

Representation - Draft Modification Report 0569S

Removal of the minimum security requirement from the Energy Balancing Credit Rules

Responses invited by: **11 February 2016**

To: enquiries@gasgovernance.co.uk

Representative:	Chris Hill
Organisation:	Locus Energy
Date of Representation:	11 February 2016
Support or oppose implementation?	Support
Relevant Objective:	d) Positive

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

As the proposer, Locus Energy supports implementation of UNC569S. We are aware that the EBCC has unilaterally removed the £10,000 minimum requirement for balancing credit following our raising of this proposed UNC modification, which itself raises questions over the governance process around changes to the Energy Balancing Credit Rules, and are of the view that its proposed solution retains the barrier to both entry and competition by other means. Our original intent, which was reflected in our proposed legal text, was that all reference to a minimum credit requirement would be removed and that all Users would be required to post credit on the basis of their expected throughput based on 12 month average SAP and three days non-delivery as provided for in the formula contained in 2.1c) of the Energy Balancing Credit Rules. However, as that section of the EBCR has now been changed to state that new entrants (i.e. those with less than 12 months trading history) will post credit on the basis of nine days (as opposed to three days) non-delivery, we have no option but to accept what is currently contained within the EBCR (and the newly circulated legal text for this proposed UNC modification) without withdrawing the modification and restarting what has already been an extremely lengthy process as we originally brought our concerns to the attention of the EBCC in June 2015. Therefore, while we do not believe that there are suitable grounds for this change, or the assumption that new Users pose a greater risk to the wider market in terms of possible default than established Users so that those new Users should therefore be required to post a greater level of balancing credit, we accept that this solution is better than the existing arbitrary £10,000 minimum credit requirement as it potentially requires new Users with low levels of expected throughput to post credit of less than £10,000, thus freeing up some cash which would otherwise be tied up for credit purposes for other operational uses. Again, we feel that this raises serious questions over governance as this proposed UNC modification has now been reduced to the status of seeking approval for a change which has already been made and which was not the change that we felt would best facilitate competition and the removal of

barriers to entry in relation to a minimum balancing credit requirement. However, we derive some comfort from our view that, had we not raised this proposed UNC modification, no change would have been made to the EBCR at all.

Nevertheless, we reserve the right to consider further whether or not we should in the future raise a separate UNC modification which reflects this UNC modification's original intent.

Self-Governance Statement: *Please provide your views on the self-governance statement.*

We originally requested that this proposed UNC modification not be treated as self-governance as we remain of the view that a change to the Energy Balancing Credit Rules, particularly in relation to amounts of required balancing credit, should be treated as material. However, as the UNC Modification Panel has voted to treat this proposed UNC modification as self-governance against our wishes, we have no choice but to accept this.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

We would like to see implementation take place as soon as possible following a decision that UNC569S be implemented although, as mentioned above, due to the unilateral action of the EBCC, we are now in a situation where this would simply be approval of a change to the EBCR which has already been made.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

We do not believe that implementation would result in any additional costs to Users and implementation costs to the Transporter's Agent are likely to be minimal.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

As previously noted, the legal text is not reflective of the original intent of the proposed UNC Modification. However, we believe that the proposed legal text reflects what is currently in the EBCR although we would like to reiterate that, although this solution is better than what previously existed, it still requires new Users to potentially post more balancing credit than would be necessary if this requirement were simply based on three days non-delivery and the User's expected throughput as originally proposed and retains an element of undue discrimination between new and established Users.

Are there any errors or omissions in this Modification Report that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

No, notwithstanding our comments above.

Please provide below any additional analysis or information to support your representation

We note that some Users have expressed concerns that removal of the minimum credit requirement for balancing could mean that trading parties could carry out this function

without posting balancing credit as it is usual for market participants of this type to estimate zero throughput. This is due to the fact that, unless something goes wrong, they will not normally have any physical position in relation to which credit would need to be posted. However, we note that, in the case of the last unplanned exit of a large trader participant, that participant had only £10,000 balancing credit in place which represented a tiny fraction of its overall market exposure. The excess (which amounted to millions of pounds) was socialised across the market and we believe that this amply demonstrates the fact that the £10,000 minimum credit requirement, while negatively impacting competition, provided no real insulation against default to the wider market.