

Modification proposal:	<b>Uniform Network Code (UNC) 578: Implementation of Retrospective Invoice Adjustment arrangements (Project Nexus transitional modification)</b>		
Decision:	The Authority <sup>1</sup> directs this modification UNC578 be made <sup>2</sup>		
Target audience:	UNC Panel, UNC Parties and other interested parties		
Date of publication:	17 August 2016	Implementation date:	To be confirmed by the Joint Office

## Background

UK Link is an IT system which enables Gas Shippers and Gas Transporters (GTs) to exchange information relating to supply point administration, the balancing of the gas system and other matters. The GTs' agent, Xoserve, is undertaking the replacement of UK Link as part of project referred to as Project Nexus.

Project Nexus will fundamentally change the basis of gas settlement. The principal UNC modifications that will give effect to these changes are UNC432<sup>3</sup> and UNC434<sup>4</sup>, which were accepted in February 2014. These modifications are scheduled to be implemented together on the Project Nexus Implementation Date (PNID), which was originally scheduled to be 1 October 2015 but subsequently deferred as part of UNC548<sup>5</sup>, to be 1 October 2016 or such other date as may be determined by the Authority.

In February 2016 we accepted UNC573, which decoupled those elements of UNC434 relating to the retrospective adjustment of assets and supply point data (RAASP) that Xoserve had confirmed could not be delivered by the PNID. This was intended to enable Xoserve to concentrate additional resources on the delivery of the core products of Project Nexus, including the remaining elements of UNC434 covering the retrospective adjustment of meter read data. UNC573 included a fall-back date of 1 October 2017 for the implementation of the RAASP functionality.

We recently decided to defer the PNID<sup>6</sup> in order to increase the likelihood of Project Nexus being implemented successfully; in particular without detrimental impacts upon consumers. Whilst detailed replanning is ongoing, informed in particular by participants progress through market trials, the programme is currently reporting against a revised baseline with a 1 April 2017 implementation date. The programme plan will be firmed up and reissued upon substantive completion of market trials, scheduled for the end of September 2016.<sup>7</sup>

## The modification proposal

UNC578 reproduces relevant elements of UNC529<sup>8</sup>, which was part of an earlier suite of transitional modification proposals. Whilst we agreed with many elements of UNC529, we rejected it on the basis that it had been overtaken by events, namely the deferral of

<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 49A of the Electricity Act 1989.

<sup>3</sup> UNC432: '[Project Nexus – gas settlement reform](#)'

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

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

<sup>6</sup> See: [www.ofgem.gov.uk/publications-and-updates/project-nexus-consultation-options-successful-implementation](http://www.ofgem.gov.uk/publications-and-updates/project-nexus-consultation-options-successful-implementation)

<sup>7</sup> Project Nexus programme documents are available from 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>8</sup> UNC529: '[Implementation of retrospective adjustment arrangements \(Project Nexus transitional modifications\)](#)'

RAASP, which meant it would no longer fulfil the proposer's intent. However, we accepted the other two transitional modifications, UNC527 and UNC528.

UNC578 recreates aspects of UNC529 in that it seeks to establish arrangements for the orderly and efficient transition from current UNC arrangements to the revised business rules that will be given effect with the implementation of UNC434. In particular, it seeks to clarify that a shipper may request the retrospective update of a reconciliation invoice in accordance with post-Nexus business rules, even if part of the relevant period falls before the PNID. Periods falling after Nexus implementation may result in a financial adjustment irrespective of whether it relates to a Larger Supply Point (LSP) or a Smaller Supply Point (SSP). However, for any pre-Nexus period a financial adjustment would only be made in respect of an LSP, consistent with prevailing reconciliation business rules.

Additionally, UNC578 recognises that the implementation of UNC434 will now be phased, and clarifies the business rules that will be applicable for the periods before and after both the PNID and RAASP implementation dates. Specifically, UNC578 seeks to establish when a shipper may request a revision to a relevant reconciliation invoice following provision of an updated meter reading or, as the case may be, a retrospective adjustment to asset or supply point data. These transitional rules are therefore intended to clarify the basis on which Reconciliation Clearing Values<sup>9</sup> will be calculated, and under what circumstances.

As with other reconciliation rules under the UNC, UNC578 would also be subject to the prevailing Code Cut-Off date, precluding any reconciliation being made for any period prior to that date.<sup>10</sup>

### **UNC Panel recommendation**

At its meeting on 21 July 2016 the UNC Panel voted unanimously to recommend the implementation of UNC578. The Panel consider that implementation of UN578 would better facilitate UNC relevant objective (f).

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification report (FMR) dated 21 July 2016. We have also taken into account the responses to the industry consultation summarised in the FMR and published in full on the Joint Office website.<sup>11</sup> We have concluded that:

- the implementation of UNC578 will better facilitate the achievement of the relevant objectives of the UNC;<sup>12</sup> and
- directing that UNC578 be made is consistent with our principal objective and statutory duties.<sup>13</sup>

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<sup>9</sup> Any variance between initial estimates and metered volumes will result in a Reconciliation Quantity (RQ) which will be used to calculate any adjustment in transportation charges. The RQ volume is multiplied by the System Average Price (SAP) in order to derive a Reconciliation Clearing Volume which is then invoiced (or credited) to shippers.

<sup>10</sup> The Code Cut-Off date limits retrospective reconciliation to a period of between 3 years to 3 years and 364 days, with the 1 April of the outlying year acting as the fixed cut-off date. The Code Cut-Off date is incremented each year to the following 1 April. This limit covers all retrospective transactions governed by the UNC

<sup>11</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>12</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>13</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration and

## **Reasons for our decision**

We note the strong support from both respondents and the UNC Panel for the proposal. There were seven responses to the industry consultation on UNC578, all of which supported its implementation, with few substantive comments. We agree with respondents and the UNC Panel that the proposal should be considered against relevant objective (f), and that it would have a neutral impact upon the other relevant objectives.

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

We agree with the UNC Panel and the majority of respondents that UNC578 better facilitates objective (f) insofar as it provides further clarity on the application of business rules that have previously been decided upon as part of UNC434. This should, amongst other things, reduce the likelihood of invalid invoice adjustment requests being submitted, which may otherwise impose an administrative burden on both Xoserve and the relevant shipper(s).

We acknowledge that some respondents were disappointed that there will be delays in UNC434 being given full effect, and indeed that the PNID has itself been subject to further delay. However, these issues are extraneous to UNC528 itself. We also agree with those respondents who suggested that whilst the application of the business rules set out in UNC578 is constrained by the Project Nexus and subsequently the RAASP implementation dates, the legal text is not itself date-specific and therefore capable of implementation irrespective of any changes to the Project Nexus timetable.

## **Decision notice**

In accordance with Standard Special Condition A11 of the GT licence, the Authority hereby directs that UNC578: '*Implementation of Retrospective Invoice Adjustment arrangements (Project Nexus transitional modification)*' is made.

**Angelita Bradney**  
**Head of Smarter Markets**

Signed on behalf of the Authority and authorised for that purpose

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are detailed mainly in the Gas Act 1986 as amended.