

## Minutes and Actions Arising from Meeting No.44 Held on 22<sup>nd</sup> April 2005 At Brandon Hall Hotel, Brandon, near Coventry

### Present:

Chris Murray	CJM	Panel Chairman
Lilian Macleod	LM	Acting Panel Secretary
Ben Graff	BG	National Grid Company Representative
John Greasley	JG	National Grid Company Representative
Hugh Conway	HC	EnergyWatch Representative
David Edward	DE	Authority Representative
Rupert Judson	RJ	Panel Member
Malcolm Taylor	MT	Panel Member
Bob Brown	BB	Panel Member
Paul Jones	PJ	Panel Member
Simon Goldring	SG	Panel Member
Steve Drummond	SD	Panel Member
David Lane	DL	Panel Member

### In Attendance:

Dick Cecil	DC	Alternate Member
Kathryn Coffin	KC	Elexon
Neil Smith	NS	E.ON UK
Paul Murphy	PM	NGC

### 1 Introductions/Apologies for Absence

210. Apologies for absence were received from Richard Dunn.

### 2 Minutes of Last Meeting

211. The third draft of the minutes of the 43<sup>rd</sup> Amendment Panel meeting held on 18<sup>th</sup> March 2005, were approved for publication on the National Grid CUSC Website subject to the following amendment:

In paragraph 188, line 3, the word 'was' between the words 'work' and 'concerning' was deleted.

### 3 Review of Actions

212. All the outstanding actions from the previous meeting had been completed or were the subject of agenda items except for the following:

Minute 99 (Minute 85 – Treatment of Charging Issues within CUSC Reports). BG circulated guidelines. BG indicated that the CUSC contains no specific prohibitions on NGC including Charging related material within CUSC Amendment Reports and no specific examples have been brought to NGC's attention of circumstances in which Charging related information has been used in a way that is inappropriate. NGC will ensure that going forward CUSC Consultation Documents and Amendment Reports continue to be fully readable and comprehensive. Where there is an

associated Charging Methodology change such information, relating to the charging methodology change as distinct from the charging aspect of the CUSC Amendment, will be placed within an Appendix to the CUSC Consultation Document or Amendment Report.

Minute 187 (Maximum Generation). The action against BB & JG had been cancelled in agreement with MT. The Panel supported this decision.

Minute 188 (Groups Dealing with Distributed Generation) – DE circulated a paper which describes the various groups involved in distributed generation and their scope of activity.

Minute 197 (CUSC Panel Elections). BG circulated a paper, highlighting the relevant section of the CUSC, which details the expiry date of the current term of office of the Amendments Panel. BG reiterated that new Panel elections will have to take place later on this year. BG took an action to circulate a paper at the next meeting detailing the timetable for this year's elections and the various steps involved in the election process. The Panel discussed the practicalities of submitting an Amendment Proposal to remove the necessity of having a CUSC Panel election during 2005. BG reminded the panel that Ofgem have previously consulted on this matter and rejected this approach. Also progressing an Amendment Proposal in time for this year's election would not be achievable given the time constraints i.e. election process due to commence in June 2005.

**Action: BG**

#### **4 New Amendment Proposals**

- **CAP085 – Revised Treatment of Housekeeping**

213. BG presented CAP085 and explained that this proposal would provide a more efficient, light touch approach, to the progressing of Housekeeping Amendments. NGC believe that for Housekeeping Amendments, the normal Amendment processes for substantive Amendments that have a material impact on CUSC Parties is disproportionate, unnecessary and risks consultation 'overload', in an area where changes are non-contentious and have a minimal effect on parties. CAP085 would potentially reduce this burden, whilst also preserving three key procedural protections to ensure that CUSC Parties and the Authority should be able to have confidence in the revised procedures. Firstly, the Panel will need to agree that Amendments should be treated as Housekeeping (in accordance with a new definition of "Housekeeping" within the CUSC), which acts as an initial check that NGC are acting in an appropriate manner. Secondly, NGC will publish all proposals on the CUSC Industry Information Website for a week after Panel Agreement prior to sending to the Authority. CUSC parties on our mailing list will also be notified by e-mail that this material is on our Website, and again when the proposals are sent to Ofgem. This will ensure that all CUSC Signatories are fully aware as to what is being proposed. Thirdly, Ofgem will continue to take the final executive decision as to whether or not to agree the proposed change, which gives the industry the added comfort of knowing that CAP085 does not in anyway dilute the Executive role of the Authority.

214. SD indicated that the process could be streamlined further if all the Housekeeping modifications were bundled together under one Amendment Proposal. BG agreed that this approach was open to NGC and had been followed in the past. It was only

due to previous rejections of the Housekeeping Amendments by the Authority that had resulted in the modifications being listed as separate amendments. However, NGC would give further consideration as to how to package any future Housekeeping Amendments going forward.

215. DE provided examples of when amendments had been classified as Housekeeping Amendments and only on further analysis was it identified that the proposed amendment resulted in a material change to the code.

216. KC explained the BSC process for progressing Housekeeping Amendments and how it differs from CUSC. KC confirmed that there was no definition for Housekeeping within the BSC.

217. SG questioned the differences between CAP085 and condensing the existing CUSC Amendments timeframe, which is within the CUSC Panel remit. SG reminded Panel Members that Ofgem can only accept/reject amendment proposal i.e. they will not be able to direct NGC to take the Amendment back through the Amendments normal route if they think the proposal is not a Housekeeping Amendment.

218. DC said that the Amendment Proposal was not radical enough and could not believe that Ofgem did not have sufficient faith/trust in the Panel to action such matters themselves. It was highlighted during the discussion that Ofgem must sign off all modifications to Industry Codes, as it was part of their Regulatory Rules.

219. MT mentioned that it would be useful to have a definition for Housekeeping, which would be submitted to the Panel for review prior to the Consultation Report being sent out. BG took an action to distribute NGC proposed definition of "Housekeeping" prior to the Consultation Document being published.

**Action: BG**

220. NGC also undertook to consider further whether the amendment proposal could be modified such that Ofgem would only be able to accept or reject any Housekeeping amendment proposal(s) and to advise the Panel on this. (In other words, to remove the opportunity for Ofgem to re-direct the proposal back for further Consultation, if they did not believe it had been appropriate to treat the proposed Amendment as "Housekeeping.")

**Action: BG**

221. The Panel AGREED that CAP085 should go straight to Industry consultation, subject to the actions noted above.

- **CAP086 – Proposal for Earlier Consideration for Implementation Dates**

222. NS presented CAP086 and explained that the proposal would specify an obligation within Section 8 of the CUSC for NGC to consult CUSC Users regarding implementation dates. The proposal follows on from discussion, which occurred at the Working Group for CAP077 (Revision to CUSC Amendment Implementation Dates where an Authority Decision is referred to Appeal or Judicial Review).

223. MT indicated that the discussion regarding implementation dates occurred during the Working Group phase and representatives usually came to an agreed dates for implementing the proposal.

224. BG's response to the proposal was that NGC had a clear licence obligation for agreeing a suitable implementation and that there had been no history of CUSC Users not being happy with the implementation dates.
225. MT stated that under certain circumstances CUSC Users' preferred implementation dates might be different to that of NGC i.e. when there is significant IS changes and when the industry has particular strong views on the matter under discussion.
226. DC acknowledged BG's argument regarding NGC licence obligations but also highlighted that NGC had an obligation to facilitate an effective market and that this must be fully taken into account when proposing implementation dates. In the context of licence obligations DL mentioned that Users may have their own licence or other obligations that required different implementation timescales from those preferred by NGC.
227. SG acknowledged that NGC must make a recommendation regarding implementation dates and that this is usually discussed at Working Groups. However CAP086 allows this Working Group discussion to be hard wired into the appropriate section of the CUSC.
228. The Panel AGREED that CAP086 should go straight to Industry consultation.
- **CAP087 – Revisions to Request for Urgency**
229. SG presented CAP087 and explained that there was a corresponding BSC modification (P187) currently being processed on the same issue.
230. Currently, 8.21.3 of the CUSC states that the Panel Chairman or Secretary will only consult with the Authority if the Amendments Panel or a majority of the Amendments Panel agrees that the proposal should be treated as Urgent. CAP087 seeks to place an obligation on the Panel Chairman to consult with the Authority on all requests for urgency pertaining to CUSC Amendment Proposals.
231. The Panel AGREED with SG's suggestion that the Amendment Proposal should proceed straight to industry consultation.

## 5 Standing/ Working Group Reports

- **Balancing Services Standing Group**

232. JG provided a verbal update on the BSSG and informed the Panel that the Group had not met since the last CUSC Panel Meeting. The next meeting of the BSSG was scheduled for Tuesday, 26<sup>th</sup> April 2005.
233. On Frequency Response the Group would, at the forthcoming meeting, have a detailed walk through of the proposed legal text, to make sure it works in the anticipated manner.
234. On Buy-Out of Mandatory Services and Distributed Generation, there would be a paper discussed at the next BSSG meeting on 26<sup>th</sup> April 2005. JG would update the Panel in due course on the outcome of the group's discussion. MT requested a copy of any supporting paperwork on this topic and JG agreed to provide this.

235. The Panel NOTED the update by the BSSG.

## **6 Consultation Reports**

236. BG updated the Panel on CAPs079 to 084 (Housekeeping Amendments). The consultation was due to finish by close of play of Friday, 22<sup>nd</sup> April 2005. At the time of the meeting there was one respondent to the Consultation Document.

## **7 Amendment Reports**

237. There were no new Amendment Reports.

## **8 Authority Decisions**

238. There were no new Authority Decisions.

## **9 Presentation on Ofgem's conclusions on best practice guidelines for Network Operator Credit Cover**

239. PM gave the Panel a presentation on Ofgem's conclusions on best practice guidelines for Network Operator Credit Cover, highlighting NGC initial thoughts on the matter.

240. PM drew the Panel's attention to the fact that the Ofgem conclusions document had suggested that any amendment proposals required to implement the new best practice guidelines, should be approved and implemented by 1<sup>st</sup> October 2005.

241. PM discussed eight of the main recommendations proposed by Ofgem and informed the Panel of the current process within CUSC and NGC's initial response to the proposal as of 1<sup>st</sup> September 2005 (Annex 1)

242. PM clarified that the best practice guidelines for Credit Cover would apply to all Network Operators (NWOs) across both the electricity and gas sectors.

243. DE provided background to the proposals. The Ofgem recommendations are conclusions of the last three industry wide workshops and Ofgem's preference would be for any necessary changes to be facilitated through the various Codes Amendment process. The new guidelines would increase competition in the market place, by allowing easier access to the market whilst having the necessary barriers in place to avoid another Enron episode.

244. DE indicated that Ofgem are looking for NWOs to adopt with the new guidelines but stressed that there was no stick associated with the changes but did concede that there was an incentive to comply with the new guidelines.

245. Following on from DE, PM clarified to the Panel that unless NWOs implemented the best practice guidelines by 1<sup>st</sup> October, NWOs would not be eligible for any pass

through if any Users of the System went insolvent.

246. MT mentioned that it would be useful if NGC provided an indication, against each of the main areas of Ofgem proposals, which framework would have to be amended to implement any proposed changes e.g. CUSC, Transmission Licence etc. NGC would provide their views on this matter at the next Panel meeting.

**Action: PM**

247. BG reminded the Panel that although NGC would be looking at this matter closely, it was for all CUSC Parties to consider whether or not the raising of any Amendment Proposals in this area would better facilitate the applicable CUSC objectives.

248. MT highlighted that the batching of the amendment proposals will be very important in order to ensure that the proposals are consistent and follow on from each other.

### **10 Report on Other Industry Documents**

249. MT reported on developments at the BSC and Grid Code Review Panels since the previous regular CUSC Panel meeting. Brian Saunders has now left Elexon, with Stuart Senior replacing him as Chief Executive. Regarding P187 (Revisions to Request for Urgency), the BSC has initiated a two-month review of the proposal. There was no update regarding Grid Code.

250. Regarding the Appeals Procedures and associated implications for CUSC, MT had been informed that there would be no decision until after the general election.

251. BG provided an update on the STC Committee. A Committee meeting had taken place on 19<sup>th</sup> April 2005. At the meeting changes to four STC Procedures were discussed and agreed by the Committee. STC Amendment Proposals (Housekeeping) were submitted for discussion by the Committee, who decided to send the Amendment Proposals straight out to industry consultation. BG mentioned that discussion took place regarding the most appropriate distribution list to use for STC Consultation Documentation. BG indicated the Committee felt that initially it would be beneficial to distribute any STC Consultation Document to the widest possible circulation list but allow people the facility to opt-out of the circulation if required. BG will circulate the options available in due course.

**Action: BG**

### **11 Any Other Business**

252. None.

### **12 Record of Decisions – Headline Reporting**

253. The Panel Secretary agreed the Headline Report with the Panel. The Headline Report would be available from the National Grid Industry Code website in due course.

## **13 Date of Next Meeting**

254. The next meeting will be held on Friday 20<sup>th</sup> May 2005 at the Brandon Hall Hotel, Brandon, near Coventry, commencing at 10.30am.

## Annex 1 – Ofgem’s Conclusions on Best Practice Guidelines for Network Operator Credit Cover

Proposal	CUSC - Currently	NGC on the Record (response to Sept 04 consultation)
Unsecured Credit Limit <b>2% of Regulatory Asset Value (£120m)</b>	There are no credit limits within CUSC subject to the party meeting the “NGC credit rating”, A- for connections and BBB- for Use of System.	NWOs should set credit limits based on corporate credit risk appetite, with justification provided to Ofgem upon request.
Calculation of value at risk - <b>calculation proposes 6 weeks of UoS charges and monitoring of VAR on a daily basis.</b>	VAR calculated as 10% demand related Transmission Network Use of System charges and 32 days of Balancing Services Use of System charges.	Willingness to accept this calculation methodology would be intrinsically linked to the ability to recover bad debts through pass-through.
Credit Limits for rated Companies – <b>sliding scale based on credit rating as % of unsecured limit</b>	There are only two criteria to obtaining credit within the CUSC both related to the “NGC credit rating”, A- for connections and BBB- for Use of System.	Result in companies that currently meet NGC rating having to post additional security.
Credit Limits for unrated Companies - <b>afford unrated companies up to 2% of credit limit base upon payment history, with an option for independent assessment.</b>	Unrated companies are not afforded any unsecured credit.	Would afford unrated companies up to 2% of credit limit base upon payment history, with an option for independent assessment, which may allow them up to 13%.
Independent Assessment of Credit Allowance – <b>three agencies appointed and paid for by NWO</b>	Assessment is currently carried out ‘in house’.	NWO should retain ability to choose agencies to carry out assessment and be able to fully recover costs.
Interest on Late Payments <b>application of late payment of Commercial Debts (Interest) Act 1998</b>	The CUSC allows for interest to be levied on late payments at base rate + 4%.	Adopt improved incentive at base rate + 8%.
Enforcement ability for customers in default - <b>Statutory demands, draconian actions of recovery within short timescales.</b>	CUSC allows for the application of late interest and the ultimate sanction of de-energisation.	Expressed wish for Ofgem to take an ‘active’ role in enforcing Licence and Code obligations and supporting the general escalation process.
Criteria and arrangements for pass-through of bad debts - <b>100% dependent on credit and collection procedures. Recovery at next price control.</b>	No explicit arrangements	Bad debts and unrecovered sums should be recoverable via an adjustment to maximum allowed revenue in the formula year following that in which they are incurred.