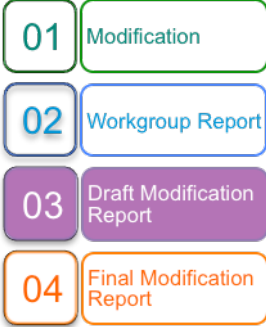











Draft Modification Report	At what stage is this document in the process?
<h1>0592S:</h1> <h2>Separation of National Grid Transmission and Distribution owned networks – Transitional invoicing arrangements</h2>	
<p><b>Purpose of Modification:</b></p> <p>It is necessary to provide contingency Transportation Charge invoicing arrangements for a transitional period following the ‘hive across’ of National Grid’s Distribution networks, to be utilised in the event that systems changes are not made in time.</p>	
	<p>This Draft Modification Report is issued for consultation responses at the request of the Panel. All parties are invited to consider whether they wish to submit views regarding this self-governance modification.</p> <p>The close-out date for responses is <b>02 September 2016</b>, which should be sent to <a href="mailto:enquiries@gasgovernance.co.uk">enquiries@gasgovernance.co.uk</a>. A response template, which you may wish to use, is at <a href="http://www.gasgovernance.co.uk/0592">www.gasgovernance.co.uk/0592</a>.</p> <p>The Panel will consider the responses and agree whether or not this self-governance modification should be made.</p>
	<p>High Impact: None</p>
	<p>Medium Impact: None</p>
	<p>Low Impact: National Grid (Transmission and Distribution) and Shipper Users</p>

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<b>3 Why Change?</b>	<b>4</b>	 <b>0121 288 2107</b>
<b>4 Code Specific Matters</b>	<b>4</b>	Proposer: <b>Chris Warner</b>
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<b>Modification timetable:</b>		
Initial consideration by Workgroup	28 July 2016	
Amended Modification considered by Workgroup	04 August 2016	
Workgroup Report presented to Panel	18 August 2016	
Draft Modification Report issued for consultation	18 August 2016	
Consultation Close-out for representations	02 September 2016	
Final Modification Report available for Panel	05 September 2016	
Modification Panel decision	08 September 2016	

# 1 Summary

## What

Modification of the UNC is required to enable National Grid Gas plc (NGG) to issue Transportation Charge invoices to Shipper Users which include Transportation Charges which relate to National Grid Gas Distribution Limited (NGGD) for an interim period following the transfer by NGG of its Gas Distribution business to NGGD on 1<sup>st</sup> October 2016 (the expected 'hive-across' date).

## Why

There is a risk that the necessary system changes in UK Link to allow separate billing of Transportation Charges by each of NGG and NGGD may not be in place in sufficient time.

Currently the UNC provides that the relevant Transporter will issue Transportation Charge invoices (through the Transporter Agency, Xoserve) to a Shipper User for Transportation Charges relating to the Shipper User's use of the Transporter's network(s). It does not envisage a Transporter including in an invoice a Transportation Charge that relates to use by a Shipper User of a network(s) operated by a Transporter under different ownership.

## How

Transitional terms will be added to allow NGG to submit Transportation Charge invoices to Shipper Users in the period post 'hive across' which includes Transportation Charges that relate to both the National Transmission System (NTS) and the NGGD networks.

# 2 Governance

## Justification for Urgency, Authority Direction or Self-Governance

The Modification Panel determined that this should be a Self-governance modification on the basis that the necessary changes will have no material impact on Shipper Users, Gas Transporters or Gas Customers. This is because the change would enable the current invoicing arrangements to continue until such time as systems changes are made.

It would also have no discriminatory effect on any UNC party.

The Workgroup agreed with this view.

## Requested Next Steps

This modification should:

- be subject to self-governance
- proceed to consultation

The modification is developed sufficiently to allow it to proceed to consultation and it includes the legal text and associated commentary.

### 3 Why Change?

NGG currently owns and operates the NTS and 4 distribution networks; North West, West Midlands, East of England and London. In preparation for a potential sale of a majority share, National Grid's distribution networks are to be transferred from NGG to NNGD at the 'hive across' date, currently expected to be 01 October 2016.

The UNC currently recognises NGG as owner and operator of the NTS and as a Distribution Network Operator (DNO), it therefore recognises NGG as a single party to the UNC with a single network code. Accordingly, NGG issues Transportation Charge invoices relating to both use of the NTS and the Gas Distribution Networks by a Shipper User.

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.

Currently Transportation Charge invoices for both NGG Transmission and Distribution are raised by the Transporter Agency, Xoserve, on behalf of NGG and made payable to NGG as the owner of both the NTS and the Gas Distribution Networks. As part of the 'hive across' process it is necessary to separate these invoices out so that Gas Distribution Transportation Charge invoices are issued by, and made payable to, NNGD. The 'hive across' and legal separation of the NTS and the distribution networks requires systems and process development work in UK Link to be undertaken by the Transporter Agency, Xoserve. Xoserve has advised that detailed analysis is in progress albeit this has not reached a conclusion as to the achievability of systems change by the 'hive across' date.

It is therefore necessary to develop a transitional contingency arrangement which is expected to apply for a period of approximately 2 to 4 months commencing from the 'hive across date'. This is to allow NGG to continue to issue invoices to Shipper Users which include Transportation Charges relating to NTS and NNGD distribution network related services. In any event this arrangement will cease when National Grid completes the sale of a majority stake in NNGD. NGG and NNGD will then implement internal measures (outside of UNC) to re-allocate charges and income together with appropriate treatment of VAT, etc. A period of not less than 20 Business Days' notice, ending on the last Day of the calendar month will be provided with regard to the cessation of these arrangements.

Shipper Users will also continue to issue any security documentation required pursuant to UNC TPD Section v3 of both the NGG Network Code and the NNGD Network Code in the name of NGG during this transitional period. NGG and NNGD will put in place arrangements between themselves to allow the benefit of the security (to the extent it relates to Gas Distribution Transportation Charges) to be held by NNGD during the transitional period.

If this Modification is not made and alternative arrangements cannot be established in time it would not be possible for NGG to issue Transportation Charge invoices for NNGD post 'hive across'. It should also be noted that implementation of UNC Modification 0582S remains necessary to facilitate 'hive across'.

### 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 is required as follows:

- to allow NGG to issue Transportation Charge invoices in respect of NGGD's networks for an interim period and for NGGD to appoint NGG as its trustee and paying agent and holder of security for the purposes of those Transportation Charges invoiced by NGG and which relate to the NGGD owned distribution networks;
- to establish the period during which the transitional invoicing arrangements will apply;
- to make some consequential transitional rules in relation to TPD Section S; and
- to make some consequential transitional rules in relation to TPD Section V.

Note: the legal text provided for this Modification is contingent upon implementation of UNC Modification 0582S.

## 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 project.

### Consumer Impacts

There is no impact on consumers on the basis that the Modification is solely associated with the format of Transportation invoices issues to Shipper Users.

### 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 on the basis that the Modification is concerned with maintaining the present transportation invoicing file formats.

### Workgroup Impact Assessment

The workgroup notes that this is an interim process required to be put in place until NGG/NGGD invoicing systems can be separated and therefore it would have a low or no impact on UNC parties.

## User Pays

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 (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	Positive

Code.	
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) by providing absolute clarity in the UNC regarding the manner in which National Grid Gas will issue Transportation Invoices to Shipper Users in the transitional period.

One participant noted that this was contingent on the necessary Licence modifications being approved by Ofgem.

## 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.

## 9 Legal Text

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

### Text Commentary

#### Notes

1. This table is based on the proposed legal text for Modification 592.
2. Modification 0592 relates to the transitional invoicing arrangements in relation to the separation of NTS and the National Grid owned distribution networks.

TRANSITION DOCUMENT		
TD Reference	Topic	Explanation
New paragraph 5	Calculation of National Grid's Value at Risk	<p>States that, for as long as the transitional provisions of paragraph 5 of TD Part IIB apply (see below), for the purposes of calculating National Grid's VAR the aggregate amounts invoiced by National Grid will be deemed to exclude amounts which relate to a Transportation Charge owed to the New Transporter.</p> <p>This ensures amounts owed to the New Transporter but invoiced, on a transitional basis, by National Grid do not increase National Grid's Value at Risk and impact on the level of credit support a User is required to provide to National Grid.</p>

New paragraph 5.1	Transportation Charges payable to New Transporter	Sets out the general rule that Transportation Charges relating to a Relevant System (i.e. a System owned and operated by National Grid up until the day preceding the DN Hive Down Implementation Date) other than Invoiced Transportation Charges, are payable by or to the New Transporter, even if the amounts accrue in respect of a period preceding the 'hive-across' date.
New paragraph 5.2 and 5.3	Application of paragraph 5	States that the provisions of this paragraph 5 shall apply from the DN Hive Down Implementation Date until the relevant date (as they are transitional rules). The relevant date is the date specified in a notice to Users given by National Grid, and it must be (i) the last day of a calendar month; and (ii) not less than 10 business days following the date of National Grid's notice.
New paragraph 5.4	Invoices Document	Allows National Grid to issue an invoice which contains both an Invoice Item relating to Transportation Charges payable by Users to National Grid or by National Grid to Users and an Invoice Item relating to Transportation Charges representing an payable by Users to the New Transporter or by the New Transporter to Users (a relevant Invoice Item) or which only contains a relevant Invoice Item (such an invoice is defined as a relevant Invoice Document).
New paragraph 5.5	Agent and trustee	States that the New Transporter appoints National Grid as its agent and trustee for the purposes of submitting relevant Invoice Documents.
New paragraph 5.6	Invoices Document	<p>States that where National Grid issues a relevant Invoice Document it is doing so in the capacity as agent and trustee for the New Transporter and amounts</p> <ul style="list-style-type: none"> <li>- which are payable to National Grid represent a debt owed by the User to the New Transporter (and not to National Grid);</li> <li>- which are payable to the User represent a debt owed by the New Transporter to the User (and not by National Grid).</li> </ul>
New paragraph 5.7	Discharge of debt	States that payment by the User to National Grid of an amount in respect of a relevant Invoice Item constitutes discharge of the debt owed by the User to the New Transporter and likewise that payment by National Grid to the User of an amount in respect of a relevant Invoice Item shall constitute discharge of the debt owed by the New



		Transporter to the User.
New paragraph 5.8	relevant Invoice Items which are not paid on time	States that where an amount in respect of a relevant Invoice Item is not paid on or before the due date, National Grid can inform the New Transporter of the non-payment and the New Transporter is entitled to exercise its rights under the TPD relating to such non-payment (including, where appropriate, issuing a Termination Notice).
New paragraph 5.9	TPD Section S	<p>Makes clear for clarification purposes:</p> <ul style="list-style-type: none"> <li>- the New Transporter shall not be obliged to issue an invoice to each User if the amounts have been invoiced by National Grid;</li> <li>- the New Transporter will consequently not invoice the User for the same amounts;</li> <li>- if a User has an query relating to a relevant Invoice Item, the User should contact the New Transporter, not National Grid; and</li> <li>- National Grid will provide Users with a statement of account in respect of each relevant Invoice Document.</li> </ul>
New paragraph 5.10	TPD Section S	<p>Makes clear for clarification purposes:</p> <ul style="list-style-type: none"> <li>- a relevant Invoice Document is an Invoice Document;</li> <li>- an invoice is not invalid because it contains a relevant Invoice Item;</li> <li>- no deduction or withholding is allowed on the basis the invoice contains relevant Invoice Item; and</li> <li>- in a termination situation National Grid can accelerate issuing a relevant Invoice Document.</li> </ul>
New paragraph 12.4	Calculation of the New Transporter's Value at Risk	<p>The opposite of the rule above regarding National Grid's VAR. For as long as the transitional provisions of paragraph 5 of TD Part IIB apply, for the purposes of calculating the New Transporter's Value at Risk following the month in which the separation in legal ownership occurs, aggregate amounts invoiced by the New Transporter shall be deemed to include amounts under a relevant Invoice Document and which represent a Transportation Charge owed to the New Transporter.</p> <p>This ensures that amounts owed to the New Transporter</p>

		but invoiced, on a transitional basis, by National Grid are included in the calculation of the New Transporter's Value at Risk for the purposes of determining any security requirements.
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## Text

Proposed legal text

### TRANSITION DOCUMENT, PART IIA - GENERAL

*Add new paragraph 5 to read as follows:*

#### 5 Code Credit Limits

- 5.1 In respect of TPD Section V3 in the period up to (and including) the relevant date (as referred to in paragraph 5.3 of Part IIB) for the purposes of National Grid's Network Code a reference to the Transporter shall be construed as reference to National Grid and the New Transporter (as if a single Transporter).

### TRANSITION DOCUMENT, PART IIB – NEW TRANSPORTER

*Delete all text at paragraph 5 and insert new text to read as follows:*

- 5.1 For the avoidance of doubt, and subject to the further provisions of this paragraph 5, in accordance with paragraph 1.1, amounts relating to a Relevant System and payable by way of a Transportation Charge, other than Invoiced Transportation Charges, shall be payable by or to the New Transporter pursuant to the New Transporter's Network Code, including where such amounts accrue in respect of any period on or before the Last Day.
- 5.2 The further provisions of this paragraph 5 shall apply in the period from the DN Hive Down Implementation Date to the relevant date.
- 5.3 For the purposes of this paragraph 5 the "**relevant date**" is the earlier of:
- (a) the date specified in a notice given by National Grid to Users, provided such date is:
    - (i) the last day of a calendar month; and
    - (ii) not less than twenty (20) Business Days following the date of National Grid's notice;
  - (b) the date the New Transporter ceases to be an Affiliate of National Grid, and National Grid shall give Users not less than twenty (20) Business Days' notice of such date.
- 5.4 The New Transporter appoints National Grid as its agent and trustee for the purposes of National Grid submitting Invoice Documents containing Transportation Charges to Users in accordance with paragraph 5.5.
- 5.5 Until the relevant date National Grid may submit to each User an Invoice Document which contains:
- (a) an Invoice Item in respect of which the Invoice Amount represents a Transportation Charge payable by Users to National Grid and by National Grid to Users and an Invoice Item ("**relevant Invoice Item**") in respect of which the Invoice Amount represents a Transportation Charge which is payable by Users to the New Transporter or by the New Transporter to Users; or

- (b) an Invoice Document which contains only a relevant Invoice Item, (each such Invoice Document a "**relevant Invoice Document**").

5.6 Where National Grid submits a relevant Invoice Document:

- (a) in respect of each relevant Invoice Item the User acknowledges National Grid is submitting the relevant Invoice Document in its capacity as agent and trustee for and on behalf of the New Transporter;
- (b) for Invoice Amounts in respect of relevant Invoice Items which are payable to National Grid, National Grid and Users agree the Invoice Amount shall represent a debt owed by the User to the New Transporter (and not to National Grid);
- (c) for Invoice Amounts in respect of relevant Invoice Items which are payable to the User, the New Transporter and National Grid agree the Invoice Amount shall represent a debt owed by the New Transporter to the User (and not by National Grid);
- (d) the User, the New Transporter and National Grid agree the Invoice Amount in respect of an Invoice Item which is not a relevant Invoice Item shall represent a debt owed by the User to National Grid or (as the case may be) National Grid to the User.

5.7 For the purposes of:

- (a) paragraph 5.6(b), the New Transporter agrees payment by the User to National Grid of the Invoice Amount in respect of relevant Invoice Item shall constitute discharge of the debt owed by the User to the New Transporter;
- (b) paragraph 5.6(c), the User agrees payment by National Grid to the User of the Invoice Amount in respect of relevant Invoice Item shall constitute discharge of the debt owed by the New Transporter to the User.

5.8 Where any Invoice Amount in respect of a relevant Invoice Item is not paid on or before the Invoice Due Date:

- (a) National Grid shall be entitled to inform the New Transporter of the late payment (and the Invoice Amounts which are unpaid); and
- (b) nothing in this paragraph 5 shall prejudice the right of the New Transporter to:
  - (i) take any of steps referred to in TPD Section S3.5.3;
  - (ii) give a Termination Notice in accordance with TPD Section V4.3.

5.9 Accordingly, for the purposes of TPD Section S:

- (a) the New Transporter shall not be required to submit to each User an Invoice Document for a Billing Period for Invoice Items which are contained in a relevant Invoice Document;
- (b) the New Transporter shall not, for so long as the further provisions of this paragraph 5 apply, submit an Invoice Document to a User which contains a relevant Invoice Item;
- (c) where a User has an Invoice Query in respect of a relevant Invoice Item the User shall notify the New Transporter and not National Grid; and
- (d) National Grid will provide Users with a statement of account in respect of each relevant Invoice Document.

5.10 For the avoidance of doubt:

- (a) for the purposes of the application of TPD Section S, and subject to the provisions of this paragraph 5, a relevant Invoice Document is an Invoice Document, and accordingly the provisions of TPD Section S regarding the submission of Invoice Documents and the payment of Invoice Amounts shall equally apply to the submission of relevant Invoice Documents and the payment of Invoice Amounts in relevant Invoice Documents;
- (b) an Invoice Document shall not be invalid by reason of it containing a relevant Invoice Item;
- (c) no deduction or withholding shall be made on payment of an Invoice Document by reason of it being a relevant Invoice Document; and
- (d) National Grid may submit a relevant Invoice Document to a User in the event the New Transporter submits a Termination Notice in accordance with TPD Section V4.3.

*Add new paragraph 12.2 and 12.3 to read as follows:*

- 12.2 In respect of TPD Section V3 in the period up to (and including) the relevant date for the purposes of the New Transporter's Network Code a User's Code Credit Limit will be zero.
- 12.3 For the purposes of determining the Value at Risk under the New Transporter's Network Code with effect from the day following the relevant date, a reference in TPD Section V3.2.1(d) to an amount invoiced to a User shall mean an amount invoiced by National Grid in accordance with this paragraph 5 as agent and trustee for the New Transporter.

## 10 Recommendations

### Panel's Recommendation to Interested Parties

The Panel have recommended that this report is issued to consultation and all parties should consider whether they wish to submit views regarding this self-governance modification.