

Modification Report
Small value invoice payment deferral
Modification Reference Number 0201
Version 1.0

This Modification Report is made pursuant to Rule 9.3.1 of the Modification Rules and follows the format required under Rule 9.4.

1 The Modification Proposal

Currently UNC Section S 3.1.2 requires gas transportation invoices of any value to be issued by a Transporter to a shippers as and when these invoices are processed, for payment by the shipper the 12th Day after the Day on which the invoice was deemed to be received. However, in some cases the value of the transportation invoice is so small that the cost to the shipper of processing payment of the invoice exceeds the value of the invoice itself.

Where a shipper fails to pay a transportation invoice on time, a late payment charge of £40 is applied per invoice. This fact usually deters a shipper from batching small value invoices together for a single payment.

British Gas believes that whilst it is necessary for the UNC to drive appropriate invoice payment behaviour – in this case by disincentivising late payment through the application of late payment charges – it can be inefficient for a shipper to incur payment costs in excess of the invoice value.

It is therefore proposed that Transporters and Shippers have the option to batch small value Ad hoc invoice payments with larger payments (e.g. Ad hoc invoices are paid with Capacity, Commodity, CSEP's invoices staggered throughout the month) and the late payment fees and interest is waived for small value invoices subject to the backstop provision set out below.

For the purpose of this proposal small value invoices are defined as non Energy related Ad hoc invoices below £25. Therefore the scope of this proposal will affect all invoices except the main Transportation invoices; Capacity, Commodity, Unique Sites, CSEP's and Reconciliation and Gas GRE invoicing (payment of these invoices must continue by the payment due date as at present, because of the Energy element contained within the invoice).

As a safeguard against unfair delays by shippers in paying small value invoices, this proposal places an end stop date of month end plus 30 calendar days to clear the account and to make the payment(s) in full. Failure to achieve this will result in late payment charges plus interest being applied to each outstanding invoice from the original payment due date; this backstop therefore being the full effect of the current arrangements.

The proposer believes that the UNC should therefore allow flexibility for payment of small value invoices, thus reducing the incidences of unnecessary bank charges and unwarranted late payment charges.

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

Standard Special Condition A11.1 (a): the efficient and economic operation of the pipe-line system to which this licence relates;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (b): so far as is consistent with subparagraph (a), the 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;***

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (c): so far as is consistent with subparagraphs (a) and (b), the efficient discharge of the licensee's obligations under this licence;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (d): so far as is consistent with subparagraphs (a) to (c) the 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;***

EDF Energy believe that implementation of this proposal would increase costs to Shippers and Transporters regardless of whether they chose to utilise this system or not, however the reduction in costs for those who do utilise it are unlikely to exceed the costs imposed on the industry. This would therefore introduce a barrier to entry and so not be beneficial to competition.

Standard Special Condition A11.1 (e): so far as is consistent with subparagraphs (a) to (d), the 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;

Implementation would not be expected to better facilitate this relevant objective.

Standard Special Condition A11.1 (f): so far as is consistent with subparagraphs (a) to (e), the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code;

The proposer believes that implementation of this proposal will reduce the number of very small value invoices that Shippers are required to process. Such invoices are disproportionately costly to process. This will better facilitate the promotion of efficiency in the administration of the UNC.

National Grid NTS note that some of the benefits expressed by the proposer are outweighed by the introduction of added complexities, associated with 'bespoke' payment terms for UNC invoices below a specified value.

National Grid Distribution is not convinced that the proposal would better facilitate the GT Licence relevant objectives as identified by the proposer, specifically the promotion of efficiency in implementation and administration of the UNC beyond the current mechanisms available. This proposal effectively seeks to extend the payment due date for certain Ad-hoc invoices and they are of the view that implementation would merely duplicate payment co-ordination opportunities that exist within the current invoicing schedule and therefore not increase efficiency as suggested.

EDF Energy believes that options are already available for the processing and payments of small value invoices. Introducing a further option would represent redundancy and so would not promote efficiency in the implementation and administration of the UNC. In addition they do not believe that the costs of processing these invoices are disproportionately costly, and these costs can be minimised through prudent operation of the BACS systems.

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

No implications on security of supply, operation of the Total System or industry fragmentation have been identified.

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

a) Implications for operation of the System:

No implications for operation of the system have been identified.

b) Development and capital cost and operating cost implications:

There would be some direct capital, development and operating costs resulting from implementation of this proposal, which would be particularly significant for National Grid. Other Transporters have indicated that minor additional operating costs would be incurred.

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

No additional cost recovery is proposed.

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

No such consequences have been identified.

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

Transporters and Users may face slightly longer payment lead times for very small value invoices. However, this Proposal includes a backstop mechanism which disincentivises excessive delays. This Proposal does not affect the payment terms for higher value invoices.

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 implications for the UK Link system have been identified. National Grid have identified implications for their systems.

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

Administrative and operational implications (including impact upon manual processes and procedures)

Administration implications are expected to be minimal.

Development and capital cost and operating cost implications

The Proposer expected operational costs to reduce.

EDF Energy believed additional rules would have to be built into SAP and Gas Settlement systems, with its costs for changing the Gas Settlement system estimated at £5,000. Whilst this cost would be offset by a potential reduction in BACS charges the payback period would be 952 years.

Consequence for the level of contractual risk of Users

User contractual risk is expected to fall since this Proposal will relieve some of the burden of disproportionately high invoice processing costs, and the potential for late payment charges where a User chooses to batch invoices together for payment.

EDF Energy believes that the contractual risk for Users will be increased as they will be exposed to the risk that they have to operate different payment options for different Transporters. EDF recognised there may be a reduction in operational costs for the payment of these invoices, but estimate this to minimal - 5p per transaction.

National Grid Distribution believe a further consequence of implementation would be that payment terms for Ad-hoc invoices would vary dependent upon

their value and may lead to uncertainty as to the Payment Due Date. This exposes the User to the risk of the very UNC compensation payments and interest that the proposal is seeking to avoid. Additionally, the aims of this proposal arguably run contrary to the aspiration expressed within the Ofgem Best Practice Guidelines¹ for the harmonisation of payments terms.

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 have been identified.

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

Advantages

- All users have the option to use, or ignore this facility on the basis of their own systems, which can reduce costs of unnecessary banking charges to the industry.

Disadvantages

- Transporters may need to amend their systems, or force suspension of late payment invoices.
- Transporters would have the option to utilise this arrangement. This would expose Users to the risk that they had to operate different rules in SAP for different Transporters.
- All Shippers would be required to amend their systems regardless of whether they chose to utilise this arrangement or not.
- Creates redundancy in the UNC as the option to batch payments is already available.
- The costs of changing SAP could greatly outweigh the potential reduction in BACS charges.

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

¹ “Best practice guidelines for gas and electricity network operator credit cover – Conclusions document” 58/05: extract from para 3.49 – “*whilst changes other than those detailed above are not required, as and when market developments provide opportunity, the potential benefits of harmonisation of industry payment terms should be considered.*”

Report)

Representations were received from the following parties:

Organisation	Position
British Gas	Supports
EDF Energy	Not in Support
E.ON UK	Supports
National Grid Distribution	Comments
National Grid NTS	Qualified Support
RWE	Supports
Statoil	Supports
Scotia Gas Networks	Supports
Wales & West Utilities	Supports

EDF Energy expressed concern that some DNs could opt in, whilst others could opt out and that system changes would be required to SAP.

National Grid Transmission offered qualified support pending clarification of the exclusion of all neutrality related ad-hoc invoices.

National Grid Distribution and EDF Energy note that under prevailing arrangements batching of payments is already available without any requirement for a Modification Proposal.

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

No such requirement has been identified.

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

No such requirement has been identified.

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

Programme of works to be identified.

15 Proposed implementation timetable (including timetable for any necessary information systems changes and detailing any potentially retrospective

impacts)

SGN consider that an implementation period of at least four weeks after direction is received from the Authority should be allowed. This will give parties time to set up any necessary changes to processes and/or systems.

National Grid Distribution would require 12 weeks to make the necessary changes to their cash collection processes.

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 Recommendation regarding implementation of this Modification Proposal and the number of votes of the Modification Panel

18 Transporter's Proposal

This Modification Report contains the Transporter's proposal to modify the Code and the Transporter now seeks direction from the Gas and Electricity Markets Authority in accordance with this report.

19 Text

For and on behalf of the Relevant Gas Transporters:

Tim Davis
Chief Executive, Joint Office of Gas Transporters