

Workgroup 0383 – Profiling payment of LDZ transportation charges

Workgroup Minutes

Tuesday 28 June 2011

via teleconference

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Alison Chamberlain	(AC)	National Grid Distribution
Andy Manning	(AM)	British Gas
Chris Warner	(CW)	National Grid Distribution
Denis Aitchison	(DA)	Scotia Gas Networks
Elaine Carr	(EC)	ScottishPower
Helen Inwood	(HI)	RWE npower
Jo Parker	(JP)	Scotia Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Julia Haughey	(JH)	EDF Energy
Mathieu Pearson	(MP)	Ofgem
Simon Trivella	(ST)	Wales & West Utilities
Steve Armstrong	(SA)	National Grid Distribution
Sue Davies	(SD)	Wales & West Utilities
Will Guest	(WG)	Northern Gas Networks

1. Review of Minutes and Actions from previous meeting

1.1 Review of Minutes

The minutes of the previous meeting were accepted.

1.2 Review of Actions

WG0383/0601: Transporters to identify the most practical means for increasing the proportion of revenue collected during the winter months (DNCFM action 0401).

Update: ST suggested that the presentation provided for action WG0383/0602 below sought to meet this requirement. WWU's view is that a one-off process (between a DN and a Shipper with a specific problem) to support the Shipper is preferable to an enduring UNC based solution. DA supported this, adding that the profiling example provided in the presentation was probably as simple as possible, but still introduced many issues and seemed unduly complex.

Closed

WG0383/0602: Northern Gas Networks (JF) to consider impacts to payment terms and invoicing requirements.

Update: WG presented an illustrative example, highlighting the impact on VAR and consequent credit requirements. These could be nearly doubled in the scenario presented, and for many Shippers the costs of additional security may outweigh any cashflow benefits. It was recognised that excluding customer charges from the arrangement envisaged in Modification 0383 would reduce its impact. TD agreed to clarify with the proposer whether they would wish to extend the Modification's scope.

Closed

2. Discussions

CW questioned the scope of the modification and whether the intention was to limit it solely to SSPs. TD advised that he understood the modification focuses on supporting those parties holding a predominately domestic portfolio, but did not exclude LSPs.

WG highlighted the potential for increased security requirements revealed by the example he had presented, and emphasised that unpaid amounts currently face interest at 8% above base rate such that the full picture would be more complex.

HI enquired what would happen if a supplier was to go into liquidation when taking advantage of the profiled payments - could other parties face increased exposure? ST confirmed that amounts at risk would be higher and other Shippers would be exposed to this. He also felt similar impacts could be seen if Modification 0382 were implemented. MP suggested that this appears to potentially transfer small shipper risk to the rest of the market.

SD and ST suggested that the detail of the modification needed development and was likely to create complexity, and voiced concern over various aspects of what could be regarded as a sledgehammer to crack a nut:

- eligibility thresholds need identifying (maximum no of supply points served, national or DN specific, confirm User is Shipper Short Code (may allow large Shippers with multiple IDs to participate), is eligibility assessed on daily or basis;
- how to demonstrate that any particular threshold is justified and does not amount to undue discrimination;
- potential for perverse incentive on Shippers to split portfolios to stay below threshold levels;
- how the impact of mergers would be managed;
- the DN administrative implications and costs need to be understood;
- the benefits of implementation need to be clarified and, preferably, quantified;
- a simple solution does not seem viable;
 - issues associated with potential payment due dates;
 - issues associated with part payment of invoices, including late payment impacts;
 - issues with allocating payments and credit;
 - VAR issues need consideration;
 - potential 'cash on account' insolvency risk;
 - potential for a need for differing payment profiles;
- confirmation of which invoices would be impacted is required;
- assessment of the impact of potential market take up rates, and
- preparation of legal text may be problematic due to the complexity of the solution.

DA added that there could be issues around the DNs being perceived as suppliers of credit, which is one reason why the DNs would prefer one-off solutions.

To illustrate the eligibility threshold issue, ST presented anonymised information on the number of domestic and I&C supply points registered to each User. Depending on how the modification is developed (i.e. the threshold levels), the about 16 shippers might take up the option. While tracking one or two with specific arrangements could be feasible, this level of administrative effort with individual terms for each could prove to be problematic.

In considering how best to move the modification forward, it was agreed that further consideration should be given to the issues raised in advance to the preparation of a draft Workgroup Report.

Shippers were asked to consider whether an alternative approach could be identified that may be of benefit to the industry as a whole.

Action WG0383/0603: Joint Office (TD) to seek a view from the proposer as to whether the customer charge should be included within the modification.

New Action WG0383/0604: Shippers to put forward any alternative approaches in light of concerns raised with the proposed solution.

3. Any Other Business

None.

4. Diary Planning for Workgroup

The next Workgroup meeting is planned via teleconference on Monday 25 July 2011.

Action Log

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
WG0383/0601	09/06/11	2.	DNs to identify the most practical means for increasing the proportion of revenue collected during the winter months (DNCFM action 0401).	Transporters	Update provided. Closed
WG0383/0602	09/06/11	2.	Consider impacts to payment terms and invoicing requirements.	Northern Gas Networks (JF)	Update provided. Closed
WG0383/0603	28/06/11	2.	Seek a view from the proposer as to whether the customer charge should be included within the modification	Joint Office (TD)	Update to be provided for 25/07/11 meeting.
WG0383/0604	28/06/11	2.	Put forward any alternative approaches in light of concerns raised with the proposed solution.	Shippers	Update to be provided for 25/07/11 meeting.