

DCUSA SIG Meeting Minutes

31 March 2017 at 10:00am
Web-Conference

Attendee	Company
Working Group Members	
Ashish Anand [AA]	Barclays Bank
Matthew Englis [ME]	Barclays Bank
Ken Allan [KA]	Scottish Power
Laura Quinn [LQ]	Scottish Power
Peter Waymont [PW]	UK Power Networks
Robert Harrison [RH]	Barclays Bank
Roger Stoney [RS]	AMO
Sean Young [SY]	Northern Powergrid
Code Administrator	
Claire Hynes [CH] (Chair)	ElectraLink
Angie Castillo [AC] (technical secretariat)	ElectraLink

Apologies	Company
Sasha Pearce	npower

1. Administration

1.1 The Chair welcomed the members to the meeting.

- 1.2 The Working Group reviewed the “Competition Law Do’s and Don’ts”. All Working Group members agreed to be bound by the Competition Laws Do’s and Don’ts for the duration of the meeting.

2. Purpose of the Meeting

- 2.1 The secretariat set out that the purpose of the meeting is to review and analyse the issue raised DIF 51 and agree the preliminary consultation questions.

3. Analysis of DIF 51 ‘Letters Of Credit and Bank Credit Ratings’

- 3.1 The issue raised by the proposer of DIF 51, put forward concerns raised by BEIS and the British Banking Association in regards to DCUSA Schedule 1 which sets out the credit cover arrangements’ and the requirement for any bank who issues Letters of Credit (LC) to Suppliers to have a Credit Rating of A or higher. It was noted that since the global banking crisis, the banking market has undergone fundamental changes and due to the ‘financial crisis’ only one bank in the UK market holds a Credit Rating of A.
- 3.2 RH asked whether there is scope to consider a solution on the current credit cover guidelines under DCUSA, that would enable banks to issue a Letter of Credit when requested without meeting the set criteria under Schedule 1 or whether to update the DCUSA to reflect the current credit ratings within the banking industry.
- 3.3 One member noted Barclay’s concerns but stated that they would like to have a better understanding of the implications it has between DNO’s and Suppliers Credit Cover Arrangements before proposing a solution. One proposal made was to utilise the investment grade wording from the Distribution licence provided.
- 3.4 One attendee advised that from a DNO perspective, they are aware of the changes in the banking industry and the current market where banks now have a lower credit rating which means that they are perceived as less secured. However, the Letter of Credit is the only form of secured credit available to the DNO and should a Supplier such as GB Energy close then in order for the DNO to recover their allowed revenue they will need to prove to Ofgem that they have put suitable credit cover in place. This member advised that they would rather have a secured form of credit available than a Suppliers payment history.
- 3.5 The chair advised that it would be beneficial to carry out a Request for Information (RFI) to get Suppliers perspective on this issue and their views on the current Credit Cover arrangements. This will allow Suppliers to outline the difficulties they are encountering in relation to arranging Credit Cover under DCUSA.
- 3.6 RH advised that there are examples in the market where a rating of A or other is considered acceptable. Secondly, the accessibility of finance by provisions of Letter of Credit does not mean that a Supplier cannot obtain finance but it does narrow the pool of banks they can go to and increase the cost of procuring the Letter of Credit. Therefore, there is a consideration on the price paid for the collateral that Suppliers are seeking and whether the two factors could be accommodated in a manner that suits all parties concerns. RH requested that the group look at the ability of widening

the rating level attached to the acquiring of a letter of credit to ensure accessibility of finance by Suppliers.

- 3.7 One member highlighted that the DCUSA does not specifically require DNO's to accept a Letter of Credit from a bank that has an A rating, the wording gives discretion to DNO's not to insist on it. It was noted that one DNO was known to have chosen to accept Suppliers Letters of Credit from banks with a rating less than A.
- 3.8 One member noted that a table within the DCUSA Schedule 1, identifies a credit rating and is awarded a proportion of the RAV in terms of the amount they are allowed to be given in a percentage rather than in an infinite amount. This allows other banks to be suitable but take into consideration any exposures to a higher risk. Members discussed whether a sliding scale could be applied to the table which would allow the bank with a lower rating such as BBB+ to provide x amount of credit cover.
- 3.9 The DCUSA does not aggregate the Letter of Credit to a rating for a bank. It was noted that should the same bank provide Letters of Credit for Supplier one, two and three that there should be a cap on the amount of secured credit they can provide so that the secured credit could be met if all three Suppliers went out of business. In other words, if 30 million is the amount that the credit rating affords for that bank to provide secured credit for, the aggregate number of Letters of Credit should not exceed that amount to prevent overexposure to one bank. One attendee advised that policing the market would not be seen as an acceptable practice and that it would not be best market practice to cap Letters of Credit for Suppliers.
- 3.10 One member requested that the review of this issue also cover a wider area of credit issues as DNOs currently have a mix of unsecured and secured credit arrangements.
- 3.11 The group considered that that the solutions suggested need more analysis and agreed to raise an RFI to request Parties views on the issue without presenting a specific solution.
- 3.12 The DCUSA SIG agreed the next step for this issue is to send out an RFI to parties.

ACTION: 01/01 - ElectraLink

4. RFI questions

- 4.1 The group agreed to issue an RFI with the following questions:

Suppliers

- How often do you come across issues with credit cover arrangements?
- Are you satisfied with the current credit options available?
- Do you see value in amending the credit rating value in Schedule 1 to obtain a Letter of Credit?

- Would having a lower credit rating increase completions with banks who currently do not meet the standard set out in the DCUSA?

Distributors

- Please provide your view on the existing way in which you are currently providing credit cover?
- How can we improve the method by which the Letters of Credit are calculated?
- Letters of Credit are a secured means of providing credit cover. Do you have any comments on the balance between unsecured and secured credit cover in DCUSA?
- How many Letters of Credit for Suppliers do you currently have?

All respondents

- Would you prefer a new option of credit cover over unsecured loans?
- What would be the best solution for this issue? Please provide your rationale.

5. Agenda Items for the next meeting

- 5.1 The Working Group agreed to add the following item to the agenda for the next applicable meeting;
- DIF 51 - Review of the RFI responses.

6. Issues Log

- 6.1 The DCUSA SIG noted the following update on the issues log:
- DIF 50 'RTS Management in SMETS 2' - Once the results are made available from the ENA consultation, a consultation will be drafted on the Radio Teleswitching (RTS) arrangements.

7. Any Other Business

- 7.1 There were no items of AOB and the Chair closed the meeting.

8. Date of Next Meeting: 28 April 2017

- 8.1 The Working Group agreed to have the next meeting on 28 April 2017.

9. Attachments

- Attachment 1 – DIF 51 - Letters Of Credit and Bank Credit Ratings

New and open actions

Action Ref.	Action	Owner	Update
01/01	To prepare the RIF document with the questions agreed at the meeting.	ElectraLink	