

Meeting Session	DCUSA Panel
Meeting Date	18 October 2017
Paper Reference	Panel_2017_1018_06_SIG Headline Report
Action	For Information

SIG Headline Report

1. Synopsis

1.1 This report sets out the key decisions made at the DCUSA Standing Issues Group (SIG) on 29 September 2017. The minutes of the meeting can be located on the DCUSA website.

2. DIF 51 - Letters Of Credit and Bank Credit Ratings

- 2.1 The SIG had previously considered DCUSA Issue Form (DIF) 51 which highlighted concerns raised by BEIS and the British Banking Association (BBA) in regards to DCUSA Schedule 1 which requires a bank who issues Letters of Credit (LoC) 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.
- 2.2 A Request for Information (RFI) was subsequently issued to Parties and a review of the responses received was conducted at the meeting. The majority of respondents considered that the required credit ratings should be lowered. It was noted that a number of suggestions were proposed by respondents in responses to the RFI.
- 2.3 It was generally agreed by the Group that the option proposed by UKPN in their response to Question 10 of the RFI should be drafted as a Change Proposal (CP). The option proposed by UKPN is set out below:

Link the provider of the LoC to the table in Clause 2.4 and to consider the aggregate value of LoCs from the same provider against this. The following changes to Schedule 1 could be considered to effect this;

Amend 1.1 (a) as follows;

a Letter of Credit or equivalent bank guarantee (available for an initial period of not less than six months) **in accordance with Paragraphs 2.22 to 2.23**

Add new paragraphs;

Letter Of Credit as Collateral

2.22 Where the User wishes to deliver Collateral to the Company in the form of a Letter of Credit or equivalent bank guarantee, the Company shall not be obliged to accept such a

Letter of Credit or guarantee if the aggregate value of all such Letters of Credit or guarantees so offered by the issuing bank would exceed the value of “LC” given by the following formula;

$$LC = RAV \times 2\% \times LCF$$

where: LCF is the Letter of Credit Factor (which is to be expressed as a percentage determined pursuant to Paragraph 2.23)

- 2.23 Where the bank has a Credit Rating from an Approved Credit Referencing Agency that is Baa3/BBB– or above, LCF shall be determined according to the following table.

Credit Rating		LCF (%)
Moody’s	Standard and Poor’s	
Aaa to Aa2	AAA to AA	100
Aa3 to A3	AA– to A–	40
Baa1	BBB+	20
Baa2	BBB	19
Baa3	BBB–	18

Amend the definition of Letter of Credit as follows;

means an unconditional irrevocable standby letter of credit in such form as the Company may reasonably approve issued for the account of the User in sterling in favour of the Company, allowing for partial drawings and providing for the payment to the Company forthwith on demand by any United Kingdom clearing bank or any other bank which in each case has a long-term debt rating of not less than ~~single-A~~ **BBB- by Standard and Poor’s Ratings Group or by Moody’s Investors Service**, or such other bank as the Company may approve and which shall be available for payment at a branch of the issuing bank

- 2.4 SIG members were asked if they would be willing to sponsor the change but none initially came forward. Members agreed to contact the Secretariat should they wish to formally raise a CP.

3. DIF 52 - ‘Operational Contracts’

- 3.1 A representative from Northern Powergrid (the Party who raised DIF 52) updated SIG members on the status of DIF 52. It was noted that the MOCOPA review panel has met and will be putting an operational contacts list together. It was further noted that Energy UK currently have a list, however, the list is voluntary and only consists members who have opted in. Northern Powergrid are exploring ways for the list to be kept up to date on a more rigid basis. The representative noted that Northern Powergrid are currently drafting a Change Proposal which is to be submitted to MOCOPA and that no action is needed from a DCUSA perspective but updates will be provided to the SIG.

4. Recommendations

- 4.1 The DCUSA Panel is invited to:
- **NOTE** the contents of this paper.

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