

REVIEW GROUP TERMS OF REFERENCE

CODE REVIEW PROPOSAL No 0252 **Review of Network Operator Credit Arrangements** **Version 2.0**

Date: 09/07/2009

Background

In February 2005 Ofgem published the document¹ titled ‘Best practice guidelines for gas and electricity network operator credit cover conclusions document Feb 2005 (58/05)’ (“BPG”). The BPG document contains the Ofgem conclusions, and the recommendations from four industry workgroups, that resulted from the 2003 Ofgem consultation titled ‘Arrangements for gas and electricity network operator credit cover’.

The expectation was that network operators in both gas and electricity would take forward the conclusions within the BPG and adopt them into their business processes. This also included raising changes to the appropriate industry codes and, in the case of the gas industry, this resulted in numerous UNC Modification Proposals. The BPG document also recommended that the BPG should be reviewed on an annual basis.

Paragraph 6.10 of the BPG states:

“Whilst it will remain open for parties to raise change proposals to relevant codes and/or agreements at any time, subsequent to their implementation, Ofgem suggests that the best practice guidelines be reviewed on an annual basis. This should be carried out in such a way as to ensure that the guidelines remain appropriate and consistent with best practice in comparable industries (taking into account the nature of gas and electricity transportation and all relevant regulatory and legal issues)”

Ofgem envisaged that this annual review would be carried out by a group analogous to the Credit Cover Steering Group (CCSG). The CCSG last met in July 2003 and, as far as we are aware, is no longer an active industry group (in either gas or electricity). Since the BPG document was published in February 2005 no such review has taken place.

With the recent global financial uncertainty, the issues around credit cover have become increasingly pertinent of late. In light of this, the Energy Balancing Credit Committee (EBCC) has recently approved a number of amendments to the Energy Balancing Credit Rules and has recommended that EBCC members, via an appropriate User organisation, raise various Modification Proposals² to further enhance the arrangements within UNC TPD Section X ‘*Energy Balancing Credit Management*’.

In July 2008 a modification proposal³ to the iGT UNC was raised to introduce an ancillary document that would contain optional credit arrangements that could be used by iGT UNC parties. Although Ofgem were supportive of introducing credit arrangements in to the iGT UNC they rejected the modification proposal on 5th January 2009. In their decision letter Ofgem explained that it was inappropriate to have such substantive provisions contained within an ancillary document and that the proposed provisions “...do not comply with current agreed best practice.”. Ofgem went on to say that they “... would encourage that (the) proposer and other parties to examine the equivalent provisions of the large transporter

UNC and Ofgem's best practice guidelines ... and consider how these principles could be applied within the iGT UNC...".

Nature and Purpose

As the principles set out in the BPG document have now been fully incorporated within the UNC, and in light of the other issues highlighted above, we feel it is an appropriate time to raise this Review Proposal. Unfortunately to date, it has not been possible to arrange for a cross industry (electricity and gas) group analogous to the former CCSG. Whilst we are still supportive of such a group we do not feel that its absence should thwart progression of a review within either industry.

This Review Proposal is intended to allow a review of the existing arrangements within UNC TPD Section V and to take account of other credit related issues that have occurred since the publication of the BPG document.

Although this Review Proposal is only applicable to the UNC, we would envisage that representatives from organisations that operate under other industry codes would/could participate in this Review Group. This will ensure that, where appropriate, network operator credit arrangements remain consistent and relevant.

¹ 'Best practice guidelines for gas and electricity network operator credit cover – Conclusions document (58/05)' is available at: <http://www.ofgem.gov.uk/Licensing/IndCodes/CreditCover/Documents1/9791-5805.pdf>

² UNC Modification Proposals raised on 31 October 2008: 0233 '*Changes to Outstanding Energy Balancing Indebtedness Calculation*', 0234 '*To Correct Drafting Inconsistencies between Sections X and V of the UNC in Respect of User Default and Termination*' and 0235 '*Recovery of Debt and Smearing of Revenues via Energy Balancing Neutrality*' all documentation is available at <http://www.gasgovernance.com/Code/Modifications/>

³ 'iGT UNC Modification Proposal iGT021 '*Credit Rules*' documentation is available on the iGT UNC website at: <http://www.igt-unc.com/Modifications/Open+Modifications/iGT021>

Review Group Terms of Reference

1. Topics for Discussion

The following topic items are included within scope of the group and should be considered within the Terms of Reference:

1. General review of the current credit arrangements and processes within UNC TPD Sections V3 & V4 to determine if they are still appropriate, coherent and relevant.
 - 1.1. Unsecured Credit Risk (use of Payment History and Independent Assessments)
 - 1.2. Letter of Credit Provider
2. Comparison of industry practices (gas and electricity)
3. Implications of changes to Energy Balancing credit arrangements
4. Administration charges for late payment (payable to Users)
5. Availability and understanding of Bi-lateral Insurance
6. Timescales and procedures for issuing 'notifications' to Users
7. Impact of the implementation of Modification Proposal 0195AV (*'Introduction of Enduring NTS Exit Capacity Arrangements'* (changes to UNC TPD Section V)
8. Impact of other industry code modifications / work groups (including but not limited to: DCP034 (*"Credit Cover Arrangements for Small Suppliers"*) and UNC Review Group 0221 (*"Review of Entry Capacity and the Appropriate Allocation of Financial Risk"*))
9. Interaction with other industry codes

2. Suggested Aims and Outputs

It is envisaged that this Review Group will produce a report recommending any necessary changes to the UNC, any other industry code or organisation working practices. It is recommended that the Review Group completes its work within a 6 month period. If necessary this could be extended by seeking agreement of the Modification Panel.

The Review Group should also look to include any draft Modification Proposals as part of the final report (this does not prevent related Modification Proposals being raised during the period of the Review Group).

3. Scope and Deliverables

The Review Group shall focus on changes to the UNC, but also identify where improvements could also be made to areas of governance outside of the UNC.

4. Limits

The Review Group will focus on developing recommendations and UNC Modification Proposals that efficiently address any issues identified in a proportionate and cost effective manner. The Review Group will consider changes required to procedures and processes within UNC, however it will not develop changes for non code processes but will request reports from review group members who can influence changes with the appropriate industry

body.

The Review Group is to be mindful of related industry obligations, processes and previous reports:

1. BPG Document;
2. UNC;
3. iGT UNC;
4. Flow of information between UNC parties;
5. Best practice for managing credit;
6. Licence and Legal obligations.

5. Composition of Review Group

Since the potential impacts of the review group are wide ranging, members would be welcome from Transporters, Shippers, Ofgem and iGTs.

Bob Fletcher (Chair)	Joint Office of Gas Transporters
Helen Cuin (Secretary)	Joint Office of Gas Transporters
Beverley Viney	National Grid NTS
Brian Durber	E.ON UK
Carl Wilkes	RWE npower
Chris Wright	British Gas
Gareth Evans	Waterswye
Joanna Ferguson	Northern Gas Networks
Kieran Donoghue	Ofgem
Mandip Grewal	Northern Gas Networks
Phil Cushen	National Grid
Phil Lucas	National Grid Distribution
Philip Hobbins	National Grid NTS
Rawinder Basra	Scotia Gas Networks
Richard Fairholme	E.ON UK
Simon Trivella	Wales and West Utilities
Stefan Leedham	EDF Energy
Sue Davies	Wales and West Utilities

Vickey King	National Grid
Wayne Mullins	National Grid NTS

6. Timetable

It is proposed that a total period of 6 months be allowed to conclude this review.

Although the frequency of meetings will be subject to review and potential change by the Review Group it is suggested that the initial frequency of the meetings be monthly.

Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

7. Work Plan

The topics set out in section will form the main items for discussion in three separate workplan groups as follows:

Workgroup Item	Topics identified in Section 1 above, to be consider in workgroup
No.1	General review of the current credit arrangements and processes within UNC TPD Sections V3 & V4 to determine if they are still appropriate, coherent and relevant.
	Unsecured Credit Risk (use of Payment History and Independent Assessments)
	Letter of Credit Provider
	Comparison of industry practices (gas and electricity)
	Implications of changes to Energy Balancing credit arrangements
	Administration charges for late payment (payable to Users)
	Availability and understanding of Bi-lateral Insurance
	Interaction with other industry codes
No. 2	Timescales and procedures for issuing 'notifications' to Users
	Comparison of industry practices (gas and electricity)
	Interaction with other industry codes
No. 3	Impact of the implementation of Modification Proposal 0195AV (<i>'Introduction of Enduring NTS Exit Capacity Arrangements'</i> (changes to UNC TPD Section V)
	Impact of other industry code modifications / work groups (including but not limited to: DCP034 (<i>"Credit Cover Arrangements for Small Suppliers"</i>) and UNC Review Group 0221 (<i>"Review of Entry Capacity and the Appropriate Allocation of Financial Risk"</i>))
	Comparison of industry practices (gas and electricity)
	Interaction with other industry codes

Joint Office of Gas Transporters
0252: Review of Network Operator Credit Arrangements

Meeting	Date	Topics to be Discussed
1	09/07/09	Introductions and agree Terms of Reference and workplan
2	18/08/09	Review workgroup item 1
3	TBA	Review workgroup item 1 Review workgroup item 2
4	TBA	Review workgroup item 2 Review workgroup item 3
5	TBA	Review workgroup item 3 Draft Review Group Report
6	TBA	Complete Review Group Report