
Uniform Network Code (UNC) 0841: Introduction of cost efficiency and transparency requirements for the CDSP Budget (UNC0841)

Decision: The Authority¹ directs this modification be made²

Target audience: UNC Panel, Parties to the UNC and other interested parties

Date of publication: 17 May 2024

Implementation date: To be confirmed by the code administrator

Background

Standard Special Condition A15 of the Gas Transporter licence requires licensees to have in place a Central Data Service Provider (CDSP), responsible for providing a range of key services to parties operating in the gas industry.³ The Uniform Network Code (UNC) mandates that UNC Parties must use the services provided by the CDSP and also stipulates that UNC Parties are jointly responsible for controlling and governing the CDSP on an economic and efficient basis, including scrutinising and challenging the CDSP's costs.

The UNC states that the Budget and Charging Methodology and Annual Charging Statement will "facilitate the objective of economic, efficient and transparent charging for the provision of CDSP Services".⁴ There is a requirement under the UNC whereby the Budget and Charging Methodology (BCM) shall provide for the CDSP to prepare, consult on and publish an annual budget.⁵ However in contrast with the UNC, the BCM has no requirement for the CDSP's costs to be economic, efficient or transparent and is silent on how that can be achieved. Centrica ('the Proposer') considers that the DSC does not adequately prescribe what information should

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 The latest licences and licence conditions can be found on the Ofgem website: <https://www.ofgem.gov.uk/licences-and-licence-conditions>.

⁴ Paragraph 3.3.2(b)(i) of Section D (CDSP and UK Link) of the UNC General Terms. UNC documents are available via the Joint Office of Gas Transporter website: <https://www.gasgovernance.co.uk/>.

⁵ [Paragraph 3.3.1\(a\)](#) of Section D (CDSP and UK Link) of the UNC General Terms.

be included in the annual budget in order for UNC Parties to effectively scrutinise the CDSP's proposals.

The Proposer suggests that CDSP Budget proposals have lacked transparency over several years, preventing meaningful scrutiny of those Budgets.

The modification proposal

UNC0841 'Introduction of cost efficiency and transparency requirements for the CDSP Budget' was raised on 3 March 2023. The purpose of this modification is to "*improve the ability of UNC Parties to fulfil their obligation jointly to control and govern the CDSP on an economic and efficient basis (under UNC General Terms, Section D, 1.4.4) through the introduction of explicit requirements for efficiency and greater transparency of the Budget*". The modification seeks to define the information required from the CDSP to better enable the UNC Parties to meet this obligation.

To achieve this, the modification adds an additional DSC objective requiring that costs associated with delivering CDSP functions, and the performance of Non-Service Functions, are incurred efficiently and economically. The modification introduces Business Plan Information Rules designed to support the approach, structure and content for the annual Business Plan.⁶ These rules include content and additional process requirements to enable the CDSP to deliver, and UNC Parties to test, the new DSC cost efficiency objective within the UNC. For the purposes of the code, the Business Plan Information rules will be created as a UNC Related Document within UNC General Terms Section D.

UNC Panel⁷ recommendation

At the UNC Modification Panel meeting on 22 March 2024, the Panel unanimously considered that UNC0841 would better facilitate UNC Relevant Objectives (c), (d) and (f), and would be neutral against the other Relevant Objectives. The Panel therefore recommended the approval of UNC0841.

⁶ The Business Plan Information Rules are available at <https://www.gasgovernance.co.uk/0841>.

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

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 22 March 2024. We have considered and taken into account the responses to the industry consultation(s) on UNC0841 which are attached to the FMR.⁸ We have concluded that:

- implementation of UNC0841 will better facilitate the achievement of the Relevant Objectives of the UNC;⁹ and
- directing that UNC0841 be made is consistent with our principal objective and statutory duties.¹⁰

Reasons for our decision

We consider this modification proposal will better facilitate UNC Relevant Objectives (c), (d) and (f) and has a neutral impact on the other Relevant Objectives.

(c) so far as is consistent with sub-paragraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence

Paragraph 4(c)(i) of Standard Special Condition A15 of the Gas Transporter Licence states that the UNC must oblige the relevant licensees, and Users of the CDSP Services, to "jointly control the CDSP on an economic and efficient basis".¹¹ Furthermore, Paragraph 6(d)(ii) requires the licensee to ensure the CDSP is obliged to publish a charging methodology which must "facilitate the objective of economic, efficient and transparent charging for the provision of the CDSP Services and achieve the 'Charging Methodology Objectives'".

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: [Licences and licence conditions | Ofgem](#).

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.

¹¹ Standard Special Condition A15 of the Gas Transporters Licence, available at: [Licences and licence conditions | Ofgem](#).

UNC0841 seeks to introduce additional transparency in relation to the setting of the CDSP budget by introducing specific requirements, through a set of Business Plan Information Rules, in relation to the information that the CDSP must include in its budget. We consider that this will enable relevant licensees and CDSP Service Users to better engage with and scrutinise the budget setting process and provide a basis to judge if the cost efficiency requirement has been met.

The modification clearly defines the required level of transparency and information, and we expect this will improve the efficiency with which licensees are able to discharge of their obligations.

We note that of the ten representations received to the modification consultation, all considered this modification was positive for Relevant Objective (c). We further note that Panel members considered that UNC0841 would better facilitate this objective, and we agree with that assessment.

(d) so far as is consistent with sub-paragraphs (a) to (c) the securing of effective competition:

(i) between relevant shippers;

(ii) between relevant suppliers; and/or

(iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers

We note that some consultation respondents considered that greater transparency of CDSP costs will enable shippers and suppliers to produce more accurate cost forecasts of charges, improving their cost and risk management. One respondent considered this would minimise the possibility of cross-subsidies in shipper/supplier CDSP charges. Some respondents considered that more accurate forecasting would have a positive impact on competition between parties. Some Panel members considered that implementation of UNC0841 would enable more cost reflective outcomes for shippers and suppliers by allowing a more robust budget setting process. However, one panel member felt it would be neutral in respect of Relevant Objective (d) and we note that whilst all ten consultation respondents, and some Panel members, considered UNC0841 to be positive against Relevant Objective (d), fewer gave specific reasons as to why it would secure effective competition.

We consider that greater cost transparency will enable more accurate forecasting, and this should be of commercial benefit to parties. However, it is not clear that this would be of sufficient magnitude to improve competition. We have not seen clear evidence that competition between parties will improve, therefore we consider UNC0841 to be neutral against Relevant Objective (d).

(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

The Panel and all ten consultation respondents considered this modification would be positive against Relevant Objective (f).

We consider the creation of Business Plan Information Rules, including the information and transparency requirements for the CDSP, will enable the CDSP to provide better information to Parties. A consultation respondent noted that this was an essential requirement to counter the monopoly position of the CDSP. We particularly note the consultation response from the CDSP, which agreed that the UNC0841 solution prescribes appropriate measures, whilst keeping flexibility to evolve the planning process with any future developments in the provision of CDSP services.

We note the views of some respondents and panel members who note there will be an increase in work required to satisfy the new Business Plan Information Rules, and that there will be expenditure associated with the new annual external audit process. However, we are of the view that these considerations are outweighed by the benefits this modification brings and note that respondents who mentioned this also thought this was the case.

We note the steps already taken by the CDSP to incorporate a number of these rules into the 2024-25 CDSP Budget setting process, prior to approval of the modification. We consider this a clear indication of the support all Parties have for the modification.

Additionally, we consider that the collaboration between industry and the CDSP throughout the development of this modification is a positive step which will further future cooperation to the benefit of all parties.

For these reasons we consider UNC0841 will, on balance, promote efficiency in the implementation and administration of the network code.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC0841: 'Introduction of cost efficiency and transparency requirements for the CDSP Budget' be made.



Carmel Golden

Deputy Director – Industry Rules

Signed on behalf of the Authority and authorised for that purpose.