

Review of Network Operator Credit Arrangements

Amended Review Group (UNC0252) Minutes

Monday 16 November 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
Chris Shanley	CS	National Grid NTS
Denis Aitchison	DA	Scotia Gas Networks
Jenny Rawlinson	JR	GTC
Joanna Ferguson	JF	Northern Gas Networks
Mandip Grewal	MG	Northern Gas Networks
Paul Darby	PD	Ofgem
Rawinder Basra	RB	Scotia Gas Networks
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 due to the number of Shippers present that today's meeting was not quorate.

1.1. Minutes from previous Review Group Meeting

The minutes of the previous meeting were considered however it was not possible for them to be approved.

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: PD had previously provided extracts of Condition 40 and Condition 46. Members questioned if these were the correct licence extracts. Members questioned if these were the correct licence extracts. PD agreed to provide extracts from the Transporters Standard Special Conditions. **Carried Forward.**

Action RG0252 0008: Review Group to consider the introduction of additional Fitch Agencyies into the UNC and consider recommendations for the Review Group report.

Action Update: It was agreed to record this within the Review Group and close this action. **See Review Group Report.**

Action RG0252 0009a: National Grid to clarify their position with regards to being a single signatory to the UNC despite having two separate licenses for Distribution and Transmission.

Action Update: Although PL confirmed at the September meeting that National Grid Gas plc is a single signatory to the UNC, ST questioned this as the licenses are separate. ST wished to understand why National Grid is signed as one single signatory to the UNC. It was confirmed that Phil Lucas has contacted Simon Trivella. **Complete.**

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

Action Update: It was previously agreed at the September meeting to consider this either within the Review Group Report or as a modification. It was agreed to record this within the Review Group and close this action. **See Review Group Report.**

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: It was previously agreed that any change would need a modification and that the Review Group Report is to reflect that the term needs to be removed. **See Review Group Report.**

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 had previously provided an email update from Ofgem that the equivalent section in the DCUSA was clearer. It was agreed this needed to be changed for clarity and was considered as part of the Strawman. **Complete.**

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: A discussion had previously taken place on whether to remove the option to use payment history until 12 months history is available. It was agreed that a soft landing needs to be considered along with the view of small suppliers and was considered as part of the Strawman. **Complete.**

Action RG0252 0013a: Joint Office to ask Ofgem if a small supplier can be approached for a view. Action updated to Ofgem to seek views from a small Supplier.

Action Update: PD confirmed that Richard Street has agreed to discuss this offline, he will also be able to table any issues at the I&C Group Meetings. Some concern was expressed if this would capture the view of smaller Shippers particularly those actively using independent assessors. SD confirmed that she would contact Ofgem outside of this meeting to discuss possible contacts for Ofgem to approach. **Carried Forward.**

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

Action Update: It was agreed to record this within the Review Group and close this action. **See Review Group Report.**

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 record this within the Review Group and close this action. **See Review Group Report.**

Action RG0252 0019: 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.

Action Update: SD explained that if a Transporter's costs increased more than 20% then Shippers are allowed thirty days to increase credit security. However she questioned why an additional month was required when Shippers would have already had two months notice through indicative and actual notices. SD felt this should relate to Shippers cost increases not Transporters. The intention of the Best Practise Guidelines was discussed. PD believed that the Best Practise Guidelines may have been misread. It was agreed a modification would be required to correct the UNC. It was agreed to record this within the Review Group and close this action. **See Review Group Report.**

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

Action Update: It was previously agreed that V3.2.9 needs amending and should be included in the Review Group report. **See Review Group Report.**

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

Action Update: The Review Group agreed a central list ought to be maintained through a central point and this recommendation needs to be recorded in the Review Group Report. **See Review Group Report.**

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

Action Update: The Review Group discussed business days, noticing and when notices expire. It was agreed to carry this item forward to look at the references. JF believed that process mapping has been undertaken by xoserve and it may be worth reviewing this if it is available. It was agreed to add this as an agenda item for the next meeting. **Carried Forward.**

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

Action Update: It was agreed that a legal view ought to be sought prior to making a recommendation. BV confirmed that she had sought legal advise, and although this clause was legal she recommended that the group should consider removing this clause ~~has been sought advise and it was believed that this reference needs to be removed~~ and the group agreed with this recommendation. It was agreed to record this within the Review Group Report and close this action. **See Review Group Report.**

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

Action Update: It was agreed to record this within the Review Group Report and close this action. **See Review Group Report.**

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

Action Update: It was recognised some sanctions can be applied straight way and others only after five days. It was questioned if sanctions should be consistent. PD provided a view on applying consistent sanctions for portfolio capacity increases. SD explained that portfolio increases are not able to be restricted for five days after the initial two days. It was believed there should be consistency applied for late payments and VAR breach. JF highlighted the £10,000 caveat in late payment. It

was agreed that a separate UNC modification would need to be raised to align V3.3.2 (d) with S3.5.3 to amend this. It was agreed to record this within the Review Group Report and close this action. **See Review Group Report.**

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 to obtain a legal view. **Carried Forward.**

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

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

Action Update: SD suggested this may be a credit insurance policy, but it was recognised that no such credit insurance product exists. It was suggested that the reference might need to be removed or changed to a more generic known insurance term. It was agreed to record this within the Review Group Report and close this action. **See Review Group Report.**

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

Action Update: It was agreed to record this within the Review Group Report and close this action. **See Review Group Report.**

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

Action Update: It was agreed to record this within the Review Group Report and close this action. **See Review Group Report.**

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 Update: Phil Lucas provided an update for the meeting stating that Version 1 (1 March 1996) of British Gas TransCo’s Network Code, section V4.3.1 contains the £10,000 limit and he therefore has not been able to identify any specific rationale for this value that may have been apparent in Modification Reports. **Complete.**

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

Action Update: 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 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 Update: It was agreed to make a recommendation within the Review Group Report to provide further clarify and make this consistent throughout out section V and close this action. **See Review Group Report.**

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 asked if this could be carried forward. **Carried Forward.**

Action RG0252 0038: National Grid NTS to examine the DCUSA model wording for commercial judgement.

Action Update: SC believed that the DCUSA legal text should have a reference to

commercial judgement. However, JF confirmed isn't a specific reference to commercial judgement. JF confirmed that if a credit agency is not on the table it can still be used but a judgement of the equivalent credit rating would need to be made. **Complete.**

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

Action Update: To be carried forward. **Carried Forward.**

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

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

Action RG0252 0040: National Grid NTS (CS) to provide a payment history strawman based on the three options.

Action Update: See item 2.24. **Complete.**

Action RG0252 0041: Ofgem to provide a view of the extent of listed credit agencies and if this should be the same as DCUSA, currently it is limited to three agencies.

Action Update: JF was minded to include a table of 5 agencies and allow the user to select the agency they preferred. SD provided an example whereby a difference in credit limit was significantly higher with one agency compared to another. JF expressed concern that if it is limited to three agencies this would restrict choice, but recognised that a list of five ~~may~~~~would this~~ be misleading if Transporters are likely to pick the same three agencies from the five offered. JF suggested if an agency wants to be used that is not on the table, this could be allowed with a simple inclusion of some text to allow this. It was recognised that there is a need to look at the rules and how these maybe applied within the strawman. CS ~~suggested JF would like to~~ obtain views from the industry on the two options i.e. to list all five and choose, or list three and Transporters will select the lowest rating applied. PD suggested consumer opinion should also be considered if possible. PD expressed that there needs to be a mechanism that is reasonable and justifiable. It was suggested that this needs to be discussed at the next Distribution and Transmission Workstreams. See Action 0039. **Complete.**

2. Review Group Discussion

2.1 V3.3.4 Exit Capacity/VAR credit arrangements

Strawman

CS ~~introduced~~ gave a presentation on the Exit Capacity Credit Arrangements User Commitmen, which t strawman/business rules, with three options considering the Northern Gas Networks draft proposal. He provided a presentation, which provided a included extracts from some exit capacity risk analysis NG NTS had performed earlier in the year. This work sought to evaluate the need for exit to mirror the long term entry capacity credit arrangements proposed as part of Mod 0246. H, he explained that as part of this work DNOs were viewed as low risk because if a DNO was unable to pay its debts, the Energy Act Administration Arrangements meant that their obligations a were likely to be met by any replacement DNO (type of fall into a DNO at last resort scenario). However, CS explained that the risk analysis did not look at short term exit capacity risks and highlighted some areas that would need to be considered as part of any Mod developed.

CS explained that Mod 0195AV was not raised by NG but it was pointed out that

~~The V3.3.4 arrangements were carrying of~~ elements from UNC0116 that were carried into UNC0195AV. ~~was discussed and that consideration may not have been given to carrying some elements over.~~ It was questioned if Review Group 0252 was the right vehicle to discuss changes introduced by the aforementioned ~~of previous modifications, and may be out of scope.~~ DA confirmed that a draft modification had been produced to consider removing the 12 month process. It was questioned if it was right to remove DNOs as Users or if ~~the inclusion of~~ the 12 month process ~~needs to be reverted back to its original state, therefore treating all parties the same should be removed full stop.~~ It was recognised that discrimination may or may not be an issue ~~and if there is a~~ justifiable reasons for differential treatment would need to be provided.

DA challenged if there is a risk on exit capacity and that other provisions are already in place to protect the risk of investment. It was questioned if the 12 month credit process was required on exit capacity. SD suggested consideration is needed of the cost of security against the risks associated and ultimately how these costs will be funded. It was agreed the further development of the GDN draft Modification Proposal ~~se~~ should be considered at the Distribution and Transmission Workstreams.

~~It was also confirmed that Transporters are considering a modification.~~ PD agreed to provide feedback on whether the design of the best practise arrangements gave any assurance to NG NTS as to whether any related exit capacity bad debt could be recovered if more risk was introduced. ~~for further discussion.~~

~~SC-CS~~ asked if Ofgem could consider within their decision letter for UNC0261 whether the current exit capacity credit arrangements ~~and make are any~~ appropriate or not comments.

PD asked if there has ever been a default on exits capacity charges, CS acknowledged user defaults are rare events.

2.2 Payment History Strawman

BV provided a summary on the Prepayment History strawman.

~~-Option A - keep as is~~ but clarifying arrangements.

Option B – CUSC Variation The UNC £250 minor error element and reductions in payment history will be removed.

• The following CUSC (like) elements will be adopted instead:

1. The first time a late payment occurs, provided it is no later than [2] days the payment history is retained but no increase in payment history is accrued for that month.
2. The second time a User pays late (no later than [2] days) within a rolling 12 months of the first missed payment then a stepped reduction of 50% is made.
3. The third time a late payment is made (no later than [2] days) within a rolling 12 months of the first missed payment, then a 100% reduction is made.

~~-where user pays increase month on month providing invoices are paid on the due date.~~

Option C – Remove the option of Payment History from UNC or Restrict payment history to new Users only. If removal of payment history was thought to be a step too far restrict its use to new Users, discussion was also had regarding reducing the amount of credit a user could obtain via payment history.

~~Alternate to CUSC, month on month increase with a variation on terms for late payment and removal of the £250 element.~~

VK expressed concerns for new users as there is uncertainty on how much security is required in the first month. SD highlighted that there will be no payment history until the first invoice has been paid.

VK questioned if unsecured credit should be capped for new entrants.

SD questioned if payment credit history is a good indication of credit worthiness, particularly when the Transporter will be a priority supplier.

The amount of credit was discussed and the assurance of any amount not being disproportionate.

RB questioned the complexity and whether it was simpler to use payment history, for example prepayments or a letter of credit.

PD commented on the effect of removing/restricting payment history ~~balance~~ and questioned if stricter rules would hamper competition. Other market comparisons were made whereby payment history is not used.

SD highlighted new starters could demand prepayments back once an invoice has been paid and a VAR of 0% has been obtained.

PD suggested an introductory limit of credit which can be increased / topped up with other forms of credit. VK expressed concern about the level set and whether this could be higher than could have been afforded or could be afforded later on. VK suggested offering an initial amount of credit ie £10,000 with an ability to top this up with payment history.

RB believed that there was a gap and suggested that new users could prepay for six months then after six months they will be able to use payment history.

CS suggested that an interim solution could be used and reviewed at a point in the future to assess its use and any required changes.

PD highlighted that at the moment best practice refers to payment history, however he welcomed the industries considerations and acknowledged that the best practise needs to move on as it should be considered as a living document.

It was again considered that there was a need for feedback from smaller users.

RB highlighted what ever solution is chosen now needs to be fit for purpose now and it is likely that in the future this may change. Whatever solution is opted for it needs to be fit for purpose for that point in time.

It was agreed that PD would approach small shippers for their views on the payment history strawman to help the ~~enable a~~ Review Group in deciding what recommendation should ~~to be~~ put in the RG Report.

2.3 Surety and Security

SD introduced the Surety and Security spreadsheet highlighting the known references to surety, security or both within the UNC. It was questioned if there was a need to have a defined term for both. JF explained they have different meanings in law and that there will be cases when one or the other or both will be appropriate. SD explained that Security relates tangible items such as cash or assets and Surety relates to less tangible items such as a letter of guarantee. JF was unsure if the legal drafting needed to be challenged. SD believed it would be worthwhile looking at all the references to ensure that the correct term is being used. It was agreed that

WWU will review the references and provide a response on whether they believe it should be changed at the next meeting.

3. AOB

BF highlighted the need for extension to February 2010.

RB questioned who would be requesting the managing the changes identified in the Review Group Report. It was confirmed that any consents to modify or modifications are likely to be raised ~~by~~ from members of the Review Group.

4. Diary Planning for Review Group

10:00 Tuesday 15 December 2009, Elexon, 350 Euston Road, London

10:00 Monday 25 January 2010, Elexon, 350 Euston Road, London

APPENDIX A.

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)	Carried Forward
RG0252 0008	18/08/2009	2.1	Review Group to consider the introduction of additional <u>Fitch Agencies</u> into the UNC and consider recommendations for the Review Group report.	Review Group	Review Group Report
RG0252 0009a	19/10/2009	1.2	National Grid to clarify their position with regards to having one single signature to the UNC despite having two separate licenses for Distribution and Transmission.	National Grid (PL/CS)	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	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 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	Complete
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	Complete
RG0252 0013a	22/09/2009	1.2	Ofgem to seek views from a small Supplier.	Ofgem	Carried Forward

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	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 0023	18/08/2009	2.1	The Review Group is to consider the process and timeline for serving notices.	Review Group	Carried Forward
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
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 0027	18/08/2009	2.1	WWU (ST) to provide a view on whether a DNO can be terminated.	WWU (ST)	Carried Forward
RG0252 0028a	20/10/2009	1.2	Topic V3.3.4 exit capacity/VAR credit arrangements to be	Review Group	Carried Forward

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			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.		
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 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)	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 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
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)	Carried Forward
RG0252 0038	19/10/2009	2.1	National Grid NTS to examine the DCUSA model wording for commercial judgement.	National Grid NTS (CS)	Complete

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
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)	Carried Forward
RG0252 0039	19/10/2009	2.1	Shippers and Ofgem consider options detailed in the independent assessment strawman and provide a view at the next meeting.	Shippers and Ofgem (PD)	Carried Forward
RG0252 0040	19/10/2009	2.1	National Grid NTS (CS) to provide a payment history strawman based on the three options.	National Grid NTS (CS)	Complete
RG0252 0041	19/10/2009	2.1	Ofgem to provide a view of the extent of listed credit agencies and if this should be the same as DCUSA are limited to three agencies.	Ofgem (PD)	Complete