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# EBCC MEETING

26th April 2013

# AGENDA

- 1.0 Introduction
- 2.0 Minutes and Actions
- 3.0 Operational Update
- 4.0 Modification Proposals
- 5.0 Significant Code Review Update
- 6.0 Bank Ratings
- 7.0 Lehman's Update
- 8.0 Gemini Replatforming Update
- 9.0 Review of 2012/13
- 10.0 Focus for 2013/14
- 11.0 AOB
  - Revision to EBCR
  - EU Update
- 12.0 Date of Next Meeting

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# Operational Update

March 2013

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# Modifications

# Modifications

- Mod 0429 Customer Settlement Error Claims Process
  - Xoserve advised members that it would be worth members considering a response to the consultation once the workgroup had concluded its report.
  - Workgroup report concluded
  - Mod Panel has voted that should proceed to Consultation
  - Members are encouraged to respond to consultation once it goes live.
- 0447S - Exception to Code Cut Off Date for energy Balancing debt Recovery purposes

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# Market Operator Security Provisions

- Meetings have taken place with Market Operator (MO) to discuss options available for Security provisions
- EBCC informed that MO's preference is option of Prepayment Agreement.
- NGD legal and Xoserve have drafted a Prepayment Agreement for approval by EBCC
- Next Stage meeting with APX to discuss and finalise agreement.

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# Significant Code Review Update

# Security of Supply Significant Code Review

- EBCC submitted a formal response to the SCR final consultancy in October 2012, identifying flaws with a £20 per therm Value of Lost Load charge under the current credit regime.
- EBCC views were supported by other industry responses.
- OFGEM are now consulting further on DSR auctions with the industry and taking further interest in the impact on credit arrangements.

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# Bank Ratings

# Current Position

- **Since April 2012 the global economic markets have largely been in a state of stagnation or deterioration.**
- **Significant numbers of financial institutions have been subject to a reduction in credit rating, including a number providing Security for Energy Balancing purposes, but the freefall of credit ratings characterising 2011 – 2012 has currently stabilised.**
- **However, whilst Moody's has concluded a majority of planned downgrades, S&P has not and predicts these are likely to take place within 12 months to 2 years.**
- **Continued problems in Europe may result in significant upheaval, particularly if a high debt sovereignty was to leave the Euro.**

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# Rating Downgrades

- **14 May – 26 Italian banks downgraded – no impact**
- **17 May – 16 Spanish banks downgraded**
  - ❖ Banco Santander SA London Branch
  - ❖ Santander UK Plc
- **24 May – 1 Norwegian bank downgraded**
  - ❖ DNB
- **24 May – 5 Swedish banks downgraded**
  - ❖ Nordea Bank
  - ❖ Svenska Handelsbanken
- **30 May – 8 Danish banks and 1 Finnish bank downgraded**
  - ❖ Danske Bank London Branch
- **06 June – 9 Austrian banks and 7 German banks downgraded – no impact**
- **12 June – 2 Cypriot banks downgraded – no impact**
- **15 June – 4 French banks downgraded – no impact**

NB: Banks marked with a bullet point were or are currently providing Security

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# Rating Downgrades Cont.

- **15 June – 5 Dutch Banks downgraded**
  - ❖ **ING Bank NV**
  - ❖ **Rabobank Nederland**
- **21 June – 15 Global investment banks downgraded**
  - ❖ **Bank of America**
  - ❖ **Barclays**
  - ❖ **BNP Paribas**
  - ❖ **Citigroup**
  - ❖ **Credit Agricole**
  - ❖ **Credit Suisse**
  - ❖ **Deutsche Bank AG**
  - ❖ **HSBC Bank Plc**
  - ❖ **JPMorgan Chase Bank**
  - ❖ **Society General**
- **21 June – 6 UK banks downgraded**
  - ❖ **Lloyds TSB**

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# Rating Downgrades Cont.

- 22 June – 31 Argentinean banks downgraded – no impact
- 25 June – 29 Spanish banks downgraded
  - ❖ Banco Santander SA London Branch
  - ❖ Banco Bilbao
- 27 June – 10 Brazilian banks downgraded – no impact
- 28 June – 10 Mexican banks downgraded – no impact
- 03 July – Turkish banks – mix of upgrades and downgrades – no impact
- 16 July – 9 Italian banks downgraded – no impact
- 25 July – Banks in Germany, Finland and Holland placed on negative watch pending outcome of Euro zone upheaval.
- 25 October – Santander UK credit rating confirmed.
- 18 November – Rabobank downgraded – no impact

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# Rating Downgrades Cont.

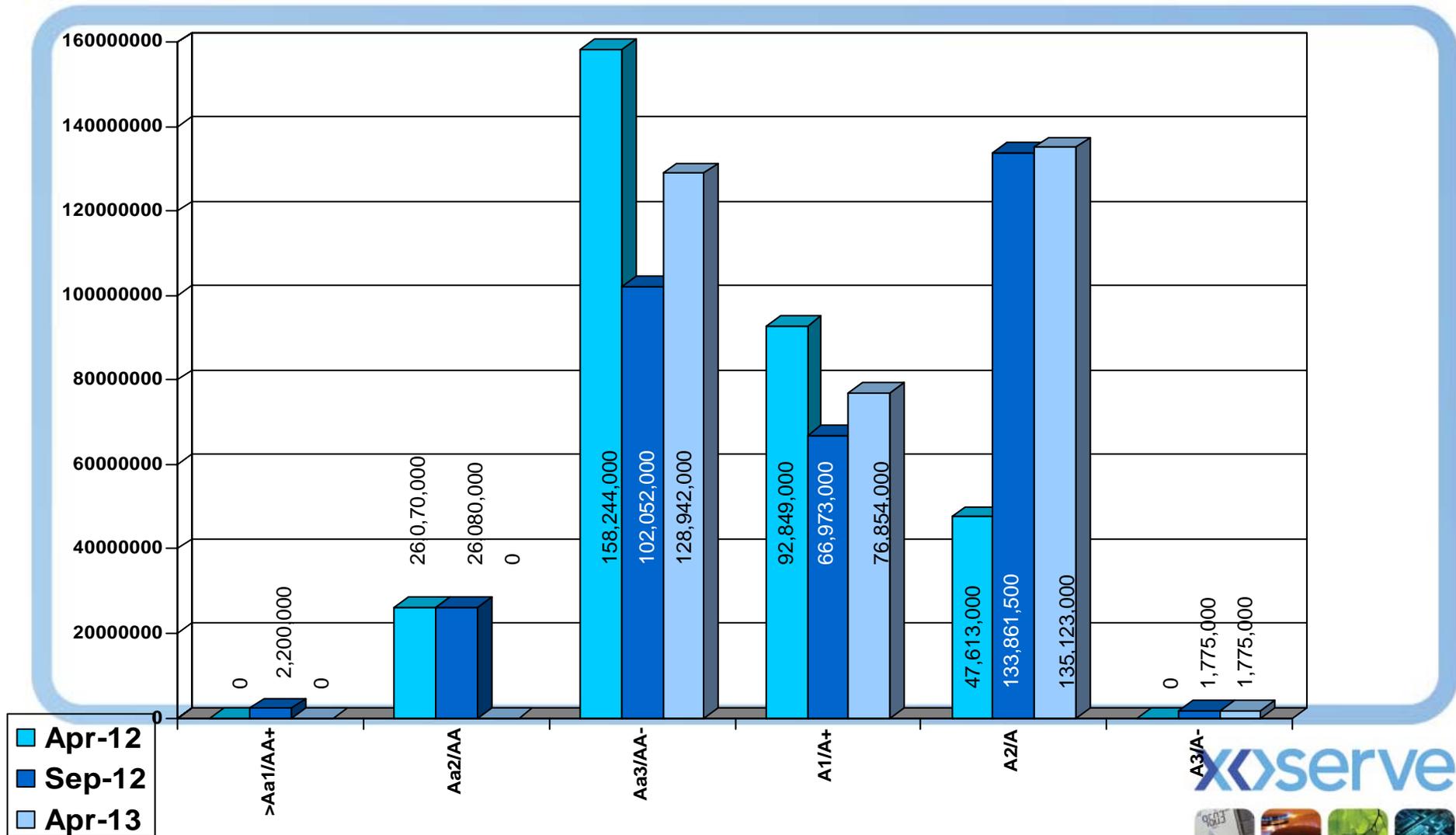
## 2013 Downgrades:

- **29 January – Canadian banks downgraded**
  - ❖ **Bank of Nova Scotia – No impact**
- **13 February – Citibank placed on negative watch.**
- **22 February – UK Sovereign rating downgraded from Aa1 to Aaa.**

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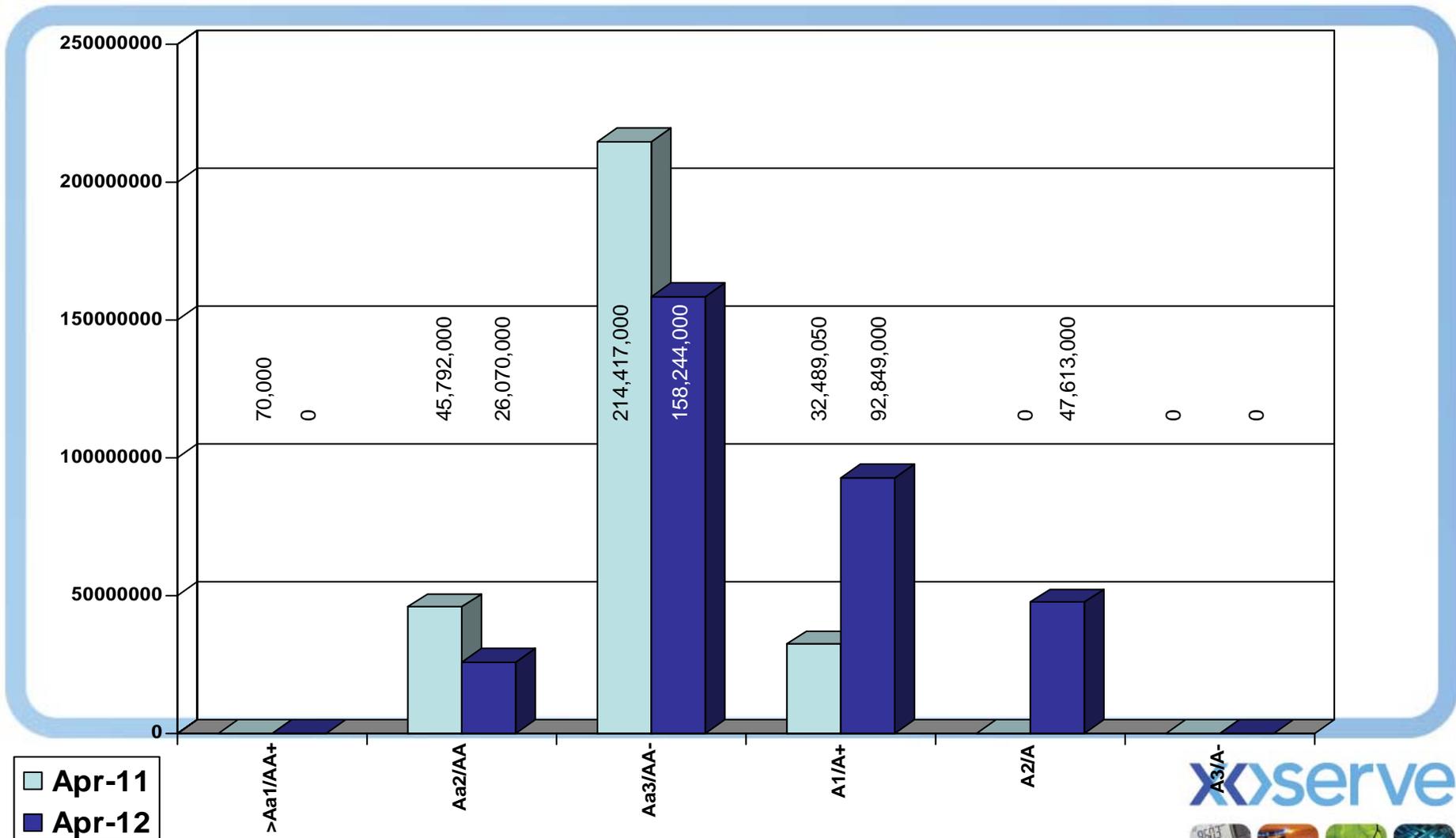


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**Aggregate secured credit by rating band**

# Spread of Ratings April 2012 Review

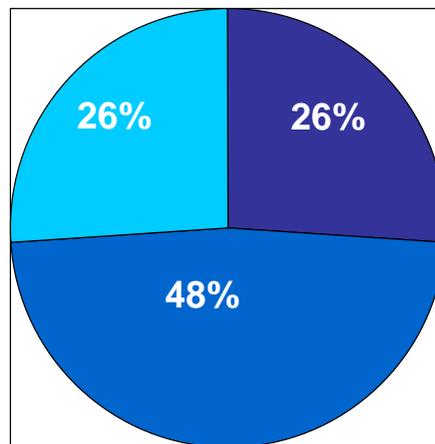


Aggregate secured credit by rating band

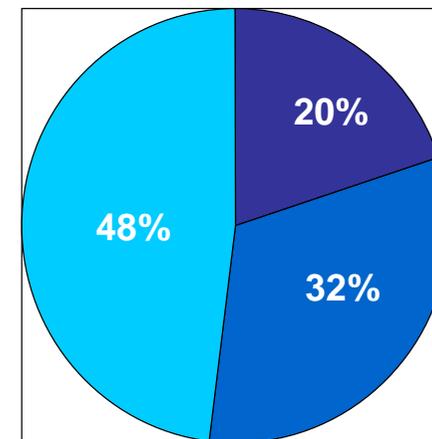


- **76% of all FIs currently providing Security have been subject to a rating change by Moody's during 2012 and 2013.**
- **Currently 48% of FIs are in the lowest categories of investment grade rating.**

FI Ratings April 2012



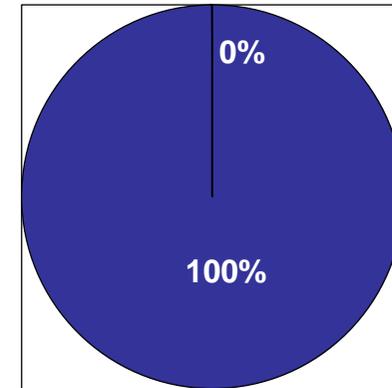
FI Ratings April 2013



- Having completed a significant rating review throughout 2012 and the first quarter of 2013 no FIs are currently on watch.
- S&P are commencing significant reviews across a large number of FIs, with 68% showing a negative outlook, of which 4% are on watch for a negative downgrade in the near future.

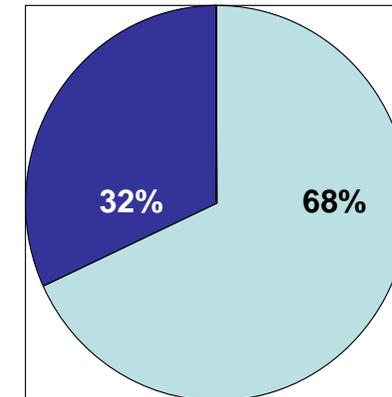
## Moody's Outlook

0% Possible Downgrade  
100% Not on Watch



## S & P's Outlook

68% Negative  
32% Stable



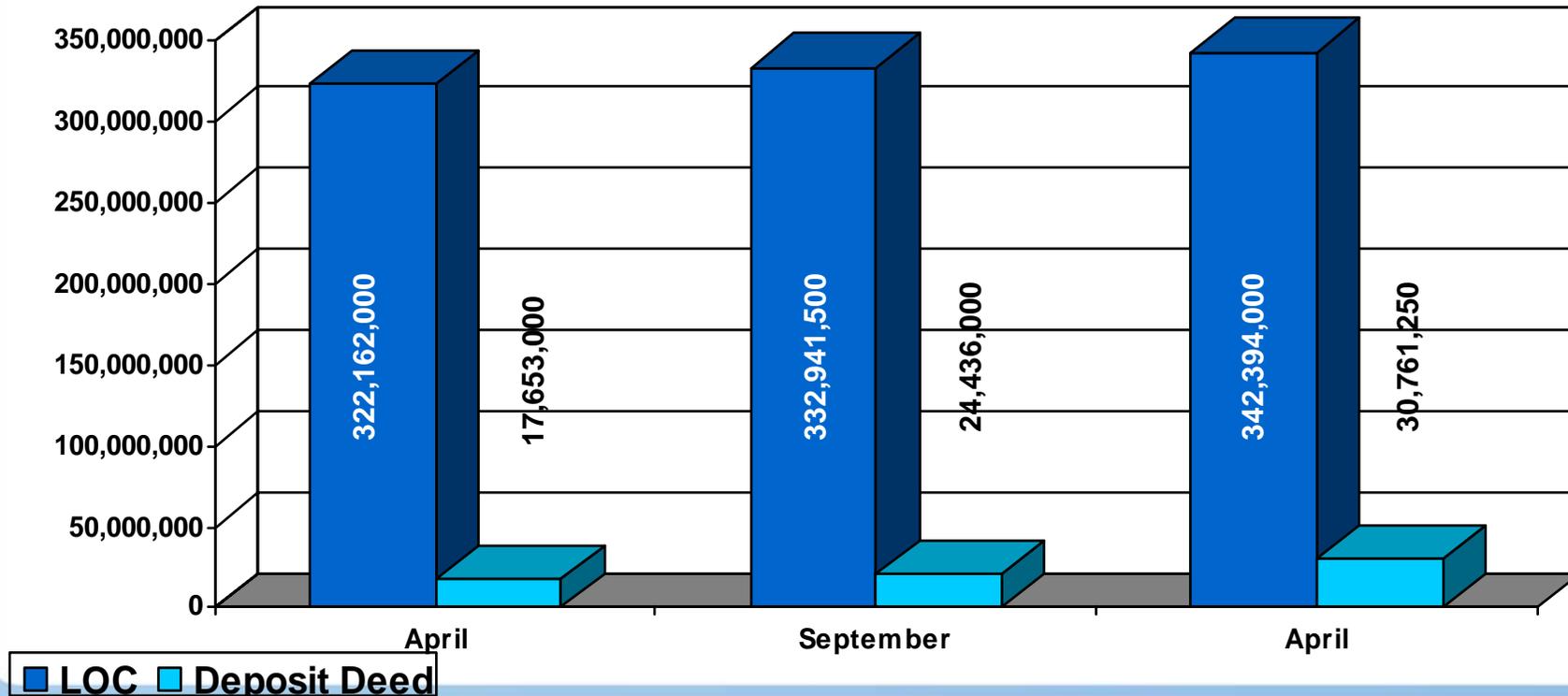
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# Deposit Deeds

- Value of credit secured via Deposit Deed and LOC – comparison between April 2012, September 2012 and April 2013



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# Conclusions

- **Whilst the conclusion of rating reviews by Moody's has brought a certain level of stability to FIs for the time being, the likely commencement of reviews by S & P (who frequently rate at a lower value than Moody's) raises concern that any stability is temporary.**
- **Security value is increasing, with a significant concentration of LOCs with FIs in the lower rating bands.**
- **Proactive management and the introduction of Non Registrable Deposit Deeds has assisted in ensuring that Shippers are not placed in the position where they risk replacing LOCs on multiple occasions with multiple FIs.**

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# Lehman's Update

## Lehman Brothers Commodity Services Inc - Figures at a Glance 26.4.13

GBP Figures	% of original debt based on GBP	
<b>Original debt following termination 2.10.08</b>	<b>£9,935,609.78</b>	<b>100%</b>
<b>Less distributions</b>	<b>£5,028,413.53</b>	<b>50.61%</b>
<b>Debt at 25.3.13 following distributions</b>	<b>£4,907,196.25</b>	<b>49.39%</b>
<b>Less sale of debt (Barclays exchange @ 26.3.13)</b>	<b>£3,539,577.03</b>	<b>35.62%</b>
<b>Outstanding debt @ 26.3.13 (following 1st &amp; 2nd distribution and sale of debt)</b>	<b>£1,367,619.22</b>	<b>13.76%</b>
<b>Total Recovery</b>	<b>£8,567,990.56</b>	<b>86.23%</b>

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# Gemini Replatforming Update

# Gemini Replatforming

- GRP Project cutover is 9<sup>th</sup> June 2013
- Outage planned on weekend 8<sup>th</sup> and 9<sup>th</sup> June
- Agents should avoid sending bulk claims files prior to cut over not later than 23:59 on 7<sup>th</sup> June.
- In the event that it is necessary to back out of implementation both Gemini and Gemini Exit should be restored on Sunday 9<sup>th</sup> June
- Gemini and Gemini Exit will be lost unless the local configuration changes have been implemented.
- From 9<sup>th</sup> June 2013 and Users will have to employ their own Contingency plans. Details of local configuration are available to download from [www.xoserve.com/grp](http://www.xoserve.com/grp)

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# Review of 2012/13 Update

# Review of 2012/13

- Cash Collection figures on rolling 12 month performance highest for the past 5 years.
- Cash Collection Monthly figures 100% over the past 12 months on 7 occasions.
- Continued pro-active engagement with Users reaching 70% of indebtedness to minimise Cash Calls.
- 2 Terminations managed 13/7/2012 and 6/12/2012 – No financial losses
- Security Renewals 100%
- Publication of revised and reformatted Energy Balancing Credit Rules
- Sale of Lehman's Debt
- Successful Internal Audit and LRQA Audit
- Customer Satisfaction Survey has improved on previous 12 months
- 1 new member of staff Joined team
- Continuing training to cross skill team

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# Review of 2012/13 Continued

- Moratorium for Shippers impacted by multiple downgrades embedded in EBCR
- Proactive process notifying Shippers where an FI is at risk of a downgrade
- AMS banking successfully implemented, increasing transparency, efficiency and reducing costs
- New contract negotiated with rating agency resulting in reduced costs
- Implementation of Modifications
  - 0398 Limitation on Retrospective Invoicing and Invoice Correction – 1<sup>st</sup> April 2014 which changes the cut off date from 4 to 5yrs reducing it to 3 to 4 years.
  - 0444S: Changes to reflect demerger by APX of OCM Trading System Operator from the Trading System Clearer.
  - 0446S: Correction to termination date in TPD Section X4

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# Focus for 2013/14 Update

# Focus for 2013/14

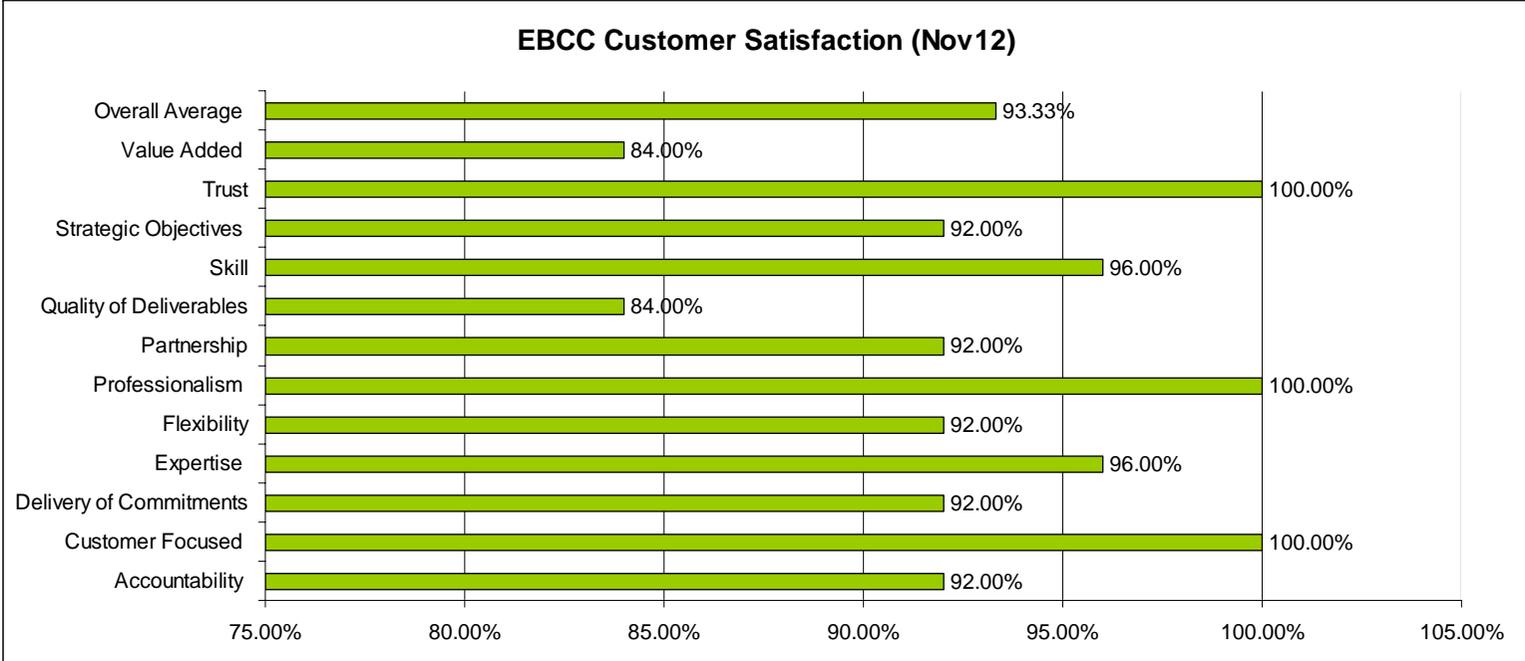
- Focus on key areas identified from 2012 Customer Satisfaction Survey
- Continue to engage with Industry Stakeholders
- Keep EBCC members informed of any modification proposals.
- Significant Code Review
- EU Third Energy Package
- QICM (investigate the benefit of accreditation in Quality for Institute of Credit Management)
- Promote the work of the EBCC members and benefits to the Shipping Community
- Are there any areas specific that EBCC members would like us to focus on?

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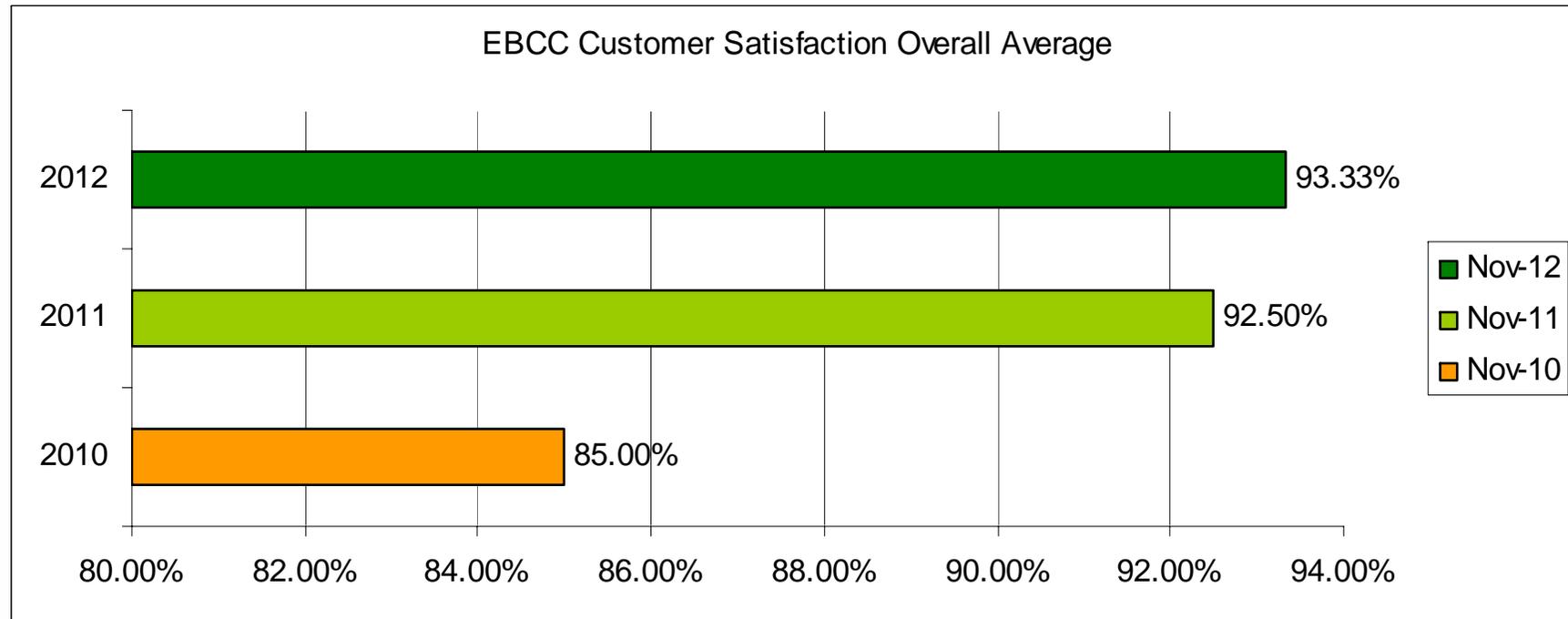
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- EBCC Customer Satisfaction



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# Year on Year Comparison



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# Comments received

The results are very high, I wanted you to be aware that this is not just me taking an easy route with the survey, I really do think that we get an excellent service from your team and it is particularly impressive as the benefits that accrue from your processes relate more to the shipper community than to yours.

I think the service is first class and have been unable to identify any areas for improvement

Well done!

Still the occasional time where an issue has had to be referred to someone else rather than the person initially taking the call

Excellent job done on reformatting of EBCR. Have not recognised any added value

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# Energy Balancing Credit Rules

# Energy Balancing Credit Rules

- **Update necessary as a result of Mod 446s implementation – amendment to Section X4.**
- **Additional update to Further Security credit letters to include the instruction that a Further Security request may be met by the provision of a Letter of Credit or Non-Registrable Deposit Deed.**

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# EU Third Energy Package

## Update

# Current Position

- **Updated CAM NC delivered 17 September 2012, ACER found issues of contention but under EU Commission guidance submitted it for comitology in November 2012, comitology finished 15<sup>th</sup> April and translation and drafting is currently underway for publication. Early implementation plans are now in progress across Europe, the first workshop meeting was held on 6<sup>th</sup> March 2013.**
- **Network Code for Balancing has been agreed with ACER and was recommended for comitology on 25<sup>th</sup> March 2013.**
- **Draft Framework Guidelines on Tariffs is undergoing development and has been given a drafting extension with no date limit at this time.**
- **Draft Network Code on Interoperability and Data Exchange was published on 27<sup>th</sup> February and is undergoing an initial 2 month review.**

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# Risk Register

## Update

# Register Part 1

## Risk Register as at 26/4/13 :

	Risk	Likelihood - comments	Likelihood
H1	loss of Gemini system - sustained loss for 1 working day or more	Once in 10 years – to date Gemini over 2 years Gemini has had 1 short overnight outage. Also due to Oracle Software Upgrade, Gemini affected between 22nd and 25th October. Loss of Gemini on 14th and 15th May due to Server problems. <b>GRP implementation planned 9<sup>th</sup> June.</b>	Suggest move from a 2 to a 3
H2	Calculation for IMS is found to be incorrect.	Has happened in Dec 05 and also recently when during Oracle OS upgrade UAT it was found that accruals not included in a D-1 or D-2 recalculation – twice in last 6 to 7 years – once in 5 years. April 08 data was uploaded incorrectly. <b>Recent issues identified on the 7<sup>th</sup> of March and 6<sup>th</sup> April following batch job issues.</b>	Suggest move from a 3 to a 5
H3	APX Gas files containing system prices and trades arrives late.	Pre Gemini IMS this used to stop PIMS jobs running – since introduction of Gemini IMS this has not happened – once in 5 years. Controls and monitors are now in place to ensure files are received.	3

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# Register Part 2

**Risk Register as at 26/4/13 :**

	Risk	Likelihood - comments	Likelihood
<b>H8</b>	User's unable to provide CVA data due to the CVA system / website being down	This happened once on 13/03/07 – Once in 5 years. Controls in place that would receive notification from CVA.	3
<b>H9</b>	In the absence of being unable to adjust the ABI calculation the industry could be unduly exposed to avoidable financial debt. Should NGD be aware of more up to date information.	Due to SCR Mod 233 this was put on hold to await outcome of SCR consultations. <b>Potential implementation of OFGEM SCR proposal has the potential to increase the likelihood and impact of this issue.</b>	Suggest move from 3 to 4
<b>H10</b>	Due to the current European financial climate, there is a risk that the number of FI's meeting the relevant criteria to provide security could reduce significantly.	Moody's are currently have a schedule to review all FI's current rating in June 2012. <b>Moody's review of FIs completed over the summer of 2012, S&amp;P now anticipate conducting their own review.</b>	4

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- **Questions/ Any further business?**

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