

**Review of Network Operator Credit Arrangements  
Review Group (UNC0252) Minutes  
Tuesday 15 December 2009  
Elexon, 350 Euston Road, London**

**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
Chris Shanley	CS	National Grid NTS
Jenny Rawlinson	JR	GTC
Jenny Higgins	JH	RWE npower
Joanna Ferguson	JF	Northern Gas Networks
Rawinder Basra	RB	Scotia Gas Networks
Simon Trivella	ST	Wales & West Utilities
Sue Davies	SD	Wales & West Utilities
Vickey King	VK	National Grid Shared Services
Wendy Taylor	WT	Scotia Gas Networks

**1. Introduction and Status Review**

BF noted that today's meeting was not quorate and therefore the meeting is informal.

**1.1. Minutes from previous Review Group Meeting**

BF explained that the minutes of the previous two meetings could not be approved until a quorate meeting was held.

**1.2. Review of actions from previous Review Group Meetings**

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

**Action Update:** BF confirmed that Ofgem had provided extracts from the Transporters Standard Special Conditions and these had been published with last months minutes. ST pointed out that the iGT licence conditions would be different. **Complete.**

**Action RG0252 0013a:** Ofgem to seek views from a small Supplier.

**Action Update:** SD confirmed that she had contacted Ofgem and suggested a few contacts for Ofgem to approach, she understood that Ofgem will be contacting the suppliers. **Carried Forward.**

**Amended Action RG0252 0023:** [National Grid NTS and Distribution to assess available material in this area and bring to the next meeting for the Review Group](#) to consider the process and timeline for serving notices.

**Action Update:** It was agreed to include this as an agenda item for the next meeting. **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:** ST confirmed that he was unable to provide a response to this action at present. He suggested that the consideration to amend Section V3.3.4 would cover this issue; he therefore suggested that this action could be closed. See item 2.2. **Closed.**

**Action RG0252 0028a:** Topic V3.3.4 exit capacity/VAR credit arrangements to be tabled at next Review Group for further discussion.

**Action Update:** See item 2.2. **Complete.**

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

**Action Update:** See item 2.3. It was recognised any change to this value would require a modification. It was agreed to consider this at the next meeting to determine what the limit should be. **Carried Forward.**

**Action RG0252 0037:** Northern Gas Network to confirm origin of table and verify if this is a published document controlled by a third party.

**Action Update:** JF confirmed that the DCUSA table is generated and published on the DCUSA website, she also noted that the institute of credit management recommend the agencies. **Complete.**

**Action RG0252 0038a:** National Grid NTS to work with NGN to capture the elements of the strawman agreed by the Review Group within the drafted proposal.

**Action Update:** CS confirmed that discussions have taken place on how best to move this forward. Consideration has been given to commercial judgement element of the proposal and whether one or two modifications may be required. It was anticipated that two modifications may be required, one which includes the commercial judgement as an alternate. See item 2.5. **Complete.**

**Action RG0252 0039:** Shippers and Ofgem consider options detailed in the independent assessment strawman and provide a view at the next meeting.

**Action Update:** See Action update RG0252 0038a and item 2.5. It was agreed to carry this item to the next meeting. **Carried Forward.**

## 2. Review Group Discussion

### 2.1 Notice Process Timeline

See Amended Action RG0252 0023.

### 2.2 Exit Capacity / VAR Credit Arrangements

ST gave a presentation he had provided at the Transmission Workstream on 03 December 2009 and intends to present to the Distribution Workstream meeting on 14 January 2010.

The presentation provided a background to UNC0116 and the introduction of VAR.

Wales and West Utilities view was that there was no justification for the differential treatments in VAR, which is not in line with the best practise guidelines, and could lead to over securitisation.

CS explained that National Grid NTS tried to mirror the requirements for exit capacity and confirmed that NTS have been looking at the text under

UNC0261. The intention was not to pursue termination if the VAR check failed. Termination action can only be taken if debt is outstanding.

ST highlighted concerns were raised in the response to 0195AV about V3.3.4. He believed that if a modification had been raised on this element alone it would not have gone through.

CS believed that UNC0261 addressed some of the risk issues raised by WWU and confirmed that its implementation has been approved. He explained that the modification will not allow capacity to lapse anymore.

ST provided a number of options to address the issues raised and welcomed feedback on these. He anticipates following feedback a proposal will be raised towards the end of January. He believed DNOs should not be subject to V3.3.4. and asked for feedback on the five options presented. WWU expressed a preference option five.

**Action RG0252 0040:** All parties to provide WWU feedback on the five amendment options presented for Section V3.3.4.

### 2.3 Consideration of £10,000 limit

Section V £10,000 limit was discussed and whether it was the right amount as the value was set prior to network sales. Consideration was given to any cases where the £10,000 hindered debt collection. RB highlighted that £10,000 applies to per transporter licence and for SGN this would equate to a total risk of £20,000, where as National Grid it remains at £10,000. The Transporters in the Review Group agreed that the level ought to be lowered. Consideration was given whether the limit ought to be linked to the winding up petition, which is much lower. ST clarified that the insolvency act covered Scotland. It was explained that the £10,000 limit was not a level of credit allowed but a trigger point at which non-payment debt could be pursued. SD clarified that DNOs are only able to pursue non-payment once it exceeds £10,000. Section S was also considered and how changing the amount may impact Section S.

The impact to all suppliers was considered. Currently the insolvency act refers to an amount of £750. Views were sought on linking the limit to the insolvency act.

JF highlighted that any pursued termination may only take place on one Network not necessarily on all Networks.

**Action RG0252 0041:** All parties to provide a view on reducing the £10,000 limit and linking it to the insolvency act (currently £750).

### 2.4 Surety and Security

The WWU Surety and Security reference table was considered. SD welcomed a view on the suggested actions. SD explained that surety is a promise to pay whereas security is a tangible asset. WWU requested a view from all parties on the suggested actions. It was agreed to include the table within the Review Group Report with a consensus view on the suggested actions.

**Action RG0252 0042:** All parties to provide a response to the Surety and Security suggested changes table provided by WWU.

### 2.5 Strawman

CS clarified that there were two separate Strawmen, one on Payment History and the other on Independent Assessments.

He provided a brief explanation on the Payment History Strawman and a view of the impacts of changing Independent Assessments.

Some concern was expressed with offering payment history and how this may encourage companies to become insolvent. The use of prepayment was discussed and the preference to this instead of payment history until an independent assessment can be undertaken.

It was agreed by those present that payment history ought to be removed.

BV asked at what point would a company be able to pursue an independent assessment. It was suggested this can be pursued at any point however it may be more worthwhile for a new start up business to operate for a number of months before pursuing an independent assessment as the assessment would be more worthwhile after a longer period of trading.

Consideration was given to market entry being accessible but also the responsibility of the whole market considering the risks.

**Action RG0252 0043:** All parties to provide a view on removing Payment History for the provision of credit.

Consideration was given to credit ratings and the value of the rating provided by Independent Assessments. It was considered whether commercial judgement ought to be included as there was the possibility that a credit rating may be provided which could result in an artificially inflated value and that a judgement may need to be made on the value afforded where a value has not been provided.

**Action RG0252 0044:** All parties to provide a view on including an element of commercial judgement when affording a level of credit solely on a credit rating without a recommended value.

### 3. AOB

SD highlighted an issue where Shippers pay invoices and keep the VAR just below 100%, questioning the intention as it appears to misusing the process without putting the Shipper in breach. This leaves DNOs exposed. It was questioned if this ought to be also be supported by security.

It was suggested that there must be a defined security limit as specified in the Code and that the Code credit limit must be above the VAR.

**Action RG0252 0045:** All parties to consider the requirement for shippers providing and adhering to a defined security method to cover an appropriate level of trading.

### 4. Diary Planning for Review Group

It was agreed to move the meeting planned for Monday 25 January 2010 at Elexon to 11:00, Thursday 28 January 2010, 31 Homer Road, Solihull following the RbD Audit Subcommittee and Standards of Service Subcommittee Meeting.

**ACTION LOG - Review Group 0252**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0252 0007	18/08/2009	2.1	Ofgem (PD) to provide an extract of the equivalent Gas and Electricity Licences.	Ofgem (PD)	Complete
RG0252 0013a	22/09/2009	1.2	Ofgem to seek views from a small Supplier.	Ofgem	Carried Forward
RG0252 0023	18/08/2009	2.1	<a href="#">National Grid NTS and Distribution to assess available material in this area and bring to the next meeting for the</a> Review Group to consider the process and timeline for serving notices.	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)	Closed
RG0252 0028a	20/10/2009	1.2	Topic V3.3.4 exit capacity/VAR credit arrangements to be tabled at next Review Group for further discussion. Further views to be provided at the next meeting before raising a modification. ST wished to understand what the risks are if it wasn't there.	Review Group	Complete
RG0252 0034	22/09/2009	2.1	Review group to consider the appropriateness of the 4.3.1(a) £10,000 limit.	Review Group	Carried Forward
RG0252 0037	19/10/2009	2.1	Northern Gas Network to confirm origin of table and verify if this is a published document controlled by a third party.	Northern Gas Networks (JF)	Complete
RG02520 038a	19/10/2009	2.1	National Grid NTS to work with NGN to capture the elements of the strawman agreed by the RG within the drafted proposal.	National Grid NTS (CS)	Complete
RG0252 0039	19/10/2009	2.1	Shippers and Ofgem consider options detailed in the independent assessment strawman and provide a view	Shippers and Ofgem (PD)	Carried Forward

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			at the next meeting.		
RG0252 0040	15/12/2009	2.2	All parties to provide WWU feedback on the five amendment options presented for Section V3.3.4.	All	Pending
RG0252 0041	15/12/2009	2.3	All parties to provide a view on reducing the £10,000 limit and linking it to the insolvency act (currently £750).	All	Pending
RG0252 0042	15/12/2009	2.4	All parties to provide a response to the Surety and Security suggested changes table provided by WWU.	All	Pending
RG0252 0043	15/12/2009	2.5	All parties to provide a view on removing Payment History for the provision of credit.	All	Pending
RG0252 0044	15/12/2009	2.5	All parties to provide a view on including an element of commercial judgement when affording a level of credit solely on a credit rating without a recommended value.	All	Pending
RG0252 0045	15/12/2009	3.0	All parties to consider the requirement for shippers providing and adhering to a defined security method to cover an appropriate level of trading.	All	Pending

## REVIEW GROUP REPORT ACTION LOG

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0252 0008	18/08/2009	2.1	Review Group to consider the introduction of additional Fitch Agency into the UNC and consider recommendations for the Review Group report.	Review Group	Review Group Report
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	Review Group Report
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)	Review Group Report
RG0252 0016a	22/09/2009	1.2	Modification to be raised to remove incorrect reference within Section V3 and V4.	Review Group	Review Group Report
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	Review Group Report
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)	Review Group Report
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	Review Group Report
RG0252 0021a	22/09/2009	1.2	Review Group to consider if the management of contact details could be done centrally.	Review Group	Review Group Report
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	Review Group Report

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0252 0025	18/08/2009	2.1	3.3.2 drafting error to be corrected – delete superfluous “V” in reference.	Review Group	Review Group Report
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	Review Group Report
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	Review Group Report
RG0252 0031	18/08/2009	2.1	Typo “an policy” to be corrected	Review Group	Review Group Report
RG0252 0032	18/08/2009	2.1	Definition Enforceable contains a typo in the last sentence change “provides” to “provide”.	Review Group	Review Group Report
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	Review Group Report