as climate change, to effect the demand estimation modelling.

The AQ processing period has not previously had any impact on customer switching activity, or vice versa, as there was sufficient time for the data to be completely revised within the confirmation window. However, responding to the challenge for the energy industry to halve the switching period, underlying processes have been streamlined. In particular, the implementation of UNC477<sup>3</sup> reduced the UNC confirmation window<sup>4</sup> from seven working days to two.

The GT Agency, Xoserve, has raised a concern that the reduced confirmation window may not allow sufficient time for revised AQ data to be associated with the relevant registered shipper and utilised in wider central systems for energy demand allocation and other purposes. This could affect shippers' energy balancing positions, resulting in them being exposed to erroneous and potentially material imbalance charges and other costs.

## The modification proposal

UNC535 proposes to classify 29 and 30 September 2015 as *non-effective* days for the purposes of the UNC.

<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> UNC477: '[Supply Point Registration - Facilitation of Faster Switching](#)'

<sup>4</sup> This refers to the period between the closure of the supplier's objection window and the transfer taking effect.

This would not have an impact on any transfers initiated before the non-effective days, i.e. the registration will still be completed if the confirmation window starts on or before 28 September. However, Xoserve would not process any registrations where the confirmation window starts on 29 or 30 September. Shippers may be encouraged to hold off on submitting registrations during this period, but any that are received will be stored and processed the next working days following the non-effective period, i.e. 1 October 2015.

The full list of UNC sections that would be suspended during the non-effective period is set out in Section 7 of the Final Modification Report (FMR)<sup>5</sup> as well as the associated legal text, and not repeated here.

### **UNC Panel<sup>6</sup> recommendation**

At the UNC Panel meeting of 18 June 2015, the UNC Panel voted unanimously to recommend that UNC535 be implemented.

### **Our decision**

We have considered the issues raised by the modification proposal and the FMR dated 18 June 2015. We have considered and taken into account the responses to the industry consultation on the modification proposal which are attached to the FMR<sup>7</sup>. We have concluded that:

- implementation of UNC535 will better facilitate the achievement of the relevant objectives of the UNC;<sup>8</sup> and
- directing that UNC535 be made is consistent with our principal objective and statutory duties.<sup>9</sup>

### **Reasons for our decision**

We note the strong support for UNC535, with six of the seven respondents in support. The remaining respondent offered qualified support, recognising the circumstances which had prompted the proposal to be raised, but raising concerns at the possible impacts upon customers switching. These concerns were shared by a further respondent who submitted a confidential representation opposed to UNC535, directly to the Authority.

We agree with the UNC Panel that this proposal would further facilitate UNC objectives (d) and (f), and have a neutral impact upon the other relevant objectives.

### ***(d) the securing of effective competition between relevant shippers***

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<sup>5</sup> See: [www.gasgovernance.co.uk/sites/default/files/Final%20Modification%20Report%200535%20v2.0.pdf](http://www.gasgovernance.co.uk/sites/default/files/Final%20Modification%20Report%200535%20v2.0.pdf)

<sup>6</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>7</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>8</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>9</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.

We have some sympathy with the concerns raised by some respondents that the two non-effective days may impact upon suppliers' ability to discharge their obligations with respect to customer switching timescales. We consider that fast and effective transfers are fundamental to the effective operation of the energy retail market. However, we do not consider that UNC535 would be detrimental to competition.

Standard Licence Condition 14A (Customer Transfer) requires gas suppliers to ensure that customers transfers can take place within three weeks of the contractual cooling off period ending. In practice, and in keeping with the energy industry's commitment to halve switching timescales, transfers are now around 17 days, or three days from the end of the statutory cooling-off period.

As confirmations already underway would still be completed during the two-day non-effective period, and any new confirmations stored by Xoserve and processed after a short delay without the need for the shipper to re-submit them, we consider that UNC535 would have little effect on customer transfers, and all would still be completed well inside the period required by licence. We therefore do not consider that the two-day non-effective period will have any impact on retail competition. In contrast, if such a non-effective period is not provided for, and in the absence of any alternative solution, we are concerned that the parallel running of the AQ update and customer switching processes may lead to a material misallocation of energy costs.

We therefore consider that on balance, UNC535 will further effective competition by ensuring the accuracy of cost allocation and, more specifically, by protecting those suppliers who are actively transferring customers during the relevant period from incurring inaccurate charges.

***(f) the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code***

The majority of respondents agreed with the proposer that UNC535 would allow Xoserve time to efficiently validate and utilise up-to-date AQ information in all relevant systems and processes. It was noted that the proposal to introduce non-effective days avoids the need for additional systems changes and investment that may otherwise have been required to support UNC477. Whilst it is disappointing that the implications for the AQ update were not identified during the development of UNC477, we recognise that UNC477 was developed under a challenging timescale and that the estimated implementation costs were already in the region of £1 million.

The enhanced systems capability and processing speed that will be available after Project Nexus, reflective of on-going IT improvements more generally, should negate the need for future non-effective periods<sup>10</sup>, and we would expect that scheduled upgrades and maintenance may be accommodated without impinging upon *business as usual* processes. However, given the constraints of the legacy systems we agree that UNC535 represents a pragmatic and cost-effective solution, furthering the efficient implementation and administration of the UNC.

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<sup>10</sup> Notwithstanding there may be a need for a non-effective period to facilitate the transition to Project Nexus, as reflected in UNC532: '[Implementation of Non Effective Days \(Project Nexus transitional modification\)](#)'

## **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC535: *'Implementation of non-effective days to enable Annual AQ Review'* be made.

**Angelita Bradney**

**Head of Smarter Markets**

Signed on behalf of the Authority and authorised for that purpose