

Modification proposal:	<b>Uniform Network Code (UNC) 700: 'Enabling large scale utilisation of Class 3' (UNC 700)</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:	28 August 2019	Implementation date:	To be confirmed

## Background

Unidentified gas (UIG) refers to the differential between the volume of gas known to have flowed through a Local Distribution Zone (LDZ) and the volume that can be allocated to individual supply points<sup>3</sup>. In the case of daily metered supply points this allocation is based on nominations and subsequent meter reads, whereas allocation to non-daily metered supply points is based on estimated consumption derived from an algorithm. Daily UIG value can therefore be a positive or negative value.

Daily UIG is apportioned across all supply points on a daily basis, in accordance with a weighted scaling factor determined by an independent Allocation of Unallocated Gas Expert (AUGE). Those scaling factors are intended to reflect the extent to which a supply point of a particular category contribute to UIG, based on their End User Category (EUC) and settlement product.

The AUGE considers that permanent UIG (i.e. the residual volume once all practicable reconciliation has been undertaken) is composed largely of theft. The AUGE further considers that there is a greater propensity for theft when the supply point is in settlement class 4, requiring only an annual read.<sup>4</sup> A supply point within EUC1 (i.e. typical domestic size) that is in settlement class 3 with therefore attract a weighted UIG allocated that is lower than an otherwise equivalent supply point in settlement class 4. For the gas year 2019/20 the EUC1 class 3 weighting is around 85% lower than that of a class 4 supply point.<sup>5</sup>

This revised weighting of UIG provides greater incentive for shippers to register supply points in settlement class 3, which is based upon daily reads being submitted to the Central Data Service Provider (CDSP) on a batched monthly basis. This has accelerated the expected take up of class 3 beyond the levels originally projected by the CDSP as part of the business requirements for its UK link replacement, otherwise known as Project Nexus. As of 1 July 2019 there are around 170,000 class 3 supply points. Shippers have indicated to the CDSP that this number could grow to around 4.5m as a direct result of the 2019/20 AUGE weighting factors which come into effect 1 October 2019.

Given that the prevailing UNC rules do not preclude shippers from submitting all of their class 3 reads on the same day, the CDSP could receive an unprecedented volume of meters reads, going beyond the current capabilities that its systems have been scaled and tested to accommodate. The CDSP has identified that this may pose a risk to the

<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> Some gas is also allocated for gas transporters own use, or calculated to be system leakage.

<sup>4</sup> See: [Final Allocation of Unidentified Gas Statement for 2019/20](#).

<sup>5</sup> See: <https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/qqf/book/2019-05/AUG%20Table%20for%202019%2020.pdf>

effective operation of its UK Link systems and functioning of other processes conducted within those systems.

The CDSP held a workshop on 12 July 2019 to raise shipper awareness of the issue and to discuss potential mitigating actions.<sup>6</sup> Of the options identified, the most effective was considered to be a change to the rules around batched read submission, which would require an urgent modification to the UNC.<sup>7</sup>

### **The modification proposal**

UNC700 proposes to revise the class 3 meter read batch submission rules in order to reduce the peak processing that may be required. This would be done by loading meter reads into an interim *staging table* that sits outside of the UK Link systems. From this table, the CDSP would extract a safe number of reads – currently identified to be a one per week for each supply point – to be utilised with the downstream processes with UK Link. Any remaining valid meter reads will be retained by the CDSP for performance monitoring and demand estimation purposes.

The proposer suggested that UNC700 may be an interim measure, subject to further scaling of UK Link capacity being proven to be necessary and cost efficient.

On 19 July 2019 we accepted that UNC700 should follow an urgent timetable in order to ensure that these mitigating actions, if approved, could be given effect ahead of 1 October 2019.<sup>8</sup>

### **UNC Panel<sup>9</sup> recommendation**

At its meeting of 15 August 2019, the UNC Panel voted unanimously to recommend that UNC700 be implemented. Whilst noting that this was a mitigating action rather than an enhancement to the current arrangements, the Panel members considered that the implementation of UNC700 would better facilitate relevant objective f).

### **Our decision**

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 15 August 2019. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR<sup>10</sup>. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC;<sup>11</sup> and

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<sup>6</sup> See: [www.xoserve.com/news/class-3-supply-point-migration/](http://www.xoserve.com/news/class-3-supply-point-migration/)

<sup>7</sup> See: <https://www.xoserve.com/media/6932/class-3-supply-point-migration-workshop-20190712.pdf>

<sup>8</sup> See: <https://www.ofgem.gov.uk/publications-and-updates/unc700-enabling-large-scale-utilisation-class-3-decision-urgency>

<sup>9</sup> The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

<sup>10</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>11</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>

- directing that the modification be made is consistent with our principal objective and statutory duties.<sup>12</sup>

### **Reasons for our decision**

We note that of the representations received, four supported the implementation of this proposal and a further nine offered qualified support. One respondent was opposed.

We agree with respondents and the UNC panel, who considered that this proposal should be considered against relevant objective f). As the proposal is about managing capacity of the current IT system rather than substantively changing its functionality, we considered that it would have a neutral impact upon the other relevant objectives.

#### ***(f) so far as is consistent with sub-paragraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code***

We consider that this proposal provides a relatively straightforward and pragmatic mitigation against the risk to the operation of the central systems that may arise from the unforeseen, though perhaps not unforeseeable, escalation in the take up of the class 3 settlement product.

Whilst the original Project Nexus business requirements for settlement product class 3 may not have been designed specifically with Smaller Supply Points (EUC1) in mind, the business rules make that product available to all supply points other than those which must be mandatorily daily read (class 1). With the increasing prevalence of smart meters in homes and small business premises, we see no reason why such enabled supply points should not be able to benefit from the lower UIG allocation associated with the class 3 settlement product. This has been the case since the implementation of the Project Nexus systems and revised approach to UIG allocation introduced under modification UNC473.<sup>13</sup> However, as noted above, the CDSP is now forecasting an exponential increase in the uptake of this product.

We note that under UNC700, whilst all class 3 meter reads will initially be held in an 'interim staging area' all EUC2-9 reads will subsequently be loaded into UK Link as normal, as will a *minimum* of one meter read per week from those supply point that are EUC1 (<73,200 kWh per annum). This will ensure that the vast majority of energy attributable to class 3 supply points is promptly reconciled, whilst allowing the CDSP to manage the volume of data entering UK Link.

We share the concern of those respondents who suggested that this constraint on capacity should be considered a temporary expedience rather than an enduring restriction. We note that some respondents suggested that there should be a sunset provision embedded within the legal text or some other means of ensuring that there is such an end date. We have sympathy with this suggestion but note that an appropriate date has not yet been determined and does not form part of the modification.

We also note that several respondents raised concern over the CDSP's allocation of its daily capacity to handle class 3 read submissions, and others requested clarity on the

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<sup>12</sup> The Authority's statutory duties are wider than matters which the Panel must take into consideration; they are detailed mainly in the Gas Act 1986 as amended.

<sup>13</sup> See UNC473: 'Project Nexus – Allocation of Unidentified Gas' accessible here: [https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/unc473d\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/04/unc473d_0.pdf)

operational aspects of the new arrangements. Some of these concerns were addressed by the CDSP in a presentation to the UNC Panel ahead of its vote, and included within an annex of the FMR. We agree with the CDSP that some of these matters would not appropriately have formed part of UNC700 and can suitably be addressed through consequential changes to UNC ancillary documents. For instance, a meeting of the UNC Committee has been specially convened for 29 August in order to consider the validation rules that should suitably apply to class 3 meter reads.

We are also comforted by the fact that any disputes or concerns over the CDSP allocation of capacity can be referred to the Data Services Contract (DSC) Contract Management Committee for determination. We also consider that the DSC framework now provides an appropriate vehicle to determine whether and when further investment should be made in the UK Link systems in order to provide for additional capacity. No analysis on the cost-effectiveness of such an investment has been made available as part of UNC700 and we understand that such a change would not in any case have been practicable ahead of the 2019/20 Gas Year when the new AUGS scaling factors take effect. Whilst the cost of the initial staging area have not been provided, we understand that this will not be significant and is considered by the CDSP to be a proportionate mitigation to protect central systems while allowing shippers to benefit from lower UIG allocation where appropriate.

Given the above, we agree with the UNC Panel recommendation that UNC700 should be implemented. We consider that this is a cost-effective mitigation to the risk identified by the CDSP, whilst allowing for the intent of the gas settlement business requirements to be substantively fulfilled. We therefore agree that the implementation of UNC700 will better facilitate relevant objective f).

To the extent that UNC Users have any further concerns over UNC700 or the arrangements for class 3 reads more generally, they should contact the CDSP in the first instance. We also note that where an urgent modification is implemented, the UNC Panel may refer the subject matter of that modification to a workgroup.<sup>14</sup> This may allow for the solution contained within UNC700 to be augmented or further clarified if necessary.

### **Decision notice**

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC700: *Enabling large scale utilisation of Class 3'* be made.

**Jacqui Russell**  
**Head of Metering & Market Operations**

Signed on behalf of the Authority and authorised for that purpose

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<sup>14</sup> In accordance with UNC Modification Rule 10.3.