

# Energy Balancing Credit Committee Minutes

## Monday 19 October 2015

### via Teleconference

#### Attendees

Les Jenkins (Chair)	(LJ)	Joint Office	Non-Voting
Helen Cuin (Secretary)	(HC)	Joint Office	Non-Voting
Chris Hill	(CH)	Locus Energy	Non-Voting
David Holland	(DH)	Shipper	Voting Member
Gavin Ferguson	(GF)	Shipper	Voting Member
James Hill	(JH)	Shipper	Voting Member
Mark Cockayne	(MC)	Xoserve	Non-Voting
Sandra Dworkin	(SD)	Xoserve	Non-Voting

#### Apologies

Gemma Truran	(GT)	Shipper	Voting Member
Pauline Babb	(PB)	Shipper	Voting Member
Richard Fairholme	(RF)	Shipper	Voting Member

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ebcc191015>

## 1. Introduction and Status Review

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

### 1.1 Approval of Minutes (21 & 23 September 2015)

SD requested a number of amendments to the 21 September 2015 minutes. Amended minutes have been published at: <http://www.gasgovernance.co.uk/ebcc/210915>

Minutes from both September meetings were approved.

### 1.2 Actions

**EBC 1102b:** Identify options for extending or enhancing EBCC membership. Include reviewing other UNC and non-UNC committees/groups for ideas to expand membership.

**Update:** MC confirmed that a first draft of the options would be issued to members for feedback. **Closed.**

#### EBC 0901

MC to coordinate a further operational meeting with the Committee members to:

**a):** Feedback discussions following discussing the proposal with ICE Endex.

**Update:** See item 3.0. **Closed**

**b):** Rob Hill from Locus Energy to be invited to that meeting, to present to Committee members regarding the minimum level of security.

**Update:** See item 7.1. **Closed**

**c):** Review EBC Rules to introduce the suspension of the FSR process in the event of a GDE.

**Update:** MC reported that the EBC rules had been reviewed and approved at the 23 September further operational meeting. He confirmed members agreed to suspend the FSR process and to reflect these with effect from 01 October 2015. MC also highlighted another minor amendment to reflect the change in the gas day from 6am to 5am from 01 October 2015. Both changes have been made to the EBC Rules and these have been subsequently published at: <http://www.gasgovernance.co.uk/tpddocs>. **Closed.**

## 2. Operational Update

MC provided the operation report for September

### 2.1 Cash Call Notices

During September there were 4 Cash Call Notices issued, 3 were paid on the due date and 1 was appealed and withdrawn.

### 2.2 Further Security Requests (FSRs)

During September there were no Further Security Requests.

### 2.3 Settlement

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
August 2015	99.90%	100%
September 2015	99.54%	100%
Rolling 12 Months	99.48%	100%

MC explained that there were 3 'Failure to Pay' notices issued during September. All parties had confirmed in advance that payments would be made and all were paid one day late. 2 of the failures were due to staff changes and 1 was due to a US Bank Holiday. MC confirmed that all parties have been advised of the severity of late payments and the actions that subsequently take place. The US party have been advised that payments that fall on any Bank Holiday should be paid prior to the holiday not after.

MC also wished to flag that so far there have been 5 separate Failure to Pay notices issued for October equating to approximately £788,800. He explained that currently the rolling 12-month figure for October is 99.05% rolling average. All 5 payments were made one day late.

GF asked if all the companies are fully aware of the risks associated with non-payment and the escalation process. MC confirmed it had been re-enforced with each company the importance of paying on time and the severity of non-payment.

## 3. Market Operator Security Requirements

MC confirmed that Xoserve were awaiting the first draft of the modification and when received will request that that this can be shared with EBCC members. He reported that the EBCC members would need to review the proposal and this would require a further operational meeting to discuss not only the ICE Endex proposal but also the credit limit challenge from Locus Energy.

**Action 1001: Xoserve to arrange a Further Operational Meeting**

**Post Meeting Note:** Meeting planned for 10:30 Monday 26 October 2015. **Closed.**

The basis of the modification is to address the settlement period without increasing the exposure of another market operator if it were to be appointed. MC reported a meeting has been held, and ICE Endex has outlined the proposals. He confirmed that ICE Endex appear to have taken on board the comments provided. MC explained that ICE Endex is also looking at conditions for the trading operator to be a fully registered clearinghouse.

The EBCC members agreed to defer further consideration of the security requirements until the proposal can be shared and a larger group of EBCC members were able to review. MC confirmed as soon as Xoserve obtain confirmation that the proposal can be shared it would be emailed to the EBCC members for consideration and a meeting organised.

MC highlighted that;

- A meeting is being arranged with National Grid to understand Rule 305 and how it works with the Cash Call process. Further clarity is being sought from National Grid to the execution of this rule.
- A go live date of the 24 November 2015 has been proposed for the new market operator.
- System testing has taken place, as there are some concerns with having 2 market operators in the system and the ability to receive more than one file. There are also concerns on whether this could impact SAP prices and the there maybe impacts to Gemini and UK Link. Xoserve are seeking assurances to ensure the system is not impacted.
- ICE Endex have provided a Deposit Deed Agreement and a Prepayment Agreement.

#### 4. Modifications

MC highlighted that Modification 0560 - 'Addressing under-allocation of flows from BBL arising from misalignment of reference conditions', would need to be considered by the EBCC members and requested comments or concerns are fed back to Xoserve. He explained that this modification is seeking to reconcile a misalignment of reference conditions between BBL and the NTS systems, funded through Energy Balancing.

LJ highlighted that there has been an application to make this modification Urgent, proposing a single Workgroup Meeting on 05 November to enable a report back to panel on 19 November. LJ confirmed that a presentation was provided to panel and available for EBCC members to review at:

<http://www.gasgovernance.co.uk/panel/151015>

The modification is available at: <http://www.gasgovernance.co.uk/0560>

**Action 1002: EBCC members to review Modification 0560 and provide any concerns to Xoserve.**

#### 5. Bank Ratings

MC reported no material changes in the ratings for financial institutions and that Deutsche Bank had been downgraded in the last quarter. He further explained that Moody's have changed the outlook for the German Banking system to 'stable' for at least 12 to 18 months on 08 October 2015.

#### 6. Projects

##### 6.1 EU Phase 2

MC reported that the new system has been implemented for the 01 October 5am –

5am gas day. Some impacts have been identified with the TSOs, which are being monitored. The new capacity regime will become effective from 01 November with the first invoices being issued in early December.

## **6.2 EU Phase 3**

MC confirmed that the system solution workshops have now concluded and the project is in the build phase. Testing is due to be completed during December 2015 / January 2016 with a 16 April 2016 Go Live date.

## **6.3 GDE**

MC reported that following successful testing, the GDE system had now been implemented and was fully operational. Further tests will take place in November.

## **7. Any Other Business**

### **7.1 Review of Energy Balancing Credit Rules for minimum security for balancing purposes of not less than £10,000**

MC explained that an opportunity had been afforded to Locus Energy to join the EBCC meeting for this agenda item. CH, thanked the EBCC committee for the opportunity to join today's meeting to relay Locus Energy's challenge with regards to the £10,000 minimum-security limit.

CH understood the reasons for the previous rejection, nevertheless Locus wished to challenge the position. He wished to emphasise that Locus Energy were not asking for the credit limit to be removed. He explained that having looked at the formula within the EBCR, to ascertain what credit provision should be in place for each user, he believed the limit should be reviewed. He suggested that the £10,000 appeared to be an arbitrary amount and that the minimum amount should be considered on a case-by-case basis determined on the size of the portfolio.

MC explained the minimum amount was introduced a number of years ago to protect the industry, originally the value was derived considering the exiting of entrants through a voluntary discontinuance. He reported Xoserve were finding in the past that parties putting exit plans forward were reluctant to renew security. CH understood the purpose of the security but wanted to understand what the £10,000 covered, to ensure it was reflective. He believed the vast amount of shippers would probably need to provide more security using the EBCR formula. He wanted to ensure the required level of security was reflective of the risk. He challenged if a shipper is building a portfolio slowly the £10,000 security ties up working capital unnecessarily and the risk to the market would be far less than the £10,000. CH believed the limit was acting as a barrier to new small entrants.

MC explained that Xoserve couldn't restrict portfolio growth in the market and rely on downstream models to indicate market growth. MC explained that the inherent delays in growth indications create unknown positions. The £10,000 limit is required for a number of factors and past exposure monitoring has driven an estimated value. At the time of setting the £10,000 limit it was not considered as a substantial amount of money to expect parties to factor when entering into the gas market. The security also protects new users from being exposed to other defaulting user debt.

CH challenged that the limit is restricting small entrants entering the market, with no desire for rapid growth.

GF expressed his understanding but explained the risks from an EBCC perspective. He clarified that the EBCC are not in control of how quickly a company can scale up, he also explained that there is a delay in the industry's ability to react to changing activity. A change in activity is only visible through data reported significantly after the event that this places parties at risk.

CH pointed out that the electricity market does not have a minimum limit. However GF explained that the close out periods are significantly different in the electricity market compared to the gas market and due to different data mechanisms appropriate data is more readily available to assess the need to increase credit limits.

LJ enquired if the EBCC would need to consider any cumulative risk. If for example the EBCC reduced the £10,000 limit, would there be a need to consider the potential risk of a number of small companies, who have been set up, defaulting at some point as the industry would need to protect all participants.

To allow the EBCC to fully assess the challenge made, LJ asked if Locus Energy had any other points they wished to raise. CH had no further points to raise and thanked parties for the opportunity to make Locus' position sufficiently clear.

The EBCC considered the case further in the absence of Locus Energy.

MC asked if members wanted to review the decision on the minimum level. He explained that this is the first time the limit has been challenged via the EBCC. MC explained that a new entrant had challenged the limit previously at an operational level however the £10,000 was refunded in full after the business considered its position and concluded not to proceed due to its own financial viability.

MC explained that the limit is an arbitrary amount based on parties exiting. The £10,000 limit, set some time ago at the time, was not considered a particularly large amount. However there may be other options such as an agreement by the EBCC not to enforce the limit and closely monitor exposure.

GF explained he was uncomfortable waiving the limit and running a stand-alone process for a single party and the precedent this would set. He suggested that the limit stands, is reduced or is removed, if parties are not exposing the industry. He had sympathy with the case but based on the timing of portfolio change information and the lead-time it takes for this to feed into the process, he was uneasy with removing the limit.

MC suggested an alternative might be to request a value of credit based on the value of 3 days non-delivery. He explained the 9-10 day window and that the minimum level of credit could be set based on 9 days of non-deliverability. He acknowledged this might not achieve the credit limit Locus Energy was aiming for but could be less than the £10,000 and would be based on the short-term risk exposure.

DH explained that the EBCC would not want to create a barrier to entrants however there is a need to ensure the risk is covered off. He emphasised that the role of the EBCC is to ensure unnecessary cost is not introduced to the industry.

The EBCC members collectively agreed that parties should not be able to sit outside of the security arrangements, as the situation may be unsustainable if there are a number of very small users, which Xoserve would need to closely monitor.

GF believed it would be beneficial to consider an alternative evaluation and supported further consideration of using the 9-10 day window to assess the value of risk.

It was agreed that Xoserve would need to assess all parties with a current £10,000 security to establish if the 9-10 day non-delivery value would be higher or lower.

Upon the provision of this data the EBCC agreed to discuss the £10,000 further to assess if there was a suitable alternative.

**Action 1003: Xoserve to provide a view on the required 9 days non-delivery credit limit for parties with a current £10,000 credit limit, for review by EBCC Members.**

## **7.2 Voluntary Discontinuance**

MC reported no voluntary discontinuances.

### 7.3 Neutrality Statements

MC confirmed that the neutrality statements would not be sent via email as of yet. Xoserve are reviewing processes to be sure the change is not going to introduce any undue risk.

### 7.4 EBC Rules V3.23

MC confirmed that the Draft Energy Balancing Credit Rules V3.23, which details amendments to section 1.2.d, had been circulated to members on the 13 October. MC requested confirmation that this can be published with the normal two-month notice period. All members approved the amendment and publication in two months time.

## 8. Date of Next Meeting

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

An Operational Update will be circulated to members in November.

EBCC meetings are scheduled as follows:

Time Date	Venue
Further operational meeting 10.30 Monday 26 October 2015	Via teleconference
10:30 Monday 16 November 2015	31 Homer Road, Solihull B91 3LT
10:30 Monday 21 December 2015	Via teleconference

## Action Table

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
<b>EBC 1102b</b>	26/01/15	2.0	Identify options for extending or enhancing EBCC membership. Include reviewing other UNC and non UNC committees/groups for ideas to expand membership.	JO/Xoserve (BF/MC/SD)	<b>Closed</b>
<b>EBC 0901</b>	21/09/15	2.0 and 7.0	MC to coordinate a further operational meeting with the Committee members to: <ol style="list-style-type: none"> <li>Feedback discussions following discussing the proposal with ICE Endex.</li> <li>Rob Hill from Locus Energy to be invited to that meeting, to present to Committee members regarding the minimum level of security.</li> <li>Review EBC Rules to introduce</li> </ol>	Xoserve (MC)	<b>Closed</b>

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### Action Table

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			the suspension of the FSR process in the event of a GDE.		
<b>EBC 1001</b>	19/10/15	3.0	Xoserve to arrange a further operational meeting.	Xoserve (MC)	<b>Closed</b>
<b>EBC 1002</b>	19/10/15	4.0	EBCC members to review Modification 0560 and provide any concerns to Xoserve.	All	<b>Pending</b>
<b>EBC 1003</b>	19/10/15	7.1	Xoserve to provide a view on the required 9 days non-delivery credit limit for parties with a current £10,000 credit limit, for review by EBCC Members.	Xoserve (MC)	<b>Pending</b>