

**ENERGY BALANCING CREDIT COMMITTEE MEETING
25 May 2007**

Participants

Joint Office Chair (Non voting)

Lorna Dupont

Shippers

Julie McNay

Christian Pederson

Gavin Ferguson

Gary Russell

Lee Selway

SSE

Statoil

Accord

Corona

EDF Energy

xoserve (Non voting)

Mark Cockayne

For item 8 only

John Fitzpatrick

Peter Collins

CVA

CVA

Introduction

LD welcomed members to the meeting, which was quorate.

Minutes from the Previous Meeting

The minutes from the previous meeting were reviewed and agreed.

Action Update

Both actions from the previous meeting had been completed and were agreed as closed.

The following represents April Operational update:

MC provided the following Operational update:

EBCC Pack issued 04/05/2007. MC drew the meeting's attention to an error in the pack (page 5).

Cash Call Notices:

During April 2007, there were 3 Cash Call Notices (CCN) issued. There were 2 "Failure to Pay Notices" issued.

Further Security Requests:

One Further Security Request (of small value) was issued during April 2007.

Cash collection performance was not impacted significantly.

Settlement:

The following performance was reported:

Month	Payment Due Date	Payment Due Date +6
March	96.66%	100%
April	99.96%	100%
Year to date	99.29%	100%

Update on this winter's Terminations

Reepham Limited

No further update available

Utilita Gas Shipping Limited

Attempts are being made through National Grid's legal team to claim back the VAT element of the bad debt. No further update.

Enron

Two payments have been received. £203,000 will be smeared back in April's EBI and a further amount of approximately £1,300 will be scheduled for May's EBI. A member questioned whether any shares had also been received. MC confirmed that only payments had been received, but would follow this up. (**Post meeting note:** no shares were offered in the original settlement agreement.)

IEU

xoserve are still liaising with the Administrator to finalise a payment.

Mod Update

Modification Proposal 0143 was presented to the Transmission Workstream on 03 May 2007. The consultation period closes out on 11 June 2007 at 17:00hrs.

JMc queried the both the version number (1.0) and the name of the Proposer (Tim Davis) in the documents held on the website, and commented that the Proposal should be at version 3.0 and the Proposer was Gary Russell (Corona Energy). LD agreed to verify.

Post meeting note: The documents held on the website have been verified as follows:

The Modification Proposal is at version 3.0 and the Proposer is Gary Russell (Corona). The Draft Modification Report is at version 1.0 and is signed off by Tim Davis (Joint Office of Gas Transporters).

AOB

Credit Limit Calculation

A couple of challenges relating to the visibility of the Credit Limit calculation used had been received. This may be due to the fact that xoserve are now more proactive in pursuing indebtedness. Some Users may look as if they are over securitised and are mounting challenges to bring down their security limits.

There were two ways of addressing this:

- Identify the basis of the calculation and include in the Energy Balancing Credit Rules.
- After the accumulation of 12 months' business history review the organisation's basic credit limit and indebtedness position.

It would then be possible that a reduction in terms of User security between 24% and 40% might be proposed. MC would favour the 75% as giving a good tolerance, but this needed to be offset against increased risk (holding less security). GF thought it

should be shown clearly in the Rules and the meeting was in favour of formalising this.

The second point was discussed and it was recognised that it would be difficult to justify maintaining too high a limit in the face of monitoring that indicated to the contrary. It was suggested that more proactive management of rapid growth might be considered. Rapid portfolio growth could mean overstretch and more exposure, but not necessarily if the User continued to balance satisfactorily. An alternative might be to reduce the limit/percentage at which point a Cash Call could be made.

MC confirmed that the cash collection controls currently in place seem to be adequate and effective according to the figures, and no abuse is apparent so the process also appears to be robust. MC thought that it should be possible to look at the cost of security alongside an organisation's portfolio.

The members wondered whether the EBCC should look at insurance again, but the question was still who was to pay for it. GF felt that a party would only treat with other parties of a similar rating, self insuring as a group, because of the risk elements involved. There was also an issue of how to price this. It was acknowledged that it could be a struggle to get underwriters to guarantee, as they were very risk averse and would need it capped, because the magnitude of exposure was unknown. Was self-insurance an option?

GR asked if there was a minimum security request in the Rules. MC confirmed there was not.

It was observed that price could be moved with the market price in electricity, although it was acknowledged that it always seemed to be lagging behind. Could this be done to reflect the higher/lower price of gas? MC advised that there was a three-month cycle to renew security that takes some time to work through.

GR remarked that all previous failures occurred during the winter. MC thought that a winter/summer profile could be identified to see if a 'top up' security could be looked at for winter periods. The members agreed that over securitisation was in effect wasted collateral; there was still an element of exposure based upon the history, but not against the failure. MC observed that security should be looked at as an industry, as against failure. The biggest exposure would be in terms of value. MC agreed that the work could be done.

Actions: MC to identify winter/summer profile to see if a 'top up' security could be looked at for winter periods, and to identify costs of failing scenarios.

MC reiterated that xoserve was being pressured (by large groups and new Users) to reduce securities based on the historical evidence produced by organisations, and although the current number of Users challenging this aspect was not large, this would produce inequity in the industry. It would be preferable to devise and maintain a policy to treat all equitably when the true value to the industry was understood, as any failure costs were smeared across the industry.

An alternative might be self-securitisation, where organisations pay into a managed fund, and where everyone benefits from the interest accrued. However it was pointed out that there might be cross subsidy issues.

Presentation from CVA

PC and JF gave a presentation on the background and recovery arrangements that the CVA currently had in place.

The group discussed the arrangements with the CVA representatives and it was agreed that organised communication was required to make the parties involved aware of an issue. It was emphasised that the EBCC needed to be in a position at the very outset of an issue/incident to discuss any impacts with xoserve if cash calls were likely and the industry was exposed. There was a risk that xoserve may issue one or more cash calls inappropriately in response to an incident. Conversely there was also a risk that an appropriate cash call may fail to be issued as a result of an incident. In severe instances an Emergency EBCC might need to be convened if instructions had to be issued to suspend EBCC activities. Requirements for an emergency process might include contact routes for the CVA, EBCC and xoserve to follow, defined correspondence between the parties to contain detailed information relating to an incident, eg an indication of the number/names of Users that were affected/potentially could be affected, likely duration, resolution etc, so that an assessment of impact and a course of action could be determined at the earliest point. It might also include a communication from the CVA to xoserve to advise what action (if any) had been taken before contact, for example that CVA had informed National Grid/any other parties, etc.

Action: xoserve and CVA to review the procedures and address any gaps identified.

There was a short discussion in relation to the cause, course, actions and effects of the real incident described, and on the checks that were carried out by CVA on the data that was input/viewed. Some suggestions were made for improvement.

Action: CVA to initiate daily check on data input by the CVA.

MC provided a draft risk template for members review and proposed to provide an initial register of inherent risks in the process for the next meeting.

Action: MC to identify inherent risks and produce register for review at the next meeting

Next Meeting:

The next meeting is via teleconference at 10:30 hours on 22 June 2007.