

**Modification Report**  
**Small value invoice payment deferral**  
**Modification Reference Number 0201VV**  
**Version 4.0**

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 12<sup>th</sup> 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 debtor of processing payment of the invoice exceeds the value of the invoice itself.

Where a debtor 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 invoices with larger payments above £25. For example invoices below £25 can be paid with scheduled Capacity, Commodity, Unique Sites and CSEP's invoices, which scheduled dates staggers them throughout the month. Furthermore 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 less than £25 in value, containing no Balancing Neutrality, Capacity Neutrality or GRE Neutrality element and are not primary scheduled invoices, Ad Hoc predictable charges, or contain liabilities such as Failure to Supply Gas, or MOD 565.

Primary scheduled invoices are the main Energy Balancing, LDZ Capacity, NTS Exit Capacity, NTS Entry Capacity, Commodity, Unique Sites, CSEPs, Reconciliation, NTS Entry Commodity and Data Logger charges, as documented on the xoserve Billing Schedule, (payment of these invoices must continue by the payment due date), or have Ad Hoc invoicing scheduled dates agreed with the industry.

Scheduled Ad Hoc invoices are –

- ADU – Unique Sites
- ADU – Shorthaul
- ADC CSEPs
- ADR/ADG Unique Sites Reconciliation and CSEPs Reconciliation
- ADN IFAs and Meter Assets

- ADP Data Logger Assets and Data Logger Reads
- ADN Own Use Gas, LPG
- ADZ Compression
- ADI Mod 565, FSG
- ADE and ADB refer to energy related charges.

For clarity non Balancing Neutrality or Capacity Neutrality Adhoc Adjustments, Interest and Reconciliation invoices are therefore included in this proposal. The scope of this proposal will affect Transporters and Shippers.

As a safeguard against unfair delays by debtors 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 sub-paragraph (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 sub-paragraphs (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 sub-paragraphs (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.

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.

National Grid Distribution is not convinced that the proposal would better facilitate this relevant objective beyond the current mechanisms available. This Proposal effectively seeks to extend the payment due date for certain Ad-hoc invoices and National Grid Distribution is 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.

**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:**

Workstream discussions identified there would be some direct capital, development and operating costs resulting from implementation of this proposal, particularly for National Grid Distribution. 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 Distribution identified the need to use manual processes to support the proposal as their Credit Management systems are automated.

**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 be minimal.

EDF Energy believes 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 believes 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 Guidelines<sup>1</sup> 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 administrative costs and

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<sup>1</sup> "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."

unnecessary banking charges to the industry.

### Disadvantages

- Transporters may need to 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 Report)

Unless respondents to Modification Proposal 0201 or 0201V indicated to the contrary, it has been assumed that their view has not been affected by the variation made and that they would wish the Authority to take their earlier response into account when deciding whether or not to direct implementation of Modification Proposal 0201VV.

Representations have been received from the following.

Organisation	0201	0201V	0201VV
BOC Ltd			Supports
British Gas	Supports		
Corona Energy	Supports	Supports	
EDF Energy	Not in Support		Not in Support
E.ON UK	Supports		
National Grid Distribution	Comments	Comments	
National Grid NTS	Qualified Support	Qualified Support	Qualified Support
Northern Gas Networks		Supports	
RWE	Supports		Supports
Scottish and Southern Energy			Supports
Statoil	Supports		
Scotia Gas Networks	Supports		
Wales & West Utilities	Supports	Qualified Support	

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

National Grid Transmission offers support for this Modification Proposal.

However they continue to believe that the benefits achieved through the introduction of such a change, to the payment arrangements for small value invoices are minor and should be measured against the cost of introducing added complexities to prevailing payment terms. They remain of the view that there are existing means through which improvements to the processing of small value invoices may be achieved, whilst ensuring consistency in payment terms across UNC Invoices.

**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)**

British Gas suggested an implementation date of 01 October 2008. Wales & West Utilities suggested a small lead time to ensure administrative procedures are in place.

**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**

At the Modification Panel meeting held on 18 September 2008, of the 9 Voting Members present, capable of casting 10 votes, 8 votes were cast in favour of implementing this Modification Proposal. Therefore the Panel recommend implementation of this Proposal.

**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**

**UNIFORM NETWORK CODE – TRANSPORTATION PRINCIPAL DOCUMENT**

**SECTION S – INVOICING AND PAYMENT**

*Amend paragraph 3.1.2 to read as follows:*

- 3.1.2 The "**Invoice Due Date**" in respect of an Invoice Document is the day ending at 24:00 hours on:
- (a) subject to paragraphs (b) and (c) whichever is the later of:
    - (i) the 12th Day after the Day on which the Invoice Document was deemed to be received in accordance with Section U and GT Section B5; and
    - (ii) the 20th Day after the last Day of the Billing Period to which the Invoice Document relates;
  - (b) in the case of an Adjustment Invoice, Interest Invoice or Ad-hoc Invoice, subject to paragraph (c) and paragraph (d), the 12th Day after the Day on which the Invoice Document was deemed to be received in accordance with Section U and GT Section B5;
  - (c) where the Day (the "**target due date**") determined under paragraph (a) ~~or (b)~~ or (d) is not a Business Day:
    - (i) subject to paragraph (ii), the Business Day (whether before or after the target due date) which is nearest to the target due date; or
    - (ii) if the nearest Business Days before and after the target due date are equally near, the nearest Business Day after the target due date;
  - (d) subject to paragraph (e), in the case of a Small Value Invoice, the 30<sup>th</sup> Day following the end of the month in which the Invoice Document was deemed to be received in accordance with Section U and GT Section B5, or
  - (e) the Day determined in accordance with paragraph (b), where the Small Value Invoice is not paid by the Day in paragraph (d)."

**Annex S-1**

**INVOICE TYPES AND INVOICE ITEMS**

Add new paragraph 7 to read as follows:

**“7 Small Value Invoice**

A **“Small Value Invoice”** is an Invoice Document in respect of an Invoice Amount which has a value of less than £25 and which is:

- (a) listed under Appendix II of the Operational Rules Governing the Supply of Invoice Charges via the Ad-hoc Process; or
- (b) an Adjustment Invoice; or
- (c) an Interest Invoice;

except where it contains a Balancing Neutrality Charge, a Capacity Neutrality Charge or a Reconciliation Neutrality Charge.

End of Legal Text

For and on behalf of the Relevant Gas Transporters:

**Tim Davis**

**Chief Executive, Joint Office of Gas Transporters**