

Uniform Network Code Modification Panel

Minutes of the 99th Meeting

Held on Thursday 19 August 2010

Members Present:

Transporter Representatives: C Shanley (National Grid NTS), A Raper (National Grid Distribution), J Martin (Scotia Gas Networks), J Ferguson (Northern Gas Networks) and S Trivella (Wales & West Utilities)

User Representatives: A Bal (Shell), C Wright (British Gas Trading), P Broom (GDF Suez), S Rouse (Statoil) and S Leedham (EDF Energy)

Consumer Representative: R Hall (Consumer Focus)

Ofgem Representative: J Dixon

Joint Office: T Davis (Chair) and B Fletcher (Secretary)

Observers Present: C Cameron (Ofgem), G Evans (Waters Wye), J Vignola (Centrica Storage), L Kerr (ScottishPower) by teleconference and R Fairholme (E.ON UK)

99.1 Note of any alternates attending meeting

P Broom for A Bal (Shell) until 10.30am, C Shanley for R Hewitt (National Grid NTS), A Raper for C Warner (National Grid Distribution) and J Martin for A Gibson (Scotia Gas Networks)

99.2 Record of Invitees to the meeting

None

99.3 Record of apologies for absence

A Gibson, C Warner and R Hewitt

99.4 Receive report on status of Urgent Modification Proposals

None

99.5 Consider New, Non-Urgent Modification Proposals

a) Proposal 0294 - Changes to UNC Modification Panel Constitution

CWr explained the Proposal was being reconsidered in light of the range of changes to the Modification Rules which were being progressed through other Proposals. The intention was to bring a revised Proposal to a subsequent meeting. The Panel determined UNANIMOUSLY to defer consideration of this Proposal.

b) Proposal 0318 - Code Governance Review: The approach to be taken when raising alternative Modification Proposals

C Shanley indicated that this Proposal, and others related to the Codes Governance Review, were likely to be amended in light of comments received following publication of the latest versions of the Proposals and draft legal text. He indicated that the intention was to bring revised Proposals to the September Panel meeting, and that further comments would be welcome.

T Davis suggested that, in light of the extent of the changes proposed, it may be beneficial to arrange a meeting to review the consolidated legal text. Members agreed with this view and felt it would help clarify the process and drafting before formal submission of the Proposals to Panel. C Shanley agreed to consider whether this could be arranged within the timetable.

R Hall noted an anomaly in the legal text whereby an invitee could be invited to a meeting but not be allowed to participate. It was advised this was present in the existing rules, although the Review provided an opportunity to address this. G Evans suggested it would be appropriate to change the rules to reflect best practice, which he expected would be to allow the Chair discretion.

C Wright drew attention to the Licence obligation to establish a modification process that allowed alternative to be raised. He questioned whether Proposal 0318 was compliant with this since it would prevent alternatives being raised in the case of proposals that are issued directly to consultation

S Leedham suggested that it was unclear whether Proposals 0322 and 0325 provided for the charging methodology forums to be subject to UNC governance rather than being Transporter managed forums. C Shanley and A Raper agreed to review the Proposal and ensure this was clarified.

Panel Members determined UNANIMOUSLY (P Broom for A Bal) to defer consideration of Proposal 0318.

- c) Proposal 0319 - Code Governance Review: Role of Code Administrators and Code Administration Code of Practice

Panel Members determined UNANIMOUSLY (P Broom for A Bal) to defer consideration of this Proposal.

- d) Proposal 0320 - Code Governance Review: Appointment and Voting Rights for a Consumer Representative and Independent Panel Chair

Panel Members determined UNANIMOUSLY (P Broom for A Bal) to defer consideration of this Proposal.

- e) Proposal 0321 - Code Governance Review: Approach to environmental assessments within the UNC

Panel Members determined UNANIMOUSLY (P Broom for A Bal) to defer consideration of this Proposal.

- f) Proposal 0322 - Code Governance Review: Inclusion of the NTS Transportation and Connection Charging Methodologies within the UNC

Panel Members determined UNANIMOUSLY (P Broom for A Bal) to defer consideration of this Proposal.

g) Proposal 0323 - Code Governance Review: Self Governance

Panel Members determined UNANIMOUSLY (P Broom for A Bal) to defer consideration of this Proposal.

h) Proposal 0324 - Code Governance Review: Significant Code Reviews

Panel Members determined UNANIMOUSLY (P Broom for A Bal) to defer consideration of this Proposal.

i) Proposal 0325 - DN Transportation Charging Methodology and Change Governance

A Raper advised the charging statement is still under development and asked if Panel could defer consideration.

Panel Members determined UNANIMOUSLY (P Broom for A Bal) to defer consideration of this Proposal.

j) Proposal 0326 - Allocation of unidentified gas following the appointment of the Allocation of Unidentified Gas Expert (AUGE)

L Kerr introduced the proposal and advised that it aimed to introduce a process to allow the retrospective reconciliation of issues raised under the AUGE process.

P Broom asked how such an issue would be identified? L Kerr suggested that there was no certainty about what might be identified by the AUGE. However, issues analogous to a significant meter error could be identified and treated in the same way – identifying the amount of gas involved over the period impacted. It was down to the AUGE to identify and advise of the significance of any such issue. L Kerr also considered the proposal should be limited by a 4 to 5 year backstop rule in UNC.

P Broom asked how an issue would be billed back. L Kerr envisaged this would work in a similar way to meter errors; there should be no changes to xoserve's current processes. P Broom asked why use the process to adjust back rather than adjust invoices going forward, since the suggested approach would create a windfall gain. L Kerr did not agree – seeing the process as applying the correct cost to the relevant market.

T Davis asked if the proposal is clear or needs further development. S Trivella was unsure how the retrospective charging would work in practice; this is not clear in the Proposal and could cause implementation issues in its current form. C Shanley felt it was unclear how new issues are identified and managed. A Raper thought it would be useful to understand the trigger and how the AUGE is instructed/informed there is an issue. He was also concerned that legal drafting would be difficult and likely to require a large number of assumptions in the absence of detail within the Proposal.

G Evans asked whether an approach based on the Meter Error Reporting process should be developed in its own right. In essence, however, he

saw the proposal as expanding the query element of the AUGE process.

JD requested that legal text to be developed with the proposal for consideration by the industry prior to submission to the Panel.

Panel Members failed to determine that the Proposal should proceed to Consultation, with no votes cast in favour. The Proposal was therefore referred to the Distribution Workstream for assessment and the Workstream was requested to report to the November Panel.

k) Proposal 0327 - Alternative to Interim Allocation of Unidentified Gas Costs

C Wright introduced the proposal, requesting Panel to note the aims of the proposal are similar to UNC0317A in terms of populating a number in a table.

J Ferguson asked how reconciliation was envisaged to work at the end of year one. T Davis asked if this needed to be specified in the proposal, and J Ferguson suggested that, rather than this, it was an implementation issue.

G Evans asked if evidence supporting the calculations and adjustments to the table could be provided. P Broom suggested the principle underlying the Proposal, which relied on one party's view of the evidence, had been rejected previously when Proposal 0228 had been rejected. Given this, he was concerned that taking the Proposal forward may not be an efficient use of time. A Bal was concerned both about the independence of the evidence behind the proposal and the retrospective adjustment of values, which should generally be avoided as a matter of principle.

J Dixon indicated that the provision, or otherwise, of robust supporting evidence was likely to be a critical element in Ofgem's decision-making process. C Wright agreed to investigate the evidence that could be made available for publication.

Panel Members determined UNANIMOUSLY that the Proposal should proceed to the Consultation phase. Panel Members did not determine that legal text was required for inclusion in the Draft Modification Report with no votes cast in favour.

l) Proposal 0328 - Proposal to amend Annex A of the CSEP NEXA by replacing the current version of the AQ Table

L Kerr introduced the proposal. Following recent discussions of a mirror proposal at the it UNC Panel, minor changes to the proposal were likely and hence she requested that the Panel defer consideration of the Proposal.

R Hall asked if the revised values were intended to apply from 1st October, since that did not look achievable. S Trivella advised that implementation is likely to be aligned with the iGT implementation date, which will not be in October. L Kerr confirmed the date was not critical.

S Leedham asked if the table applied for new iGT connections only, which L Kerr confirmed. S Leedham then queried why it was not proposed that the UNC equivalent table should change. L Kerr confirmed that the intent of the Proposal was deliberately narrow and focussed solely on the CSEP NExA table.

C Shanley suggested the proposal should explicitly state that it does not apply to NTS CSEP NExAs.

Panel Members determined UNANIMOUSLY to defer consideration of this Proposal.

99.6 Consider New Proposals for Review

Review Proposal 0329 - Review of Industry Charging and Contractual Arrangements in Relation to Supply Point Offtake Rates (SHQs) and Supply Point Capacity (SOQs)

Following a presentation from J Martin and a discussion, the Panel voted UNANIMOUSLY for the Proposal to proceed to Review. The Review Group was requested to report by the February 2011 Panel. It was agreed that Terms of Reference, for Panel approval, would be considered at the initial meeting.

Both P Broom and G Evans were concerned to identify the issue of concern, since there had been no regime change which might have produced unintended consequences. S Trivella advised that incentives should be in place to ensure SHQs are not over stated since this could drive uneconomic network reinforcement. S Leedham asked how NExAs would be covered in this review. J Martin did not object to them being included within the scope, but noted the issues may be different.

R Hall asked if consumer bodies could be invited to support the Review Group, especially large energy users, since they may be affected.

99.7 Consider Draft Modification Reports

Proposal 0317 / 0317A - Interim Allocation of Unidentified Gas Costs

The Panel noted that legal text had been provided within the Draft Modification Report, which would now be issued for consultation.

99.8 Consider Terms of Reference

None.

99.9 Existing Modification Proposals for Reconsideration

Proposal 0231V - Changes to the Reasonable Endeavours Scheme to better incentivise the detection of Theft

Panel members determined UNANIMOUSLY to defer consideration of this Proposal.

99.10 Consider Variation Requests

None.

99.11 Consider Workstream Monthly Reports

Workstream Reports for Consideration

Proposal 0281 - Introduction of an Implementation Timeframe for Modification Proposals

Panel Members accepted the Workstream Report. The Panel determined UNANIMOUSLY for the Proposal to proceed to Consultation. The Panel did not determine that legal text was required, with no votes cast in favour. The Panel then determined UNANIMOUSLY that consultation should be extended to 20 Business Days.

Extensions Requested

- a) Proposal 0277 - Creation of Incentives for the Detection of Theft of Gas (Supplier Energy Theft Scheme)

Following a request, the Panel voted UNANIMOUSLY to extend the time for the Development Group to report until November 2010.

- b) Proposal 0291 - NTS Licence Special Condition C27 - Balancing Arrangements

Following a request, the Panel voted UNANIMOUSLY to extend the time for the Development Group to report until November 2010.

- c) Proposal 0296 - Facilitating a Supply Point Enquiry Service for Non-Domestic Supply Points

Following a request, the Panel voted UNANIMOUSLY to extend the time for the Development Group to report until November 2010.

99.12 Consider Final Modification Reports

- a) Proposal 0297 - Extending Rights to Protected Information Provisions for Meter Asset Managers / Registered Metering Applicants

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that nine representations had been received, all supporting implementation. He summarised that the Proposal sought to authorise the release of protected information to Meter Asset Managers (MAMs) and Registered Metering Applicants (RMAs). As a facilitating proposal, subsequent developments may authorise the release of data, but there would be no change in data provision solely as a result of implementing the Proposal.

If additional data were to be released, this would improve the information available to MAMs and RMAs, potentially facilitating competition. Implementing this Proposal would remove a barrier to delivery of these benefits, and hence implementation would be consistent with facilitating the *code relevant objective* the promotion of efficiency in the implementation and administration of the network code and/or the uniform network code.

Members supported this summary.

- b) Proposal 0298 - RG0252 Proposal 1: Amend and remove UNC TPD Section V3 text inconsistencies, errors and bi-lateral insurance clause

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that eleven representations had been received, of which seven supported implementation, two offered qualified support, and two offered comments. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0298 seeks to clarify the credit provisions by addressing some inconsistencies and errors. This included deleting references to bilateral insurance, a potential product that may create confusion since no provider had been identified and there is no clear understanding of what the product would involve. However, there was a concern that the proposed changes may themselves introduce uncertainty by introducing a materiality test without a defined threshold. Introducing uncertainty into the market does not facilitate competition, and hence it could be argued that this aspect does not facilitate the Code Relevant Objectives.

Members supported this summary.

c) Proposal 0299 - RG0252 Proposal 2: Alignment of portfolio sanctions across UNC TPD Sections V and S

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The eleven Voting Members present determined by PANEL MAJORITY to recommend implementation of the Proposal, with the following ten Members voting in favour: R Hall, A Bal, C Wright, S Leedham, S Rouse, C Shanley, A Raper, J Ferguson, J Martin and S Trivella.

T Davis noted that eleven representations had been received, of which nine supported implementation, one offered qualified support, and one opposed implementation of the Proposal. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0299 seeks to reduce the period after which sanctions can be applied when a User's Value at Risk exceeds 100% of the User's Code Credit Limit. This is presently five business days

and would be reduced to one. This would be expected to reduce the likelihood of continuing User indebtedness without appropriate credit cover, and hence implementation would strengthen the credit arrangements and facilitate the securing of effective competition. However, it could also be argued that the restriction to just one business day would be unduly harsh and not allow Users sufficient time to make alternative arrangements.

In addition to strengthening the credit arrangements, implementation would align the credit requirements in Sections S and V of the UNC. This would facilitate a single process being in place, such that implementation would be consistent with promoting efficient implementation and administration of the UNC.

Members supported this summary.

d) Proposal 0300 - RG0252 Proposal 3: Introduction of Fitch as an allowable Credit Rating Agency for the purposes of Code Credit Arrangements

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that eleven representations had been received, of which nine supported implementation, one offered comments, and one opposed implementation of the Proposal. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0300 seeks to introduce Fitch Ratings as an allowable credit rating agency for the purpose of obtaining an unsecured Code Credit Limit. This would enable Users with a Fitch rating to secure similar credit to those relying on other rating agencies. The extension of choice could therefore help to ensure that there is no inappropriate discrimination and so facilitate effective competition. However, the Transporters may incur additional costs in order to use Fitch Ratings when assessing credit. This cost will be met by Users and, ultimately, customers. Since no quantification of the costs or benefits has been provided, some respondents had noted that the costs may exceed the benefits such that implementation would not be appropriate.

J Ferguson clarified the costs for provision of Fitch reports, advising a basic service, which provides the required rating, is free. R Fairholme noted that the EBCC utilise a premium service to support their requirements. This has cost implications, and the cost is passed on to

Users. J Ferguson confirmed it is not Northern Gas Network's intention to use a chargeable service since the necessary information is readily available at no cost.

S Leedham suggested that the Proposal might have a negative impact on Users when a rating is downgraded since reliance would be placed on the lowest rating. If Fitch were the first to record a downgrade, the effect of implementation would be negative for the User concerned. Other Members recognised this but felt this could also be regarded as a positive for other Users as it may provide earlier warning of potential issues.

- e) Proposal 0301 - RG0252 Proposal 4: Removal of the use of Specially Commissioned Ratings for the purposes of obtaining an Unsecured Code Credit Limit

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that eleven representations had been received, of which ten offered support for implementation and one offered comments on the Proposal. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0301 seeks to remove Specially Commissioned Ratings as an acceptable tool for obtaining an Unsecured Credit Limit. This would remove one route for securing unsecured credit. Since Specially Commissioned Ratings may be considered more risky than other ratings, this may be regarded as improving the UNC credit provisions and so facilitating effective competition. However, removing an opportunity on which some Users may otherwise rely may also be regarded as a barrier to effective competition.

P Broom questioned the impact of this proposal coupled with 0305 and questioned whether there was a risk that too many options/tools might be removed. J Ferguson suggested that obtaining a specially commissioned rating was a particularly expensive option, particularly for new businesses, such that it was not used in practice.

S Leedham noted that the Panel had previously recommended the modification which implemented this tool and questioned what was now different. C Shanley suggested that since no parties had used the process, there was no case for leaving the tool in place.

J Dixon questioned how this proposal, and others in the series, would be reconciled with Ofgem's published best practice guidelines. C Shanley

believed that the guidelines suggest best practice should be continually reviewed, and the proposals reflected this process. S Trivella added that a letter had been sent to Ofgem requesting the guidelines be reviewed and amended.

f) Proposal 0302 - RG0252 Proposal 5: Definition of Regulatory Asset Value (RAV) when calculating Maximum Unsecured Credit

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that twelve responses had been received, of which eleven supported implementation of the Proposal and one offered comments. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0302 seeks to change the UNC definition of Regulatory Asset Value from that published by Ofgem from time to time, to that set for each price control, updated to current prices. This would ensure that maximum secured credit limits based on a proportion of RAV would reflect an up to date, published, value. This would remove the uncertainty within the existing UNC provisions regarding how this value should be calculated, and would ensure consistent application by all Transporters. By increasing consistency and transparency of the credit arrangements, implementation would facilitate the achievement of effective competition. However, this would be dependent on there being sufficient clarity regarding the proposed values.

S Leedham suggested it would be helpful to understand how this proposal would be implemented – how and when would updated Raves be published, and which RPI figures would be used for updating to current prices?

- g) Proposal 0303 - RG0252 Proposal 6: Obligation for Users to maintain a Code Credit Limit and at a reasonable level

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that eleven responses had been received, of which ten supported and one opposed implementation. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0303 obliges any User that receives 100% VAR notices in two consecutive calendar months to establish a Code Credit Limit to the value of the highest 100% VAR notice in the preceding two month period. This strengthens the credit requirements and reduces risk, facilitating effective competition.

Members supported this summary.

- h) Proposal 0304 - RG0252 Proposal 7: Introduction of a rating table for independent credit rating agencies for use with Independent Assessments

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that eleven responses had been received, of which ten supported and one opposed implementation. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0304 seeks to provide clarity to Users on how the application of a rating provided by an independent credit rating agency would correspond with the table currently contained within UNC section V3.1.7. At present there is uncertainty about this and implementation would both provide clarity and ensure consistency between Transporters, making the credit arrangements more accessible and appropriate. Implementation would therefore be expected to be consistent with efficient administration of the UNC as well as with facilitating effective competition.

Members supported this summary.

- i) Proposal 0305 - RG0252 Proposal 8: Unsecured Credit Limit allocated through payment history

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The eleven Panel Members present determined by PANEL MAJORITY to recommend implementation of the Proposal, with the following six Members voting in favour: C Wright, C Shanley, A Raper, J Ferguson, J Martin and S Trivella.

T Davis noted that twelve responses had been received, of which nine supported and three opposed implementation. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0305 seeks to remove the use of payment history in setting credit limits other than for new entrants. It also provides for a revised approach to administration errors that may allow credit provision to be maintained where a late payment has occurred. By removing the ability to rely on payment history, which may not represent a rounded view of credit worthiness, risk would be reduced thereby facilitating effective competition. However, retaining the option for new entrants is discriminatory and so may not be regarded as facilitating effective competition. In addition, it may not be economic for smaller Users in particular to access the alternatives provided for in the UNC, such that the removal of the payment history option may increase costs for smaller Users such that implementation would not be expected to facilitate competition.

P Broom was concerned that this is a tool that is being used and it is proposed to withdraw it, and questioned how transition would be managed. C Shanley advised that, to allow those using the tool to make alternative arrangements, the intent is for the proposal to be implemented

three months after approval is received from Ofgem.

S Leedham suggested removing the tool was not clearly justified. A good payment record is desirable and is evidence that Users manage their accounts effectively. J Ferguson did not agree and suggested that transportation charge payment history does not provide a view of how a User is operating with respect to other creditors. Looking at a more rounded independent assessment would be expected to be a better indicator. R Hall asked how much an independent assessment might cost. S Trivella did not believe these were expensive, being in the region of a few hundred pounds.

C Wright noted there was a balance to be struck. Removal of a tool, which may be particularly relied on by smaller Users, had to be measured against the reduced risk of default and cost to the industry.

j) Proposal 0306 - RG0252: Proposal 9: Administration of Shipper Credit Security Contact Details

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The eleven Panel Members present determined by PANEL MAJORITY to recommend implementation of the Proposal, with the following ten Members voting in favour: R Hall, A Bal, C Wright, P Broom, S Rouse, C Shanley, A Raper, J Ferguson, J Martin and S Trivella.

T Davis noted that twelve responses had been received, of which nine supported implementation of the proposal, two offered qualified support, and one offered comments. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0306 seeks to introduce a centralised Shipper credit security contact register for Transportation Charges that would be administered on behalf of Transporters by their agency. This would be expected to help ensure that appropriate contact could be made to clarify and progress credit related issues. Implementation would therefore be expected to facilitate effective competition and efficient administration of the UNC.

S Leedham was not convinced the proposal would have any impact on debt and so how implementation would meet the relevant objectives. A Raper suggested that, notwithstanding this, the approach would be more efficient and therefore facilitate the efficient administration of the UNC.

k) Proposal 0307 - RG0252: Proposal 10: Alignment of Defaulting User Threshold with Insolvency Act

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The eleven Panel Members present determined by PANEL MAJORITY to recommend implementation of the Proposal, with the following seven Members voting in favour: C Wright, S Leedham, C Shanley, A Raper, J Ferguson, J Martin and S Trivella.

T Davis noted that twelve responses had been received, of which eight supported implementation, one offered qualified support and three opposed implementation of the Proposal. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0307 seeks to align UNC Section V 4.3.1 (a) with the Insolvency Act 1986 thereby reducing the £10,000 threshold to £750 in relation to circumstances where a Shipper User can be defined as a Defaulting User. This limit would be linked to the Insolvency Act 1986 rather than being a fixed value. By allowing action to be taken at lower values, implementation would be expected to reduce bad debt and so facilitate effective competition. However, the ability to terminate Users for values as low as £750 could be regarded as disproportionate and inappropriate. It may also be seen as disadvantaging smaller Users, termination of whom may be more likely because of the limited market impact. Hence implementation may not facilitate effective competition.

S Leedham was concerned about the situation where a User exceeds the £750 threshold and a Transporter does not terminate them - how will Transporters administer the process to make it non-discriminatory, not disruptive and also manage risk effectively. S Trivella advised that the insolvency act is referenced as a fair approach for administration purposes without the need to reference an arbitrary value in the UNC. P Broom expressed a view that £750 seemed minimal when set in the context of the values involved in the energy industry. C Shanley advised that there could be Users who consistently operate just within the existing £10k limit, and this would impose costs and risks on Transporters and the industry.

A Bal asked what the process would be to terminate a User. C Shanley advised it is down the each individual case and there are no set criteria. R Hall asked if the insolvency act predates the UNC and, if so, why was the threshold originally set at £10k. J Ferguson advised that efforts to

establish the origin of the £10k had not revealed why that level was chosen.

l) Proposal 0308 - RG0252 Proposal 11: Appropriate use of the terms Surety and Security in UNC TPD Section V

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that eleven responses had been received, of which seven supported implementation of the proposal, two offered qualified support and two offered comments. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0308 seeks to better define the terminology of security and surety so as to remove any ambiguity when credit issues are being considered. The removal of ambiguity would be expected to remove uncertainty and hence facilitate effective competition and efficient administration of the UNC.

Members supported this summary.

m) Proposal 0309 - RG0252 Proposal 12: Timeframes for establishing and extending Guarantees and Letters of Credit

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that eleven responses had been received, of which ten supported and one opposed implementation of the proposal. T Davis suggested that clear and effective credit requirements within the UNC provide protection and reassurance for all parties, helping to prevent bad debt escalating to inappropriate levels. Requiring credit provision also provides an appropriate barrier to entry. Hence including appropriate credit arrangements within the UNC is consistent with facilitating effective competition between Shippers. Consequently reviewing and improving the

arrangements where appropriate is also consistent with facilitating effective competition.

T Davis summarised that Proposal 0309 seeks to deem the value of Guarantees (in the absence of a replacement) and Letters of Credit to be zero from 30 days before their expiry date. This would provide additional protection from default in this period and so facilitate effective competition. However, implementation would increase the cost of providing surety and these additional costs may not exceed the benefits, such that competition may not be facilitated.

Members supported this summary.

- n) Proposal 0310 - RG0252: Proposal 13: Removal of DNO Users from UNC TPD V3.3.4

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined UNANIMOUSLY to recommend implementation of the Proposal.

T Davis noted that twelve responses had been received, of which eight supported, one offered qualified support, two offered comments and one opposed implementation of the Proposal.

T Davis summarised that Proposal 0310 seeks to exclude the DNOs from the requirement to provide credit in respect of exit capacity bookings for the following twelve months. This would reduce costs for DNOs and hence in due course for Shippers, Suppliers and customers. Implementation would, by avoiding unnecessary costs, facilitate the achievement of effective competition. However, implementation would introduce different treatment of Shippers and DNs which may be regarded as discriminatory and hence not facilitate delivery of the Transporter Licence obligations.

Members supported this summary.

- o) Proposal 0311 - RG0252 Proposal 13a: Removal of DNOs as Users from UNC TPD V3 and V4

Members considered the report was in the correct form and discussed whether or not to recommend implementation of the Proposal. They did not determine that new issues had been raised that justified seeking further views from a Workstream or Development Work Group, with no votes cast in favour.

The Panel determined by PANEL MAJORITY to recommend implementation of the Proposal, with the following nine Members voting in favour: A Bal, C Wright, P Broom, S Rouse, C Shanley, A Raper, J Ferguson, J Martin and S Trivella.

T Davis noted that twelve responses had been received, of which six supported implementation, two offered comments and four opposed implementation of the Proposal.

T Davis summarised that Proposal 0311 seeks to exclude the DNOs from the requirements of V 3.1.2 and V 4.1.6. This would remove the obligation to provide credit in respect of exit capacity bookings for the following twelve months, but would also remove other obligations to provide credit in respect of transmission charges faced by the DNs. This would therefore reduce costs for DNOs and hence in due course for Shippers, Suppliers and Customers. Implementation would, by avoiding unnecessary costs, facilitate the achievement of effective competition. However, implementation would introduce different treatment of Shippers and DNs which may be regarded as discriminatory and hence not facilitate delivery of the Transporter Licence obligations.

S Leedham suggested implementation might not meet the relevant objectives since it creates a two tier credit arrangement and it was unclear why it is necessarily inappropriate for DNs to securitise the risk they impose on Transmission. This may be a low risk given the nature of the business, but that should also mean the cost of security would be low.

96.12 Receive report on status of Consents

There were no changes to report.

96.13 Any Other Business

Approval of revised Templates (adoption of Code of Practice formats, as used for Proposal 0281)

T Davis for views on whether to move to immediate implementation of the revised template. Members agreed to defer implementation until UNC0281, which is being used to test the new templates, had been through the modification process.

99.13 Conclude Meeting and Agree Date of Next Meeting

The Panel noted that the next meeting is planned for 10.00 on 16 September 2010 at Elexon.