









UNC Workgroup Report	At what stage is this document in the process?
<h1 data-bbox="134 320 730 414">UNC 0792S:</h1> <h2 data-bbox="134 450 1018 584">Amendments to Cost Recovery under OAD</h2>	<div data-bbox="1209 309 1468 622"> <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>This Modification seeks to update the Offtake Arrangements Document (OAD) in order to allow all operators to agree cost recovery in advance of actual works taking place.</p>	
<p>Next Steps:</p> <p>The Workgroup recommends that this Modification should be subject to Self-Governance. The Panel will consider this Workgroup Report on 21 April 2022. The Panel will consider the recommendations and determine the appropriate next steps.</p>	
<p>Impacted Parties:</p> <p>High: National Grid Transmission and all GDNs.</p> <p>Low:</p> <p>None:</p>	
<p>Impacted Codes:</p> <p>UNC</p>	

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Timetable		 0121 288 2107
Modification timetable:		Proposer: Shiv Singh Cadent
Pre-Modification Discussed	27 October 2021	 enquiries@gasgovernance.co.uk
Date Modification Raised	02 December 2021	 shiv.singh1@cadentgas.com
New Modification to be considered by Panel	16 December 2021	 07580 999287
First Workgroup Meeting	07 January 2022	Transporter: Darren Dunkley Cadent
Workgroup Report to be presented to Panel	21 April 2022	 darren.dunkley@cadentgas.com
Draft Modification Report issued for consultation	25 April 2022	 07768 102196
Consultation Close-out for representations	16 May 2022	Systems Provider: Xoserve
Final Modification Report available for Panel (<i>at short notice</i>)	24 May 2022	 UKLink@xoserve.com
Modification Panel decision	16 June 2022	

1 Summary

What

Whilst OAD deals with the matter of retrospective cost recovery, all operators agree that cost recovery could be agreed in advance of actual works taking place, thereby allowing all parties to plan accordingly. This Modification Proposal seeks to address this gap in OAD.

Why

The process arrangements currently within OAD under Section L2.3 are focussed towards retrospective cost recovery. This can occur at any time and is also not time bound. This presents a number of issues for all operators. If cost recovery is identified after the event there is no guarantee that an operator's respective project will be still open, and if there has been a significant lapse of time for the request to be submitted e.g. in a subsequent financial year, this is also likely to cause issues in funding as this may not be readily available.

How

The relevant sections of OAD are to be modified, to allow cost recovery to be agreed in advance of the work taking place, with new additions included as necessary, so that the resultant legal text satisfies the objectives of the Modification Proposal.

The sections of OAD to be modified include:

- Section L: Cost Recovery and Invoicing and
- Section B: Connection Facilities.

The remainder of OAD will be reviewed to ensure there is no further impact.

2 Governance

Justification for Self-Governance

The Modification should be subject to Self-governance procedures on the basis that the necessary changes would have no material impact on the commercial activities of Shipper Users, Gas Transporters or Gas Consumers. This is because the proposed changes are to address process gaps that have come about as a result of new industry and common commercial practice.

Requested Next Steps

This Modification should:

- be considered a non-material change and subject to Self-Governance.
- be assessed by a Workgroup.

3 Why Change?

Since the implementation of the OAD in 2005, a number of issues have been identified which need to be addressed and resolved. It has been identified that specific sections of OAD are unclear and ambiguous and require clarity to ensure all parties are able to interpret them in a consistent manner. Addressing these issues

should lead to greater efficiency. The 0646R Workgroup has agreed that a number of changes to OAD should be made which cover the Cost Recovery process.

OAD currently has provisions that allow for the retrospective recovery of costs but, has no such provisions for the forward planning of such matters.

4 Code Specific Matters

Reference Documents

Offtake Arrangements Document (found here: <https://www.gasgovernance.co.uk/OAD>)

Knowledge/Skills

An understanding of operational works, commercial practice, etc would be advantageous.

5 Solution

Business Rules

- **BR1:** Wherever possible, cost recovery should be agreed in advance of the respective work/activity taking place.
- **BR2:** As the majority of cost recovery obligations are associated within Section B (Connection Facilities) and Section G (Maintenance) requirements, the impacted operator must advise the notifying operator of the intent to recover costs either:
 - via a formal and timely response to a received OAD notice. The impacted operator must reply to the OAD notice in writing advising them of the intent to recover cost; or
 - via the process of sharing of Maintenance Plans (OAD Section G). For non-routine or key maintenance items this must be in a timely response following the issue of the final plan on the 31st March each year. For routine maintenance items please refer to the respective cost recovery bullet below.
- **BR3:** Once the intent for cost recovery has been communicated, the impacted party will issue a formal quotation in line with the OAD cost recovery requirements contained within Section L. This will be reviewed by the parties. Once the final value has been agreed the notifying party will confirm formally via the issue of a Purchase Order (PO) reference. If a purchase order cannot be confirmed prior to the work commencing, the issuing party should at a minimum confirm in writing to the impacted party, acceptance of the agreed quoted costs. If the impacted party does not have a confirmed purchase order or written confirmation to the acceptance of the quoted costs, the impacted party reserves the right not to attend site.

The obligation concerning “omissions” (L2.3.1) needs to be revised and restricted in scope. As OAD notices should be issued 12 months in advance, at that point in time it may not be possible to know all the impacts that will occur upon the other operator(s). Some impacts may only come to light on the day that the physical changes are being implemented.

- **BR4:** Where an impact occurs that was not articulated or disclosed as part of the OAD notice or maintenance processes, that subsequently requires the impacted party to attend site to make safe or good only, this effort is to be treated as cost recovery. The impacted party is to advise the other party

of such an omission in writing, within 60 Business Days of the stated event, and the cost recovery process is to be subsequently followed. This amended obligation will act as a backup for anything missed within the OAD notification processes.

- **BR5:** Any cost recovery requirements detailed in OAD Section D (Measurements) and Section F (Determination of Calorific Value) are not associated with modification or maintenance at OAD sites. For these cost recovery items, there should be some advance communication of the intent to follow through with the respective requirements and where a charge is required, this should be also agreed in advance where possible and in all cases to follow the cost recovery process and principles.
- **BR6:** Only in specific circumstances will cost recovery be on a retrospective basis where the costs may not be able to be agreed in advance. This would cover:
 - any recovery around emergency requirements where applicable (refer to BR8 and 9);
 - routine maintenance items notified via a Shared Maintenance plan whereby the impact was not clearly known/identified at the time of issue (refer to BR4); and
 - any maintenance items not notified via the Shared Maintenance plan that should have been (refer to BR4).
- **BR7:** Where the level of cost recovery has been agreed and the issue of a respective purchase order has been provided, if for any reason the cost recovery value needs to be increased, then the impacted party must provide the revised cost information (preferably via the issue of a revised quotation for transparency and audit trail purposes) along with the appropriate justification for the increase to the other party. The purchase order is to be revised prior to invoicing.

It is anticipated that only paragraph 2.3 will be impacted within Section L by the proposed changes above. In addition, a small amendment is also required to Section B2.4.3 covering the reinstatement of connection facilities following emergency action:

- **BR8:** Damage to another party's assets caused during an emergency should be made safe, followed by the asset Owner being informed of the connection facilities that have been damaged.
- **BR9:** The asset Owner will then carry out an assessment as to whether the damaged assets require a subsequent repair or need to be replaced so that their operation is restored to the same level as before the emergency action. The asset Owner will then take the appropriate action and the associated costs will be recoverable in line with the revised cost recovery proposals outlined above in BR3.

6 Impacts & Other Considerations

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

There is no impact on any Significant Code Review.

The proposer noted that this is a Transporter to Transporter arrangements and all Workgroup Participants agreed that this Modification has no impact on a SCR

Consumer Impacts

There is no impact on consumers on the basis that the Modification is solely associated with Transporter to Transporter issues.

All Workgroup Participants agreed and repeated the comment made above.

What is the current consumer experience and what would the new consumer experience be?

As this Modification Proposal seeks to address Transporter to Transporter matters, the end consumer experience should not be impacted.

All Workgroup Participants agreed with this statement.

Impact of the change on Consumer Benefit Areas:	
Area	Identified impact
Improved safety and reliability n/a	None
Lower bills than would otherwise be the case n/a	None
Reduced environmental damage n/a	None
Improved quality of service n/a	None
Benefits for society as a whole n/a	None

Cross-Code Impacts

No other industry codes are affected.

All Workgroup Participants agreed.

EU Code Impacts

There is no impact on any EU Code.

All Workgroup Participants agreed.

Central Systems Impacts

There is no impact on any central systems.

The Workgroup discussions did not identify any need to change Central Systems. Some Workgroup Participants identified that they may need to make changes to their own business internal processes and systems.

Workgroup Impact Assessment

Workgroup Participants made no further comment on any aspect of the Impact Assessment.

Rough Order of Magnitude (ROM) Assessment

There are no changes required to Central Systems so no ROM is required.

7 Relevant Objectives

Impact of the Modification on the Transporters' 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.	None
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.	None
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

This Modification facilitates GT Licence relevant objective *f) Promotion of efficiency in the implementation and administration of the Code* as it provides clarity on OAD matters impacting the Gas Transporters, thus enabling effective communication between parties, and a more efficient use of assets contained within their Systems by ensuring only a competent person carry out the repair of assets damaged during an emergency.

Workgroup Participants agreed that the Modification will not impact consumers but will be a straightforward way of satisfying the Proposer's need to ensure costs for works carried out can be recovered, where agreed in advance and where appropriate.

A Workgroup Participant expressed concern that the proposed drafting may have the effect of limiting the ability of an impacted party to recover costs because this enables the reimbursing party to reject recoverable costs as part of the estimate process. At present parties are able to recover actual costs so any new limitation may lead

to under-recovery. The Participant believed that costs should be recoverable regardless of whether an estimate had been agreed within a specific timeframe.

Another Workgroup Participant noted that the new arrangements allow a process to provide a cost estimate ahead of the work physically taking place. This allows a cost estimate to be reviewed by the reimbursing party to ensure that it aligns and conforms with the cost recovery allowed in OAD which when agreed upfront avoids disputes at the invoicing stage. This should minimise costs and aid working relationships between Operators.

The introduction of a 60-business day window for submission of an estimate (or revised estimate) for the recovery of cost that was unforeseen or did not follow the notification requirements is necessary to ensure that cost recovery is performed in a timely way both from a payment perspective and a budgetary planning perspective.

8 Implementation

As Self-Governance procedures are proposed, implementation could be sixteen business days after a Modification Panel decision to implement, subject to no Appeal being raised.

Some Workgroup Participants identified that process changes may be required in order to implement the Modification and that a greater amount of time may be required. This will be identified in Representations to the Consultation.

9 Legal Text

Legal Text has been provided by Cadent and is published alongside this report. The Workgroup has considered the Legal Text on 7 April 2022 and is satisfied that it meets the intent of the Solution.

Text Commentary

Legal Text Commentary has been published alongside this report at: <https://www.gasgovernance.co.uk/0792>

Text

Legal Text Commentary has been published alongside this report at: <https://www.gasgovernance.co.uk/0792>

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that:

- This Self-Governance Modification should proceed to consultation.