

Energy Balancing Credit Committee's Response to the UNCC's questions relating to the recent change to the Energy Balancing Credit Rules

Thank you for your feedback/questions concerning the recent decision of the Energy Balancing Credit Committee (EBCC) to amend section 2.1 c of the Energy Balancing Credit Rules (EBCR) effective 21 January 2016. Members note the concerns raised regarding dual governance, however would assure UNCC that they act in the best interests of the industry as a whole, operating to a set of key principles set out in section 1.2 of the EBCR. These are detailed below for ease of reference.

The principles that the EBCC will endeavour to adhere to, which influence the operational framework that is currently in place to manage Energy balancing credit, are:

- To ensure systems, processes and procedures are developed in a manner that is not unduly discriminatory and recognises the circumstances of all Users in Energy Balancing.
- To ensure practice and procedures do not present undue barriers to entry, within the limits of prudent business management.
- To protect the gas industry from avoidable financial loss resulting from User default.
- To encourage appropriate commercial behaviour.

Having considered the points raised by UNCC please see below our response.

Explain why the recent changes EBCR were approved when proposed Modification 0569S is currently moving through the modification process, as the changes proposed appear to directly impact the modification.

As a committee, members have been reviewing concerns raised by the proposer of the modification for some time. Discussions were initiated in June 2015, whilst the User was working through the User Admission process. More detail in relation to this can be found in the minutes of the Energy Balancing Credit Committee, published via the Joint Office website.

In making their decision to implement the recent changes to the EBCR, members considered the modification raised and determined that their decision did not prevent the proposer from pursuing their modification further, as it still remains possible for the EBCC's changes to be superseded should it be determined that the modification be implemented. However, it is acknowledged that the changes of the 21 January were at a stage when the proposal was well developed and as a result, may have required the proposer to re-draft their proposal in order to accurately reflect the current rules. We accept this as a learning point in future, but note that the proposer is the only party that has the power to amend their modification.

Explain why it was necessary to amend the EBCR immediately and why the amendment couldn't follow the usual two months' notice period.

As was explained within the notice of change issued via the Joint Office, members believed that changing the rules with immediate effect would be equitable to all Users – both new and existing. Members considered that the concern raised by the

proposer (that holding funds that are valuable working capital for such a small business are disproportionately detrimental) provided the catalyst to act immediately.

Provide an update on the changes required to the EBCR should Modification 0569S be implemented at the February Panel (implementation would be 16 days after this date).

The following 'struck through' text would be deleted on page 11 of the EBCR:

~~All Users are required to maintain a minimum level of security at all times, which is currently set at £10,000, in order to provide sufficient protection for the gas community from User failures.~~

~~Where it is determined that a New User's (a User with less than 12 months trading history) Cash Call Limit should be set at a level less than the prevailing minimum level of security (currently set at £10,000) their Cash Call Limit will be recalculated based on 9 days non-deliverability in order to align with the imbalance period within the Anticipated Balancing Indebtedness calculation. The User's Cash Call Limit will be set at the lesser value of the two calculations.~~

For the avoidance of doubt any monies held in a User's Cash Call Account shall be excluded from the calculation of peak indebtedness over the last 12 months.