

Energy Balancing Credit Committee Minutes
Friday 24 June 2011
Ofgem Offices, 9 Millbank, London

Participants

Joint Office (Non voting)

Bob Fletcher (BF) Chair

Xoserve (Non voting)

Mark Cockayne (MC)

Lorraine O'Shaughnessy (LO)

Shippers (Voting)

David Trevallion (DT)

Gavin Ferguson (GF)

Jenny Higgins (JH)

John Costa (JC)

Richard Fairholme (RF)

Observer

Ofgem (Non voting)

Tabish Khan (TK)

Apologies

David Holland (DH)

Gary Russell (GR)

1. Introduction

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

2. Minutes and Actions from the Previous Meeting

2.1 Minutes

The minutes of the previous meeting held on 27 May 2011 were accepted.

2.2 Actions

EBC 02/01: MC to advise on River Barle's response following their customer interface meeting later in the year.

Update: Action not discussed. **Carried Forward to August**

EBC 01/04: Provide Ofgem with an annual report on credit risk performance over the previous year.

Update: Ofgem has been provided with an annual report for review. MC advised the report is to be circulated on an annual basis to EBCC members, as it should help to clarify issues and events through the previous year. **Closed**

EBC 03/04: Amend the Deposit Deed and Credit Rules following discussion at EBCC and circulate amended copies to members.

Update: Discussed in the agenda. **Closed**

EBC 04/04: Consider an update process to monitor implementation of the deed and advise EBCC members.

Update: Discussed in the agenda. **Closed**

EBC 05/01: Provide information to Ofgem on potential systems impacts and the letters of credit used in Energy Balancing

Update: Information has been provided to Ofgem to inform the SCR process. A summary is to be circulated to EBCC members following this meeting. **Closed**

3. Operational Update

MC provided the following Operational update for May 2011.

3.1 Cash Call Notices

During May there were 20 Cash Call Notice issued and 16 were paid. 4 were appealed and were withdrawn. The number was due in part to bank down grades and the number of bank holidays during April and May.

GF asked if there were any issues with the availability of credit following the bank downgrades. LO advised that Users are supplementing their credit where needed. MC advised that there might be subsequent problems if there are continuing financial problems such as those in Greece.

GF thought it would be useful issuing a note to Users to advise them of the potential risk of changes to credit availability.

New Action EBC 06/01: MC to draft note for issue to Users advising them of available headroom for banks and the impacts of recent and future downgrades (include link to the published table).

Further Security Requests (FSRs)

There were 2 Further Security Requests (FSRs) issued during May 2011

3.2 Settlement:

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
April 2011	100%	100%
May 2011	99.95%	100%
Rolling 12 Months	99.42%	100%

4. Modifications

4.1 Alternative to UNC 0233V - Changes to Outstanding Energy Balancing Indebtedness Calculation

MC advised that the review of legal drafting is continuing and a number of issues have been discussed with National Grid, particularly around the clarification of definitions and what the intention of the modification is.

MC advised that the modification will not be raised until the outcomes of the SCR are understood, this is due to the potential increases in exposure for Users. A system solution is likely to be required to be able to manage User enquiries for this purpose. A ROM is being arranged to get a view of costs going forward, an update is to be provided in due course.

4.2 0338 - Remove the UNC requirement for a 'gas trader' User to hold a Gas Shipper Licence

MC advised that Modification 0338 has been assessed and it is unlikely to have any issues for energy balancing.

JC advised that there are currently two consultations issued by DECC based on potential changes to European Regulations which may impact traders. It may be advisable if members consider the impacts of these changes as they may have an impact on insolvency regulations.

5. Significant Code Review Update

TK advised that the SCR report will not be published until July 2011. MC advised that there are potential impacts on credit and systems – see discussions for 4.1. There may be some issues relating to different SAP prices for different types of User, as this would remove the level playing field.

New Action EBC 06/02: TK to provide the expected reporting date for the SCR to enable a meeting of the EBCC to be arranged to review the implications.

6. Market Operator discussions

MC gave an overview of the conditions, which are applied to the Market Operator (MO) and the reasons for these additional protections. He also explained how the MO currently operates and provided some analysis on how they have been managing their account.

MC advised that since 2009 three cash calls have been issued and payments were received the same day. Two of these issues were tied to an Office move by the MO. MC was not concerned by the way the account is being managed

MC reminded members that the MO had suggested moving to an ESCROW arrangement at a meeting last year, EBCC had responded in writing but to date no response had been received.

MC asked if it is still appropriate to maintain the credit limit at 60% for the MO while other parties get 85%. Leaving it at 60% may require additional meetings once the new deposit deed process is implemented. DT thought it advisable to wait and see what the impacts are once the new process is implemented.

RF thought any amendment would require a modification, which is likely to take 6 months and so changes may not be that quick to implement. He asked if the value at risk for APX is greater than say that for a large user. MC advised that the MOs position changes rapidly on a day-to-day basis due to the number of members they have – they are exposed to their member's trades. GF was aware they have less opportunity to ramp up debt due to amendments to the credit rules.

JC wondered if it would be possible to increase the limit from 60% but not to 85% and review their performance at a later date. DT was concerned at the potential risk of failure due to one of their participants failing; it may not be visible to this market.

MC clarified that the MO can respond very quickly to cash calls and the overall process for dealing with cash calls is much quicker. The MO has the ability to manage their process much quicker than other Users.

Members agreed it was beneficial to change the credit rules applicable to the MO in line with other Users and increase the value to 85%.

7. AOB

7.1 Deed of Deposit

MC advised that the Deposit Deed and credit rules have been amended following discussion and comments received from members. The aim is to implement the new rules by 1st October this year subject to approval that EBCC members are content with the changes. He advised the process is likely to take 3 months to complete including the notice of change.

Members agreed that the new credit rules and deed should be published on the Joint Office website indicating an effective date.

MC advised the process is to be audited prior to and post implementation to ensure it is operating effectively. This will include ensuring Xoserve has appropriate controls and authorisation in place.

GF asked if a report could be provided to EBCC to report on the controls in place and their suitability.

7.2 Discretion to late payment notices

MC advised that a User has asked that EBCC consider allowing Xoserve to use discretion before issuing a late payment interest charges. Recently the User made a mistake on a payment, which was late, credit management then issued a late payment notice. The User considers this

as unfair as the interest due is a very small value and Xoserve should use its discretion and hold such notices and subsequent late payment interest charges.

GF felt that the User should be encouraged to raise a modification to resolve the issue. JH considered the current rules are designed to incentivise correct behaviors for payments, it is not appropriate to allow discretion in the rules.

8.

Date of Next Meeting

The next planned EBCC meetings is as follows:

Friday 29 July 2011 commencing at 09.00 by teleconference.

Action Log – Energy Balancing Credit Committee

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC 02/01	25/02/11	2.2	Provide River Barle's response following their customer interface meeting later in the year.	Xoserve (MC)	On hold until August
EBC 01/04	08/04/11	3.3	Provide Ofgem with an annual report on credit risk performance over the previous year.	Xoserve (MC)	Closed
EBC 03/04	08/04/11	6.1	Amend the Deposit Deed and Credit Rules following discussion at EBCC and circulate amended copies to members.	Xoserve (LO)	Closed
EBC 04/04	08/04/11	6.1	Consider an update process to monitor implementation of the deed and advise EBCC members.	Xoserve (LO)	Closed
EBC 05/01	27/05/11	6.0	Provide information to Ofgem on potential systems impacts and the letters of credit used in Energy Balancing.	Xoserve (MC)	Closed
EBC 06/01	24/06/11	3.1	Draft a note for issue to Users advising them of available headroom for banks and the impacts of recent and future downgrades	Xoserve (MC)	Pending
EBC 06/02	24/06/11	5.0	Provide the expected reporting date for the SCR to enable a meeting of the EBCC to be arranged to review the implications.	Ofgem (TK)	Pending