

UNC Workgroup 0360 Minutes
Removal of Credit Rating Restrictions from Definition of Parent Company
Tuesday 15 March 2010
via Teleconference

Attendees

Bob Fletcher (Chair)	BF	Joint Office
Helen Cuin	HC	Joint Office
Beverley Viney	BV	National Grid NTS
Chris Hill	CH	First Utility
Chris Warner	CW	National Grid Distribution
Dimuthu Wijentunga	DW	RWE npower
Joel Martin	JM	Scotia Gas Networks
Jon Dixon	JD	Ofgem
Mandip Grewal	MG	Northern Gas Networks
Sue Davies	SD	Wales & West Utilities
Simon Trivella	ST	Wales & West Utilities
Tim Davis	TD	Joint Office

1. Introduction

BF introduced the meeting and explained the Workgroup process.

2. Outline of Modification

CH introduced the modification. He explained that the purpose of the modification is to allow companies without an approved a credit rating to use a parental company guarantee.

National Grid Distribution confirmed that they expect to have Draft Legal text ready available by the 16 March 2011.

3. Consider Terms of Reference

CH suggested that the Terms of reference might have to be expanded to include the outcomes of the discussions. BF suggested that this would be included in the Workgroup Report. No further comments were received on the Terms of Reference.

4. Discussion

CH highlighted one impact due to the implementation of the recent credit related modifications which may want to be considered under this modification, is to small suppliers on the basis that a parental guarantee wouldn't fix the clause in Section V3.17. The Transporter will set the Users Unsecured Credit Limit no higher than the lower of the credit value recommended within the Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transport's Maximum Unsecured Credit Limit. He suggested that certain elements of the table could be changed or removed to allow smaller suppliers the opportunity to compete

on the same basis as larger suppliers.

ST explained the use of the table; he believed that the justification of the table remains valid however consideration may wish to be given on removing the percentage link to RAV. He believed that there would be a marginal increase in the risk as the modification stands. However, removing the lesser of rule this would expose industry participants to a further level of risk. Nevertheless if the industry wishes to accept this risk, the rule could be removed. He explained that affording a Parental Company level of credit would increase Transporters risk but this would be manageable. ST did not believe that the independent assessment was a barrier to entry.

BF highlighted that two representations were received and both supported the modification. Opus Energy believed that current restrictions penalise smaller suppliers and that removing the restriction should reduce the credit costs of smaller suppliers and therefore increase competition and lower barriers to entry. Scottish Power also believed that relaxing the current provisions should reduce barriers to entry for smaller shippers without necessarily creating any greater risk exposure.

CH confirmed his intention to amend the modification to remove the paragraph below the table in Section V3.17 or come to a mid point compromise. He believed that the lower value rule is more of a barrier to entry than the PCG rule. BV asked if First Utility do amend the modification if they could also include a statement on the justification and how the change would meet the best practice guidelines. ST also asked First Utility to consider the justification of Transporters potentially allowing a higher level of credit.

JD explained that comments have been made that the inclusion of a Parental Company Guarantee would not assist all Shippers and that the lesser of rule is inhibiting them. He was concerned that there is an issue that independent assessments may be higher from one assessor to another and that there is no relation to percentage of RAV. Ofgem looked to have something that was robust and workable and suggested the group consider the implication of the lower value rule. It was questioned if independent assessments were appropriate for the gas industry in this context.

CW advised that if the modification is amended this would change the scope of the modification. JD asked if the current modification was acceptable if the scope of the modification ought to be changed or if a separate modification should be considered. He suggested that reassessing the table may take some time and may be better to allow the current modification to continue allowing further time to consider the lesser of rule in more detail. He suggested that the two very distinct issues would be easier to assess by Ofgem if separate. ST agreed that the two issues are separate issues and would be better addressed under two modifications, especially if the one element could be put at risk of delay by the other.

There was a general agreement to have a separate modification to address the lesser value rule and that the Workgroup Report could be considered and finalised for the existing modification for the April Panel meeting. It was anticipated that the Workgroup would consider a draft Workgroup Report on 24 March 2011 with a view to approving the Report on the 05 April via teleconference.

5. AOB

None raised.

6. Diary Planning for Review Group

Next meetings:

24 March 2011, at Elexon, 350 Euston Road, London, during the Distribution Workgroup
 09:00 05 April 2011 via teleconference

ACTION LOG – Workgroup 0360

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update