

Modification proposal:	<b>Independent Pipelines/Quadrant Pipelines Network Code: 'Invoice Credits' (IPL/QPL037)</b>		
Decision:	The Authority <sup>1</sup> has decided to reject this proposal		
Target audience:	Gemserv, IPL/QPL and other interested parties		
Date of publication:	1 August 2008	Implementation Date:	Not applicable

## Background to the modification proposal

Whilst the majority of provisions for each independent Gas Transporters Network Code is now incorporated by reference to the iGT Uniform Network Code (iGT UNC) each 'short form' Network Code retains certain provisions which are specific to that company or network<sup>2</sup>. These may be provisions which are in addition to those of the iGT UNC, or in other cases provide exemptions to those common provisions.

Modifications to the short form codes are required to follow the iGT UNC modification procedures, in accordance with Standard Licence Condition 9, paragraph 6 of the GT licence.

## The modification proposal

Clause G 4.2 of the iGT UNC currently states that:

"Adjustments by way of credit ("**Invoice Credit**") in respect of an Invoice Amount will, unless the Pipeline Operator's Network Code provides otherwise, be contained in separate Invoice Documents."

However, Schedule 1 part 9 of the IPL/QPL Network Code states that:

"As referred to in Part G 4.2, the Operator is not required to submit separate Invoice Documents in respect of Invoice Credits and accordingly Invoice Credits may be included in Invoice Documents containing Invoice Amounts."

This modification proposal seeks to remove the provision from Schedule 1 part 9, such that IPL/QPL is no longer exempt from Clause G 4.2 of the iGT UNC. IPL/QPL would therefore be required to submit separate credit invoice documents per invoice against which a query has been raised, rather than the current practice

## iGT UNC Panel<sup>3</sup> recommendation

At its meeting of 18 June 2008 the iGT UNC Panel recommended by a majority the implementation of iGT UNC 018.

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

<sup>2</sup> Independent Pipelines and Quadrant Pipelines are part of the same group but each hold a GT licence and have separate, yet identical, Network Codes.

<sup>3</sup> The iGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the iGT UNC Modification Rules.

## **The Authority's decision**

The Authority has considered the issues raised by the modification proposal and the Final Modification Report dated 27 June 2008. The Authority has concluded that implementation of the modification proposal would not further the relevant objectives as defined in Standard Condition 9 of the Gas Transporters License<sup>4</sup>.

### **Reasons for the Authority's decision**

We note that five of the six respondents to this proposal were in favour of its implementation. Those five respondents were all shippers. The one respondent who was opposed was the relevant GT, IPL/QPL.

IPL/QPL did not support this modification proposal as it does not consider that it would have any effect under the relevant objectives. In its view the current process is fully transparent and delays in settling invoices where credits are due are minimal. IPL/QPL also noted that it had been operating its invoicing in this way for around ten years without comment.

A common theme amongst those who were in favour was the desire to align processes across the iGT Networks; with IPL/QPL currently being the only GT who nets off credits with unrelated invoices. It was suggested that alignment would facilitate more efficient settlements procedures for shippers in particular, though one respondent considered this would also be more efficient for the GT. Another respondent suggested that this modification would help the cash flow position of IPL/QPL, but did not provide further details on why they considered this to be the case.

We understand that the basis for this proposal is to ensure that credits, particularly those resulting from a successful query, can be more easily matched against the original invoice. At present, IPL/QPL nets these credits off against the next amount to be invoiced, making it harder for shippers to reconcile payments. We consider that netting off payments can be beneficial, as it gives a truer reflection of a Parties credit position and can reduce transaction costs; as explained in our acceptance of modification UNC034 to the large Transporters UNC<sup>5</sup>. Whilst IPL/QPL differ from other iGTs in their treatment of invoices credits, they do appear to be closer to the de facto industry standard.

We also note that although IPL/QPL has an exemption against G 4.2, they are required to comply with G 4.3, which states that if the invoice document contains a credit, it must identify the original Invoice Document and Invoice Item to which the credit relates. We understand that this is discharged by the electronic files that IPL/QPL issue. We therefore consider that shippers should already have access to the necessary information and that the practical effect of this modification would be simply to require IPL/QPL to separate this data out into individual documents. This may indeed be more convenient for shippers, but we are unable to conclude from the Final Modification Report and accompanying representations that this benefit would outweigh the costs to IPL/QPL of changing its systems and procedures. Indeed we were disappointed with the lack of evidence provided to support either argument.

Although we have some sympathy with the shippers desire to align iGT processes wherever possible, this should always represent an improvement rather than a

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<sup>4</sup> As set out in Standard Condition 9 of the Gas Transporters Licence, see: [http://epr.ofgem.gov.uk/document\\_fetch.php?documentid=13355](http://epr.ofgem.gov.uk/document_fetch.php?documentid=13355)

<sup>5</sup> See [UNC034: 'Netting off of Payments and Credits resulting from Transportation Charges'](#).

retrograde step to the individual network, i.e. we consider that all Parties should identify and work towards recognised best practice, not simply the lowest common denominator.

Given the above, we have been unable to conclude that requiring IPL/QPL to conform to invoicing procedures common to other networks would better facilitate the relevant objectives of either the iGT UNC or IPL/QPLs individual Network Code. However, this does not preclude us from reconsidering the position if further evidence of the costs and benefits were to be presented as part of a future modification proposal.



**Mark Feather,**  
**Director of Industry Codes and Licensing, Corporate Affairs**  
Signed on behalf of the Authority and authorised for that purpose.