

**Minutes of Review Group 0221
Thursday 27 November 2008
held at
Elexon, 350, Euston Road, London NW1 3AW**

Attendees

John Bradley (Chair)	(JB1)	Joint Office
Tim Davis (Secretary)	(TD)	Joint Office
Alan Raper	(AR)	National Grid Distribution
Bali Dohel	(BD)	Scotia Gas Networks
Craig Purdie	(CP)	Centrica Storage
Charles Ruffell	(CR)	RWE npower
Claire Thorneywork	(CT)	National Grid NTS
Chris Wright	(CW)	Centrica
Graham Thorne	(GT)	Canatxx Shipping
John Baldwin	(JB2)	Canatxx Shipping
Paul O'Donovan	(POD)	Ofgem
Richard Fairholme	(RF)	EON UK
Ritchard Hewitt	(RH)	National Grid NTS
Roddy Monroe	(RM)	Centrica Storage
Rekha Patel	(RP)	Waters Wye Associates
Shelley Rouse	(SR)	StatoilHydro
Tim Bradley	(TB)	National Grid NTS

1. Introduction

JB welcomed attendees to the sixth meeting of Review Group 0221.

2. Review of Minutes and Actions from the previous meetings

2.1 Minutes (10 November 2008)

POD requested an amendment to make it clear that any impacts as a result of actual expenditure in relation to Milford Haven would be taken into account as part of the next price control review. The minutes of the previous meeting were then approved.

2.2 Actions from previous sessions 1 - 5

Action RG0221/007: National Grid NTS to report on the outcome of novation discussions to this Review Group.

Update: TB asked for this to be on the agenda for discussion at the next meeting.
Action carried forward.

Action RG0221/011: National Grid NTS (TB) to investigate what happens to the interest on monies lodged as security (Energy and Transportation) and report to the meeting.

Update: TB confirmed that all interest on lodged monies is credited to the Shipper(s) concerned. **Action closed.**

Action RG0221/012: National Grid NTS (TB) to focus on Option C and devise appropriate interim arrangements.

Update: See item 3 below. **Action closed.**

Action RG0221/013: Ofgem (POD) to establish whether there has been any change in its policy since the release of its document 58/05.

Update: POD confirmed that the existing document remains Ofgem's current policy position. **Action closed.**

Action RG0221/014: National Grid NTS (RH) to suggest date when novation might be discussed.

Update: To be considered on 10 December. **Action closed.**

3. Questions discussed in Session 5: outstanding issues

TB presented on Option C, indicating the National Grid NTS view of advantages and disadvantages. TB then outlined some options which would overcome these disadvantages, with a key question being how long Users felt would be needed to put revised credit in place. Those present suggested that it was difficult to respond to this without fully understanding both what was proposed and existing credit positions of individual Users. The benefits of a phased introduction might be best judged in light of responses seeking views on this. However, an extended period of phasing was generally opposed and, therefore, a relatively hard landing approach favoured.

RH invited views on whether, if an EBCC style arrangement was introduced, it should be time limited or if it would be desirable to retain any EBCC type arrangement in perpetuity.

4. Work Plan: Session 6

4.1 "Which security tools are acceptable and should the same tools be available to all Users (new/existing)?"

CT presented a view on what is described in the Ofgem best practice guidelines and the UNC.

CT suggested that allowing up to 2% of the network Operators RAV (Regulatory Asset Value) in unsecured credit was a substantial amount and could merit reconsideration. Each Aaa security provider is able to obtain unsecured credit of up to 2% of RAV. CT agreed to clarify if this limit was per User per security provider, such that total exposure to a single security provider could be larger.

Action RG0221/015: National Grid NTS (CT) to confirm whether the 2% of RAV unsecured credit limit applied to security providers as well as Users

Unsecured credit can also be made available as a result of a strong payment history or an independent assessment.

CT pointed out that with a long term auction it was not clear what long term protection was offered were security to be available and called. For example, with exposure of £20m per annum over five years covered by a £100m letter of credit, if there was no payment in the first year and the security was called to cover this, the remaining £80m could effectively become unsecured. JB2 agreed that there was a serious issue about the extent of risk which was socialised as opposed to presenting unreasonable barriers to entry, and consequently repeated his view from the previous meeting that perhaps a 5% commitment would be sufficient to disincentivise spurious bids in long term auctions. The credit risk is mitigated since the customer will still want gas and it may be assumed that a different Shipper will take on the customer and the associated capacity and charges. However, this would not necessarily apply at all entry points at all times.

CR indicated that recent experience in the electricity sector could be relevant, with a proposal that 15-30% of offshore network construction costs should be lodged by the constructor with Ofgem as security. This was separate from any security provided to National Grid with respect to securing onshore investment to facilitate connecting offshore generation.

It was agreed that RCI (Relevant Code Indebtedness) was a better measure than VAR (Value at Risk) in terms of exposure against which any credit requirement should be assessed.

RH suggested we might start at one extreme with applying the Ofgem guidelines to long term auctions. CW questioned whether the Guidelines had been written with long term auctions in mind rather than day to day usage. CR said that the guidelines should be seen as related to usage not commitment, which was consistent with the electricity arrangements through which commitment to invest in respect to connection activity was secured outside the best practice guidelines. POD agreed that the guidelines had been written without any emphasis on long term products and hence a different approach was certainly not ruled out.

JB2 suggested that moving to 100% final sums security for a new connection pipe made sense, isolating the risk to other Shippers from investment in a pipeline which would not be used. For system wide reinforcement, the issue was different and a requirement to firmly underwrite a small proportion of any commitment should be sufficient to avoid unwanted behaviours.

RH felt it was difficult to identify reinforcement requirements as being specific to any particular capacity sale – the distinction between reinforcement and connection is not always clear. RP said this had been addressed in electricity and there was potential for lessons to be learned. However, RH felt that if we were to secure bids for capacity, this was not related to investment and so a connection with final sums approach did not apply.

Recapping, it was agreed that it seemed appropriate to securitise auction bids (not the UCA or any other measure). This could be considered in terms of how many years, or what percentage, of auction revenue should be subject to security, although the time at which security needed to be provided should also be specified. RH suggested that it may be possible to put together some scenarios which indicated the potential level of credit which might be sought, but that the group should be looking at principles regarding what was an appropriate approach. Others felt a spreadsheet summarising scenarios and looking at implications of alternatives would be a big step forward. RH agreed to develop some scenarios for presentation to a subsequent meeting, illustrating the amount of credit for which security might be sought. RM felt it could be important to distinguish between baseline and incremental capacity with the potential for the latter to be riskier and so subject to stronger security requirements.

Action RG0221/016: National Grid NTS (RH) to develop a spreadsheet summarising the impact of some scenarios for discussion at a subsequent meeting

In terms of the actual tools available, as set out in CT's presentation, it was agreed to follow RP's suggestion of considering this in light of the scenarios which identify the potential level of security which might be sought.

4.2 "If not, who should be the arbiter of which tools are available to each party?"

Options were to have no discretion (UNC rules); a UNC related document specifying rules, akin to EBCR (Energy Balancing Credit Rules), which offered a quicker change process than rules embedded in the UNC; a committee with complete discretion; reliance on Ofgem to decide whether or not credit submissions are acceptable – giving Ofgem discretion. CT suggested that the appropriate route would be clearer when decisions about the approach to be adopted was settled.

Following discussion, there was general disquiet about the role of a potential committee and a view that this should be avoided. This led members of the group to conclude that specific text in the UNC was the preferred option.

5. Allocation of actions for Session 7 (10 December 2008)

JB suggested that, in addition to the items included for discussion in Session 7, including novation, the group should accept National Grid NTS's offer of submitting a "strawman" proposals to the next meeting. This was agreed.

6. Any Other Business

None raised.

7. Diary Planning for Review Group

The next meeting of the Review Group (Session 7) will be held from 10:00 – 13:00 (in the Green Room) on Wednesday 10 December 2008, at Elexon, 4th Floor, 350 Euston Road, London NW1 3AW.

Subsequent meetings (Sessions 8, 9, 10, 11, and 12) will be arranged as the progress of the work of the group dictates.

For further details of the content of each Session please refer to the Work Programme.

ACTION LOG – Review Group 0221

Action Ref	Meeting Date	Minute Ref	Action	Owner*	Status Update
RG0221 011	10/11/08	3.0	Investigate what happens to the interest on monies lodged as security (Energy and Transportation) and report to the meeting.	National Grid NTS (TB)	Monies are repaid Closed
RG0221 012	10/11/08	3.0	National Grid NTS to focus on Option C and devise appropriate interim arrangements.	National Grid NTS (TB)	Options presented Closed
RG0221 013	10/11/08	4	Establish whether there has been any change in its policy since the release of its document 58/05	Ofgem (POD)	No change Closed
RG0221 014	10/11/08	6.1	Suggest date where novation might be discussed.	National Grid NTS (RH)	10 December Closed
RG0221 015	27/11/08	4.1	Confirm whether the 2% of RAV unsecured credit limit applied to security providers as well as Users	National Grid NTS (CT)	
RG0221 016	27/11/08	4.1	Develop a spreadsheet summarising the impact of some scenarios for discussion at a subsequent meeting	National Grid NTS (RH)	

* Key to action owners

RH – Ritchard Hewitt

TB – Tim Bradley

POD- Paul O'Donovan

CT – Claire Thorneywork