

Modification Report
Netting off of Payments and Credits relating to Transportation Charges
Modification Reference Number 0034

Version 2.0

This Modification Report is made pursuant to Rule 8.9 of the Modification Rules and follows the format required under Rule 9.6.

1. The Modification Proposal

In respect of Transportation charges, individual invoices from Transportation networks will often contain both debits and credits. Although these are correctly separated in the invoices, convention has been that the amount paid is the net sum of credits and debits. This reduces the number of payment transactions and therefore reduces administrative costs and transaction charges.

This arrangement is codified in respect of Energy Balancing Charges in Section S 3.1.3

In order to ensure that all Transporters continue to operate in accord with this convention it is proposed that paragraph 3.1.3 of Section S be amended to include its application to all invoice types.

Were the proposal not to be implemented there would be greater diversity of arrangements between the Distribution Network Operators requiring Users to adopt differing practices. This would require additional administrative complexity and increased costs.

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

The proposer suggests that “This Modification Proposal promotes competition among shippers and suppliers by simplifying and improving arrangements for payment of transportation charges and by keeping banking charges to a minimum.

This Modification Proposal will facilitate continuation of a practice that streamlines administrative operation and reduces costs, which may ultimately be borne by consumers”.

If the proposed right of set off is implemented but Users exercise the right of withhold, Transporter’s would incur additional administrative and interest payments, which would be inconsistent with administrative efficiency in the implementation of the UNC (Relevant Objective 1(f)).

Transco concurred that “*incorporation of current practice (for the majority of transporters) within the Uniform Network Code would oblige Transporters to implement consistent rules which would ensure that there is no inappropriate discrimination and thereby facilitate the securing of effective competition between Relevant Shippers*”.

Explaining its support for the proposal, UKT believes that it “*may promote competition among Users by simplifying and improving arrangements for payment of Transportation charges and by keeping banking charges to a minimum*”.

TGP and TEP agreed that “*0034 promotes the Transporters ability to operate the network in an efficient and economic manner and so fulfills the relevant objectives of licence condition A11*”.

EON confirmed its belief that the proposal “*promotes competition between shippers and suppliers, through simplifying and improving arrangements for payment of transportation charges...over and above modification proposal 027 as it ensures non-discrimination and consistency across the board where Users want to set-off*”.

3. The implications of implementing the Modification Proposal on security of supply, operation of the Total System and industry fragmentation

No such implications on security of supply or operation of the Total System have been identified. This would help to mitigate the impacts of industry fragmentation if implemented through the UNC.

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:

Since this codifies existing practice for some Transporters, no costs would be incurred by them. Wales and West’s practice is different, and it was asked to provide an estimate of increased costs as part of the consultation process – covering both costs as a result of withhold and system development costs.

WWU confirmed that it “*does not net off invoices at present and... implementation...would generate development costs*”.

TGP and TEP observed that “*a Transporter s system may not be able to cope with such netting-off...We...consider that the long-term benefit to the industry as a whole will outweigh any costs incurred by this Transporter however and so this should not be considered to be a major disadvantage*”.

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 such consequences are anticipated.

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

The proposer believes that there will be no impact upon UK Link systems as no changes to invoicing or file formats are associated with this proposal. Wales and West would require changes to their systems.

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

To the extent this codifies existing practice no such implications are anticipated.

RWE reflected that *“if these arrangements were to change and Distribution Network Operators decided to adopt differing practices Shippers would be faced with an increase in costs in having to deal with diverse processes”* adding *“Shipper's systems have been developed...with Transco...If this...were to change Shippers would incur significant costs in having to redevelop their systems”*.

TGP and TEP reflected that *“This is already undertaken unofficially by most Transporters. We therefore agree with the proposer s assertion that this modification will reduce User costs”*.

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 are anticipated.

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

Advantages

- Codifies existing practice for most Transporters.
- Streamlines administrative operation.
- Reduces cost for Users.
- Reduces User indebtedness.

Disadvantages

- Increases costs for Wales and West.
- Does not deal with the interaction with withholds.

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

Ten representations (from the following) were received with respect to this Modification Proposal. Seven parties support implementation two parties offered qualified support and one party opposes implementation.

<u>Organisation</u>	<u>Abbreviation</u>	<u>Position</u>
Wales & West Utilities	WWU	Oppose
Transco UKD	UKD	Support
Transco UKT	UKT	Qualified Support
Scotia Gas Networks	SGN	Qualified Support
Northern Gas Networks	NGN	Support
British Gas Trading	BGT	Support
RWE npower	RWE	Support
Total Gas & Power	TGP	Support
Total E&P	TEP	Support
E.ON	EON	Support

Though WWU indicated that it “*conditionally supports...implementation*” it further stated that it “*believes that the modification proposal is incomplete because it does not consider the impact of withholds. For this reason we believe that it would be inappropriate to implement*”.

WWU explained that it “*will consider the application of this methodology, if the issue of withdrawals is addressed... “withholds of payments” which may lead to under/overpayments...we recommend that the ability to withhold is removed from the UNC as it appears to be of limited use to shippers...Our records show that the withhold facility has been used only once during the term of our ownership and we are lead to believe that it has used less than a dozen times over the last six months across all networks*”.

UKD acknowledged *“that this establishes within the UNC the current practice of ‘netting off’ debit and credit values within individual invoice documents”* and confirmed that it *“concurrs that such practice is reasonable and prudent as opposed to issuing two transactions per invoice where such debit and credit values are present”*.

UKT reflected that *“the Proposal may facilitate the continuation of a practice that streamlines administrative operation and reduces costs, which may ultimately be borne by consumers”*.

Confirming its support for the proposal, SGN commented that it *“seeks to allow offset of invoices to Transportation invoices”* but additionally commented *“some parties have indicated they would have difficulty accommodating such arrangements. As such it is suggested that this arrangement should be optional and not mandatory”*.

BGT stated that in comparison to Modification Proposal 0027, *“0034 is much simpler in its approach by removing the limitation of netting off to just Balancing invoices ...By the removal of this limitation, Users and Transporters would have the ability to make mutually convenient arrangements for netting off...without breach of UNC”*.

RWE observed that it was *“surprised that Wales and West Utilities did not discuss this issue with Users before unilaterally introducing a process that is at odds with current industry practice”*.

TGP and TEP acknowledged that *“While it is true that this modification does not detail a formal process for withheld payments, we would expect that the Transporters and Users would deal with these issues in a pragmatic fashion”*.

EON added that *“If...Users can only set-off where the Transporter elects, users connected to a particular DN may not be able to enjoy the same service, and thus reduced costs, as Users connected to another DN”*.

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. Programme for works required as a consequence of implementing the Modification Proposal

Except for Wales and West, no programme of works would be required as a consequence of implementing the Modification Proposal.

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

Since this codifies existing practice immediate implementation would be possible other than for Wales and West.

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 20 October 2005, of the 9 Voting Members present, capable of casting 10 votes, 10 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 & Electricity Markets Authority in accordance with this report.

19. Text

**UNIFORM NETWORK CODE - TRANSPORTATION PRINCIPAL
DOCUMENT**

SECTION S - INVOICING AND PAYMENT

Amend paragraph 3.1.3 as follows:

- 3.1.3 Where an ~~Balancing~~ Invoice Type contains Invoice Amounts payable both by and to a User, only the net amount (the “Net Invoice Amount”) shall be payable.

Subject Matter Expert sign off:

I confirm that I have prepared this modification report in accordance with the Modification Rules.

Signature:

Date :

Signed for and on behalf of Relevant Gas Transporters:

Tim Davis
Chief Executive Joint Office of Gas Transporters

Signature:

Date :