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5<sup>th</sup> August 2008

## **Re: UNC Modification Proposal 0201V “Small Value Invoice Payment Deferral”**

Dear Julian

Thank you for the opportunity to comment upon this Modification Proposal, unfortunately we can only offer **qualified support** for its implementation. The basis for support contained in our original Representation remains unchanged; however, after further consideration we believe that additional clarity may be required. We have repeated comments from our original response and provided an explanation for our qualified support.

### ***1. The Modification Proposal***

This Modification Proposal has been raised following many discussions over the past 2 years. It has been widely recognised that cost associated with processing, from raising through to payment, a small value invoice or credit is disproportionately high when compared to its monetary value and the level of small value charges increased as a consequence of Network sales in 2005.

In February 2007 WWU gave a presentation on ‘small value invoices’ after carrying out analysis work on all Shipper invoices & credits that we had raised over the previous 18 months. We had looked at invoices that were less than £10, this included both credit and debit invoices. The analysis showed that 7.5% of all invoices fell into this bracket and the total net amount was equal to £18.20. At that time we were looking to have further industry debate on a potential solution to small invoices, suggested options included:

- 1) Suppression and aggregation of small values over a set time period (e.g. 6 months). This would result in a single aggregated invoice being issued to each Shipper after the set amount of time. The analysis we carried out showed the largest invoice value this would have created would have been £34.04 (based on 18 month period).
- 2) A Shipper or Transporter central ‘pot’ of funds to be held to clear small value invoices with a monthly/annual reconciliation of the pot to keep the ‘pot’ at a sufficient level or to credit back excess funds to Shippers. Due to the low monetary value involved the level of funds required for any ‘pot’ would be relatively small.

24 hour gas escape number  
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\*calls will be recorded and may be monitored  
caiff galwadau eu recordio a gellir eu monitro

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- 3) The ability to write-off small value invoices and prevent them from being issued. The total net value of these invoices is low and therefore could be written off in full.

All of the above options were considered by Transporters and Shippers and further work was carried out on establishing a suitable invoice value that should be captured under the small invoices banner.

We then carried out further analysis on our Shipper invoice population to establish the net impact that any of the options would have. With a fairly low net value limit of +/- £200 our analysis showed that by setting the invoice value to +/- £25 this would capture 12.2% of all invoices with a net impact of £158.19.

The changes to the Distribution Network Transportation charging structure in respect of the Capacity / Commodity split ratios have increased the likelihood of small value charges arising and this will further increase from October 2008 when the charges will become even more heavily Capacity based.

The three options did present a degree of concern from both Transporters and Shippers that they would involve extra administrative processes for their businesses and would also require system changes to be made; the cost of doing this could outweigh the benefit.

In January 2008 Ofgem directed implementation of the Balancing and Settlement Code (BSC) Modification Proposal 'Issues relating to funds administration' (P214). The Proposal followed on from the ELEXON review on the processes for invoicing and payment of monies between signatory parties and the Funds Administration Agent (FAA).

Part of the P214 Proposal dealt with the concept of small value invoices in a similar way to option 1 above but with a much higher invoice threshold. The implementation of P214 has introduced a £500 threshold below which an Advice Note or Confirmation Notice would not be created, and below which a Party would not need to make immediate payment of charges. The outstanding charges would be 'rolled over' until the earlier of the aggregate outstanding amount of charges exceeding £500 or the end of the tax quarter. At such point invoicing would occur and the charges would become due.

This Proposal by Centrica has addressed the concerns raised by organisations regarding the potential cost of system changes and has tried to minimise any extra administrative processes that would be required. The Proposal is a scaled down version of Option 1 above and puts in place a process that has an optional element to it, if an organisation wishes to continue paying small value invoices on the published payment due date they can do so. However, it is not optional for organisations to accept deferred payment, within the timescales in the Proposal, without raising late payment charges.

We believe the Proposal does offer a workable and sensible short term solution to the issues with small value invoices and can be implemented fairly quickly and easily, it does not go as far as initial discussions suggested it might, or as far as the equivalent P214 Modification under the BSC, however it is certainly a step in the right direction and implementation in 2008 may lead to a more radical approach being considered in the future.

After the recent variation to the Proposal we took the opportunity to reconsider its merits. Whilst undertaking this work we discovered slight inconsistencies in the terminology used within the

Proposal. Our concern is mainly around the Invoice Types that would, or wouldn't be, captured within the process.

UNC TPD Section S Annex S-1 contains a comprehensive list of Invoice Types and Invoice Items. The term Ad-hoc Invoice is defined in Section S 2.4 as “an Invoice Document in respect of an amount not included in another Invoice Type”. Representations were made against the original Proposal (0201) making the point that the process would only apply to a small number of invoices. Although the Proposal states that “small value invoices are defined as non Energy related Ad hoc invoices below £25”, we do not believe that this was the intent of the Proposer or reflective of discussions held at the Billing Operations Forum.

We would welcome further clarification, by way of a further variation, of the Invoice Types, Invoice Items and any other Invoices contained within UNC TPD Section S that this Proposal relates to.

## **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;**

We do not believe that implementation of this Proposal will 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;**

We do not believe that implementation of this Proposal will 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;**

We do not believe that implementation of this Proposal will 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;**

We believe that implementation of this Proposal will better facilitate this relevant objective, in particular the promotion of effective competition. The key objective of this Proposal is to reduce the transactional cost of the invoice procedures that we all operate and therefore will be beneficial to all parties.

**Standard Special Condition A11.1 (e): so far as is consistent with sub-paragraphs (a) to (d), the provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards (within the meaning of paragraph 4 of standard condition 32A (Security of Supply – Domestic Customers) of the standard conditions of Gas Suppliers' licences) are satisfied as respects the availability of gas to their domestic customers;**

We do not believe that implementation of this Proposal will better facilitate this relevant objective

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

We believe that implementation of this Proposal will better facilitate this relevant objective as it will reduce administration and banking costs that are disproportionate when compared to the monetary value involved without the need to apply the UNC late payment regime as currently in place

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

***a) Implications for operation of the system***

We do not believe that implementation of this Proposal will present such implications

***b) Development and capital cost and operating cost implications***

There are no development or capital costs implications for WWU.

***c) Whether it is appropriate to recover all or any of the costs***

No cost recovery would be necessary

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

We do not believe there would be any consequences on price regulation from the implementation of this Proposal.

***6. The development implications and other implications for the UK Link System of the Transporter, related computer systems of each Transporter and related computer systems of Users***

There would be no implications for the UK Link System of the Transporters.

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

***a) Advantages***

- Potential to reduce banking costs for User and Transporters
- Potential to reduce administration costs for Users and Transporters
- Users have the option to make use of the facility as and when it suits them without penalty or prior notice.

***b) Disadvantages***

- We do not believe there are any disadvantages for Users but acknowledge that Transporters are obliged to facilitate suspension of late payment charge processing and therefore may need to make some system or process changes.

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

There would be no system impacts for WWU as a result of implementation of this Proposal and would suggest a short lead time would be sufficient to ensure the appropriate administrative procedures are in place.

***19. Legal Text***

Suggested legal text has not been provided for this Proposal

In summary I can confirm that we believe that implementation of this Proposal offers a suitable and pragmatic solution that appears acceptable to the majority of Transporters and Shippers. However, we believe that further clarification would allow this Proposal to include more 'small value invoices' and therefore increased benefits to the industry. We therefore offer our qualified support for the implementation of this Proposal.

Yours sincerely

Simon Trivella  
Commercial Manager  
Wales & West Utilities