



*Bringing choice and value
to customers*

The Joint Office, Transporters, Shippers and other
interested parties

Your Ref:
Our Ref: Net/Cod/Mod/0034
Direct Dial: 020 7901 7355
Email: modifications@ofgem.gov.uk

24 November 2005

Dear Colleague,

Uniform Network Code modification proposal 0034: 'Netting off of Payments and Credits relating to Transportation Charges'

Ofgem¹ has considered the issues raised in the modification report in respect of this proposal and having regard to the principal objective and statutory duties of the Authority², has decided to direct the implementation of the modification.

Ofgem considers that modification proposal 0034 would better facilitate the achievement of the relevant objectives of the uniform network code (UNC), as set out under Standard Special Condition A11³ of the relevant Gas Transporters' Licences as compared with the existing provisions of the UNC. Ofgem also considers that modification proposal 0034 would be consistent with its wider statutory duties.

This letter explains the background to the modification proposal and outlines the reasons for Ofgem's decision.

Background to the proposals

Invoices for transportation charges often contain both debits and credits. Although these are separated within 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.

¹ Ofgem is the Office of the Gas and Electricity Markets Authority. The terms 'Ofgem' and the 'Authority' are used interchangeably in this letter.

² Set out in Section 4AA of the Gas Act 1986, as amended.

³ This Licence Condition can be viewed at: http://62.173.69.60/document_fetch.php?documentid=6547

This arrangement is codified in respect of energy balancing charges in section S3.1.3.

The modification proposal

It is proposed that section S3.1.3 be amended to extend its application to all invoice types, so that where amounts are payable both by and to a User, only the net amount is paid. This proposal will therefore codify previous practice.

Respondents' views⁴

There were ten responses to this modification proposal, of which eight were supportive, one offered qualified support and one opposed implementation.

A common theme amongst respondents who supported implementation was that this proposal would ensure the application of consistent arrangements across the UNC, giving effect to an existing practice, common to the majority of Transporters. Whilst accepting that the proposal did not contain a formal process for dealing with withheld payments, a respondent indicated its expectation that these would be dealt with in a pragmatic fashion, as is currently the case.

It was highlighted that the practice of 'netting off' streamlines administrative operation and reduces costs, with a number of respondents believing that this facilitates competition between Users. One respondent noted that the costs associated with changes to one Transporter's systems to facilitate the proposal would be outweighed by the long-term benefit to the industry.

One respondent offered qualified support on the basis that the proposal should be optional, rather than mandatory. Whilst the respondent who opposed implementation indicated that it would consider these arrangements if the issue of withholds is addressed, considering that these should be removed from the UNC.

Panel Recommendation

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, by panel majority, the implementation of this proposal is recommended.

Ofgem's view

In its conclusions document Ofgem indicated that arrangements for credit cover should be governed by robust and transparent modification procedures. In this regard, Ofgem believes that the incorporation of appropriate credit arrangements within the UNC would provide a clear and consistent approach across relevant networks, making it easier for both new entrants and existing participants to familiarise themselves with market rules and arrange their business in an efficient manner.

⁴ This section is intended to summarise the principal themes of the respondents' views and is not intended to provide a comprehensive overview of the responses received. These can be found on the Gas Transporters information service (formally known as Nemysis) <https://gtis.gasgovernance.com>

In respect of payment terms, Ofgem also stated in the conclusions document its belief that moves should be made toward any reasonable improvements in efficiency, including rights of set off under codes. In line with the above, Ofgem considers that the proposal would ensure consistent application of pragmatic, administratively efficient arrangements, which offer cost savings to Transporters and Users. Ofgem is therefore of the opinion that this proposal would facilitate relevant objectives (a) the efficient and economic operation of the pipe-line system, and (d) the securing of effective competition between relevant shippers for the reasons stated above.


Notwithstanding the above, Ofgem notes an observation by respondents that the proposal does not contain a mechanism to deal with withholds⁵, which could result in over or under payment. Given that the application of netting off arrangements by the majority of Transporters does not appear to have raised significant problems to date, Ofgem expects that parties would continue to resolve such instances in a pragmatic manner.

Ofgem's decision

For the reasons outlined above, and having had regard to its principal objective and statutory duties, Ofgem has decided to direct the implementation of this modification. Ofgem believes that this modification will better facilitate the achievement of the relevant objectives of the UNC, as set out in standard special condition A11 of relevant Gas Transporters Licences; in particular (a) the efficient and economic operation of the pipe-line system, and (d) the securing of effective competition between relevant shippers.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nick Simpson', with a horizontal line underneath.

Nick Simpson
Director, Modifications

⁵ Whereby amounts subject to invoice query are withheld pending resolution