

UNC Energy Balancing Credit Committee Minutes

Monday 22 May 2017

Xoserve Limited, Lansdowne Gate, 65 New Road, Solihull, B91 3DL

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office	Non-Voting
Helen Cuin (Secretary)	(HC)	Joint Office	Non-Voting
Adam Lane	(AL)	Shipper	Voting Member
Colette Baldwin	(CB)	Shipper	Voting Member
James Hill	(JH)	Shipper	Voting Member
Mark Cockayne	(MC)	Xoserve	Non-Voting
Pauline Babb	(PB)	Shipper	Voting Member
Richard Fairholme	(RF)	Shipper	Voting Member
Sandra Dworkin	(SD)	Xoserve	Non-Voting
Zar Suleman	(ZS)	Xoserve	Non-Voting

Apologies

Nicky White	(NW)	Shipper	Voting Member
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Copies of all papers are available at: <http://www.gasgovernance.co.uk/ebcc/220517>

1. Introduction and Status Review

BF welcomed the members to the meeting, which was quorate.

1.1 Note of Alternates

None.

1.2 Approval of Minutes (24 April 2017)

The minutes were approved.

1.3 Review of Actions Outstanding

EBC 0401: Joint Office to invite EBCC Membership nominations for appointment from 01 June 2017 until the 30 September.

Update: BF confirmed that Nicky White had been appointed from immediate effect.

Closed.

2. Operational Update

SD provided the operational report for April 2017.

2.1 Cash Call Notices

During April, there were 2 Cash Call Notices issued, one was paid and one was appealed and withdrawn.

2.2 Further Security Requests (FSRs)

During April, there were no Further Security Requests issued.

2.3 Settlement

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
March 2017	99.87%	100%
April 2017	100%	100%
Rolling 12 Months	99.51%	100%

There were no Failure to Pay Notices (FTPN).

JH enquired about the Claims Validation Agent (CVA) data and if the cash call notices were related to CVA. MC confirmed that Xoserve take proactive action by talking to parties up front before a cash call notices are issued.

3. Modifications

SDw confirmed that UNC 0587 - Seasonal Energy Balancing Credit Cover, was implemented 01 May of which one user has expressed an interest in the service.

MC highlighted UNC 0605S - Amendments to TPD Section K - Additional Methods to Procure and Dispose of Operating Margins Gas, which was raised by National Grid NTS. He confirmed an assessment will be required to understand the implications of financial neutrality.

4. 12 Month Review

SDw provided a presentation highlighting the key points for the review. These were:

- The rolling 12-month performance remains above 99%.
- Continued pro-active engagement with Users reaching 70% of indebtedness to minimise Cash Calls.
- Up-front payment of Cash Calls limited to 3 times continued.
- Security Renewals 100%
- Implementation of UNC 0568 - Security Requirements and Invoice Payment Settlement Cycle for the Trading System Clearer.
- Proactively working with Users to support change. Looking at seasonal energy balancing credit cover and implementation of UNC 0587 - Seasonal Energy Balancing Credit Cover.
- EBCC rules revised 01 May 2017.
- Xoserve have worked with the Treasury to open a new bank accounts to spread risk.
- Credit Team continue their ICM training with members of the team completing the Business Environment module.

5. Focus for 2017/18

SDw summarised the proposed focus for 2017. These were:

- Committee membership and profile
- Risk Management: spreading profile and continuing to review; Pension protection Fund / ABTA / ATOL / Motor Insurance Bureau.
- Team: CICM Training Programme; Performance Excellence and Review of team structure
- Systems: Replacing Barclays AMS system; Implementing Lloyds AM system; Gemini review to implement process improvements; SAP credit payment automisation; Neutrality statement automisation/removal; and General Service

Agreement (GSA).

MC confirmed more information will be provided to members on the progress of these items. AL requested more information regarding the removal of the Neutrality statement as they currently use the information it provides. MC confirmed he would welcome any feedback and assured members that if removed confirmation of where the data could be found would be clarified.

MC summarised the areas that Xoserve are reviewing since the implementation of FGO and are looking at improving processes to make them more efficient, more controls, and some streamlining. MC enquired if there were any areas missing. Members did not raise any initial concerns or any additional items. MC expected the focus to continue into October 2017 and once processes are embedded for FGO there will be more focus on departmental structure and the manual processes.

BF enquired if Xoserve have a risk register that could be shared with the committee. It was suggested this could be reviewed October.

Action EBC 0501: Xoserve to review risk register at the next face to face meeting.

6. Security Review

SDw provided an Energy Balancing Security Review presentation.

SDw confirmed that Xoserve have seen, in the last 12 months lower acceptable rating categories. The movement since April 2016 to April 2017 is a £56m decrease of overall value in the Letters of Credit (LOC) to £296m. However, the spread of risk, 80%, is heavily weighted in favour of the lower band. This is demonstrated by the absence of securities held within the Aa1 and Aa2 rating bands.

The group considered the aggregate secured credit limit by rating bands and discussed the levels of risk.

SDw summarised the current outlook. She confirmed that Moody's anticipate their next review for Financial Institutions (FIs) to take place in June 2017. The presentation provided 4 FIs which were subject to a downgrade.

The value of credit secured via Deposit Deed and LOC was illustrated. The committee considered the demand for LOCs and Deposit Deeds.

SDw provided a summary of the findings. These were: a decrease in the overall value of security (LOCs); and S&P maintains a more risk averse approach to ratings compared to Moody's. Xoserve will continue to monitor financial institutions which are currently on possible negative outlook. Deposit Deeds held have seen a decrease in the last 12 months.

MC explained there are a number of factors that influence the decision of Users to opt for a specific FI. ZS confirmed these are competitive rates, banking relationships, impulsive renewal with same FIs and the visibility for the published FIs. The credit rules provide a list of banks currently used. It was agreed within the operational statistics that it is made clear that the current FI used is not an exhaustive list of FIs. MC explained within the credit rules it does not limit parties to the 24 FIs that Xoserve use, the only restriction is the minimal rating the FI has to have.

Action EBC 0502: Xoserve to make it clear that the published Financial Institutions (FIs) is not an exhaustive list.

SDw referred to the Brexit and General Election key points. RF asked if Xoserve stipulate if the FIs have to have a UK branch. MC explained that as the contract is a UK based contract the requirement is that a FI must have a UK branch as this insures the FI is governed by UK Law. MC explained if a party requests a FI without a UK branch these would be pushed back. CB enquired if a FI's UK Branch was closed would Xoserve use of this FI be reconsidered. MC confirmed that this would be picked up at the annual review.

Financial Institution Rating Review

SDw explained an action was taken to look at the FIs and the Bank Minimum Ratings.

SDw provided a brief summary/history. This included: scaling the limit back to a long-term credit rating of not less than Aa3 (moody's or equivalent); Aaa and Aa ratings combined; and that the upper limit was set at 20% above the highest aggregates limit then utilised.

ZS provided an analysis of the 2010 to 2016 Moody's "Fallen Angels", which illustrated that market is now a lot less volatile.

The committee considered the general global picture. RF asked about the vetting process to ensure banks meet the requirements. ZS explained that as long as the banks meet the financial criteria a party's chosen FI would not be refused. ZS explained a template letter of credits are provided.

ZS explained that there is a need to:

- Consider FIs which are unable to meet their TLAC requirements would expose the community to greater risk in the event of a User default.
- Consider Baa3 to Ba1 categories places a greater emphasis upon the outlook for each FI.
- The frequency of change in outlook is greater than the likelihood of rating in change

The last EBCC rating review was in 2011, however the market more stable now.

PB asked if there is currently only one bank that falls into the rating of B grade. CB asked if the industry would want to accept anybody with a B grade. It was recognised that if companies were relying on a B Grade FI all companies and that B Grade FI would have to fail for it to have an effect the market.

It was also recognised that the market is much more stable, and Xoserve are working to spread risk more widely. A large portion of FIs still remain with an acceptable rating category as outlined in the EBCR, the availability of FIs within the existing acceptable rating bands is still substantial.

RF thanked Xoserve for the detailed review provided. MC enquired if there would be value undertaking a two-year review. CB suggested there ought to be a watching brief on what is going on. It was agreed to undertake a periodic review but no action was required as part of this particular review.

PB asked if Xoserve have undertaken a correlation exercise if parties (of a certain nature) who have the same level of exposure have any correlation with using the same FIs. MC explained for a risk to be triggered there would need to be a failure of both parties and this is something that Xoserve do monitor. If 5/6 parties have the same FI and there was a downgrade of the FI, the parties would be contacted.

The committee concluded that there were no actions as part of this review and a further review would be taken on a bi-annual basis. If, however Xoserve had something worth reviewing in the meantime, this should be brought to the committee's attention.

7. Any Other Business

7.1 Voluntary Discontinuances

There were no Shipper Users seeking to exit the market.

8. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

EBCC meetings are scheduled as follows:

Time/Date	Venue
10:00 Monday 26 June 2017 (following the 09:30 Credit Committee)	Teleconference
10:00 Monday 31 July 2017 (following the 09:30 Credit Committee)	Teleconference
10:00 Tuesday 29 August 2017 (following the 09:30 Credit Committee)	Teleconference
10:00 Monday 25 September 2017 (following the 09:30 Credit Committee)	Teleconference
12.00 Monday 30 October 2017 (following the 10:30 Credit Committee)	Lansdowne Gate, Solihull
10:00 Monday 27 November 2017 (following the 09:30 Credit Committee)	Teleconference
10:00 Monday 18 December 2017 (following the 09:30 Credit Committee)	Teleconference

Action Table (as at 22 May 2017)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
EBC 0401	24/04/17	1.3	Joint Office to invite EBCC Membership nominations for appointment from 01 June 2017 until the 30 September.	Joint Office HC	Closed
EBC 0501	22/05/17	5.0	Xoserve to provide a risk register.	Xoserve (MC/SD)	Pending
EBC 0502	22/05/17	6.0	Xoserve to make it clear that the published Financial Institutions (FIs) is not an exhaustive list.	Xoserve (MC/SD)	Pending