

Modification proposal:	Uniform Network Code (UNC) 618: Extension of Invoicing Contingency Arrangements in case of Project Nexus defect (UNC618)		
Decision:	The Authority ¹ directs this modification be made ²		
Target audience:	UNC Panel, Parties to the UNC and other interested parties		
Date of publication:	19 May 2017	Implementation date:	To be confirmed by the Joint Office

Background

Project Nexus encompasses the replacement of existing UK Link systems and the implementation of new business processes and systems for gas settlement reform and the introduction of single service provision for all Gas Transporters (GTs) and independent GTs (IGTs). Two of the critical functions the UK link systems provide to the UK gas market are:

- the provision of central gas registration systems to facilitate customer switching; and,
- the calculation of £billions of gas transportation invoices levied to the gas shippers.

The implementation of Project Nexus will address one of the Adverse Effects on Competition which the Competition and Markets Authority identified in their recent inquiry into the GB energy supply market, arising from deficiencies in the current gas settlement arrangements. The Nexus programme is also a key enabler for the Smart Metering Implementation Programme, providing improved capability to process the increased volumes of meter reads that will be generated by mass smart meter roll-out.

At today's meeting of the Project Nexus Steering Group, it was agreed that the criteria to go-live had been substantively met, and that the Project Nexus systems would therefore go-live on 1 June 2017.³

The modification proposal

Current UNC rules⁴ provide that in the event of a Code Contingency⁵ (i.e. something which prevent or affects UK Link or other UNC communications), Gas Transporters (GTs) may issue invoices containing estimated invoice amounts. However, the GT is precluded from doing this for consecutive billing periods except with the agreement of the relevant shipper(s).

As a mitigation against invoicing issues occurring because of the transition to new systems, UNC618 proposes to allow estimated invoices to be issued for consecutive billing periods without the need agreement of all UNC users (i.e. Gas Shippers).

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work. This decision is made by or on behalf of GEMA.

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

³ Further information on Project Nexus is available on the Ofgem website at: www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/project-nexus

⁴ [UNC Section S 1.9](#)

⁵ As defined in UNC General Terms Section D 'CDSP and UK Link'.

However, this proposal is limited to the issuance of Local Distribution Zone (LDZ) Capacity invoices and does not extend to National Transmission System (NTS) invoices or other Distribution Network Operator (DNO) invoices.

A similar modification (IGT097⁶) has recently been made to the IGT UNC.

UNC Panel⁷ recommendation

At its meeting of 18 May 2017, the UNC Panel voted by a majority to recommend that UNC618 be implemented.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) version 3.0 dated 19 May 2017. We have considered and taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the FMR⁸. We have concluded that:

- implementation of UNC618 will better facilitate the achievement of the relevant objectives of the UNC;⁹ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁰

Reasons for our decision

We have considered UNC618 against relevant objectives c), d) and f), and agree with the majority of respondents and the UNC Panel that it would have a neutral impact on the other relevant objectives.

We have today issued our decision not to intervene to prevent the go-live of Project Nexus on 1 June. This decision was made following extensive and robust testing of the Project Nexus systems that has been going on for several months now, demonstrating that the go-live criteria, including those relating to system stability, had been substantively met. The decision was also informed by the findings of separate and independent assurance activities. We therefore consider that there is a low probability of a system failure of the nature envisaged by the proposal. However, we agree with the four respondents that with 95% of gas distribution network operators revenue coming from capacity charges, it is prudent to mitigate against even a low probability risk of their being able to issue timely invoices.

Relevant objective c) – efficient discharge of the licensee’s obligations

All four respondents, all of whom are GTs, considered that the implementation of UNC618 would facilitate the efficient discharge of their licence obligations. However, only one

⁶ IGT097: Provisions for allowing consecutive estimated invoicing in the event of System Failure by the CDSP
⁷ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

⁸ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.co.uk

⁹ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, available at: <https://epr.ofgem.gov.uk/Content/Documents/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current%20Version.pdf>

¹⁰ 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 as amended.

provided any substantive rationale for this, suggesting that the DNOs have a licence obligation¹¹ to maintain investment grade ratings, and that such ratings are predicated on the value that investors and ratings agencies place on the certainty of DNO's cash flows. We have no reason to doubt that this would be the case. More generally we acknowledge that even a temporary restriction on a licensee's cash flow may hinder its ability to finance its activities in an efficient manner.

We also recognise that UNC618 does not create the opportunity for invoices to be issued based on estimates, it simply ensures that this can be done for consequential billing periods without first having to secure the agreement of all parties. We consider that in practice, it may be relatively simple to secure this agreement from some parties within the time required, but perhaps not from all parties. This could potentially lead to differing treatment of amounts owed by different gas shippers for essentially the same service. As such, it would be inconsistent with the principle of equitable treatment set out in GT Standard Condition 4D (Conduct of transportation business).

Given the above, we agree with respondents that the implementation of UNC618 may go some way to better facilitate the efficient discharge of the licensee's obligations and therefore further relevant objective c).

Relevant objective d) - the securing of effective competition between relevant shippers;

Avoiding the potential for differentiated treatment in the issuance of invoices would, as set out above, avoid any advantage being bestowed upon any gas shipper. Such preferential treatment could distort competition. More generally, we consider that any disruption in the timely and orderly issuance of invoices is as likely to have negative impacts upon market participants as it is upon the DNOs. Whilst it would be far from ideal to have substantive capacity invoices issued on the basis of estimates, we note that the existing UNC rules allow for the shipper to challenge such estimates, and come to a mutually agreed position. This process would ensure that cash flows are maintained as accurately as possible, and avoids the potential for any shocks, that might otherwise place some parties in difficulty if faced with a large invoice that is immediately due for payment. We therefore consider that UNC618 represents a prudent addition to the existing contingency arrangements and that the certainty it provides, even if never called upon to be used, should improve the confidence of market participants and therefore better facilitate competition. In so far as it is supportive of the implementation of Project Nexus, the modification will also be promoting greater competition between relevant shippers, as recognised by the Competition and Markets Authority in their recent investigation.

Relevant objective f) - the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code

In the unlikely event of a system failure that prevents invoices being issued based on actual figures, UNC618 would obviate the need for GTs and shippers to individually and collectively agree to the issuance of estimated invoices over consecutive months, which would otherwise by necessity be carried out to urgent and high pressure timescale. At best, assuming all parties acted in a reasonable and collaborative manner, this would be a diversion of management attention and other resources at a time when they may be

¹¹ GT Standard Licence Condition 46 (Credit Rating of the Licensee)

better employed addressing the underlying problem and other, less foreseeable, consequences. We therefore consider that UNC618 would further relevant objective f).

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters licence, the Authority hereby directs that modification proposal UNC618: '*Extension of Invoicing Contingency Arrangements in case of Project Nexus defect*' be made.

Rob Salter-Church
Partner, Consumers and Competition

Signed on behalf of the Authority and authorised for that purpose