

UNC DSC Credit Committee Minutes

Monday 18 May 2020

via Teleconference

Attendees

Lorraine O'Shaughnessy (Chair)	(LOS)	Joint Office	Non-Voting
Helen Cuin (Secretary)	(HC)	Joint Office	Non-Voting
Angharad Williams	(AW)	National Grid	Non-Voting Observer
Brendan Gill	(BG)	CDSP	Non-Voting
Sharon Bright	(SB)	CDSP	Non-Voting

Shipper Representatives (Voting)

Jane Morrison	(JM)	SSE
Joanna Bulley	(JB)	E.ON
Steve Mulinganie	(SM)	Gazprom

Transporter Representatives (Voting)

Ian Clark	(IC)	Northern Gas Networks
Lorette Turner	(LT)	Cadent
Stephen Cross	(SC)	SGN
Sue Davies	(SDa)	WWU
Teresa Thompson	(TT)	National Grid

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dsc-credit/180520>

1. Introduction and Status Review

Lorraine O'Shaughnessy (LOS) welcomed all representatives including Steve Mulinganie (SM) and Joanna Bulley (JB) who had recently been appointed to the Committee, and confirmed the meeting was quorate.

Noting that the DSC Credit Committee meetings are now being held on a quarterly basis with the ability to convene additional meetings when appropriate, LOS reported that an extra-ordinary meeting was held on 22 April 2020 to allow the CDSP to share and discuss some observations as a result of COVID-19, LOS confirmed that the minutes of this meeting had been published on the Joint Office website at: <https://www.gasgovernance.co.uk/dsc-credit/220420>.

1.1. Apologies for absence

No apologies received.

1.2. Note of Alternates

No alternates were in attendance.

1.3. Approval of Minutes (24 February 2020)

The minutes were approved.

1.4. Review of outstanding actions

0201: Xoserve (BG) to provide an update to the Committee members on the Budget and Charging Methodology status and progress.

Update: See item 2.0. **Carried Forward.**

0202: Xoserve (BG) to serve notice on D&B in August 2020 in order for the contract to cease in November 2020.

Update: Brenda Gill (BG) confirmed that the required notice had been served and that D&B will cease to be used from November and that the EBCR will be updated to reflect this change. **Closed.**

0203: Xoserve (BG) to send the meeting confidential presentation slides to the Committee members prior to the meeting date.

Update: BG confirmed confidential papers had been provided via email. **Closed.**

2. CDSP Operational Report

2.1. CDSP cash collection update

BG presented the DSC Credit Committee Operational Statistics, providing the monthly breakdown of the invoices due, the percentage breakdown of cash collected on the payment due date and cash collected +3 days:

Month	Invoices Due for Collection	Payment Due Date	Payment Due Date +3
February 2020	£7,925,182.43	86.56 %	99.66 %
March 2020	£7,917,233.90	90.68 %	90.99 %
April 2020	£7,964,995.55	94.34 %	92.29 %

BG highlighted that there had been a drop in March due to a payment which had been sent to the wrong bank account which was later rectified.

BG confirmed there have been no signals that customers are having difficulties paying in the current climate and the position was stable.

BG provided the monthly data for the Failure to Pay Notices Issued, noting that all issues encountered were centred around administration errors:

Month	Failure to Pay Notices Issued	Value
February 2020	29	£1,045,293.88
March 2020	16	£408,361.56
April 2020	20	£75,901.87

SM challenged the benefit of flagging low invoice values to the Committee. BGI noted there was a previous agreement to provide notification for values above £1,000. SM challenged if when considering the total value of invoices being in the region of £8m, was there benefit reporting small values, and if it would be better for the CDSP to only flag significant items or trends, especially when the overall position was stable.

Sue Davies (SD) suggested the CDSP should continue to provide the operational updates as they are presented now and then flag any significant items, that the CDSP would like to draw attention to. This approach was agreed.

2.2. CDSP security management update

BG provided an update on customer security:

- 99% of customers are unsecured- supported by a Published Credit rating.
- 1% are secured – exposure underwritten by a third-party (e.g. a letter of credit or Parent Company Guarantee)

3. CDSP Outstanding Debt Position

LOS advised the Committee that BG had sent under action 0203 a confidential presentation for Committee members only to be discussed during the meeting. Before the CDSP presented the Debt Options paper provided via email, SM considered the confidential nature of the information being presented and discussed whether it was appropriate for observers to be present. LOS advised the Committee that BG had advised in advance of the meeting that Sharon Bright (SB) from CDSP was present as she was privy to the information as she would be taking on the role in providing Operational Updates going forward. However, LOS advised that she was unaware that Angharad Williams (AW) from National Grid would be attending was BG confirmed as LOS had stated, that SB had been nominated as an additional CDSP Credit Representative in line with the DSC Credit Policy and this was accepted. Teresa Thompson (TT) explained that AW from National Grid was observing with a view to replacing herself in the short term future, however as this had not been pre-notified and National Grid's current and formal representative was present it was agreed that AW should no longer observe the meeting. The Committee agreed and AW left the meeting.

BG then went on to provide the background to the Debt Options, reporting that a level of CDSP bad debt had accrued due to a number of CDSP customers failing in recent years, explaining that where a Shipper failed the Supplier Deed of Undertaking does not cover the DSC. BG went on to explain that where debt is greater than £1k (excluding VAT) then a proof of debt is lodged with the Insolvency Practitioner (as agreed with the DSC Credit Committee) for recovery, any debt less than £1k is not pursued.

BG provided the Committee with a list of 19 failed customers and the respective debt. BG also provided a breakdown of the Administrator claims. SM challenged the value of chasing debt in the region of £1k. BG clarified that limited action is taken with the Insolvency Practitioner.

BG went on to highlight that the CDSP Credit Rules and Budget and Charging Methodology, in some areas do not align.

BG explained that the Credit Rules state under section 2.2: "the effect of the provisions of the Budget and Charging Methodology Document is that if Customers fail to make payment of any invoice issued when due, all other customers shall become liable for (in aggregate) for an equivalent amount (together with an amount in respect of the cost of financing such non-payment)". However, BG noted that the Budget and Charging Methodology is silent on how this is undertaken and challenged whether customers should only pick up failed customer charges within the customer constituency.

SD believed the Credit Rules allow the collection of debt from all customers and wished to understand what the rationale was and if this was right or not. It was believed if the methodology was silent then Credit Rules should be followed. However, BG questioned if sharing debt amongst all customers was the right approach.

The Committee considered the application of the DSC Credit rules and recovery of charges across all customers, the time lapse for recovery and market changes, for example new customers, customer who have left the market and significant portfolio changes which may change a customer's constituency.

BG wished to note since the establishment of the DSC arrangements, that CDSP debt has not been recovered. and sought views from the Committee, if only customers within the failed customers constituency should pick up the failed customer charges. BG asked for views on how the Committee had seen this working and if consideration should be given to aligning the rules.

SM believed there were two separate challenges to consider. The 1st being consideration on whether to write-off the legacy debt and a 2nd consideration in what should be in place to allow bad debts to be recovered in a timely manner. SD and Jane Morrison (JM) concurred with SM in that these should be reviewed separately. LOS asked for views on the way forward.

BG suggested that the next stage would be to update the Budget and Charging Methodology document for clarity on the smearing process and frequency.

SM suggested a number of varied approaches for debt recovery taking into account groups of customers and if this should be by constituencies.

BG provided an overview of the options:

- Write off debt which is not pursued through Administrators,
- Smear all General Services debt across the failed users constituency (over £1k),
- Smear all debt across all customers in line with 2.2 of the Credit Rules, at the end of the financial year.
- Create a bad debt provision within the accounts,
- Suppliers to lodge Letter of Credit or PCG to cover exposure, rather than existing unsecured credit rating.
- Consider whether the Supplier Deed of Undertaking could incorporate DSC charges.

SM challenged if the risk profile had changed to justify a different approach, and if there was an indication that the current arrangements are ineffective. SM wished to note there appeared to be no systemic risk to justify a significant stepped change to the process. SM believed the suitability of existing arrangements was not in question. The challenge is whether to target the debt in the constituency the debt occurred.

Ian Clark's (IC) initial view was that the constituency approach seemed to be the right approach in terms of fairness. SD suggested further consideration should however be undertaken to understand the potential impacts on constituencies. SM also wished to raise concerns about changes in constituencies and making sure there is a more agile and dynamic approach to assigning parties to a constituency to reflect industry change as currently this is only captured once a year from a snapshot.

JM suggested that the CDSP could provide an example of how this would operate to allow parties to better understand and visualise the potential impacts.

BG agreed to provide further detail on the debt recovery options a worked-up example of a constituency-based recovery process.

New Action 0501: CDSP (BG) to provide further information on the debt recovery options including a worked example based on constituency recovery.
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BG suggested that the CDSP proposed to seek a view from the DSC Contract Management Committee on the DSC Credit recommendations/discussions today and for him to provide an update on the views/response on some of the options.

LOS asked if in light of discussions today if parties wanted more regular meetings, to progress. SM suggested leaving the meeting frequency and duration is at is, as there is a mechanism in place to convene additional meetings if they are deemed required.

4. Any Proposed Changes to the DSC Credit Rules/Policy?

See item 7.3.

5. Operational Pack – Format/Style/Content

No comments made in relation to the Operational Pack.

6. Key Messages

Further to item 3.0 and the discussed next steps for CDSP Debt recovery there were no additional key messages for escalation to the DSC Contract Management Committee. LOS advised that in the event of any changes in behaviour that this would be brought to the Committees attention by convening an the extraordinary

7. Any Other Business

7.1. CICM Accreditation

BG wished to note that the CICM Accreditation which was due in March had been put on hold to allow for the full assessment to be conducted once Xoserve's offices could be fully re-opened. In the meantime, the current accreditation would remain in place.

7.2. CDSP Credit Team structure

BG provided an updated CDSP Credit Team structure from the 01 May 2020, noting a re-alignment and new members of staff highlighting that SB will be transitioning to BG's role and BG would be the Business Process Manager

7.3. DSC Credit Rules

BG notified that the DSC Credit Rules had recently been circulated for review. BG advised he had sent an email to Committee members highlighting the key changes and tracked Change credit rules. He encouraged feedback confirming that some comments had already been received. BG wished to note that normally 2 months' notice is provided when changing the Credit Rules however as the changes are only cosmetic he proposed the changes should take effect from 01 June.

New Action 0502: All DSC Credit Representatives to provide Xoserve/CDSP feedback on the proposed changes to the Credit Rules.

8. Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Time / Date	Venue	Workgroup Programme
09:30 – 10:30 17 August 2020	Teleconference	Standard agenda items
09:30 – 10:30 23 November 2020	Teleconference	Standard agenda items

Action Table (as at 18 May 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0201	24/02/20	3.0	Xoserve/CDSP (BG) to provide an update to the DSCCC members on the Budget and Charging Methodology status and progress.	CDSP (BG)	Carried Forward
0202	24/02/20	4.0	Xoserve/CDSP (BG) to serve notice on D&B in August 2020 for contract to cease in November 2020.	CDSP (BG)	Closed
0203	24/02/20	4.0	Xoserve/CDSP (BG) to send the meeting confidential presentation slides to the DSCCC members prior to the meeting date.	CDSP (BG)	Closed
0501	18/05/20	3.0	CDSP (BG) to provide further information on the debt recovery options including a worked example based on constituency recovery.	CDSP (BG)	Pending
0502	18/05/20	7.3	All DSC Credit Representatives to provide Xoserve/CDSP feedback on the proposed changes to the Credit Rules.	All	Pending