

| UNC Final Modification Report  |  | At what stage is this document in the process?  |
|--|--|---|
| <h1>UNC 0606S:</h1> <h2>National Grid Gas plc and National Grid Gas Distribution Limited transitional invoicing arrangement post Project Nexus implementation</h2>   |  | <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #008080; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;">01 Modification</div> <div style="border: 1px solid #008080; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;">02 Workgroup Report</div> <div style="border: 1px solid #800080; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;">03 Draft Modification Report</div> <div style="border: 1px solid #FF8C00; border-radius: 5px; padding: 5px; display: flex; align-items: center; gap: 5px;">04 Final Modification Report</div> </div> |
| <p><b>Purpose of Modification:</b></p> <p>To provide for a transitional arrangement for the invoicing of certain Transportation Charges by National Grid Gas plc and National Grid Gas Distribution Limited following implementation of Project Nexus.</p> |  |   |
|   | Panel consideration is due on <b>20 April 2017</b> ( <i>at short notice by prior agreement</i> ) |   |
|   | High Impact:<br>Here   |   |
|   | Medium Impact:<br>Shipper Users  |   |
|   | Low Impact:<br>National Grid Gas plc and National Grid Gas Distribution Limited                  |   |

| Contents  |                                |  Any questions?   |
|---|--------------------------------|--|
| 1   | Summary                        | 3  |
| 2   | Governance                     | 3  |
| 3   | Why Change?                    | 4  |
| 4   | Code Specific Matters          | 4  |
| 5   | Solution                       | 4  |
| 6   | Impacts & Other Considerations | 5  |
| 7   | Relevant Objectives            | 7  |
| 8   | Implementation                 | 8  |
| 9   | Legal Text                     | 8  |
| 10  | Consultation                   | 8  |
| 11  | Panel Discussions              | 12   |
| 12  | Recommendations                | 12   |
| Timetable   |                                | <br>Contact:<br><b>Joint Office of Gas Transporters</b><br><br><a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a><br><br>0121 288 2107<br>Proposer:<br><b>Chris Warner</b><br><br><a href="mailto:chris.warner@nationalgrid.com">chris.warner@nationalgrid.com</a><br><br>07778 150668<br>Transporter:<br><b>National Grid Gas Distribution Limited</b><br>Systems Provider:<br><b>Xoserve</b><br><br><a href="mailto:commercial.enquiries@xoserve.com">commercial.enquiries@xoserve.com</a> |
| <b>Modification timetable:</b>                    |                                |  |
| Initial consideration by Workgroup                | 06 January 2017                |  |
| Amended Modification considered by Workgroup      | 23 February 2017               |  |
| Workgroup Report presented to Panel               | 16 March 2017                  |  |
| Draft Modification Report issued for consultation | 16 March 2017                  |  |
| Consultation Close-out for representations        | 06 April 2017                  |  |
| Final Modification Report available for Panel     | 07 April 2017                  |  |
| Modification Panel decision                       | 20 April 2017                  |  |

# 1 Summary

## What

Following the Project Nexus Implementation Date (PNID) on 01 June 2017, it will not be possible for National Grid Gas Distribution Limited (NGGDL) and National Grid Gas plc (NGG) to issue invoices in respect of certain Transportation Charges.

## Why

NGGDL and NGG have been advised by the Transporter Agency, Xoserve that changes to the post Project Nexus UK Link system to permit separate billing of certain Transportation Charges by each of NGG and NGGDL cannot be implemented without giving rise to unacceptable risk to the Project Nexus implementation programme and the PNID.

## How

UNC transitional terms are proposed that would permit a process to be implemented whereby NGGDL can issue certain invoice types which contain Transportation Charges relating to the NTS and NGGDL's Distribution Networks. NGGDL would then issue an ancillary invoice to credit the NTS related Transportation Charges and then NGG would issue its own ancillary invoice in respect of the NTS related Transportation Charges. This would mean Shipper Users would receive, for a limited period, three invoices for certain Transportation Charges relating to the NTS. All other invoice types would be outside the scope of these arrangements and would be invoiced in the normal way.

# 2 Governance

## Justification for Self-Governance

The Modification Panel determined that this modification should follow Self-Governance procedures on the basis that the changes proposed would have no material impact on the commercial activities of Shipper Users, Gas Transporters or Gas Suppliers and no direct impacts on Consumers. This is because existing invoicing functionality would be used thereby involving a limited requirement for change having an impact on Shipper Users. There would be no impact on Transporters or Gas Consumers.

There would also be no discriminatory effect on any UNC party.

## Requested Next Steps

This modification should:

- Views on the suitability of self-governance and impacts on Shipper Users systems should be sought in consultation;
- proceed to Consultation.

Some Workgroup participants agreed with the Modification Panels determination on Self-Governance for the reasons set out above. However, others were concerned that there may be material impacts on Shipper Users systems and processes should these transitional rules be in place for a significant time, as the impact would be cumulative.

The Workgroup recommends views on potential system impacts and suitability for self-governance should be sought during consultation.

The Workgroup consider the business rules and legal text are sufficiently developed to enable the modification to be issued to consultation.

## 3 Why Change?

National Grid's distribution networks were successfully transferred from NGG to NGGDL on 01 October 2016 under a process called 'hive-across'.

Since 01 October 2016 the UNC recognises NGG as the owner and operator of the NTS only, and NGGDL as the owner and operator of the Distribution Networks.

Transportation Charge invoicing rules are set out in the UNC Transportation Principal Document (TPD) Section S. The relevant rules identify the types of invoices and types of charges that can appear on each type of invoice issued by a Transporter.

Xoserve has advised that they are unable to develop and implement fully separated transportation invoicing arrangements in the Project Nexus System ahead of PNID without this adversely affecting and presenting unacceptable risk to the Project Nexus Implementation programme and the PNID. NGGDL and NGG both agree with Xoserve's assessment of the situation.

Consequently, it is necessary to implement transitional arrangements, which are identified in Section 5 of this Modification Proposal. These arrangements are proposed to come into effect on PNID and continue until the Project Nexus System is updated to reflect the separate ownership of the relevant Distribution Networks and the NTS. This will happen in the earliest suitable release of the new UK Link System. This is expected to be determined by the Data Services Contract (DSC) Change Management Committee to be established under the proposed Xoserve Funding, Governance and Ownership arrangements (FGO) and to which UNC Modification 0565A refers.

If this Modification is not made it would not be possible for NGG and NGGDL to issue separate Transportation Charge invoices for certain invoice types through the Project Nexus System with effect from PNID.

## 4 Code Specific Matters

### Reference Documents

No reference documents are necessary or relevant.

### Knowledge/Skills

No specific knowledge or skills are necessary to assess this Modification.

## 5 Solution

Modification of the UNC Transition Document (TD) with respect to Transportation Principal Document (TPD) Section S is required as follows:

### Invoice 1

NGGDL will be permitted to issue certain Invoice Types which include Transportation Charges relating to the NTS and NGGDL's Distribution Networks.

- Relevant Transportation Charge Invoices will be issued to Shipper Users in the name of NGGDL. The relevant invoice types are:
  - LDZ Commodity (Exit/CSEPS/Unique Sites)
  - Amendments (Transportation/Energy)

## Invoice 2

NGGD will issue an Ancillary Invoice which reverses the NTS Transportation Charges included in Invoice 1.

## Invoice 3

NGG will issue an Ancillary Invoice which includes the NTS Transportation Charges included in Invoice 1.

- Shipper Users will pay to NGGD the net amount under Invoices 1 and 2.
- Shipper Users will pay to NGG the amount under Invoice 3.
- Invoices 1, 2 and 3 will be submitted to the User on the same date, and have the same invoice due date.
- The transitional arrangements are required to be in place from PNID until the earliest suitable release of the updated Project Nexus System, to be determined by the DSC Change Management Committee.

Unless all the Transmission re-billing invoices are issued on the same date, none of the invoices will be valid and NGGD/NGG will need to re-issue all invoices on the same date in order for Shippers to be required to pay the Transportation Charges and for the invoice amounts to be included in the VAR.

**Please note** that Shipper Transportation Credit positions are maintained whole because of this routine and no action would be required by Shipper Users.

## 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 the Switching Significant Code Review, or on any other 'in-flight' industry programme including Project Nexus.

### Consumer Impacts

| Consumer Impact Assessment                            |   |
|---|---|
| Criteria  | Extent of Impact  |
| Which Consumer groups are affected?                   | <ul style="list-style-type: none"><li>• None.</li></ul>   |
| What costs or benefits will pass through to them?     | <ul style="list-style-type: none"><li>• There are no direct consumer impacts identified as this modification is solely associated with the format of Transportation invoices issued to Shipper Users.</li></ul> |
| When will these costs/benefits impact upon consumers? | <ul style="list-style-type: none"><li>• Not applicable.</li></ul>   |
| Are there any other Consumer Impacts?                 | <ul style="list-style-type: none"><li>• None identified.</li></ul>  |

### Cross Code Impacts

No other industry codes are affected.

## EU Code Impacts

There is no impact on any EU Code.

## Central Systems Impacts

There is no impact on any central systems.

## Workgroup Impact Assessment

The Workgroup notes and agrees that the transitional arrangements proposed in this modification aim to avoid a risk to the implementation of Project Nexus systems, should there be a need to develop and implement fully separated transportation invoicing arrangements in the Project Nexus System in time for PNID.

Some participants were concerned this modification would require further changes to implement enduring invoicing arrangements once Project Nexus systems were established. The need for multiple changes is inefficient and some Shipper Users may incur administration/system costs to implement multiple changes which may be material, without enjoying any benefits for such changes.

Some participants were concerned that there would be an ongoing operational cost as the proposal is open ended and that these costs may be considered material should they be in place for a significant period of time. However, it was noted that the industry would be able to prioritise changes following the implementation of FGO and Project Nexus and it would be in their hands as to when these proposals were removed.

Some participants felt the changes proposed were limited in nature and would not create any material impacts on their invoicing process.

It was noted that National Grid plc would be funding the changes to invoicing processes directly with Xoserve.

| User Pays  |   |
|--|---|
| Classification of the modification as User Pays, or not, and the justification for such classification.  | No User Pays service would be created or amended by implementation of this modification and it is not, therefore, classified as a User Pays Modification. |
| Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view. | Not applicable  |
| Proposed charge(s) for application of User Pays charges to Shippers.   | Not applicable  |
| Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.                                   | Not applicable  |

## 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<br>(i) the combined pipe-line system, and/ or<br>(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:<br>(i) between relevant shippers;<br>(ii) between relevant suppliers; and/or<br>(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.   | Impacted          |
| 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              |

Some participants consider this Modification facilitates GT Licence relevant objective f) *Promotion of efficiency in the implementation and administration of the Code* by providing absolute clarity in the UNC regarding the way NGG and NGGDL will issue Transportation Invoices to Shipper Users in the period following PNID. Because of the limitations on changes to the new UK Link system in the time ahead of PNID, the UNC needs to be amended to ensure that it reflects the reality of the processes in operation at any time. Introducing the transitional terms described in this modification ensures that the Code is accurate.

Some participants note that while this modification is required to mitigate a potential risk to Project Nexus implementation by removing the need to change system invoicing functions. The need for multiple changes to invoicing arrangements to support a network sales process is inefficient, therefore this modification has no positive impact on relevant objective f) Promotion of efficiency in the implementation and administration of the Code.

## 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. However, it is suggested that this modification should be implemented on the PNID.

## 9 Legal Text

Legal Text has been provided by National Grid Gas Distribution Limited. The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

### Text Commentary

The Legal Text commentary has been published alongside this report.

### Text

The Legal Text has been published alongside this report.

## 10 Consultation

Panel invited representations from interested parties on 16 March 2017. The summaries in the following table are provided for reference on a reasonable endeavours basis only. It is recommended that all representations be read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 8 representations received 5 supported implementation, 1 offered qualified support and 2 were not in support.

Representations were received from the following parties:

| Organisation          | Response          | Relevant Objectives | Key Points  |
|-----------------------|-------------------|---------------------|---|
| Centrica              | Support           | f - positive        | <ul style="list-style-type: none"><li>The arrangements are required as a result of National Grid's sale of its Distribution Networks. They are not efficient, and add risk that payments maybe incorrectly posted, however it has not been possible to identify a more efficient way forward and therefore the proposal is accepted.</li></ul>  |
| E.ON Energy Solutions | Qualified Support | f - negative        | <ul style="list-style-type: none"><li>The changes required to invoicing are needed as a result of National Grid's decision to sell part of its business. National Grid failed to ensure through the Nexus programme a flexible invoicing design was in place to deal with a potential future separation of NTS and Distribution.</li><li>It is difficult to justify the modification meeting any of the</li></ul> |

|                                |         |              |  |
|--------------------------------|---------|--------------|--|
|                                |         |              | <p>relevant objectives. However, qualified support is provided because pragmatically, Xoserve is not capable of the continued delivery of the separation of invoicing at this stage in the Nexus programme, and cannot at this time either give an indication of when they will be able to achieve it.</p>   |
| National Grid Gas Distribution | Support | f - positive | <ul style="list-style-type: none"> <li>• Due to the set-up of the new UK Link system (including Project Nexus), the measures in this modification are supported. In the absence of this modification, from PNID, NGGDL would not be able to levy Transportation invoices in accordance with its obligations set out in UNC Transportation Principal Document (TPD) Section S1.</li> <li>• Both NGGDL and National Grid Gas plc (NGG) would incur significant cost to facilitate implementation of the 'interim' transportation invoicing arrangements; these costs will not be passed on to Shippers.</li> <li>• If the relevant debit and credit invoices are not issued on the same day, accommodation will be provided: in these circumstances, invoices would be rendered invalid and would require reissue.</li> <li>• Absolute priority must be given to implementation of Project Nexus even though a consequence is that transportation invoicing arrangements are less than optimal.</li> </ul> |
| NPower                         | Support | f - positive | <ul style="list-style-type: none"> <li>• No other viable solution has been identified to provide arrangements for the invoicing of Transportation Charges by National Grid Gas plc and National Grid Gas Distribution Limited, following Nexus implementation, thus the proposal is supported.</li> <li>• Implementation should align with PNID</li> </ul>   |
| RWE Supply & Trading GmbH      | Oppose  | f - negative | <ul style="list-style-type: none"> <li>• This change is only needed because a commercial transaction (sale of National Grid's distribution networks) has made the currently functioning invoicing arrangements in Section S unworkable and a solution is required to ensure their efficacy.</li> <li>• This modification would impact the facility to process, validate and pay multiple invoices. Shippers would face additional costs with the only benefits accruing to the transporters.</li> <li>• It is misleading to suggest that this is a transitional solution, as the priorities for change to the UK Link System under the DSC Change Management Committee is as yet unknown. As such it is an open-ended solution.</li> </ul>   |

|   |         |              |  |
|---|---------|--------------|--|
|   |         |              | <ul style="list-style-type: none"> <li>• This modification is <i>not</i> suitable for self-governance and should be subject to Ofgem scrutiny due to the material impact on the commercial activities of certain gas transporters; they would be unable to raise invoices without this modification.</li> </ul>  |
| Scotland Gas Networks and Southern Gas Networks | Support | f - positive | <ul style="list-style-type: none"> <li>• The Modification provides certainty in the post-Nexus transitional invoicing arrangements for National Grid Gas plc and National Grid Gas Distribution Ltd and removes the possibility of an unacceptable risk being posed to Project Nexus by the immediate development of an enduring solution.</li> <li>• Transitional arrangements should be in place from PNID until the earliest suitable subsequent release date, as determined by DSC Change Management Committee;</li> <li>• Determination of length of time transitional arrangements are needed is appropriately decided by the DSC Change Management Committee.</li> <li>• Should be self-governance but notes that during development, there have been differing views between Shipper Users on the materiality of the proposed transitional arrangements.</li> <li>• Potential changes to invoicing files may be required, these are likely to be of low impact.</li> </ul> |
| SSE Supply                                      | Oppose  | f - negative | <ul style="list-style-type: none"> <li>• If implemented, end customers will pick up the costs for National Grid's commercial decisions. Furthermore, there is no proposed end date to these arrangements.</li> <li>• Alternative banking arrangements involving escrow type accounts as an alternative solution have not been fully explored.</li> <li>• This should be subject to Ofgem scrutiny. The modification does <i>not</i> meet the self-governance criteria: 1) Material increases in costs will or could be passed on to consumers, and 2) parties must incur an additional cost (large or small).</li> </ul>   |
| Wales & West Utilities Ltd                      | Support | f - positive | <ul style="list-style-type: none"> <li>• This modification is supported, as without it an organisation would be unable to develop its business due to the constraints imposed by Project Nexus.</li> <li>• The approach, with its dependence on a notice being issued, has potential for errors but given current uncertainty, the need to use this approach is understood.</li> <li>• Self Governance is supported.</li> <li>• Is concerned that this is not how the invoicing process</li> </ul>   |

|  |  |  |   |
|--|--|--|---|
|  |  |  | was intended to work and there is potential for errors. |
|--|--|--|---|

Responding parties were also requested to address the following question in their representations.

*Q1: In order to inform consideration of the governance, please provide views on the materiality of the impacts of the proposal.*

*Q2: Respondents to identify the extent of the impacts on their systems.*

| Organisation                   | Key Points   |
|--------------------------------|--|
| Centrica                       | <ul style="list-style-type: none"> <li>• Q1 -Unable to identify a material impact to British Gas or its customers, therefore self governance arrangements are appropriate.</li> <li>• Q2 -Expects small system costs and small incremental processing costs will be incurred.</li> </ul>   |
| E.ON Energy Solutions          | <ul style="list-style-type: none"> <li>• Q1 -The changes are challenging as systems have been built to manage the invoicing process as required by the Nexus programme, and this will require the introduction of manual intervention to meet these changes. These are changes that were not anticipated and therefore extra resources are required to react to these changes, and these come at a cost to the customer.</li> <li>• Q2 - E.ONs change programme has been heavily focused to deliver Nexus requirements to replace UK Link. This change means those systems are not going to operate as designed as a consequence of the approach taken to maintain an integrated invoicing approach in Nexus. Given that the changes are not the final solution, they are inefficient and place unnecessary costs on parties for what was a commercial decision by National Grid. They will also face further additional costs in the future when Nexus has settled down to change the invoicing process again. This will mean three different approaches to invoicing potentially in a short period of time, which the customer must ultimately fund, with no compensating benefit.</li> </ul>  |
| National Grid Gas Distribution | <ul style="list-style-type: none"> <li>• Q1 - Believes that the solution identified within this modification does not have a material effect in accordance with the criteria set out in the document 'UNC – Self Governance Modifications: Guidance for Proposers'. The proposed invoicing arrangements use prevailing UK-Link invoicing functionality and impact solely on NGGDL, NGG and Shipper Users.</li> <li>• Q2 - There is a minimal impact on the systems operated by the Transporter Agency, Xoserve. NGGDL is not aware of the impact on the systems operated by Shipper Users. Noting that some parties have stated that these are minimal while others have identified that changes to their systems are necessary. Mindful of the pre-requisite to minimise any adverse effect of the solution on Shipper Users, NGGDL has sought to address concerns expressed by parties relating to incorrect issuing of invoices. In particular, in response to issues identified by parties relating to the relevant debit and credit invoices not being issued on the same day, and have accommodated this by adding to the modification solution provisions and legal text to reflect that in these circumstances, invoices would be</li> </ul> |

|   |   |
|---|---|
|   | rendered invalid and would require reissue.   |
| NPower  | <ul style="list-style-type: none"> <li>• Q1 - Has not been able to identify any material impact from this modification.</li> <li>• Q2 - Expect to have to make some system changes and will incur associated costs.</li> </ul>  |
| RWE Supply & Trading GmbH                       | <ul style="list-style-type: none"> <li>• Q1 - It is difficult to assess materiality, as the duration of the “transitional” period is unknown. However, it is clear that processing multiple, rather than single invoices adds costs and risks to the settlement process.</li> <li>• Q2 – no response provided.</li> </ul>                         |
| Scotland Gas Networks and Southern Gas Networks | <ul style="list-style-type: none"> <li>• Q1 - Has not been able to identify any material impacts which would arise as a result of this modification.</li> <li>• Q2 - It is possible that SGN systems may be impacted by the technical solution, however any changes are expected to be small in nature.</li> </ul>                                |
| SSE Supply                                      | <ul style="list-style-type: none"> <li>• Q1 - Will incur costs of tens of thousands of pounds due to a number of system changes and an unspecified period of having to run a suboptimal process.</li> <li>• Q2 - Systems will need to be amended to meet these new requirements and then amended back to the current correct position.</li> </ul> |
| Wales & West Utilities                          | <ul style="list-style-type: none"> <li>• Q1 – not impacted by this modification.</li> <li>• Q2 – not impacted by this modification.</li> </ul>  |

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

## 12 Recommendations

### Panel Determination

Members agreed that Modification 0606S should **[not]** be implemented