

Modification proposal:	<b>Uniform Network Code (UNC) 602/a (UNC602/a) and Independent Gas Transporters (IGT) UNC 092/a (IGT092/a): 'Implementation of Non-Effective Days and Variant Non-Business Days for Project Nexus Implementation'.</b>		
Decision:	The Authority <sup>1</sup> directs modifications UNC602a and IGTUNC092a be made <sup>2</sup>		
Target audience:	UNC Panel, UNC Parties and other interested parties		
Date of publication:	17 February 2017	Implementation date:	To be confirmed by the Joint Office and Genserv

## 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 UNC modifications 432<sup>3</sup>, 434<sup>4</sup>, 440<sup>5</sup> and IGT UNC modification 039<sup>6</sup>. These modifications will be given effect together on the Project Nexus implementation date (PNID), which is scheduled to be 1 June 2017.

## The modification proposal

In order to facilitate a transition from legacy UK LINK to the new Project Nexus systems, a period of downtime is required when it will not be possible for Xoserve to send, receive and/or process normal transactions and processes. In order to ensure that there is certainty of the applicable contractual arrangements during this transitional period, including the effect on certain time-specific liabilities, modification proposals UNC602, 602a, IGT092 and IGT092a each seek to set out a number of *non-effective days* (NEDs) in the UNC and IGT UNC respectively.

Each of the proposals set out that non-effective period will be for nine days commencing 23 May. During this time, Gas Shippers should not send any files to Xoserve. Following the implementation of Project Nexus systems, there will also be period of five days, which will in effect be an extended weekend for code purposes. During the three *variant non-business days* (VNBDs) and two *non-business days* (NBDs) from 1 to 5 June, Xoserve will catch up on processing all of the files that have been held over during the NED period. From 6 June all systems will be operating and code parties will be able to send and receive files as usual.

Xoserve's analysis of system performance during test cycles and dress rehearsals has shown that this transitional period of nine NEDs followed by three VNBDs (the '9+3' period) is the minimum amount of time required in order to achieve an orderly cut over from legacy to Nexus systems. Further testing of this cutover will be carried out as part of Implementation Dress Rehearsals two and three, as set out in the Project Nexus programme plan.

<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 Demand Estimation, Allocation, Settlement and Reconciliation reform'

<sup>4</sup> UNC434: 'Project Nexus – Retrospective Adjustment'

<sup>5</sup> UNC440: 'Project Nexus – iGT Single Service Provider'

<sup>6</sup> iGT039: 'Single Service Provider'

The alternative proposals UNC602a and IGT UNC092a vary from the originals only insofar as they would allow for a minimum of two days for an outgoing supplier to object to a proposed customer transfer. This would not require an extension to the 9+3 period but would bring forward the last day that a supply point could be confirmed within legacy systems and as such extend the time for completion of the process for any transfers impacted by that deadline.

This feature of the alternative proposals would also allow Gas Shippers greater discretion over the commencement of down time and cutover of their own systems. In particular, it would allow for the potential for this process to commence on the weekend of 20/21 May, rather than on 23 May in line with the Xoserve cutover schedule.

### **UNC and IGT UNC Panel recommendations**

At its meeting on 15 February 2017, the IGT UNC Panel noted that the majority of respondents supported IGT092a insofar as it will reduce the risks to the timely implementation of the core Project Nexus modifications, whilst allowing further time for the objection process than the original proposals. The IGT UNC Panel considered that implementation of IGT092a would better facilitate relevant objective (f) and voted unanimously to recommend that IGT092a be implemented.

The UNC Panel met on 16 February 2017 and considered that the alternative proposal UNC602a would better facilitate relevant objective (f). It also considered that whilst there may be a short-term negative impact on competition resulting from the delays to some customer transfers, thereafter there would be a positive impact as an orderly transition to the new systems is essential to the effective operation of the competitive market, thereby facilitating relevant objective (d). The UNC Panel unanimously recommended that UNC602a be implemented.

### **Our decision**

We have considered the issues raised by the modification proposals and the Final Modification Reports (FMRs), both dated 16 February 2017. We have also taken into account the responses to the industry consultation summarised in the FMR and published in full on the Joint Office and IGT UNC websites<sup>7</sup>. We have concluded that:

- the implementation of UNC602a and IGT092a will better facilitate the achievement of the relevant objectives of the UNC and IGT UNC respectively;<sup>8</sup> and
- directing that UNC602a and IGT092a be made is consistent with our principal objective and statutory duties.<sup>9</sup>

### **Reasons for our decision**

There were twelve responses to the Joint Office consultation on UNC602/a and seven to the Genserv consultation on IGT92/a. All respondents who expressed a clear preference were in favour of the alternative proposals being implemented. Most of the respondents referenced the comments made by Xoserve on relative ease with which the alternative could be implemented and/or the longer period for objections as being the deciding factor between the proposals.

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<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) and on the IGT UNC website: [www.igt-unc.co.uk](http://www.igt-unc.co.uk)

<sup>8</sup> As set out in Standard Special Condition A11(1) and Standard Condition 9 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 agree with respondents and the Panels that the proposals should be considered against relevant objectives (d) and (f), and that they would have a neutral impact upon the other relevant objectives.

***(d) the securing of effective competition between relevant gas shippers and between relevant gas suppliers***

Whilst there was strong support for the alternative proposals, the majority of respondents objected to the originals. This was largely on the basis of new information, specifically further Xoserve analysis, that came to light late in the development of the original proposals. In particular, Xoserve suggested that the original proposals, which it had originally been in support of, would require a change to a non-parametised value within its legacy systems. Whilst Xoserve did not provide substantive analysis, its view was that this work could not practicably be achieved with the resources available to it and in a timescale that would not be disruptive to the wider Nexus programme. It is disappointing that the information did not come to light earlier in the development of the proposals, but taking into account the importance of protecting the delivery date of Project Nexus and the associated cost to market participants that would entail, we consider the relative ease of implementation to be the fundamental distinction between the original and alternative proposals.

*Customer switching timescales*

Several respondents noted and raised concern that the period of system down time may impact Gas Suppliers' ability to discharge their obligations to complete a customer transfer within 21 days of a cooling-off period ending, as required under Standard Condition 14A: '*Customer Transfer*' of their licence. This was a particular concern with respect to the alternative proposal, as the requirement to maintain at least two days in which the outgoing supplier may object to a transfer would extend the timeline beyond the licence requirement and to a greater extent than the original.

We sympathise with these concerns. We support the need for all parties and in particular Xoserve to do its utmost to ensure that the impacts on consumers are limited. We consider that fast and effective switching is fundamental to the effective operation of the energy retail market. We therefore take seriously the fact that the non-effective period may result in a delay to the switching timescales for some consumers.

We have also had regard to the potential trade-off between timeliness and reliability within the two modifications. Several respondents noted that whilst work stream discussions had identified the need for there to be at least one day for objections. Xoserve had subsequently confirmed that due to processing timescales, particularly around the restrictions of overnight batch processing, UNC602 could in practice leave parties with as little as five hours in which to object. It was noted that although the objection process is used primarily in instances of outstanding debt, it also provides a means for the incumbent supplier to cancel a transfer in the event that the customer changes their mind during the cooling off period or to prevent an erroneous transfer.

Although the original proposals would have mitigated the delay to switching timescales, we note the views of respondents, including Citizens Advice, who suggested that this may come at the expense of a greater number of erroneous transfers if suppliers are inhibited from being able to object, where appropriate. We therefore agree with respondents that on balance, the mitigation against erroneous transfers would offset the marginal additional delay and therefore that of the two options, the alternative proposals would better protect the interests of consumers.

With respect to Gas Suppliers' compliance with their licence conditions, we consider that SLC 14A paragraph 3(e) is applicable in these circumstances. In particular, we are

satisfied that the unavailability of the central systems through which customer transfers are processed is a circumstance outside the control of the relevant licensees. We will continue to monitor suppliers' performance over this period and reserve the right to pursue further investigations against any supplier who fails to meet their targets to an extent that cannot be reasonably attributed to the NED period alone or for not taking all reasonable steps to resolve issues.

#### *Shippers cutover plans and catch up volumes*

During UNC602 work groups<sup>10</sup>, there was discussion not only around the appropriate number of NEDs to be taken, but also the correlation between the length of the NED period and the subsequent VNBD period. Specifically, extending the NED period would cause more transactions to be held over, and therefore require a longer catch up period. The Project Nexus programme team has therefore been keen to establish the anticipated volume of market activity over this period and assess the correlating volume of transactions that may need to be processed. There was a particular concern that Xoserve's dress rehearsals have envisaged that all market participants would cut over their systems at roughly the same time, following close of business on 22 May. The original modification proposals were predicated around this. However, as the alternative proposals give Shippers discretion to cut over early, this could result in a greater than expected number of files being carried over and needing to be processed in the VNBD catch up period, potentially to a level exceeding the new systems' performance capabilities.

In order to assess and to the extent possible mitigate against this risk, Ofgem recently wrote to Gas Shippers requesting that they share their individual plans both with the Ofgem led programme team and with Xoserve. We received a good level of response to this request and have shared the information with Xoserve. This suggests that the majority of market participants are planning to take their systems down on 22 May in line with Xoserve's planning assumptions. On this basis, Xoserve is confident that it will be able to process the held over files within the required timescales and that there will be no operational impacts resulting from the system down time. Having now submitted their plans and decisions taken on the basis of that information, if any Gas Shipper subsequently expects those plans to change, we would expect them to inform Ofgem, and/or Xoserve as soon as possible. Failure to do so may jeopardise the effectiveness of the system transition.

Whilst the implementation of the suite of modifications associated with Project Nexus will bring significant benefits to competition, including those relating specifically to the customer transfer processes, those benefits have been set out in our earlier decisions on the relevant modifications and as such are not repeated here as being attributable specifically to UNC602/a or IGT092/a. Therefore, taking these current proposals in isolation and for the reasons set out above, we consider that there could be a marginally detrimental potential impact on competition to the extent there may be a small delay to customer transfers over this transitional period. However, we consider that this potential impact is significantly outweighed by the benefits of introducing the Project Nexus systems and associated modifications.

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

We understand that it would not be practicable to transition from legacy to new systems without a period of system downtime. The precise days on which that downtime would occur, and its overall duration, has been the subject of extensive discussion in the

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<sup>10</sup> See: [www.gasgovernance.co.uk/0602](http://www.gasgovernance.co.uk/0602)

appropriate workgroups. Indeed when these proposals were first raised the intention was to follow a 7+2 approach, but analysis demonstrated that this would not be sufficient.

All of the respondents who commented agree that a proposed non-effective period is both necessary and provided appropriate time in order for Xoserve and other parties to undertake the transitional activities. We agree that that a period of nine NEDs followed by three VNBDs, which together with the weekend of 3/4 June will allow sufficient time for Xoserve to catch up on all transactions held-over during the transitional period.

We again welcome the coordinated approach that was taken with respect to the modification of the UNC and IGT UNC, both in terms of the progression of these modifications and consistency between the proposals themselves. This facilitated both a more efficient change process and provided greater certainty to stakeholders than might otherwise have been the case.

### **Decision notice**

In accordance with Standard Special Condition A11 and Standard Condition 9 of the GT licence, the Authority hereby directs that modifications UNC602a and IGT092a: *'Implementation of Non Effective Days and Variant Non-Business Days for Project Nexus Implementation'* be made to the UNC and the IGT UNC respectively.

**Rob Salter-Church**

**Partner, Consumers and Competition**

Signed on behalf of the Authority and authorised for that purpose