

UNC Final Modification Report		At what stage is this document in the process?
<h1>UNC 0618 (Urgent):</h1> <h2>Extension of Invoicing Contingency Arrangements in case of Project Nexus defect</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center;"> 01 Modification </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center;"> 02 Workgroup Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center;"> 03 Draft Modification Report </div> <div style="border: 1px solid #ccc; border-radius: 5px; padding: 5px; display: flex; align-items: center;"> 04 Final Modification Report </div> </div>
<p>Purpose of Modification:</p> <p>TPD Section S 1.9 allows for estimated invoices to be produced if the system cannot produce an invoice. This facility is limited to one month unless each User agrees to an extension and this modification proposes that this should be extended in the interests of ensuring that the liquidity of the industry is maintained.</p>		
	The Panel recommends implementation.	
	High Impact: Transporters and Shippers	
	Medium Impact: None	
	Low Impact: None	

Contents		 Any questions?
1 Summary	3	Contact: Joint Office of Gas Transporters
2 Governance	3	
3 Why Change?	4	enquiries@gasgovernance.co.uk
4 Code Specific Matters	4	 0121 288 2107
5 Solution	4	Proposer: Richard Pomroy
6 Impacts & Other Considerations	5	
7 Relevant Objectives	6	Richard.Pomroy@wwutilities.co.uk
8 Implementation	7	 029 2027 8552 or 07812 973337
9 Legal Text	7	Transporter: Wales & West Utilities
10 Consultation	9	
11 Panel Discussions	11	Richard.Pomroy@wwutilities.co.uk
12 Recommendations	11	 029 2027 8552 or 07812 973337
Timeline		Systems Provider: Xoserve
Modification timetable:		
Request for Urgency	03 May 2017	commercial.enquiries@xoserve.com
Ofgem Decision on Urgency	10 May 2017	
Proposal Issued for Consultation	10 May 2017	
Consultation Close-out for representations	15 May 2017	
Final Modification Report available for Panel	16 May 2017	
Modification Panel recommendation	18 May 2017	
Authority Direction Requested by	26 May 2017	

1 Summary

What

A provision is required to allow the issuing of estimated LDZ Capacity Invoices for consecutive billing periods, without the need for agreement by all users should there be a fault with CDSP systems that prevents system generated LDZ Capacity Invoices being issued. It does not apply to NTS invoices nor DNO invoices other than LDZ Capacity Invoices.

Why

Should there be a defect impacting the production of LDZ Capacity Invoices, this modification will allow Transporters to extend provisions already available to consecutive billing periods without the need for agreement of all impacted users. This will prevent the build up of debt by Shippers, and assist in maintaining a steady cashflow to DNOs to operate their business, if faced with a material system defect.

How

The proposed solution will allow for estimated capacity invoices to be produced should there be a defect with CDSP systems post PNID. It is limited to LDZ Capacity Invoices (which account for over 95% of DNO transportation charges) and will not endure after a LDZ Capacity Invoice has been produced from the Nexus systems. The solution also has the same 8 months' limitation as IGT 097 which was raised to deal with similar issues in relation to IGT invoicing.

2 Governance

Justification for Urgency

Transition Working Group (TPG) identified a material risk for invoicing in March 2017. We request Urgency because, if there is an unexpected defect in CDSP systems that prevents capacity invoices from being issued to Shippers and the defect is not resolved quickly and persists until the next Capacity invoice is due, there will be a significant commercial impact both on DNOs and Shippers. There will be a significant impact on DNOs as over 95% of their revenue comes from Capacity charges. Although Shippers will experience a temporary positive effect on cash flow they will subsequently experience a significant commercial impact because, once the defect is rectified, they will receive more than one months' Capacity invoices to verify and process for payment which may give them cash flow challenges when the backlog becomes due for payment. Failure to allow Urgent status will mean that a solution will not be in place prior to this potential risk materialising. We believe that the justification for urgency is substantially the same as for IGT UNC 097.

Requested Next Steps

This modification should:

- be treated as urgent and should proceed as such under a timetable agreed with the Authority

3 Why Change?

Background

On 7th March 2017 Transition Progress Group (TPG) published their contingency planning under risks considered possible following UK Link Go Live. These risks being:

- CP08 Delay in receiving invoice information from legacy systems
- PR03 Delay in receiving invoice information from replacement UK Link systems

This scenario considers a situation where Network Charges can not either be produced, or issued post Nexus go live. The contingency notes that provision is available for estimated invoices to be produced.

UNC TPD S 1.9.1(a) allows estimated invoices to be produced under this scenario for a single invoicing period only. UNC TPD S 1.9.4 provides that this can be extended to consecutive billing periods with the consent of each User.

The benefit of this modification therefore is that it would obviate the need for DNs and shippers to individually and collectively agree to the issuance of consecutive estimated invoices in the event of a CDSP system failure (as required under UNC TPD S 1.9.4).

The first Capacity Invoices post Project Nexus Go Live will be issued on 6th June for May trading, 6th July for June trading and 4th August for July trading. Therefore it is feasible that such a risk may endure for consecutive billing periods which UNC TPD S 1.9.1(a) currently would not mitigate.

Failure to issue regular invoicing presents a risk to DNOs cash flow and may also result in difficulties for smaller shippers if faced with backdated charges which do not reflect any amount they may have accrued in the absence of further information.

Industry benefits

We acknowledge that producing estimated invoices is not desirable but believe that the benefit of continuing to facilitate the flow of funds around the industry outweighs this. The failure of a DNO or Shipper due to system related defects needs to be avoided.

4 Code Specific Matters

Reference Documents

None.

Knowledge/Skills

None.

5 Solution

Over 95% of DNO Transportation Income is levied through Capacity Invoices.

The proposal is to allow the use of estimated LDZ Capacity Invoices for more than one consecutive month. This will be restricted to a continuous period following PNID to prevent it being generally applicable. This means that the provision falls once a valid LDZ Capacity Invoice has been produced by

the new Nexus UK Link system. There will be a backstop date whereby this provision cannot be used for periods after January 2018 trading, this is similar to IGT 097.

Such estimated invoices would be supported with sufficient information for a Shipper to understand their basis so as to allow a Shipper to establish if the estimate is materially inaccurate, as set out in the Code provisions S.1.9.2.

It should be noted that the Capacity Invoice for May 2017 trading due to be produced on 6th June 2017 will be produced from data generated from legacy systems so it is possible that this invoice could be produced and that a failure does not occur until the LDZ Capacity Invoice for June trading which is due to be issued on the 6th July. If a defect occurred that prevented the invoice for June trading from being issued then the existing Code provisions in S 1.9.1 would allow the production of an estimated invoice for July trading but not for August trading and subsequent months if the problem persisted.

6 Impacts & Other Considerations

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No impact.

Consumer Impacts

This will reduce the impact of system related defects to invoicing. Provision of estimated charges both helps continual financing of DNO's network activity and also provides those Shippers with changing portfolios a more potentially reliable third party estimate of predicted charges.

Cross Code Impacts

None.

EU Code Impacts

None.

Central Systems Impacts

This change mitigates the effects of defects in the UK Link invoicing system. The estimated invoice process is already in Code so this does not add a new process to those for which Code already provides.

7 Relevant Objectives

Impact of the modification on the Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) 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.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	Positive
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

Relevant objective (c) *Efficient discharge of the Licensee's obligations* is furthered because lack of funds will restrict a DNO's ability to operate their business.

Relevant objective (d) *Securing of effective competition between relevant Shippers* is furthered because LDZ Capacity Invoices will be issued to Shippers and paid reducing the impact of this defect on their processes and considerably reducing the cash flow fluctuations that would occur if LDZ Capacity Invoices were not issued

Relevant objective (f) *Promotion of efficiency in the implementation and administration of the Code* is furthered because the process proposed allows LDZ Capacity Invoices to continue to be issued as envisaged by Code.

8 Implementation

Implementation should be immediately following an Authority Direction.

9 Legal Text

Legal Text and Commentary have been provided by the Proposer.

Text Commentary

Transportation Principal Document		
Reference	Topic	Explanation
Section S: Invoicing		
Amended clause 1.9.4	Estimated invoices	to add a carve out to the prohibition on issuing estimated invoices for consecutive periods during a Code Contingency

Transition Document		
Reference	Topic	Explanation
Part 11F: Nexus Section 8 TPD Section S: Invoicing		
New clause 8.1.3	Estimated invoices	<p>to allow estimated invoices for consecutive periods in specific case of:</p> <ul style="list-style-type: none">• LDZ Capacity Invoices• Code Contingency occurs following PNID• Code Contingency continues for consecutive months• Only allowed for up to and including January 2018 trading in line with IGT 097 <p>Invoice Type is defined in TPD S 1.2, the definitions change for post-Nexus text (see legal text for mod 0432) but LDZ Capacity Invoices are a valid Invoice Type in both sets of text.</p> <p>The term M(NID) which is used in this new clause is defined in TDIIF 1.1.2 (e).</p> <p>Based on PNID being 1st June 2017 then M(NID) is June 2017, M(NID)-1 is May 2017 and M(NID)+7 is January 2018.</p>

Text

New text shown in red

TPDS

1.9.4 Except with the agreement of a User, **and except in the circumstances listed in TDIIF 8.1.3**, the Transporter may not on the occurrence of any Code Contingency submit

Invoice Documents containing estimated Invoice Amounts under this paragraph 1.9 in respect of consecutive Billing Periods.

TDIIF

8.1.3 The circumstances referred to in TPD S 1.9.4 are that

- a) the Invoice Type is LDZ Capacity Invoices, and
- b) the Code Contingency occurs following Project Nexus Implementation Date in relation to Billing Periods M(NID)-1 or M(NID), and
- c) the Code Contingency continues for consecutive Billing Periods, and
- d) the Billing Period is not greater than M(NID)+7.

10 Consultation

In its decision letter on Urgency dated 10 May 2017, the Authority invited representations from interested parties. The summaries in the following table are provided for reference on a reasonable endeavours basis only. We recommend that all representations are read in full when considering this Report.

Representations are published alongside this Final Modification Report.

Implementation was unanimously supported in the 4 representations received.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
Cadent	Support	c) - positive d) - positive f) - positive	<ul style="list-style-type: none"> • Believes that the measures identified within this Urgent Modification Proposal facilitate GT Licence 'relevant objectives' c), d) and f). • Is of the opinion that the Modification identifies a proportionate and pragmatic solution in the unlikely event of a systems related defect following Project Nexus implementation, which compromised the ability of the CDSP to produce relevant LDZ Capacity invoices on behalf of GDNs. • Supports implementation with immediate effect upon direction from the Authority. • Supports previous statements and sentiments relating to mitigation of potential adverse effects impacting on GDNs and Shipper Users. Furthermore, Cadent are aware that a similar solution to that contained within this Urgent Modification Proposal has already been approved under iGT UNC Modification iGT097. • Believes that the legal text meets the requirements and intent of the Modification.
Northern Gas Networks	Support	c) - positive d) - positive f) - positive	<ul style="list-style-type: none"> • Supports the modification because it will allow for GTs to issue estimated LDZ Capacity Invoices for consecutive billing periods should there be an issue with CDSP/Xoserve systems without the requirement to seek agreement from all users. • Supports implementation with immediate effect upon direction from the Authority. • Believes the legal text supports the solution proposed by the modification.
Scotia Gas Networks	Support	c) - positive d) - positive	<ul style="list-style-type: none"> • Supports the Modification as it believes it provides an important contingency arrangement which would allow

		f) - positive	<p>submission of consecutive estimated LDZ capacity invoices to Shippers without having to obtain consent from every individual party, as is currently the case, in the event a failure occurs in CDSP systems as a result of Project Nexus implementation.</p> <ul style="list-style-type: none"> • Sees no reason to expect that any invoicing issues will be encountered but also believe it prudent to create contingency arrangements to mitigate the significant commercial implications that could arise in the unlikely event issues occur, and also to provide certainty to the industry in terms of the arrangements which would be employed. To this end, SGN believes that the Modification reflects the arrangements already approved under iGT097. • Supports implementation with immediate effect upon direction from the Authority.
Wales & West Utilities	Support	c) - positive d) - positive f) - positive	<ul style="list-style-type: none"> • Notes that, should an issue arise that prevented the billing of transportation revenue, it is likely that resources would be focused on rectifying this issue; however if the defect cannot be rectified quickly it is important that industry liquidity is maintained. • Believes that this modification provides proportionate contingency arrangements to allow the use of estimated LDZ capacity invoices in certain restricted circumstances where an unexpected but serious defect materialises. • Believes an implementation date of 01 June provides clarity of the contingency arrangements necessary in the event of a significant system failure on implementation and provides certainty to the industry.

Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report, and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

11 Panel Discussions

Discussion

The Panel Chair summarised that Modification 0618 (Urgent) proposes to extend the existing arrangements in TPD S1.9 that allow for estimated LDZ Capacity invoices to be produced in the event of systems issues.

Members agreed with the Proposer and respondents that this modification would both support continual financing of Transporters' activities and reduce the adverse impacts of cashflow fluctuations for Shippers.

In response to a Member's question, the Proposer confirmed that the 'sunset clause' was included to mirror the arrangements in iGT097. This proposal was only intended to address the specific circumstances around the implementation of Nexus, and not be an enduring change.

It was understood that the trigger for this would be any inability of the new system to produce invoices, and it only extended the current Code arrangements.

Members considered the representations made, noting that implementation was unanimously supported in the 4 representations received.

Consideration of the Relevant Objectives

Members considered relevant objective c) Efficient discharge of the licensee's obligations, agreeing that this modification would have a positive impact because, otherwise, a lack of funds would restrict Transporters' ability to operate their business potentially leading to a breach of Licence.

Members considered relevant objective d) *Securing of effective competition between relevant Shippers*, agreeing that this modification would have a positive impact because the effects of securing LDZ Capacity Invoices would be to reduce impacts on Shippers' processes and maintain the cash flow situation, both of which support the existing competitive marketplace.

Members considered relevant objective f) *Promotion of efficiency in the implementation and administration of the Code*, agreeing that this modification would have a positive impact because it facilitates estimated LDZ Capacity Invoices in a manner consistent with the existing arrangements in the Code.

Determinations

Members voted with 9 votes in favour (out of a possible 11), to recommend implementation of Modification 0618 (Urgent).

12 Recommendations

Panel Recommendation to Authority

Members recommended that Modification 0618 (Urgent) should be implemented.