

**Workstream Report**  
**"Right of set off under Uniform Network Code"**  
**Modification Reference Number 0076**  
Version: 1.0

This Workstream Report is presented for the UNC Modification Panel's consideration. The Proposer's wish is that the Proposal should now proceed to the Consultation Phase.

## **1. Modification Proposal**

This Proposal seeks to implement a recommendation identified within Ofgem's conclusion document "*Best Practice Guidelines for Gas and Electricity Network Operator Credit Cover*" 58/05. This concluded the high-level principles that should be applied and further work required in respect of credit cover arrangements for transportation arrangements.

This Proposal seeks to implement recommendations detailed within paragraph 3.49 of the conclusion document.

Under the UNC, Transporters may issue either credit or debit invoices to Users, payable by the Transporter or the User within terms specified in the UNC. Historical data indicates that when considering monies owed between User and Transporter for the normal monthly billing cycle, the User will usually be in debt when the net position is calculated.

It would be beneficial to Transporters if (in respect of Transportation services only) a Transporter had the ability to offset amounts it was due to pay to the User against any invoice value that the User is due to pay the Transporter when a User is in breach of payment terms (UNC Section S3.1) or has agreed with the Transporter the set-off.

This right of set off would therefore only be available where:

- (a) the relevant Transporter was the same party in respect of both the credit and debit amounts, and
- (b) the relevant User was the same party in respect of both the credit and debit amounts, and
- (c) the relevant User is in breach of the relevant payment terms, or has agreed with the Transporter the set-off of the relevant amounts .

In respect of the set off:

- the Transporter would issue a 'set off notice' to the User in instances where a User is in breach of Section S3.1
- the 'set off notice' would specify the relevant invoice payable (or, if applicable the unpaid overdue invoice) by the User and the invoice payable by the Transporter which is being set off on or before the invoice due date.

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

National Grid believes that implementation of this Proposal would represent a reasonable efficiency improvement in respect of the making of payments and is thus consistent with the relevant objective of the promotion of efficiency in the implementation and administration of the Network Code and/or the Uniform Network Code. While implementing set-off could impose costs on Users, the Proposal envisages set-off only being applied with the consent of the User involved such that the benefits would be expected to outweigh the costs.

Implementing consistent credit processes which move towards recognised best practice would help ensure that there is no inappropriate discrimination, and no inappropriate barrier to entry, thereby facilitating the securing of effective competition between Relevant Shippers.

**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:**

No quantified estimates of Transporters development or capital costs have been provided.

National Grid Distribution “estimates that if a right of set off were...in place...from January 2005 to August 2005, [National Grid] would have had the ability to reduce the quantity of invoices issued by 39%. In addition ...realised a...saving of approximately £6,500 in...banking charges”.

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

No cost recovery mechanism is proposed.

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

No consequences on price regulation 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**

No such consequence is anticipated.

**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 systems impacts are anticipated by Transporters.

User systems may need to be amended if they elect to allow set-off.

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

Implementation of the Modification Proposal has the potential to reduce or increase Users' administrative and operational costs. However, since the Proposal allows Users to elect whether or not to allow set-off, net benefits are anticipated.

**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**

- Increased alignment of the UNC with best practice as identified in Ofgem's conclusions document.
- Potentially reduces industry administration costs.

**Disadvantages**

- Potentially increases complexity, especially if each of the relevant Transporters act differently

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

No written representations have been received.

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

Implementation is not required to enable each Transporter to facilitate compliance with safety or other legislation.

**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**

Implementation is not 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

**14. Program for works required as a consequence of implementing the Modification Proposal**

Changes would be required in respect of operational processes and procedures in the event that this Modification Proposal is implemented.

**15. Proposed implementation timetable (including timetable for any necessary information systems changes)**

Changes would be required in respect of operational processes and procedures. A lead-time of at least one month would be required for implementation of the Modification if so directed.

**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. Workstream recommendation regarding implementation of this Modification Proposal**

The Transmission and Distribution Workstreams recommend that the Panel should agree to send this Proposal to consultation subject to satisfactory legal text being available for the Panel meeting.

**19. Text**