

Modification proposal:	Uniform Network Code (UNC) 434: Project Nexus – Retrospective adjustment (UNC434)		
Decision:	The Authority ¹ directs that UNC 434 be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	21 February 2014	Implementation Date:	1 October 2015

Background to the modification proposal

UK Link replacement

The need for the Gas Transporters (GTs) to replace their aging UK link system³ was first identified and funding provided as part of the 2008-2013 Gas Distribution Price Control Review (GDPCR)⁴. It was recognised at the time that this wholesale replacement of systems presented an opportunity to incorporate enhancements to industry processes, with particular regard to the roll out of smart metering and the cost-efficient availability of accurate and frequent meter read data.

Project Nexus

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) documents, developed through a dedicated UNC workstream. These BRDs were subsequently developed into a series of UNC modification proposals.

One of the key themes that emerged during Project Nexus was the need for the industry to improve its management of data, with particular focus on the items that can impact upon the accurate reconciliation and subsequent settlement of invoices.

Currently, asset update files are rejected where later activity has been recorded by Xoserve, even if it is an unrelated activity such as a meter reading from a later date. Therefore, relevant data may have to be manipulated in order for the asset update to be accepted. For instance, the date on which work was carried out may be knowingly falsified in order that it appears to fall after the last recorded event. If required, a query is submitted to rectify any transportation and energy charging matters. This is a time consuming and expensive manual process.

The modification proposal

UNC434 is one of a suite of current UNC modification proposals related to Project Nexus that also includes UNC432⁵, UNC440⁶, UNC467⁷ and UNC473⁸. Project Nexus aims to ensure that the rebuild of UK Link systems and associated data processes that underpin

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 UK Link is the central information system that shippers and suppliers use to interface with the GTs and each other.

⁴ See: '[Gas Distribution Price Control Review Final Proposals](#)' Ofgem ref: 285/07

⁵ UNC432: 'Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform'

⁶ UNC440: 'Project Nexus – iGT Single Service Provision'

⁷ UNC467: 'Project Nexus - iGT Single Service Provision; data preparation'

⁸ UNC473: 'Project Nexus – Allocation of Unidentified Gas'

much of the competitive gas market meet the current and anticipated business requirements of participants in that market:

- enhanced system capacity 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;
- 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. This will deliver substantial administrative efficiencies;
- rebuilt central systems which will incorporate the independent 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.

UNC434 seeks to enable Shippers to proactively manage the data relating to supply points to which they are, or in some cases have previously been, registered. UNC434 would give effect to the proposals set out in BRD for Retrospective Updates⁹, the key elements of which are summarised as follows:

- Update of meter asset data (BRD Section 8.2)

Incumbent Shippers would be able to amend data held on the Supply Point Register relating to the physical meter asset and any associated equipment such as data-loggers or Automatic Meter Reading (AMR) equipment. If the data has any relevance for charges, for instance if the meter has been incorrectly registered as recording in imperial rather than metric units, the correction would trigger an automatic financial adjustment.

- Retrospective Update to the Supply Point (BRD Section 8.3)

The current or confirming Shipper would be able to make retrospective updates to data relating to the supply points, such as resetting its status from live to dead, or changing the conversion factor¹⁰.

- Replacement of Meter Readings (BRD Section 8.4)

This would allow for the replacement of one or more incorrect meter reads, regardless of whether any subsequent read has been loaded. The replacement of reads would be subject to certain business rules and validation, but if accepted would trigger a reconciliation.

- Address Amendments (BRD Section 8.2)

This would allow the current Shipper to update address details for a supply point, including the postcode. Should this result in the supply point being found to fall within a different Local Distribution Zone or Exit Zone than originally thought, it could have implications for applicable transportation charges.

All replacement data will be subject to validation by the GT and in many cases may result in an automatic financial adjustment. In the case of supply point or meter asset details, if

⁹ See: www.gasgovernance.co.uk/sites/default/files/Retro%20Updates%20BRD%20v4.0.pdf

¹⁰ The conversion factor takes into account variables such as temperature and pressure when converting the measured volume of gas into energy (kWh) usage.

the GT identifies incorrect data, it will notify the current Shipper, who will then have 3 months to investigate the matter and provide an update to the GT.

UNC Panel¹¹ recommendation

At its meeting of 16 January 2014 the UNC Panel voted unanimously to recommend the implementation of UNC434.

The Authority's decision

The Authority has considered its statutory duties and functions in reaching its decision. The Authority has considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 17 January 2014. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposals which are summarised in the FMR and available in full on the Joint Office website¹². The Authority has concluded that:

1. Implementation of UNC434 will better facilitate the achievement of the relevant objectives of the UNC¹³; and
2. Directing that the UNC434 be made is consistent with the Authority's principal objective and statutory duties¹⁴.

Reasons for the Authority's decision

We note that the responses to the Joint Office's consultation overwhelmingly support implementation of UNC434, with fourteen of the eighteen responses received offering full support and a further three offering qualified support.

The remaining respondent, National Grid NTS (NG NTS), maintained a neutral position on UNC434, though the concerns it raised are generic to the package of Project Nexus modifications as a whole rather than specific to UNC434. Specifically, NG NTS repeated its concern about the lack of clarity over the changes required to Gemini¹⁵ and associated funding. Together with the three respondents offering only qualified support, NG NTS also raised concerns over the amount of change scheduled for late 2015, particularly those required to implement EU Network Codes.

We have today published our decision to direct the implementation of UNC432, upon which UNC434 is largely dependent. In that decision we discuss the issues that are generic to the Project Nexus modification proposals and therefore do not repeat them here.

¹¹The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

¹² UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

¹³ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: <http://epr.ofgem.gov.uk/Pages/EPRInformation.aspx?doc=http%3a%2f%2fepr.ofgem.gov.uk%2fEPRFiles%2fStandard+Special+Condition+PART+A+-+Consolidated+-+Current+Version.pdf>

¹⁴The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

¹⁵ Gemini is the IT system through which energy balancing and system entry and exit capacity booking activities are undertaken.

We agree with the proposer and the UNC Panel that UNC434 should be assessed against relevant objectives (d) and (f). We consider that it 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

Xoserve has provided the estimated cost of implementing each of the Project Nexus modifications on a standalone basis, with UNC434 being estimated to cost in the range of £3m-6m. Implementing the Project Nexus modifications as a package will significantly reduce costs, with the aggregate costs thought to be in the region of £20m. However, as noted in the FMR, the baseline cost of a like for like replacement of existing UK Link system is not known as the only tendering exercise has included the Project Nexus proposals as an integral part of the new systems.

The FMR suggests that there will be a benefit of £2m per year from the implementation of UNC434. However, it is not clear how much of this is attributed to the direct benefits arising from a more efficient process for correcting data and how much to the indirect results of that data being corrected. The majority of respondents to the Joint Office consultation and the earlier Xoserve consultation on the benefits case were unable to quantify its impact, though several referred to the resources currently employed in dealing with such errors and the issues arising from them. There were also several references to these streamlined procedures for correcting data errors being of particular need during the roll out of smart meters, when the number of asset exchanges and associated volume of newly generated or revised data is expected to grow exponentially. There was a general consensus that the benefits of implementing UNC434 would significantly outweigh the anticipated costs.

Accurate cost allocation

The accurate allocation of costs to non-daily metered (NDM) supply points is heavily dependent upon the accuracy of the Annual Quantity (AQ). In our decision on UNC432 we provided our view that monthly rather than annual AQ updates are expected to significantly improve their accuracy. However, the monthly revision will still be dependent upon valid meter reads being submitted and accepted.

Xoserve's presentation¹⁶ to the November 2013 AQ Operational Review Group confirmed that although revised AQs had been calculated for 84% of SSPs registered to a Shipper¹⁷, the previous year's AQ had to be carried over for around 3.5 million sites. The percentage of successful AQ updates for LSPs was slightly lower at 82%. The reasons for this were overwhelmingly associated with meter read performance. We would expect the relative levels of read performance to improve as a consequence of greater numbers of high quality and frequent reads becoming available from smart meters, though corrections may need to be made to underlying asset data etc in order to ensure that they do not fail validation. We therefore consider that UNC434 will further facilitate the smart metering programme and associated improvement to the accuracy of cost allocation. This will further effective competition between Shippers and Suppliers.

Change of Supplier

¹⁶ See: www.xoserve.com/wp-content/uploads/AQ-2013-Actual-Calc-Forum-Presentation-V1.pdf

¹⁷ i.e. excluding shipperless and unregistered sites

Analysis of data quality issues undertaken as part of the CoS project¹⁸ suggests that at least 14,000 erroneous transfers (ETs) occur each year as a direct result of poor data. Suppliers have indicated that these ETs cost around £10m per year to resolve, with poor address data alone thought to cost around £2.5m per year. Perhaps more significantly, the problems caused by poor data affect customers' perceptions of the market and their willingness to engage and to switch again.

As there are several initiatives underway to improve customer transfers and to improve data quality more generally, apportioning any financial benefit directly to UNC432 or any other modification proposal risks double counting. However, we do consider that allowing Shippers to proactively manage data and retrospectively correct errors will lead to more successful transfers being made and generally reduce any billing issues and acquisition costs faced by the gaining Shipper/Supplier. The need for Shipper Agreed Reads and/or Inter-Shipper Disputes in particular should be negated. This will of itself further effective competition, but should also go some way to improving consumers perception of the transfer process and make switching a more attractive prospect.

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

Some respondents noted the complementary nature of UNC434 and UNC432, which introduces individual reconciliations to the SSP sector. While individual reconciliation will lead to more cost reflective charges, this granularity also exposes Shippers to the consequence of errors. For instance, where submitted meter reads are subsequently found to be incorrect, or where incorrect meter asset data prevents the submission of a legitimate read, this can lead to incorrect consumption levels being recorded, leading to errors in invoicing. As set out above, although procedures already exist which allow for the correction of data and consumption adjustments, this is a largely manual and time consuming process.

Figures provided as part of Xoserve's Cost Benefit Assessment, which is appended to the FMR, show that consumption adjustments are currently applied to around 2% of LSPs annually. Whilst this is a relatively low proportion, if extrapolated to all supply points it suggests that around 500,000 consumption adjustments could be triggered each year. Processing this volume of adjustments in the current manner would have significant resource implications and would in all likelihood be unsustainable. We therefore agree that enabling Shippers to proactively maintain the accuracy of data will be more efficient and therefore further relevant objective f).

Performance assurance

We note and agree with the statements of some respondents that the ability to retrospectively correct data should in no way be a substitute for all reasonable steps being taken to submit the correct data in the first instance. We therefore consider that the use of this functionality should be seen as a safeguard to adjust data which despite those reasonable efforts has been submitted and/or recorded incorrectly. We further consider that it will be appropriate for Xoserve to monitor and report on the use of retrospective updates as appropriate. This is something we will look to explore further with the Performance Assurance workgroup as several respondents have suggested.

¹⁸See: www.ofgem.gov.uk/ofgem-publications/82933/cosanalysis-dataqualityimpactandinitiatives.pdf

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority hereby directs that modification proposal UNC434: '*Project Nexus – Retrospective Adjustment*' be made.

Rob Church**Associate Partner, Smart Metering and Smarter Markets**

Signed on behalf of the Authority and authorised for that purpose