

**Energy Balancing Credit Committee Meeting
By Teleconference
23 January 2009**

Participants

**Joint Office
(Non voting)**

John Bradley (JB) Chair

**xoserve
(Non Voting)**

Mark Cockayne (MC)

Loraine O'Shaughnessy (LOS)

**National Grid NTS (for item 6
only)**

Ritchard Hewitt (RH)

Shippers

Gavin Ferguson
(GF)

Brett Date (BD)

Simon Howe

David Trevallion
(DT)

(Non Voting)

Julie McNay (JM)

Apologies

Gary Russell (GR)

Richard Fairholme
(RF)

Ed MacDonald (EM)

Centrica

Statoil

RWE

Scottish and Southern
Energy

Scottish and Southern
Energy

Corona Energy

E.ON

ScottishPower

1. Introduction

JB welcomed the members to the meeting, which was not quorate.

2. Minutes from the Previous Meeting

The minutes from the previous meeting held on 16 December 2008 were approved.

3. Actions Update

EBC11/01: xoserve (MC) to circulate revised EBCRs for approval by email, which would also ask for notice of implementation to be waived such that it would be immediate.

These had been circulated, implementation discussed in 5 below. **Closed**

EBC11/03: xoserve (MC) to Draft a Modification Proposal to address the identified exposure from Users who are traders at the NBP.

It had been recognised that development of this should await Ofgem's decision on Modifications 0233, 0234 and 0235.

4. Operational Update

MC provided the following Operational update:

The EBCC Pack was issued on 19 January 2009 and placed on the Joint Office website. A minor revision had been placed on the website on 23 January 2009 prior to the meeting.

Cash Call Notices:

During December 2008, there were eighteen Cash Call Notices (CCN) issued. Sixteen were paid on the due date, two were appealed and withdrawn. There were no Failure to Pay Cash Call Notices.

Further Security Requests:

Seven further Security Requests were issued during December 2008.

Settlement:

The following performance was reported:

| Month | Payment Due Date | Payment Due Date +2 |
|--------------|------------------|---------------------|
| November | 95.79% | 100.00% |
| December | 98.29% | 100.00% |
| Year to date | 98.74% | 100.00% |

MC highlighted that two financial institutions had been downgraded to a rating of Aa3 which is still an acceptable rating. One financial institute was downgraded to an unacceptable rating and as a result we have requested that the User's affected provide an alternative Security Provider.

5. Potential Changes to Energy Balancing Credit Rules

These rules had been circulated and LOS read through them and asked for comment. MC reminded the Committee of its decision to set the Aggregate Limit at such a level as to not impact the existing Users. However, recent downgrading of financial institutions had led xoserve to recalculate the Aggregate Limit and this would now need to be set at £62m, to retain the same percentage headroom. JM commented that this emphasised the need to agree the changes in the Credit Rules without unnecessary delay.

SH commented that the Credit Ratings in the Credit Rules were different to those he had seen in Bankers Almanac. MC and LOS confirmed that they would review these ratings with Moody's and Standard and Poors and agree the correct version. SH agreed to discuss this further in order to derive the correct version.

Action 01/01: MC and SC to ensure that the correct ratings are established for the Rating Comparison table

It was agreed that any further comments regarding the updates should be forwarded to xoserve by Wednesday 26th January 2009. The need for action was agreed by the Committee but this should be balanced by the need to get it right. This would indicate agreeing a final draft at the February 2009 meeting. JM asked whether a two-stage process might be considered by which the Aggregate Limit is set at a level that reflects the agreed principles. This would avoid setting an even higher level if another financial institution was downgraded.

6. Potential UNC Modification Proposals

At this point, RH was welcomed to the meeting and asked to outline the issues with legal text for Modification Proposal 0233. RH emphasised that National Grid Legal Services had been working to provide text for this and there had been a number of meetings with a National Grid lawyer, MC and Claire Thorneywork, who works for him. However, these meetings had formed the conclusion that the legal text could not be written in such a way as to provide rules that could be readily enforced impartially. As an example, the Proposal had used the words "reasonable grounds", which was too subjective a term to be applied, particularly when Termination of a User might result from such a decision. There were already provisions to cover a User going into administration that might be considered one of the reasonable grounds. However, a related company going into administration might not be considered reasonable grounds if the shipper company itself was still trading.

A number of suggestions on the way forward were suggested by the Committee Members but the discussion on these led to the conclusion that there was no simple solution.

Nevertheless, the UNC Panel, that had met the previous day, had discussed the possibility of a Variation to the Proposal and the need for the Committee to discuss this prior to further discussions at Panel.

On Proposal 0235 RH advised the Committee that the legal text had been supplied to the Proposer that day. It had proved difficult to draft but National Grid Legal Services had succeeded.

JB then asked RH and the Committee for initial views on the lessons to be learned. It was emphasised that more rigour, possibly through development in the Workstream, is required in formulating Proposals than was the case with 0233. It was recognised, however, that the industry had no assurances that it would not be facing an event in the near future where such an implemented Proposal would have provided considerable protection to Users.

The Committee thanked RH for his participation and efforts to resolve the matter.

MC agreed to investigate whether the electricity Balancing and Settlement Code include any rules relevant to this risk to Users.

Action 02/01: MC to investigate the relevance of BSC rules to situations similar to the default of Lehman's Brothers.

7. Any Other Business

EDF Energy had been in touch and was considering asking Lee Selway to continue serving on the Committee, even though he no longer worked for them. EBCC Members had no objection to this possibility as Lee is still a member of the Committee until September 2009.

8. Next Meeting

The next meeting will be held on 06 February 2009 at 10.30. This will be at the Energy Networks Association, 52 Horseferry Road, London SW1P 2AF

Action Log – Energy Balancing Credit Committee: 23 January 2009

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner | Status Update |
|------------|-----------------|------------|--|---------------------------|--|
| EBC 11/01 | 21/11/08 | 6 | Circulate revised EBCRs for approval by email, which would also ask for notice of implementation to be waived such that it would be immediate. | xoserve (MC) | These had been circulated Closed |
| EBC 11/03 | 21/11/08 | 7 | Draft a Modification Proposal to address the identified exposure from Users who are traders at the NBP | xoserve (MC) | To follow decision on recent UNC Proposals Carried Forward |
| EBC 01/01 | 23/01/09 | 5 | Ensure that the correct ratings are established for the Rating Comparison table | xoserve (MC) and RWE (SH) | |
| EBC 02/01 | 23/01/09 | 6 | Investigate the relevance of BSC rules to situations similar to the default of Lehman's Brothers | xoserve (MC) | |