

Review of Network Operator Credit Arrangements
Review Group (UNC0252) Minutes
Tuesday 22 September 2009
Holiday Inn, Solihull

Attendees

Bob Fletcher (Chair)	BF	Joint Office of Gas Transporters
Helen Cuin (Secretary)	HC	Joint Office of Gas Transporters
Beverley Viney	BV	National Grid NTS
Carl Wilkes	CW	RWE npower
Jenny Rawlinson	JW	GTC
Joanna Ferguson	JF	Northern Gas Networks
Mandip Grewal	MG	Northern Gas Networks
Phil Cushen	PC	National Grid Shared Services
Phil Lucas	PL	National Grid Distribution
Richard Fairholme	RF	E.ON UK
Stefan Leedham	SL	EDF Energy
Sue Davies	SD	Wales & West Utilities
Vickey King	VK	National Grid Shared Services
Wayne Mullins	WM	National Grid NTS
Wendy Taylor	WT	Scotia Gas Networks

Apologies

Chris Wright	CWr	British Gas
Simon Trivella	ST	Wales & West Utilities

1. 1. Introduction and Status Review

1.1. Minutes from previous Review Group Meeting

The following amendments were requested by National Grid Distribution:

Section 1.2 Review of actions from previous Review Group Meetings

Action RG0252 0003: Joint Office to amend draft Terms of Reference in light of discussions and publish. [PL sought clarification that the V4 terms \(Discontinuing Users and Termination\) would only be reviewed only to the extent that there is a direct relationship to the credit provisions. ST agreed that this was the case.](#)

Action Update: Terms of Reference published. **Complete**

Section 2.1 General review of the current arrangements and processes within UNC TPD Sections V3 & V4 to determine if they are still appropriate, coherent and relevant

Paragraph 2:

RAV Regulatory Asset Value (RAV). It was understood that the RAV is published at the start of the Price Control and not on an annual basis. However, WM thought that there may be instances when the price control may be re-opened and therefore the RAV could be subject to amendment. PD explained the use of an indicative RAV within the

Electricity market. ST was keen to make an amendment to the Section V3 to document the publication of the RAV. JF explained that NGN ~~publish~~utilise their RAV at the end of their financial year in December. PD explained that the electricity RAV is published in March.

Paragraph 33:

Value at Risk Increase. Section V3.2.11 it was questioned if there was a misinterpretation of the BPG 3.47. SD believed this related to an increase in a portfolio for example, supplier at last resort, to allow time to arrange security to account for the increase in the VAR. It was considered whether this should be for a portfolio change only and whether Transporters Transportation Charges also ought to be included. PL ~~asked for~~ noted that this term was introduced by a Modification raised by National Grid Distribution (post meeting note: Modification 0145) and therefore sought a view from Ofgem's insight as to why this was brought in respect of the reasoning for its direction to implement.

Paragraphs 36,37,38:

Clause 3.3.1 ST had previously discussed what constitutes a notice as defined in code with their legal and thought it would be worth the Review Group considering suitable methods. WWU had provided example notices which were published on the Joint Office website. SD explained how WWU usually fax a notice and follow this up by emailing a scanned version.

ST thought it would be useful if Shippers could provide contacts for notices to ensure there was no doubt when a notice had been served. CW thought it would be advisable if all notices were followed up with a phone call to ensure receipt.

PL believed there were existing definitions ~~of~~ in the UNC in respect of the acceptable forms of notices and when notices are deemed to be received. ~~receipt of notices and what constitutes an acceptable delivery method.~~

Paragraph 47:

Clause 3.3.2 (c) SD thought that sanctions should apply at this stage if remedial action was not taken. PL pointed out that there was an option to terminate though this may be considered to be draconian, ~~adding the clause is in line with BPG.~~ PD clarified that best practice should be applied even if this was different to BPG as the process should be considered as living and not fixed in time.

The minutes of the previous meeting were then approved.

1.2. Review of actions from previous Review Group Meetings

Action RG0252 0004: National Grid (WM) to clarify what is stated within CUSC for the publication of the RAV.

Action Update: WM confirmed that the CUSC specified that the RAV value used to calculate unsecured credit is that specified in Ofgem's Price Control Final Proposals document. SD questioned if this would change each year, it was clarified that it could change each year. **Complete**

Action RG0252 0005: Ofgem (PD) to consider the annual cost reporting mechanism which should be established for the Gas and Electricity markets if the RAV is available on an annual basis.

Action Update: PD Ofgem confirmed by email the update that the updated RAV value is published in the Gas Distribution Annual Report during the Spring following the end of the regulatory year concerned. It was agreed to carry this item forward to the next meeting for clarification. **Carried Forward.**

Action RG0252 0006: Review Group to establish how FITCH compares against other equivalent credit rating agencies.

Action Update: WM confirmed that the CUSC considered these as being equivalent to Standard & Poor's ratings, he provided a table within the National Grid NTS action update to illustrate this. **Complete**

Action RG0252 0007: Ofgem (PD) to provide an extract of the equivalent Gas and Electricity Licences.

Action Update: PD had provided extracts by email of Condition 40 and Condition 46. It was agreed to carry this item forward to the next meeting for clarification as members were unsure if these were the correct licence extracts. **Carried Forward.**

Action RG0252 0008: Review Group to consider the introduction of another Agency into the UNC and consider recommendations for the **Review Group report.**

Action Update: JF confirmed the intention will be raise a modification for consideration. **Carried Forward.**

Action RG0252 0009: National Grid (PL) to establish what the reference to National Grid NTS and National Grid PLC being construed as a single Transporters is designed for.

Action Update: PL explained that prior and subsequent to the sale of a number of its distribution networks in 2005, National Grid Gas plc (formerly Transco Plc) has remained as a single signatory to the UNC. Therefore V3.1.2(b) was introduced for the purpose of ensuring that this principle was clear in respect of its credit arrangements. **Complete.**

Action RG0252 0010: Review Group to consider if the "an approved credit" rating can be removed from section V3.

Action Update: JF suggested that a defined term may wish to be considered, SD believed that the statement within V3.1.3(d) was superfluous and could be removed. It was agreed to consider this either within the **Review Group Report** or as a modification. **Carried Forward.**

Action RG0252 0011: National Grid Distribution to establish if the reference to V3.1.7 within V3.1.4 relates to a previous UNC Modification which should have been removed or if it should refer to an alternative paragraph.

Action Update: PL confirmed that UNC0113 was implemented for users that don't have a sufficient credit rating. It was agreed any change would need a modification and that the **Review Group Report** should reflect that the term needs to be removed. **Carried Forward.**

Action RG0252 0012: Review Group to consider the reference to a 12 month period for credit limits which build up measured as a 60th per month over 5 years.

Action Update: PD provided in the Ofgem email update that the equivalent section in the DCUSA is clearer. It was agreed this needed to be changed for clarity. **Carried Forward.**

Action RG0252 0013: Review Group to compare the differences between missed/late payments in the Gas and Electricity markets and whether there should be a soft landing for administration errors.

Action Update: WM provided an explanation following the National Grid NTS Action Update, confirming that there is a period of two business days allowed for administration errors. A discussion took place on whether to remove this type of credit unless there was at least 12 months payment history. CW suggested that small suppliers may wish to feed into this discussion and suggested inviting feedback from small suppliers. It was agreed further discussion was required. **Carried Forward.**

New Action RG0252 0013a: Joint Office to ask Ofgem if a small supplier can be approached for a view. **Pending.**

Action RG0252 0014: WWU (ST) to establish if the DCP034 document is available publicly and can be made available to the Review Group for further consideration.

Action Update: Joint Office circulated required documents to Review group members. SD explained that a rating could be taken from a number of high street agencies, which can be used to produce a score that can then be converted into an equivalent credit rating. VK explained the consequences of doing this and how the investment grade ratings give a longer term perspective and not a short term perspective and could end up with a higher credit rating than what should be afforded. WM suggested that a commercial test may wish to be considered. It was agreed that this needs to be considered further. WM highlighted that the industry wants to encourage competition but there needs to be a balance not to afford a credit rating more than the company is worth, SD conferred that the industry will want to be sensitive not to encourage overspending beyond companies real limits and risking the success of that company. WM was keen to obtain Ofgem's view on implementing a solution similar to the DCUSA model. **Carried Forward.**

New Action RG0252 0014a: Review Group to consider the circulated DCP034 documents. **Pending.**

New Action RG0252 0014b: Transporters to consider the impact of applying the DCUSA table introduced in DCP034. **Pending.**

New Action RG0252 0014c: Ofgem to provide a view on introducing the DCUSA table to the gas industry. **Pending.**

Action RG0252 0015: National Grid NTS to check if there are any further references to RCI within the UNC and to consider moving Section V3.2.1 to section B.

Action Update: BV confirmed that there are no further references. He also recommended leaving the definition for RCI whereas it is as moving it could cause potential cross referencing errors and would have very little benefit. **Complete.**

Action RG0252 0016: National Grid Distribution to clarify that the reference to V3.2 should be a reference to section V3.2.8.

Action Update: PL confirmed that the anomaly in Section V3.2.4(b) was unintentionally created during the transition from the Network Code to the Uniform Network Code. The paragraph should cross reference to V3.2.8 not V3.2. It was suggested a consent to modify or a general tidy up mod need to be raised. **Complete.**

New Action RG0252 0016a: Modification to be raised to remove incorrect reference within Section V3 and V4. **Pending.**

Action RG0252 0017: National Grid NTS to confirm what is in CUSC in relation to expiration.

Action Update: WM confirmed that under the CUSC, Users must replace any expiring security on or before 10 business days from expiry. Once this deadline has passed, National Grid has the right to draw upon any security and hold the resulting payment in a dedicated account. **Complete.**

Action RG0252 0018: Review Group to consider whether a provision needs to be included relating to 30 days within V3.2.4 (d).

Action Update: It was agreed to consider this when producing the Review Group Report. **Carried Forward.**

Action RG0252 0019: Ofgem to clarify the approval rationale for [UNC0077](#) [UNC0145](#), given that Section V3.2.11 appears to open up a three month window that the VAR is potentially not covered by an increase in security.

Action Update: PL confirmed that the action needs to be amended to correct the UNC reference to UNC0145. PD confirmed in the Ofgem email update that the decision on UNC0077 covered the notice period relevant to a reassessment of a User's credit scoring or credit rating but did not assess the period allowed to provide security/surety following an increase in charges. It was agreed to carry this item forward to the next meeting. **Carried Forward.**

Action RG0252 0020: Review Group to consider if the whole of 3.2.5 should be referenced in 3.2.10.

Action Update: PL confirmed that having looked at V3.2.9 needs to be changed for 3.2.10 to be logical. It was agreed that V3.2.9 needs amending and should be included in the **Review Group report. Carried Forward.**

Action RG0252 0021: Shippers to consider the provision of specific contact details for the receipt of notices.

Action Update: CW explained the difficulties surrounding staff absences when having specific contact details. JF agreed to examine other contact options. **Complete.**

New Action 0021a: Review Group to consider if the management of contact details could be done centrally. **Pending.**

Action RG0252 0022: National Grid Distribution to clarify what is considered to be "deemed receipt of a notice".

Action Update: PL provided clarification within the National Grid Distribution Action update. A debate occurred surrounding the varying methods of communication used, what is considered as hand delivered, the current royal mail delivery guidelines, how faxes are checked as received and the potential use of email. SD confirmed that legal departments do not particularly welcome the use of email as confirmation of receipt is not always available. JF confirmed that discussions have taken place in the industry on other processed and accepted forms of communication. The different aspect of each of the communication tools was considered and it was deemed worthy to include email as an additional communication tool subject to guidelines on its use. SL explained that there is a general legal issue with providing a formal notice via email suggesting it could be as an addition to the accepted routes and not as a replacement. **Complete.**

New Action 0022a: Review Group to consider the use of email in addition to posted/faxed notices. **Pending.**

Action RG0252 0023: The Review Group is to consider the process and timeline for serving notices.

Action Update: It was agreed to consider this with New Action 0022a. **Carried Forward.**

Action RG0252 0024: Review Group to consider if the current drafting should be amended to reflect one test at 80%.

Action Update: It was agreed that this must be 80% of the maximum limit (100%) and as such should be a single test not a reoccurring test i.e. 80% of 80%. VK highlighted the issues with enforcement and remedies. It was agreed that further consideration is required and a legal view ought to be sought prior to making a recommendation. **Carried Forward.**

Action RG0252 0025: 3.3.2 - drafting error to be corrected – delete superfluous "V" in reference.

Action Update: See New Action 0016a. **Carried Forward.**

Action RG0252 0026: Review Group to consider if clause 3.3.2 (c) should be redrafted in line with discussions.

Action Update: PL clarified that there are different sanctions with different timescales for scenarios. It was agreed a view from Ofgem as to whether the drafting should change. **Carried Forward.**

Action RG0252 0027: WWU (ST) to provide a view on whether a DNO can be terminated (V3) [or discontinued \(V4\)](#). [If a DNO lost its licence, would it become a discontinuing user?](#)

Action Update: It was agreed that this action needs to be amended to consider whether a DNO can be discontinued. **Carried Forward.**

Action RG0252 0028: Ofgem agreed to consider the provisions in 3.3.4 to identify if there are any regulatory reasons for these provisions.

Action Update: It was agreed to carry this item forward to the next meeting. **Carried Forward.**

Action RG0252 0029: WWU to seek a legal view on the meaning of “and whether or not entered into by the User” within the clause 3.4.1.

Action Update: SD provided a view from the WWU Legal Department: The User may not be a party to the security documents e.g. a letter of credit. **Complete.**

Action RG0252 0030: Review Group to consider relevance and use of bi-lateral insurance provisions used in section 3.4.

Action Update: It was suggested that a view from Ofgem is obtained to determine what the meaning of this section is and whether it is relevant. **Carried Forward.**

Action RG0252 0031: Typo “an policy” to be corrected.

Action Update: To be corrected. See Action 0016a. **Carried Forward.**

Action RG0252 0032: Definition Enforceable contains a typo in the last sentence change “provides” to “provide”.

Action Update: To be completed. See Action 0016a. **Carried Forward.**

2. Review Group Topics

2.1. Review of Section V4

It was agreed that a Legal opinion is required as to whether DNOs are considered to be a User. It was agreed to extend action RG0252 0027.

It was questioned within 4.1.2. if the reference to 4.3.7 Shipper Framework Agreement was credit related. It was agreed that the Review group need to establish what this is about. JF believed that each Transporter had a network code framework agreement and believed this was not related to credit.

JF asked if the £10,000 limit within 4.3.1(a) is still an appropriate amount. The term of a Material Breach was also considered. JF questioned if the £10,000 limit should be reviewed/reduced as the value is a figure set pre-network sales and that some Transporters may be more exposed. JF questioned if this needs to be a proportional amount.

Action RG0252 0033: National Grid (PL) to confirm the background to the £10,000 limit in 4.3.1(a) and if possible what this was equivalent to.

Action RG0252 0034: Review group to consider the appropriateness of the 4.3.1(a) £10,000 limit.

It was questioned if the default for Termination Notices Section 4.3.3 was when the two days had expired. SL explained that UNC0234 aligned section X and V and that the EBCC could issue a termination notice the day after the notice had been issued.

4.3.9 (a) was considered, WM highlighted that this was interpreted as a breach on the back of a Transporter breach, however it was unclear if the Transporter can be terminated and under what reasons. The Review Group questioned if a Transporter was terminated what impact this would have on system users. It was agreed that 4.3.9. needs to be reviewed in line with action 0027.

SD questioned if DN Entry impact 4.3.11.

2.2. Letter of Credit Provider and implications of changes to Energy Balancing Credit Arrangements

It was agreed that TPDV Section 3.2.5 needs to be made clearer to include a change to a banks credit rating. The Review Group discussed that if bank is downgraded under 3.2.5 it has to go below BB- before any action can be taken however it was understood that the EBCC was more rigorous. It was questioned if this should be changed to allow swifter action. SD also highlighted that Specially Commissioned ratings are not included. The honouring of a letter of credit was debated if a banks credit rating was downgraded, WM highlighted that other triggers can be used to seek further reassurances. If a bank falls below A under the UNC this will be classed as an unsuitable allowable form of security under the UNC and additional form of security can be requested.

WM briefly explained that under CUSC there is no need to prove debt before drawing on a letter of credit. JF explained the principle exists within the UNC, however a bank will ask for proof of debt before paying out under a letter of credit.

Invoking on payment history was discussed and how this is more likely to be called upon rather than paying for a letter of credit. JF highlighted that the reliance of payment history is dependant on the user not having administration errors in the payment process, which may impact their credit with the Transporter.

It was agreed that 3.2.5 needs to be reconsidered to cover specially commissioned ratings and qualifying companies that go under A.

Action RG0252 0035: Review Group to consider amending TPDV 3.2.5 to include specially commissioned ratings and qualifying companies whose credit rating is reduced below A.

Action RG0252 0036: Transporters (PL/SD) to seek a Legal view on what is Surety and Security.

Late payment fees were discussed. Interest and administration charges were considered and when an administration charge is applied. JF explained what happens if a Transporter issues a credit late and what if happens if a Shipper pays a Transporter late. JF confirmed that the administration charge is paid both ways. PL questioned if a Transporter should pay an administration charge for credits as in effect they are charging themselves for the administration the Transporter has undertaken in proactively providing the credit. SL challenged what the administration charge is actually for as Shippers will incur additional administration for chasing unpaid credits.

WM asked if the Review Group need to update the workplan to ensure items agreed for further consideration are captured and that a session is planned for payment history and independent assessments.

It was agreed that the next meeting will focus on unsecured credit risk and workplan item 3.

3. AOB

None

4. Diary Planning for Review Group

10:00 Monday, 19 October 2009, Holiday Inn Solihull

10:00 Monday, 16 November 2009, Solihull venue to be confirmed (HC to add to event diary).

APPENDIX A.**ACTION LOG - Review Group 0252**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0252 0004	18/08/2009	2.1	National Grid (WM) to clarify what is stated within CUSC for the publication of the RAV.	National Grid (WM)	Complete
RG0252 0005	18/08/2009	2.1	Ofgem (PD) to consider the annual cost reporting mechanism which should be established for the Gas and Electricity markets if the RAV is available on an annual basis.	Ofgem (PD)	Carried Forward
RG0252 0006	18/08/2009	2.1	Review Group to establish how FITCH compares against other equivalent credit rating agencies.	Review Group	Complete
RG0252 0007	18/08/2009	2.1	Ofgem (PD) to provide an extract of the equivalent Gas and Electricity Licences.	Ofgem (PD)	Carried Forward
RG0252 0008	18/08/2009	2.1	Review Group to consider the introduction of another Agency into the UNC and consider recommendations for the Review Group report.	Review Group	Carried Forward
RG0252 0009	18/08/2009	2.1	National Grid (PL) to establish what the reference to National Grid NTS and National Grid PLC being construed as a single Transporters is designed for.	Review Group	Complete
RG0252 0010	18/08/2009	2.1	Review Group to consider if the "an approved credit" rating can be removed from section V3.	Review Group	Carried Forward
RG0252 0011	18/08/2009	2.1	National Grid Distribution to establish if the reference to V3.1.7 within V3.1.4 relates to a previous UNC Modification which should have been removed or if it should refer to an alternative paragraph.	National Grid Distribution (PL)	Carried Forward

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0252 0012	18/08/2009	2.1	Review Group to consider the reference to a 12 month period for credit limits which build up measured as a 60 th per month over 5 years.	Review Group	Carried Forward
RG0252 0013	18/08/2009	2.1	Review Group to compare the differences between missed/late payments in the Gas and Electricity markets and whether there should be a soft landing for administration errors	Review Group	Carried Forward
RG0252 0013a	22/09/2009	1.2	Joint Office to ask Ofgem if a small supplier can be approached for a view.	Joint Office / Ofgem	Pending
RG0252 0014	18/08/2009	2.1	WWU (ST) to establish if the DCP034 document is available publicly and can be made available to the Review Group for further consideration.	WWU (ST)	Carried Forward
RG0252 0014a	22/09/2009	1.2	Review Group to consider the circulated DCP034 documents.	Review Group	Pending
RG0252 0014b	22/09/2009	1.2	Transporters to consider the impact of applying the DCUSA table introduced in DCP034.	Transporters	Pending
RG0252 0014c	22/09/2009	1.2	Ofgem to provide a view on introducing the DCUSA table to the gas industry.	Ofgem (PD)	Pending
RG0252 0015	18/08/2009	2.1	National Grid NTS to check if there are any further references to RCI within the UNC and to consider moving Section V3.2.1 to section B.	National Grid NTS (WM)	Complete
RG0252 0016	18/08/2009	2.1	National Grid Distribution to clarify that the reference to V3.2 should be a reference to section V3.2.8.	National Grid Distribution (PL)	Complete

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0252 0016a	22/09/2009	1.2	Modification to be raised to remove incorrect reference within Section V3 and V4.	Review Group	Pending
RG0252 0017	18/08/2009	2.1	National Grid NTS to confirm what is in CUSC in relation to expiration.	National Grid NTS (WM)	Complete
RG0252 0018	18/08/2009	2.1	Review Group to consider whether a provision needs to be included relating to 30 days within V3.2.4 (d).	Review Group	Carried Forward
RG0252 0019	18/08/2009	2.1	Ofgem to clarify the approval rationale for UNC0145, given that Section V3.2.11 appears to open up a three month window that the VAR is potentially not covered by an increase in security.	Ofgem (PD)	Carried Forward
RG0252 0020	18/08/2009	2.1	Review Group to consider if the whole of 3.2.5 should be referenced in 3.2.10.	Review Group	Carried Forward
RG0252 0021	18/08/2009	2.1	Shippers to consider the provision of specific contact details for the receipt of notices	Shippers	Complete
RG0252 0021a	22/09/2009	1.2	Review Group to consider if the management of contact details could be done centrally.	Review Group	Pending
RG0252 0022	18/08/2009	2.1	National Grid Distribution to clarify what is considered to be "deemed receipt of a notice".	National Grid Distribution (PL)	Complete
Rg0252 0022a	22/09/2009	1.2	Review Group to consider the use of email in addition to posted/faxed notices.	Review Group	Pending
RG0252 0023	18/08/2009	2.1	The Review Group is to consider the process and timeline for serving notices.	Review Group	Carried Forward

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0252 0024	18/08/2009	2.1	Review Group to consider if the current drafting should be amended to reflect one test at 80%	Review Group	Carried Forward
RG0252 0025	18/08/2009	2.1	3.3.2 drafting error to be corrected – delete superfluous “V” in reference.	Review Group	Carried Forward
RG0252 0026	18/08/2009	2.1	Review Group to consider if clause 3.3.2 (c) should be redrafted in line with discussions.	Review Group	Carried Forward
RG0252 0027	18/08/2009	2.1	WWU (ST) to provide a view on whether a DNO can be terminated.	WWU (ST)	Carried Forward
RG0252 0028	18/08/2009	2.1	Ofgem agreed to consider the provisions in 3.3.4 to identify if there are any regulatory reasons for these provisions.	Ofgem (PD)	Carried Forward
RG0252 0029	18/08/2009	2.1	WWU to seek a legal view on the meaning of “and whether or not entered into by the User” within the clause 3.4.1.	WWU (ST)	Complete
RG0252 0030	18/08/2009	2.1	Review Group to consider relevance and use of bi-lateral insurance provisions used in section 3.4.	Review Group	Carried Forward
RG0252 0031	18/08/2009	2.1	Typo “an policy” to be corrected	Review Group	Carried Forward
RG0252 0032	18/08/2009	2.1	Definition Enforceable contains a typo in the last sentence change “provides” to “provide”.	Review Group	Carried Forward
RG0252 0033	22/09/2009	2.1	National Grid (PL) to confirm the background to the £10,000 limit in 4.3.1(a) and if possible what this was equivalent to.	National Grid (PL)	Pending

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0252 0034	22/09/2009	2.1	Review group to consider the appropriateness of the 4.3.1(a) £10,000 limit.	Review Group	Pending
RG0252 0035	22/09/2009	2.2	Review Group to consider amending TPDV 3.2.5 to include specially commissioned ratings and qualifying companies whose credit rating is reduced to A or below.	Review Group	Pending
RG0252 0036	22/09/2009	2.2	Transporters (PL/SD) to seek a Legal view on what is Surety and Security.	Transporters (PL/SD)	Pending