

## UNC Workgroup 0375 Minutes

To provide Users with a choice as to how their Unsecured Credit Limit is determined in line with UNC TPD Section V3.1.7

Thursday 30 June 2011

via teleconference

### Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Chris Hill	(CH)	first:utility
Chris Warner	(CW)	National Grid
Joanna Ferguson	(JF)	Northern Gas Networks
Richard Fairholme	(RF)	E.ON UK
Simon Trivella	(ST)	Wales & West Utilities
Sue Davies	(SD)	Wales & West Utilities
Tim Davis	(TD)	Joint Office

### 1. Introduction and Status Review

#### 1.1. Review of minutes

The minutes from the previous meeting (14 June 2011) were approved.

#### 1.2. Review of actions

Outstanding actions were reviewed.

**0375/001:** First Utility and Wales & West Utilities to examine the materiality of reducing the percentages to help determine likely percentage changes.

**Update:** Covered in general discussion, see 2 below. **Closed**

**0375/002:** All Transporters to consider alternative solutions and consider the impact of reducing the percentages linked to RAV.

**Update:** Covered in general discussion, see 2 below. **Closed**

### 2. Discussion

ST and JF had produced tables in response to the actions from the last meeting and these were explained and discussed.

Referring to the Table that she had provided, JF made comparison with the position in the electricity industry - £16 billion RAV (is similar to gas) spread over 14 DNOs (5 DNOs in gas). The smallest of the electricity DNOs was half the size of the biggest where as National Grid is significantly larger than other DNOs in gas. The difference in structure is why it worked so well in the electricity industry, and not so well in gas.

Referring to the Table that he had provided, ST demonstrated the scaling effects. The issue is caused by the big difference in size between National Grid and the other DNOs, and it was believed that scaling down of factors was probably not the best answer.

Recognising the effects that would be produced by scaling, CH asked if the DNOs had any alternative(s) to suggest. ST believed that rather than scaling, it was better to remove all links to the RAV, and that Shippers could be afforded more value, eg from £100,000 to £120,000. The problem is how do you justify giving more credit than that indicated in an assessment?

CH pointed out that level a 4 assessment is not acceptable under the UNC and explained how this differed level 3 in terms of the potential credit that could be offered. He then commented on his own company's position in this respect.

JF referred to 'P levels' and pointed out that the Table does not currently allow certain ratings; this was a small anomaly that could be worked out. SD gave an alternative view on the interpretation of 'P'. It was not clear which rationale to use. JF indicated from her standpoint that a 'P' rating would only be accepted in conjunction with a PCG. It may be that some gaps would be found in credit securities; the discussion had highlighted the differences of opinions in this area and JF believed that more clarity would be welcomed.

It was noted that Ofgem had directed that Modification 0360 be implemented and this was likely to come into effect very shortly, and a short discussion of the effect on the position of various parties ensued.

Returning to the spreadsheet ST explained how the calculations worked to give different credit values when compared to RAV.

Asked about his alternative, CW did not see any reference to RAV as being useful. With the aim of trying to help smaller parties become established in the market, he advised it might be an option to offer a new User/small Shipper unsecured credit which could be topped up as required; it could be based on payment history.

CH questioned if the DNOs would be willing to accept a different level of assessment, eg level 4. There appeared to be no provision for this level in the Table, which encompassed levels 1, 2 and 3. SD questioned why this level (4) did not flow into the report. ST suggested that there may have been a change in levels structure since the introduction. JF thought it might originally have been taken from the electricity examples. It was suggested that more detailed ones would be akin to having investment grade ones done, and a short discussion ensued on what detail was contained in credit reports, such as those provided by Experian. CH then explained the different figures that had been assigned to his company. ST suggested that the DNOs needed to examine this area more closely with their credit report providers, to understand the difference between levels, why values are different, and what the implications of having level 4 might be.

**Action WG0375/003: DNOs to examine the difference between [?credit levels], and establish why values are different, and what the implications of having level 4 might be.**

CH acknowledged that the points raised regarding the link to RAV and the sliding scale were valid, and was beginning to feel that the discussions and investigations might be leading to the point where this modification in its current form is not really

workable. It was clear that no further progress could be made with the Table and this should now be put to one side.

### 3. Any Other Business

None raised.

### 4. Diary Planning for Workgroup

It was agreed that the next meeting would be accommodated within the business proceedings of the Distribution Workgroup, and would take place on Thursday 28 July 2011.

### Action Log – Workgroup 0375

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0375/001	14/06/11	2.	First Utility and Wales & West Utilities to examine the materiality of reducing the percentages to help determine likely percentage changes.	First Utility and Wales & West Utilities (CH and SD)	Closed
0375/002	14/06/11	2.	All Transporters to consider alternative solutions and consider the impact of reducing the percentages linked to RAV.	All Transporters	Closed
0375/003	30/06/11	2.	DNOs to examine the difference between credit levels, and establish why values are different, and what the implications of having level 4 might be.	All Transporters	Pending