

# UNC Modification Proposal 0201

## National Grid Distribution

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“Small value invoice payment deferral”

Distribution Workstream – 28 February 2008

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# Current UNC Payment Terms

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- ◆ Section S3.1 defines payment due date as the latter of
  - ◆ 12<sup>th</sup> day following date of issue
  - ◆ 20<sup>th</sup> day following end of billed period
- ◆ Adjustment, Interest and ad-hoc invoices
  - ◆ 12<sup>th</sup> day following date of issue
- ◆ Section S3.6 defines consequences for late payment
  - ◆ application of interest charges
  - ◆ entitlement to recover compensation in line with Late Payment of Commercial Debts (Interest) Act 1998

# Proposal

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- ◆ Compensation and interest charges waived for late payment small value invoices. Restricted to:
  - ◆ non energy related invoices
  - ◆ 'ad-hoc' invoices type
  - ◆ small value i.e. <£25
- ◆ Settlement deadline of 30 days following the end of the month in which the [invoice is issued / invoice would be due under 'normal' circumstances]
  - ◆ failure to pay by this date will mean compensation and interest (from original due date) charges are applied

# National Grid Distribution View

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- ◆ Operational Best Practice
- ◆ Industry Best Practice
- ◆ National Grid Implementation Requirements
- ◆ Specific Comments on Proposal
- ◆ Alternative Solution

# Operational Best Practice

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- ◆ Inefficiency of the application of different rules
  - ◆ in respect of the Ad-hoc invoice based on value
  - ◆ in respect of different invoice types that may be of the same/similar value eg: interest invoice
- ◆ The current process has proven effective since the start of competition (1996)

# Industry Best Practice

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- ◆ Extensive industry consultation resulted in Ofgem Best Practice Guidelines (58/05)
  - ◆ acceptable security tools
  - ◆ assessment of transporter risk
  - ◆ payment terms
- ◆ to remove interest and compensation payments (both deemed to be best practice) would appear to contradict this
  - ◆ guidelines advocated harmonisation of terms, not differentiation
  - ◆ right of set off introduced to increase opportunity to realise payments efficiency
  - ◆ guidelines established the appropriate level of compensation payable (incrementing based on outstanding amount)
    - ◆ Appropriate level determined as that prescribed by Late Payment of Commercial Debts (Interest) Act 1998 which does not have a lower limit below which no compensation is payable

# National Grid Implementation Requirements

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- ◆ System delivers notices to Users of invoices overdue
  - ◆ a change would be required to halt these for Ad-hoc invoices <£25
  - ◆ a single letter is issued per User: the system would need to remove Ad-hoc invoice values <£25 from the notice
- ◆ System currently calculates overdue payment interest per day
  - ◆ a change would be required to stop this calculation for Ad-hoc invoices <£25, but
  - ◆ the calculation may need to be resurrected in the event that the aggregate payment is not made by month end plus 30 days
- ◆ System delivers services for all National Grid contracts, not just UNC.
  - ◆ to introduce arrangements specific to UNC may increase complexity of system solution
- ◆ High implementation cost is anticipated with no benefit

# Specific Comments on Proposal

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- ◆ Justification for restricting to Adhoc invoices
  - ◆ energy elements not present in Capacity invoices
  - ◆ energy elements not present in Interest invoices
- ◆ Paragraph 4b states there is no development or operating cost implications for Transporters
  - ◆ as per previous slide, this is not the case
  - ◆ para 10 'Disadvantages' acknowledges that Transporter may need to amend systems, or force suspension of late payment invoices
- ◆ Para 7c
  - ◆ the proposal aims to mitigate a level of financial risk (ie: compensation) which Ofgem has deemed to be at an appropriate level



# Alternative Solution

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- ◆ User places 'money on account' (eg. £500) from which the Transporter may draw down to settle low value invoices.
  - ◆ no system changes for Transporter
  - ◆ no system changes for User?
  - ◆ does not inappropriately transfer Users payment costs to the Transporter