

UNC Workgroup 0585 Minutes
Separation of NTS and National Grid owned networks -
Calculation of Code Credit Limit and Value at Risk
Thursday 23 June 2016
at Elexon, 4th Floor, 350 Euston Road, London. NW1 3AW

Attendees

Angela Love	(AL)	ScottishPower
Andy Clasper	(AC)	National Grid Distribution
Bob Fletcher (Chair)	(BF)	Joint Office
Chris Warner	(CW)	National Grid Distribution
Colette Baldwin	(CB)	E.ON UK
David Byrne*	(DB)	National Grid Distribution
David Mitchell*	(DM)	Scotia Gas Networks
Edd Hunter	(EH)	RWE npower
Fraser Mathieson	(FM)	Scotia Gas Networks
Gareth Evans*	(GE)	Waters Wye Associates
John Burke	(JB)	National Grid Distribution
Kirsten Elliott-Smith*	(KES)	Cornwall Energy
Lorna Lewin	(LL)	DONG Energy
Mark Jones*	(MJ)	SSE
Mike Berrisford (Secretary)	(MB)	Joint Office
Phil Lucas	(PL)	National Grid NTS
Rachel Hinsley	(RH)	Xoserve
Richard Fairholme*	(RF)	Uniper
Richard Pomroy*	(RP)	Wales & West Utilities
Sean Hayward	(SH)	Ofgem
Vickey King	(VK)	National Grid Distribution

* *via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0585/230616>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 July 2016.

1.0 Outline of Modification

CW introduced the modification and explained that it seeks to identify Credit Management related changes to the UNC Transition Document to enable the calculation of the Code Credit Limit and subsequent determination of the Value at Risk immediately following the hive-across date.

2.0 Initial Discussion

2.1. Initial Representations

None received.

2.2. Issues and Questions from Panel

None raised.

2.3. National Grid Distribution Presentation

Opening, CW explained that the modification is seeking to smooth the pathway for Shippers through the transition period, which is being supported by a significant stakeholder engagement exercise.

When asked, CW suggested that a Shippers security needs to be above their VAR and explained that the current credit rules are significantly different to those in place at the time of the previous DN sales exercise.

In considering the 'Principles' slide, CW advised that the modification is not looking to change (undermine) the current unsecured credit rules and is only proposing a solution for the 1st month following the separation, which then falls away thereafter.

VK pointed out that the modification is only needed for Distribution purposes, as the Transmission code credit arrangements will continue 'as-now'. She went on to add, that the matter is fundamentally an invoice timing issue which the National Grid Credit Team is currently investigating (VAR aspects) in order to split out the Distribution / Transmission mix before engaging with impacted parties on a one-to-one basis. When asked, VK agreed that there is a small possibility that Shippers could be 'double exposed' for the first month until a separate VAR is established on revised values for November for each of National Grid Gas Distribution and National Grid NTS.

VK agreed to provide the 19 October 2015 supporting analysis to anyone wishing a copy before providing a brief background to the rationale behind the modification explaining how the current credit processes are supported by National Grid Support Services and how going forwards the process will be fully supported by a credit team in each of the businesses.

2.4. Examples of Deemed VAR Calculation

VK explained that this type of information is / will be available to each Shipper independently and she expects that one-to-one discussions with impacted parties will commence in August 2016, including email and telephone based contact.

Some concerns were voiced around the potential impact of a deferral of the Project Nexus Implementation Date (PNID). Discussion then focused on how engagement with the smaller shipper community is envisaged to which CW responded by indicating that he would be more than happy to provide the presentation to any industry group – KES advised that she would look to discuss the matter with her contacts and get them to contact CW direct to discuss their specific matters in more detail with NGD.

In providing a brief explanation around how 'letters of credit' changes would be needed, VK hoped that information relating to this matter would be provided sooner, rather than later. CW supported this by advising that in offline discussions with Ofgem, NGD has requested a timely decision – the aim being to submit the Workgroup Report to the 21 July 2016 Panel followed by an appropriate consultation period and presentation of the Final Modification Report at the 18 August 2016 Panel meeting. Thereafter, Ofgem have in theory 25 business days in which to make a decision on the modification, although National Grid are anticipating a decision sooner than 25 Days.

When concerns relating to impacts on the financial institution processes and mechanisms were voiced, CW responded by advising that a letter would be issued to Shippers in the near future. VK went on to explain that where financial institutional investment concerns are identified (i.e. down grading credit rating etc.), National Grid Distribution would engage with the impacted parties concerned. She then pointed out that the National Grid NTS credit provisions would remain 'as-are'.

When asked whether the modification is actually needed, CW explained that it is needed in order to address any VAR and breach concerns, and a 'proxy value' would be included within this (limited scope) modification – in short, it is all about stakeholder engagement and managing the transition arrangements.

When concerns were raised around shippers potentially incurring costs for something that has no direct benefit to them and feels like an 'a fait accompli', an alternative option of not enforcing the breaches and therefore not requiring additional security was broached. Responding, CW advised that whilst this had been considered, it had been discounted on the grounds that it carries a significant risk and involves a significant process burden should a party default during the transition process.

When it was suggested that National Grid could / should look to 'cover off' any credit risks at a Group level, rather than having an impact on the shipper community, VK explained that this would not be possible as the National Grid hierarchical structure would not support this. Supporting this, BF suggested that it is also heavily dependent upon where the liabilities are secured and licence impacts (e.g. National Grid Metering etc.).

Moving on, VK advised that from analysis undertaken so far, indications suggest that circa 2% of 113 impacted parties would need to post additional credit for the month – this is based on confidential data from October 2015 and as a consequence, the actual figures could change slightly. In short, 98% of parties have sufficient credit cover (by unsecured means).

When asked, BF explained that the modification would also be discussed at the 07 July 2016 Transmission Workgroup meeting.

2.5. Consideration of Draft Workgroup Report

During an onscreen review of the draft Workgroup Report, changes were made in response to Workgroup discussions.

The following points of interest were raised:

- Workgroup consensus is that this is NOT a self-governance modification;
- whilst the 'Implementation Section' should really have 2 alternate and 1 backstop date, it was accepted that the statement provided is sufficient;
- there are no User Pays impacts;
- the modification satisfies the 'greater good' of the industry;
- as far as the relevant objective is concerned, some parties felt that the modification could be seen as detrimental to competition on the grounds that costs are disproportionately increased for some shippers, for the one month transition period, and
- NGD to provide Legal Text Commentary and confirmation of whether or not the legal text is the 'final' version prior to further consideration of the draft Workgroup Report at the 07 July 2016 Transmission Workgroup meeting.

The Workgroup concluded that subject to discussions at the Transmission Workgroup on 07 July 2016, the modification is suitable to go out to consultation at the 21 July 2016 Panel meeting.

3.0 Next Steps

BF advised that the draft Workgroup Report would now be considered (and signed off) at the 07 July 2016 Transmission Workgroup meeting.

4.0 Any Other Business

None.

5.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:30 Thursday 07 July 2016 (Transmission Workgroup)	Elexon, 4 th Floor, 350 Euston Road, London. NW1 3AW	• Completion of Workgroup Report