

Modification proposal:	Uniform Network Code (UNC) 527: Implementation of Annual Quantity arrangements; UNC528V: Implementation of Supply Point Administration, gas allocation and settlement arrangements; and UNC529: Implementation of Retrospective Adjustment arrangements (Project Nexus transitional modifications)		
Decision:	The Authority ¹ directs that modifications UNC527 and UNC528 be made. ² UNC529 is rejected.		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	10 February 2016	Implementation date(s):	To be confirmed by the Joint Office

Background

The suite of industry code modifications developed as part of Project Nexus aims to ensure that the systems underpinning the competitive gas market meet the current and anticipated business requirements of participants in that market. The principal UNC modifications that will give effect to these changes are UNC432³ and 434⁴, which were accepted in February 2014, and UNC440⁵ which was accepted in January 2015. All of these modifications were scheduled to be implemented together on the *Project Nexus implementation date*, which was originally defined within UNC432 as being 1 October 2015.

On 13 August 2015 the Authority accepted UNC548⁶, which deferred the Project Nexus implementation date to 1 October 2016, or such other date as may be determined by the Authority.

During the development of the Project Nexus modifications referred to above, it was recognised that further modifications may be required in order to clarify and facilitate an orderly transition from the current arrangements to the post-Nexus regime. A further suite of complementary proposals has therefore been raised to set out those transitional arrangements, as set out below.

The modification proposals

New validation rules are to be introduced as part of Project Nexus and going forward all meter reads submitted to Xoserve will be subject to these validation rules. However, if only those reads submitted after the Project Nexus implementation date were used for post-Nexus processes, there may be a considerable time lag before a valid pairing of meter reads can be formed to allow for an annual quantity (AQ) revision. UNC527 therefore seeks to establish which meter reads submitted prior to the Project Nexus implementation date may qualify as being valid for the post-Nexus processes introduced by UNC432. The date on which such meter reads were taken will form the *Backstop Read Date* for each supply point, as defined in the legal text of the UNC transition document.

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 This 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 Provider](#)'

⁶ UNC548: '[Project Nexus - deferral of implementation date](#)'

UNC528 also seeks to provide an orderly transition from the current UNC rules to those introduced by UNC432 around gas demand estimation, allocation, settlement and reconciliation. In particular, UNC528 deals with the transition between the current classification of supply points based on consumption thresholds and read characteristics, to the new classifications based upon settlement *Products*.

UNC529 sets out arrangements for the orderly and efficient transition from current UNC arrangements to the revised business rules to 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 Project Nexus implementation date. Periods after the Nexus implementation date 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.

UNC529 would also be subject to the prevailing code cut-off period. So, no amendment may be dated earlier than the code cut-off date, which at the time of Project Nexus implementation will be 1 April 2013.

UNC Panel⁷ recommendation

In considering each of UNC527, UNC528 and UNC529, the UNC Panel determined that the modification proposals would better facilitate relevant objective f), and voted unanimously in each case to recommend that they be implemented.

Our decision

We have considered the issues raised by modification proposals and the final modification reports (FMRs), together with the consultation responses published alongside those FMRs⁸. We have concluded that:

- the implementation of UNC527 and UNC528V will better facilitate the achievement of the relevant objectives of the UNC;⁹ and
- directing that UNC527 and UNC528V be made is consistent with our principal objective and statutory duties;¹⁰
- however, we consider that UNC529 has been superseded and implementing it will not better facilitate the achievement of the relevant objectives of the UNC.

Reasons for our decision

We note the strong support from both respondents and the UNC Panel for all three proposals. As these proposals all seek to facilitate the effective implementation of existing Project Nexus modifications, we agree with respondents and the UNC Panel that

⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

⁹ 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>

¹⁰ 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.

they should be considered against relevant objectives (f), and that they would of themselves have a neutral impact upon the other relevant objectives.

We note that the proposer intended for UNC527, UNC528 and UNC529 to be progressed as a complementary suite of proposals. The drafting of the legal text was such that we could not properly make a decision on UNC527 or UNC529 ahead of UNC528 as they each seek to build upon and makes changes to legal text that would only be given effect through UNC528.

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

UNC527

Data quality has been an important topic during the development of the Project Nexus, both in terms of ensuring that the data which feeds into the new systems is as accurate as possible, and that it remains so on an enduring basis. The revised validation rules are therefore an integral part of Project Nexus. However, it is recognised that these new validation rules cannot be applied retrospectively and that there is a lot of legacy data that has not been subject to these rules, but is nonetheless of value.

Accurate meter reads are fundamental to the gas allocation and settlement processes. We therefore agree with those respondents who suggested that the transitional rules provided by UNC527 will allow for greater continuity of these processes than would otherwise be the case, ensuring that the implementation and thereafter the administration of the new processes under UNC432 is carried out efficiently as possible. In particular, UNC527 negates the potential loss of benefit that may have arisen if the UNC432 processes had required a standing start, pending submission of sufficient meter reads post-Nexus.

UNC528(V)

When first consulted upon, three of the five responses received supported UNC528. British Gas (BG), which was the only respondent opposed to UNC528, stated that whilst it supported the intent of the proposal, further work was required to establish whether the business rules met the needs of shippers and GTs. The remaining respondent, RWE, raised similar concerns and did not explicitly support the proposal, but nonetheless agreed that it better facilitated relevant objective (f).

When the UNC Panel first considered the draft FMR at its meeting of 22 May 2015, it noted respondents' concerns over the lack of clarity on how the business rules would be applied. The UNC Panel considered that these were new issues and sent the proposal back to the workgroup for further development. When the workgroup reported back on 20 August 2015, the UNC Panel considered that the changes that had been made to the proposal in the interest of clarity were sufficiently material to potentially change UNC parties' views on the proposal.¹¹ The original proposal was therefore deemed to have been withdrawn and the revised version was re-issued for consultation as UNC528V.

BG was the only respondent to the second consultation and it confirmed that the variation made to the proposal had addressed its concerns and that it was now in support of the proposal being implemented.

¹¹ www.gasgovernance.co.uk/sites/default/files/Minutes%20and%20Voting%20Record%20200815%20v1.0.pdf

On the whole, we agree with respondents that UNC528V will facilitate an orderly transition to the new classification of supply points for settlement purposes and all associated processes. As with UNC527, we consider that these transitional rules will facilitate the benefits of UNC432 being realised at the earliest opportunity.

However, UNC528 includes provisions which end-date the arrangements relating to the Allocation of Unidentified Gas Expert (AUGE) and in particular the application of the AUG table. Whilst UNC432 would have replaced the role of the AUGE in its entirety, we subsequently directed the implementation of UNC473¹², which preserved a role for such an expert on an enduring basis. UNC473 also included the provision of an interim table for determining the allocation of UG, though we noted in our decision that the figures in the interim table had not been revised in line with more recent AUGE output. With the subsequent delay of 12 months to Project Nexus implementation, we were concerned that the interim table was becoming increasingly out of date, with the potential for resulting UG allocation to be increasingly inaccurate. We therefore welcome the recent decision¹³ of the Uniform Network Code Committee (UNCC) to adopt revised figures for the interim table, ahead of them coming into effect 1 October 2016.

UNC529

Each of the three respondents to the consultation on UNC529 supported its implementation, though one respondent noted that there is a risk of progressing a change through the modification process that cannot be fully implemented. We shared these concerns. Although Xoserve has confirmed that the meter read elements of UNC434 will be taken forward as part of the core Nexus delivery, it has highlighted concerns at its ability to deliver a system solution in respect of the Retrospective Adjustment of Assets and Supply Points (RAASP).

The RAASP element followed a separate timeline to the core aspects of Project Nexus¹⁴ and was identified as an area that may, if necessary, be deferred in order to preserve the 1 October 2016 implementation date for core functionality. At its meeting of 8 January 2016 the Project Nexus Steering Group (PNSG) determined that such a deferral was necessary.¹⁵

At this stage, it is not yet certain whether it is necessary to formally separate the RAASP elements of the UNC434 legal text, though we note that a modification proposal UNC573¹⁶ has been raised to this effect. We have agreed that UNC573 should follow urgent modification procedures in order to provide stakeholders certainty on this as soon as possible¹⁷. In line with the agreed timetable we would expect to make a decision on UNC573 by week ending 26 February 2016. Notwithstanding this, it is apparent that UNC529 has been overtaken by events and could not be implemented in the manner originally intended by the proposer, or as envisaged by consultation respondents and the UNC Panel. We therefore reject UNC529, though this is without prejudice to any decision on UNC573 or any other decision that we may be required to make in respect of RAASP or any associated transitional arrangements.

¹² UNC473: '[Project Nexus – Allocation of Unidentified Gas](#)'

¹³ See: www.gasgovernance.co.uk/sites/default/files/Minutes%20UNCC%20143%20v1.0.pdf

¹⁴ For the current high level implementation plan and other project material, see: www.gasgovernance.co.uk/NexusSG

¹⁵ See:

www.gasgovernance.co.uk/sites/default/files/Minutes%20Project%20Nexus%20SG%20080116%20v1.0.pdf

¹⁶ UNC573: '[Project Nexus – deferral of implementation of elements of Retrospective Adjustment arrangements](#)'

¹⁷ See: www.gasgovernance.co.uk/sites/default/files/UNC573_UD.pdf

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposals:

- UNC527: 'Implementation of Annual Quantity arrangements' and
- UNC528V: '*Implementation of Supply Point Administration, gas allocation and settlement arrangements*'

be made.

Angelita Bradney
Head of Smarter Markets

Signed on behalf of the Authority and authorised for that purpose