

Modification proposal:	Uniform Network Code (UNC): Small value invoice payment deferral (UNC201VV)		
Decision:	The Authority ¹ directs that this proposal be made ²		
Target audience:	The Joint Office, Parties to the UNC and other interested parties		
Date of publication:	18 December 2008	Implementation Date:	To be confirmed by the Joint Office

Background to the modification proposal

The UNC (in Section S) currently requires gas transporters to issue invoices of any value to shippers relating to all the transportation costs they have incurred. A shipper is required to make payment by the 12th day after the day that the invoice is deemed to be received by it. If the invoice is not paid on time, a late payment charge of £40 is levied per unpaid invoice. However, in some cases, it may cost more to process a single invoice compared to the value on that invoice. The risk of incurring a late payment charge deters the paying party from batching small value invoices together, or with other large value invoices, to make a single payment.

The modification proposal

The modification proposal seeks to allow transporters and shippers to exercise the option of batching payment of small value invoices with larger payments above £25. Small value invoices are defined as those for values below £25, which contain no Balancing Neutrality, Capacity Neutrality or Reconciliation (GRE) Neutrality charging element.

The proposal provides other examples of types of invoice to which the proposed solution will not apply, namely, primary scheduled invoices as documented on the xoserve Billing Schedule, Ad Hoc predictable charges and Ad Hoc invoices with scheduled payment dates agreed by the industry. These invoices must continue to be paid by their due date.

The proposal would allow small value invoices, as defined, to be batched and paid alongside charges in scheduled Capacity, Commodity, Unique Sites and CSEPs invoices, staggering their payment due dates throughout the month. Late payment fees and interest would be waived for small value invoices. However, the proposal also sets a backstop date for the payment in full of small value invoices, namely, the end of the month in which the small value invoice is deemed to be received plus 30 calendar days. This requirement would recognise the need to retain appropriate incentives for orderly invoice payment. After this backstop date has passed, applicable late payment charges and interest would again become due. The proposal was varied twice to clarify certain aspects of its application.

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

²This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

UNC Panel³ recommendation

At its meeting held on 18 September 2008, of the 9 Voting Members present, capable of casting 10 votes, 8 votes were cast in favour of approving the proposal. The Modification Panel therefore voted by a large majority to recommend implementation of the proposal.

The Authority's decision

The Authority has considered the issues raised by the modification proposal and included in the Final Modification Report (FMR) with accompanying legal text dated 28 November 2008. The Authority has considered and taken into account the responses to the Joint Office's consultation on the modification proposal which are attached to the FMR⁴. The Authority has concluded that:

1. implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the UNC⁵; and
2. directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁶.

Reasons for the Authority's decision

We note that some respondents expressed contrary views on the proposal with regard to two of the UNC relevant objectives. We consider that this proposal will have a neutral impact on all the relevant objectives apart from objectives (d) and (f) which it will better facilitate compared to the existing baseline. The main justification for the proposal rests to objective (f).

Relevant objective (d) – the securing of effective competition

One respondent considered that this objective is not met as there would be an increase in costs to all shippers and transporters whether or not they adopt the option of batching small value invoices in accordance with the proposed solution. The respondent indicated that it would incur some additional costs in system changes because of the way that it processes invoice payments. We note that, from the information provided, the additional costs to change its current processes are relatively small and that it may also be able to obtain savings in BACS processing charges to offset some of those costs.

We consider that the proposed solution provides an option and functional flexibility for all shippers and transporters, if they choose to use it, to batch small value invoice payments with other invoice payments. This could help market participants, who may be incurring significant processing and transactional costs associated with invoices of values less than £25, to reduce those costs. On balance, small participants are more likely to benefit from use of the proposed option to batch small value invoices. There is, therefore, the potential for them to avoid unnecessary additional costs. On this basis, we consider that

³ The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules

⁴ UNC modification proposals, modification reports and representations can be viewed on the Joint Office of Gas Transporters website at www.gasgovernance.com

⁵ As set out in Standard Special Condition A11(1) of the Gas Transporters Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=6547

⁶ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

the proposal is likely to have some pro-competitive impacts, although we recognise that these may be small.

There was some quantitative analysis provided with responses regarding the potential costs and benefits of the proposed solution. We note that where numbers were provided to identify how many small value invoices are processed which may be impacted by the proposal, these numbers are relatively low. This may mean that few participants may wish to take up the option provided. In that case, there would be a limited likelihood that any further costs associated with changing processing arrangements will be incurred.

Relevant objective (f) – the promotion of efficiency in the implementation and administration of the UNC

We note the views of respondents regarding this objective. We consider that the main benefit arising from the proposed solution would be under this objective. The solution provides an option to those shippers and transporters who wish to use it to batch small value invoices for payment. This means that those participants for whom costs of processing and payment of small value invoices under the current arrangements is administratively burdensome will have additional flexibility. We note that the use of a backstop date for payment of outstanding invoices will continue to provide sufficient incentive to parties not to unnecessarily delay payments.

We recognise that some respondents consider that there are already means for batching invoice payments and for coordinating payments of small value invoices with other invoices under the current arrangements. However, we consider that providing additional flexibility does not, of itself, mean that every participant will avail itself of the option if the costs prove to be disproportionately high. The types of invoices covered by the solution are quite specific. It is likely that only those participants who believe that the benefits of batching small value invoices will outweigh the costs will take up the option. This will increase efficiency in the invoice payment process rather than if the solution was mandated.

Decision notice

In accordance with Standard Special Condition A11 of the Gas Transporters Licence, the Authority, hereby directs that modification proposal UNC 201VV: *“Small value invoice payment deferral”* be made.



Mark Feather

Associate Director, Industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose.