

Modification proposal:	<b>Independent Gas Transporter Uniform Network Code (IGT UNC): Provisions for allowing consecutive estimated invoicing in the event of System Failure by the CDSP (IGT097)</b>		
Decision:	The Authority <sup>1</sup> directs that IGT097 be made <sup>2</sup>		
Target audience:	iGT UNC Panel, Parties to the IGT UNC and other interested parties		
Date of publication:	26 April 2017	Implementation date:	To be confirmed by the IGT UNC secretary

## Background to the modification proposals

On 14 January 2015 we directed a modification to the Standard Conditions of the Gas Transporters (GTs) licence.<sup>3</sup> The effect of the modification is to require that the independent GTs (IGTs) procure certain services and systems through a common Agent, bringing them into line with the existing such obligation upon the other GTs. This change will be given practical effect as part of Project Nexus, incorporating the IGTs into central IT systems for the first time. The new IT systems are scheduled to go live on 1 June 2017.

Project Nexus, will fundamentally change the basis of supply point administration and gas settlement, not least for the IGTs, whose invoicing of shippers will be administered by the common Agent, Xoserve, now referred to as the Central Data Services Provider (CDSP).

Currently, the IGT UNC provides that in the event of an IGT system failure, the IGT is allowed to submit an estimated invoice to the Gas Shipper(s). However, if the system failure extends across more than one billing period, the IGT is not able to submit consecutive estimated invoices without the Shippers' consent.

## The modification proposal

IGT097 proposes to remove this requirement for the Shippers' consent to consecutive estimated invoices in the specific event of a system failure of the CDSP. Provisions relating to any failure on the part of the IGT would remain as they are. The proposer contends that this modification is necessary, as their cash flow would otherwise be heavily reliant upon the operation of the CDSP. The proposer notes that the construct of the CDSP contract means that they are unable to manage this risk effectively, for instance through backing it off into the CDSP contract. The proposer requested that IGT097 be treated as an urgent modification. On 11 April, we issued our decision<sup>4</sup> to agree to an urgent timetable.

IGT097 is timebound, expiring eight months after it is implementation. This means that it would be in effect for both the implemented of Project Nexus systems, and for the implementation of IGT080S<sup>5</sup>, scheduled for the November 2017 IGT UNC release. The effect of IGT080 will be to mandate the use of CDSP data for billing of shippers. Whilst

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

<sup>3</sup> See: [www.ofgem.gov.uk/ofgem-publications/92454/projectnexusletterfinal.pdf](http://www.ofgem.gov.uk/ofgem-publications/92454/projectnexusletterfinal.pdf)

<sup>4</sup> See: <http://www.igt-unc.co.uk/Modifications/Open+Modifications/iGT097?pgid=2544>

<sup>5</sup> See: IGT080S: 'Mandating iGT use of data as administered by the Pipeline Operators' Agency for Shipper Transportation Billing'.

this should address many of the inconsistencies in data which may otherwise exist and allow shippers to more efficiently reconcile their invoices, it further increases the IGTs reliance on the CDSP for the timeliness and accuracy of their own revenues.

### **IGT UNC Panel<sup>6</sup> recommendation**

At its meeting of 19 April 2017, the IGT UNC Panel voted by a majority to recommend the implementation of IGT097.

### **Our decision**

We have considered the issues raised in the modification proposal and Final Modification Report (FMR) dated 19 April 2017. We have also considered and taken into account the responses to the industry consultation on the modification proposal, which are published alongside the FMRs<sup>7</sup>. We have concluded that:

1. implementation of IGT097 will better facilitate the achievement of the relevant objectives of the iGT UNC<sup>8</sup>; and
2. directing that IGT097 be made is consistent with the Authority's principal objective and statutory duties<sup>9</sup>.

### **Reasons for our decision**

We agree with the IGT UNC Panel that this proposal should be considered against relevant objectives (a) and (f), and that it is neutral with regards to the other objectives.

#### ***a) the efficient and economic operation of the pipe-line system***

There were mixed views amongst respondents on whether IGT097 would facilitate objective a). Although all of the IGT respondents and Panel members considered that the modification was necessary in order to safeguard their cash flows, shipper respondents were uncertain that the modification was actually required, or how it related to objective a). We are sympathetic to these concerns, though we also recognise the level of concern within IGT organisations who are going through a significant amount of change, not least to their commercial relationships and invoicing arrangements.

Extensive and robust testing of the Project Nexus systems has been going on for several months now, and will continue to, ahead of a decision on whether or not to go-live, which we expect to be taken on or around 19 May 2017. Reflecting the findings of the independent assurance activities which have been undertaken as part of Project Nexus, we consider that there should be a low probability of a CDSP system failure of the nature envisaged in this proposal. However, irrespective of the likelihood, we also recognise that the consequences of such a failure still represent a material risk as far as the IGTs are concerned. We note the "sunset" provision in the modification, which reflects the fact that any risk should be reduce over time after go-live of the new Project Nexus systems.

Whilst we also share the views of some respondents that existing IGT UNC provisions, combined with the expected reasonable and practical response of participants may mitigate the need for a modification to allow for estimated invoices to be issued, this is

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<sup>6</sup> The iGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the IGT UNC Modification Rules.

<sup>7</sup> The modification proposal, modification reports and representations can be viewed on the IGT UNC website at [www.igt-unc.co.uk](http://www.igt-unc.co.uk)

<sup>8</sup> IGT UNC relevant objectives are set out in Standard Condition 9 of the Gas Transporters Licence, available on the Ofgem website at: <http://epr.ofgem.gov.uk>

<sup>9</sup> 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.

not a certainty. We agree that IGT097 may not contribute to the efficient operation of the pipeline system itself, we acknowledge the IGTs concern that any restriction on expected cash flows could increase their reliance on other sources of finance to meet operational requirements. To the extent that this finance, or even a hedge against having to pursue this option, would come at a cost to IGTs, we consider that IGT097 may provide sufficient certainty and therefore comfort that these costs can be avoided.

***f) promotion of efficiency in the implementation and administration of the Code***

Notwithstanding the above, we consider that the primary benefit of IGT097 is that it would obviate the need to for IGTs and shippers to individually and collectively agree to the issuance of consecutive estimated invoices in the event of a CDSP system failure. This modification has been proposed as a risk mitigation and as such it is difficult to identify with confidence the potential issues which could give rise to such a CDSP system failure. However, if such an event occurred the modification would enable estimated invoices to be used as a backup and avoid the need for potentially urgent and last minute negotiations between shippers and IGTs which could disrupt invoicing scheduled and impact IGT cash flows. As such we consider modification IGT097, noting its timebound nature, would further relevant objective f).

**Decision notice**

In accordance with Standard Condition 9 of the Gas Transporter Licence, the Authority hereby directs that modification proposal iGT UNC iGT097: *'Provisions for allowing consecutive estimated invoicing in the event of System Failure by the CDSP'* be made.

**Rob Church**  
**Partner, Consumers and Competition**

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