

**Review of Network Operator Credit Arrangements**  
**Review Group (UNC0252) Minutes**  
**Thursday 28 January 2010**  
**31 Homer Road, Solihull, B91 3LT**

**Attendees**

Bob Fletcher (Chair)	BF	Joint Office of Gas Transporters
Helen Cuin (Secretary)	HC	Joint Office of Gas Transporters
Bali Dohel	BDo	Scotia Gas Networks
Beverley Viney	BV	National Grid NTS
Chris Shanley	CS	National Grid NTS
Jenny Higgins	JH	RWE npower
Jenny Rawlinson (teleconference)	JR	GTC
Joanna Ferguson	JF	Northern Gas Networks
Mandip Grewal	MG	Northern Gas Networks
Paul Darby	PD	Ofgem
Simon Trivella	ST	Wales & West Utilities
Stefan Leedham	SL	EDF Energy
Sue Davies	SD	Wales & West Utilities
Wendy Taylor	WT	Scotia Gas Networks

**1. Introduction and Status Review**

BF noted that today's meeting was quorate.

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

There were no requested amendments to the minutes of the previous meeting.

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

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

**Action Update:** PD provided an update on the views from a small Supplier. SD clarified the use of Transporters Commercial Judgement; she explained that this was more about ensuring the Users unsecured credit limit is the lesser of the Independent Assessment Agencies recommended level and the amount derived using the rating provided (using the 'DCUSA table'). PD suggested that further clarity would be useful to ensure this is understood. SD also explained that payment history alone is not always a sensible way to allocate unsecured credit as it may expose the community to risk and that it would be better to consider a broader set of information on how all suppliers are paid, not just how they pay a core service provider. CS suggested that the Initial view of the Review Group (to remove payment history) be reconsidered, and proposed limiting the period to two years and for it to be applicable only to new entrants to the gas market. BV highlighted if a company is completely new it is likely that it will not be able to get an independent assessment, she suggested allowing new entrants use payment history for a short term to build up a credit history. SD also suggested that prepayment could be considered for new entrants as it is not unreasonable to expect a business to be in a position to

have sufficient funds to operate. PD acknowledged the risks to the industry from new entrants and he suggested obtaining a legal view to mitigate concerns of obtaining information on new entrants liabilities. CS suggested the revised approach addresses the concerns raised around restricting competition, but puts more controls around it. New entrants would only be able to build up a lower amount of unsecured credit (2/5 of previous maximum) and will need to find an alternative form of credit after 2 years. There was a general consensus of a need to change Payment History and the need for a modification in line with the revised approach. **Complete.**

**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:** See item 2.6. **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 and Action RG0252 0041. It was agreed that further consideration will be given to raising a modification. **Closed.**

**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 0013a update. **Complete.**

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

**Action Update:** SL suggested out of the five options to take out the GDNs due the use of a supplier of last resort. He highlighted his concerns with regards to Shippers project risk. ST suggested that two proposals could be submitted one to remove DNOs as Users from V3.3.4 and another to remove DNOs as Users from V3 and V4. PD questioned whether the Best Practise guidance provided any clarity and whether further consideration of what could be included in the Best Practise Guidelines ought to be considered. **Complete.**

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

**Action Update:** See item 2.3. It was agreed that further consideration will be given to raising a modification.

**Carried Forward.**

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

**Action Update:** SD confirmed that National Grid Transmission had provided a response, it was agreed that National Grid and WWU legal representatives will discuss this further. **Carried Forward.**

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

**Action Update:** See action update 013a. There was a general consensus of a need for change and the need for a modification. **Complete.**

**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.

**Action Update:** JF see item 0013a and item 2.5. **Complete.**

**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.

**Action Update:** SD explained the use of cash calls on VAR and that there is a loophole that allows Shippers to use cash payments as a method of credit without providing any security as defined in UNC Section V. This was not thought to be the intention of the UNC. See item 2.2. It was agreed a modification proposal would be considered to address this loophole. **Complete.**

## 2. Review Group Discussion

### 2.1 Exit Capacity Credit Arrangements (UNCTPD V3.3.4)

No further update. See item Action 0040. ST suggested that two proposals could be submitted one to remove DNOs as Users from V3.3.4 and another to remove DNOs as Users from V3 and V4. Support for the aforementioned option was provided by some RG Members. Consideration needs to be given to raising an appropriate modification(s).

### 2.2 VAR Credit Arrangements

SD explained that the use of cash call payments enable an insolvency manager to demand any cash payments back and therefore exposes the industry to risk.

SD asked for views on whether tighter requirements around the use of VAR Credit Arrangements were required.

It was agreed that a Shipper ought to be obliged to have in place one or more of the available methods of security or unsecured credit and at an appropriate level. PD asked what additional sanctions would need to be put in place. JF suggested a restriction on increasing portfolio size was an incentive that could be applied but only if the code was made clearer.

It was agreed a modification proposal would be considered to address this.

### 2.3 Consideration of £10,000 limit

SD provided a brief background to the agenda item and whether this ought to be linked to the insolvency figure (£750).

SL questioned the limit in relation to the revenue collected by Transporters (very small).

JF explained the potential exposure to the industry of £50,000 of overdue invoice debt across all the Networks. She also highlighted that there are costs to administering a process to manage overdue invoiced debt below £10,000.

Concern was expressed about the system being played and the risk to the industry. CS was keen to remove the loopholes in the process and reduce the ability for Shippers to be exposed to the costs of a default.

PD expressed concern for small businesses and how a change to tighten limits may be factored into their financial capacity. It was recognised that a reduction in the limit will not necessarily mean action to terminate the User will be taken but lowering the figure to £750 provides a trigger where action can be taken.

It was agreed that further consideration would be given to raising a modification.

### 2.4 Payment History

The RG discussed the suggestion that Payment History be restricted to new entrants and to a maximum of 2 years. CS recognised the concerns raised by GTs that it was safest to remove payment history and suggested that any changes to the process can be reviewed again in the future to measure the use of Payment History.

JH asked if the calculation of Payment History and payments could be changed to restrict the amount available when using payment history. The proposal acts to do this but is consistent with the current calculations.

General administration errors was briefly considered with a 2 days grace period similar to CUSC whereby the credit limit will not be penalised for an admin error, however interest would be charged and the credit limit would not be increased for the next month.

Following the views of Ofgem and consideration of smaller Shippers it was proposed that payment history is restricted to new entrants for a maximum of 2 years. The Review Group also considered a soft landing on administration errors in line with the CUSC was appropriate.

There was a general consensus of a need for change and the need for a modification in line with the proposed approach.

Consideration was also given to an information leaflet on the options available for new entrants credit.

## 2.5 Commercial Judgement

JF reiterated how she envisaged the Commercial Judgement operating; she explained this would be a lesser of rule selection from the information provided by an Independent Assessment. She indicated that the draft modification would be amended to clarify this point.

BF asked if a party would be writing to Opus to explain what was considered as Commercial Judgement and that this is not a judgment of Transporters affording a level of credit they believed appropriate but using a lesser of rule from the provided Independent Assessments.

## 2.6 Notice Process Timeline

CS provided a spreadsheet on the varying notices and the time periods applied. He was keen to receive feedback on the use of notice periods particularly whether these have been used and/or any feedback on the experience of managing notice timescales. It was agreed to reconsider any issues raised at the next meeting.

**Action RG0252 0046:** All to consider Notice Process Timelines and provide feedback on operational experiences.

SL highlighted Section V3.2.9 and 3.2.10 and explained difficulties could be encountered depending on what has caused the need for a credit change, he explained the shorter the period to provide payment, the more costly it is to do so.

V3.2.11 was also considered SL explained that the period is difficult to achieve. SD suggested a change to the wording to reflect that it should be for portfolio increases not transportation charges.

## 2.7 Surety and Security

No further update. See item Action 0042.

## 2.8 Review Group Report

The Review Group considered the Review Group Report along with National Grid NTS suggested amendments and comments.

It was agreed that any minor changes could be incorporated into a bespoke modification and that it would be ideal to keep the number modifications for minor changes as low as possible. Consideration was given to incorporating minor changes within a non-minor modification but concern was expressed that minor changes may fall over if grouped within another modification.

PD questioned if removing GDNs from V3 & V4 had any implications to iGTs. It was recognised that there would be no implications. BF asked about the intentions of iGTs in relation to the UNC amendments. JR confirmed that any amendments will be considered in relation to the iGT Code and mirror any appropriate changes.

The Review Group updated the Review Group Report for further consideration at the next meeting. As a result of discussions the following actions were recorded:

**Action RG0252 0047:** Ofgem to provide details on the publication of RAV – and a link to Ofgem’s web page.

**Action RG0252 0048:** Review Group to consider Section S in line with changes to Section V.

## 3. AOB

It was questioned if the Billing Operations Forum planned for 23 February 2010 could be moved to follow the next Review Group Meeting on 22 February 2010.

**Post Meeting Note:** Due to another operational meeting following the Billing Operations Forum it may not be possible to move the two meetings and allow sufficient time for each meeting.

## 4. Diary Planning for Review Group

Monday 22 February 2010, at 10:00, 31 Homer Road, Solihull, B91 3LT.

**ACTION LOG - Review Group 0252**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
RG0252 0013a	22/09/2009	1.2	Ofgem to seek views from a small Supplier.	Ofgem	Complete
RG0252 0023	18/08/2009	2.1	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.	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	Closed
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)	Complete
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	Complete
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	Carried Forward
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	Carried Forward
RG0252 0043	15/12/2009	2.5	All parties to provide a view on removing Payment History for the provision of credit.	All	Complete
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	Complete

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
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	Complete
RG0252 0046	28/01/2010	2.6	All to consider Notice Process Timelines and provide feedback on operational experiences.	All	Pending
RG0252 0047	28/01/2010	2.8	Ofgem to provide details on the publication of RAV – and a link to Ofgem’s web page.	Ofgem (PD)	Pending
RG0252 0048	28/01/2010	2.8	Review Group to consider Section S in line with changes to Section V.	Review Group	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