

**Workstream Report**

**Right of Set Off under Uniform Network Code**

**Modification Reference Number 0027**

Version 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The consensus of attendees at the Distribution Workstream is that, while views may differ regarding the merits of the Modification Proposal, it is sufficiently developed to proceed to consultation.

**1. The Modification Proposal**

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 recommendations detailed within paragraph 3.49 of the conclusion document.

Under the UNC, Transporters may issue either credit or debit invoices to Users, payable by the Transporter or the User within terms specified in the UNC.

Historical evidence demonstrates that the net position is usually that a User owes the Transporter more than the Transporter owes to the User.

It would be beneficial to Transporters and Users in terms of administration burden if (in respect of Transportation services only) a Transporter had the ability to offset amounts it was due to pay to the User against any invoice value that the User is due to pay the Transporter.

This right of set off would only be available where:

- a. the relevant Transporter was the same party in respect of both the credit and debit amounts, and
- b. the relevant User was the same party in respect of both the credit and debit amounts.

Currently UNC Section S3.3 does not permit offsets and therefore Transco proposes that the UNC be modified to permit the off set of User credit amounts against User debit amounts (in respect of Transportation services only) as recommended within Ofgem's Consultation.

**2. Extent to which implementation of the proposed modification would better facilitate the relevant objectives**

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

**3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation**

No such implications on security of supply or operation of the Total System have been identified. Incorporating the existing Credit Rules within the UNC may help to reduce the prospect of industry fragmentation.

**4. The implications for Transporters and each Transporter of implementing the Modification Proposal , including**

**a) implications for operation of the System:**

No such implications have been identified.

**b) development and capital cost and operating cost implications:**

The proposer has suggested that any implementation costs would be minimal and outweighed by subsequent operational cost savings.

**c) extent to which it is appropriate to recover the costs, and proposal for the most appropriate way to recover the costs:**

No cost recovery mechanism is proposed.

**d) analysis of the consequences (if any) this proposal would have on price regulation:**

No such consequences are anticipated.

**5. The consequence of implementing the Modification Proposal on the level of contractual risk of each Transporter under the Code as modified by the Modification Proposal**

No such consequence is anticipated.

**6. The high level indication of the areas of the UK Link System likely to be affected, together with the development implications and other implications for the UK Link Systems and related computer systems of each Transporter and Users**

No UK Link implications have been identified.

Users have identified that significant systems changes would be needed and that a minimum three month lead time (preferably six to nine) should be allowed if the right of set of is not elective for Shippers.

**7. The implications of implementing the Modification Proposal for Users, including administrative and operational costs and level of contractual risk**

Administratively, implementation of the Modification Proposal has the potential to reduce Shippers' costs if there are no systems implications. Provided it is elective for Users to choose to use this facility, costs would be expected to be reduced.

If use of the proposed facility is mandatory for Shippers, Users would anticipate increased costs.

**8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non Code Party**

No such implications have been identified.

**9. Consequences on the legislative and regulatory obligations and contractual relationships of each Transporter and each User and Non Code Party of implementing the Modification Proposal**

No such consequences are anticipated.

**10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal**

**Advantages**

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document
- Ensures credit cover continues to be sought on a non-discriminatory basis
- Ensures there are no inappropriate barriers to entry as a result of the credit rules
- Potentially reduces industry costs if elective for Shippers

**Disadvantages**

- Would create significant system problems and costs for some Shippers if mandatory

**11. Summary of representations received (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)**

The report reflects issues raised at Workstream meetings. No written representations have been received.

Shipper attendees at the Workstream consider that the proposed set-off mechanism should only operate with the agreement of both parties and should not be mandatory. This would enable Shippers with systems that could readily accommodate the change to elect to do so, thereby reducing their costs. It was considered likely to be uneconomic for many Shippers with systems developed on the basis of existing practice, such that they would not elect to use the right of set off, at least initially.

**12. The extent to which the implementation is required to enable each Transporter to facilitate compliance with safety or other legislation**

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**13. The extent to which the implementation is required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence**

Implementation is not required having regard to any proposed change in the methodology established under paragraph 5 of Condition A4 or the statement furnished by each Transporter under paragraph 1 of Condition 4 of the Transporter's Licence.

**14. Programme for works required as a consequence of implementing the Modification Proposal**

No programme of works would be required as a consequence of implementing the Modification Proposal.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

Changes would be required in respect of operational processes and procedures were this Modification proposal to be implemented. The Proposer suggests that a lead-time of one calendar month will be required for implementation of the Modification Proposal if so directed.

Shipper attendees at the Workstream suggested that a lead time of six to nine months would be appropriate, but an absolute minimum three months notice should be given if set off is not elective for Shippers.

**16. Implications of implementing this Modification Proposal upon existing Code Standards of Service**

No implications of implementing this Modification Proposal upon existing Code Standards of Service have been identified.

**17. Workstream recommendation regarding implementation of this Modification Proposal**

The consensus of Attendees at the Distribution Workstream meeting on 24 June 2005 was that implementation of this Modification Proposal could only be expected to facilitate achievement of the Relevant Objectives if Shippers could elect whether or not to use the facility. However, and again provided it is elective, they believed that increased facilitation would be achieved if implementation were coincident with that of Modification Proposals 0023, 0024, 0025, and 0026 which also reflect Ofgem's conclusion document, since this would mean that only one change to the existing Credit Rules would be needed, and any related systems changes could be implemented in a coordinated and efficient manner.

**18. Text**

No legal text has been developed by the Proposer or within the Workstream, either with respect to modifying the Uniform Network Code or each Transporter's Credit Rules