

The Joint Office, relevant Gas
Transporters and other interested
parties

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Dear Colleague

UNC658: 'CDSP to identify and develop improvements to LDZ settlement processes'

We have received requests from Total that its modification proposals UNC658 is given urgent status and follow expedited modification procedures.¹ This letter confirms that we have agreed to that request.

Background

A year on from gas allocation, reconciliation and settlement reforms being introduced as part of Project Nexus, gas shippers are still experiencing difficulties arising from the volume and volatility of daily unidentified gas (UIG) allocation.

Several modifications have been raised aimed at addressing these issues, though we have recently indicated in our open letter and impact assessment published 7 June 2018² that we are not minded to accept any of the three UNC modification proposals that seek to fundamentally change the current arrangements. Those modifications are UNC642, UNC642A and UNC643. We are of the view that the settlement reforms introduced as part of Project Nexus were important in addressing some inequities and adverse effects on competition that existed in the former arrangements, as highlighted in the CMA market investigation report.³

However, we recognise that the current volume and unpredictability of UIG makes it difficult for gas shippers to accurately determine how much gas they should purchase in order to balance their positions. The issue is compounded by uncertainty over how much of the variance between allocated gas and actual consumption will be resolved through subsequent reconciliation, and when this will occur.

The modification proposals

This modification proposes that Xoserve as the Central Date Services Provider (CDSP) be given a mandate to assign resources to investigate the root causes and influencers of UIG, with a target of reducing its volatility and scale (absolute levels).

¹ Modification Proposal UNC642, UNC642A and UNC643 can be found on the Joint Office website at: www.gasgovernance.co.uk/0642 and www.gasgovernance.co.uk/0643

² See: [Ofgem open letter, initial impact assessment and minded to position on modification proposals UNC642, UNC642A and UNC643](#).

³ See: Competition and Markets Authority: [Energy market Investigation – Final Report](#), June 2016

UNC Modification Panel View

Before making our decision on whether these proposals should follow an urgent modification procedure, we requested the UNC Modification Panel's view, in accordance with paragraph 10.1.1(b) of the Modification Rules.⁴

At a specially convened meeting on 7 June 2018, the Panel members voted that UNC658 should follow urgent procedures.⁵

Authority decision

In reaching our decision, we have considered the details contained within the modification proposal. The proposal does not provide thorough justification for urgency, which is disappointing given the specific prompts by the Panel members to do so. However, on this occasion, given the history of the UIG issue including several previous modifications, some of which have requested and been granted urgent status, we are satisfied that the arguments for expedited action are well understood. Notwithstanding our position of being minded to reject UNC642, UNC642A and UNC643, we consider the UIG issue to be no less pressing than when we granted those modification proposals urgent status in December 2017.⁶ We did so in recognition of the difficulties that shipper were experiencing in balancing their positions, when exposed to unpredictable and volatile levels of UIG. We considered that this represented "*an imminent issue or a current issue that if not urgently addressed may cause a significant commercial impact on parties, consumers or other stakeholder(s)*". We consider that this remains the case, and therefore justifies urgency in respect of UNC658.

However, we have revised the proposers' suggested timetable. We consider that the intent of the proposal itself is sufficiently straightforward that respondents should reasonably be able to give it adequate consideration and submit representations within a shorter than standard consultation period. This would also allow the proposal to be considered at the scheduled June Panel meeting. This should reduce the burden upon Panel members and the Joint Office, albeit requiring them to consider the report as a short notice item at that meeting, which we consider to be reasonable given its urgent status.

We have also allowed ourselves more than the suggested one working day in order to make a decision. We note that responses to our impact assessment and minded to position on UNC642, 642A and 643 are due on 5 July. Targeting our decision for 6 July would therefore allow us to consider all representations, and indeed all four proposals in the round, though we reserve the right to deviate from this timetable as may be required.⁷

Process	Date
Ofgem Decision on Urgency	08 June 2018
Consultation Commences	08 June 2018
Consultation Close-out for representations	18 June 2018
Final Modification Report available for Panel	19 June 2018
Modification Panel recommendation	21 June 2018
Ofgem Decision expected by	6 July 2018

⁴ UNC Modification Rules: www.gasgovernance.co.uk/sites/default/files/Modification%20Rules_13.pdf

⁵ Panel minutes and voting record are published on the Joint Office website: www.gasgovernance.co.uk

⁶ See: [Ofgem decision on urgency, UNC642 and UNC643](#).

⁷ We also note that the granting of urgency to this proposal does not of itself exempt it from being 'sent back' to the UNC Panel if appropriate, in accordance with Standard Special Condition A11(15)(b)(ii) of the Gas Transporters Licence.

For the avoidance of doubt, our decision on urgency should not be treated as any indication of our view on the merits of modification proposal UNC658. We also note the possibility of the intent of the proposal being fulfilled through the Data Services Contract, rather than modification to the UNC. In the event that UNC658 is submitted to us for a decision we will endeavour to meet, but cannot be bound by, the above timetable.

Yours sincerely

Jonathan Dixon
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