

CODE MODIFICATION PROPOSAL No. 0026

"Application of Charges consistent with Late Payment of Commercial Debts (interest) Act 1998"
Version 1.0

Date: 09/06/2005

Proposed Implementation Date: 01/10/2005

Urgency: Non-Urgent

Proposer's preferred route through modification procedures and if applicable, justification for Urgency

(see the criteria at http://www.ofgem.gov.uk/temp/ofgem/cache/cmsattach/2752_Urgency_Criteria.pdf)

This Modification Proposal has been presented to the Uniform Network Code (UNC) Distribution Workstream. Further clarification and development is required and therefore referral to the Distribution Workstream is requested.

Nature and Purpose of Proposal (including consequence of non implementation)

This Proposal is one of five which seek to implement recommendations identified within Ofgem's conclusion document "*Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover*" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation arrangements.

This Proposal seeks to implement elements of recommendations detailed within paragraphs 3.53 to 3.57 of the conclusion document.

UNC Section S3.1 details the invoice payment terms to which Users are obliged to adhere. UNC Section S3.5 makes provision for Transporters to charge interest where any amount payable under an Invoice is not paid on or before the Invoice Due Date. The "Applicable Interest Rate" at which interest will be applied if payment is not made in accordance with UNC Sections S3.1 and S3.5 is detailed within UNC Section S3.6. At present this "Applicable Interest Rate" is the base rate of Barclays Bank plc plus three percentage rates per annum.

Ofgem's document "*Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover*" 58/05 paper identifies that a User be penalised if it fails to pay in accordance with the UNC. The application of interest for late payment is intended to be a deterrent and the Consultation concludes that the existing rate of interest as defined in UNC Section S3.6 is not at a sufficient level to be an effective deterrent to all Users. This is because it may be more economic for Users to incur an interest charge from the Transporter than to loan funds from a bank or other financial body and pay the invoice on its payment due date.

It is proposed that the 'Applicable Interest Rate' be amended to reflect the rate contained within the Application of the Late Payment of Commercial Debts (Interest) Act 1998 being at a rate equal to the Bank of England base rate plus eight percentage points per annum. Transco believes that this would act as an incentive to ensure that payments are made in accordance with prevailing contracts. This rate is calculated by adding 8 percentage points to the reference rate, which is the Bank of England base rate on 30 June and 31 December each year. This rate is applicable for the following six-month periods i.e. 1 July to 31 December and 1 January to 30 June respectively.

It is also proposed that the Transporter will charge a fee to cover the additional administration that late payment incurs. The Late Payment of Commercial Debts (Interest) act 1998 permits a creditor to recover compensation as follows:

Size of the late paid debt	Value of Compensation that can be claimed
Up to £999.99	£40
£1,000 to £9,999.99	£70
£10,000 or more	£100

Basis upon which the Proposer considers that it will better facilitate the achievement of the Relevant Objectives, specified in Standard Special Condition A11.1 & 2 of the Gas Transporters Licence

Transco believes that the measures identified within this Modification Proposal further the GT Licence 'code relevant objective' of facilitating the efficient and economic operation by the licensee of its pipe-line system by ensuring that robust procedures and best practice measures are in place to minimise the impact on the industry of User failure.

Any further information (Optional), likely impact on systems, processes or procedures, Proposer's view on implementation timescales and suggested text

Changes would be required in respect of operational processes and procedures. A lead-time of one month will be required for implementation of the Modification if so directed.

Code Concerned, sections and paragraphs

Uniform Network Code Sections S3.1, S3.5 & S 3.6.

Proposer's Representative

Chris Warner (National Grid Transco - UKD)

Proposer

Declan McLaughlin (National Grid Transco - UKD)

Signature

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