

UNC Energy Balancing Credit Committee Minutes
Wednesday 25 May 2022
via Microsoft Teams

Attendees

Yvonne Reid-Healy (Chair)	(YRH)	Joint Office	Non-Voting
Maitrayee Bhowmick-Jewkes (Secretary)	(MBJ)	Joint Office	Non-Voting
Sharon Bright	(SB)	Xoserve	Non-Voting
Brendan Gill	(BG)	Xoserve	Non-Voting

Voting Members Shippers

David Holland	(DH)	ScottishPower
Dan Wilkinson	(DW)	EDF
Jane Morrison	(JM)	SSE
Kirsty Dudley	(KD)	E.On
Thomas Grove	(TG)	Centrica

Copies of all papers are available at: <https://www.gasgovernance.co.uk/ebcc/250522>

EBCC meetings will be quorate where there are at least 3 voting members, or appointed alternates in attendance.

1. Introduction

Yvonne Reid-Healy (YRH) welcomed all representatives to the meeting.

1.1. Apologies for absence

Steve Mulinganie, Gazprom

1.2. Note of Alternates

None

1.3. Quoracy Status

YRH confirmed the meeting was quorate.

1.4. Approval of Minutes (23 February 2022)

The minutes of the previous meeting were approved.

1.5. Approval of Late Papers

There were no late papers to consider.

2. Operational Update

2.1. Energy Cash Collection

Sharon Bright (SB) presented the EBCC Operational Statistics.

For full details please refer to the March and April Scorecards published. The April information:

Cash Collection:

99.08% collected by Payment Due Date.

100% collected by Payment Due Date +2.

98% average at PDD over rolling 12-month period.

Kirsty Dudley (KD) asked for view of debit invoices for a few more months. SB confirmed she would provide this.

Security:

All securities renewed ahead of expiry.
0 bank downgrades or credit agency alerts requiring action.
18 Cash Calls issued February, 22 March and 11 in April.

Debt:

Debt being pursued through administrators for 20 failed users (shippers & suppliers failed while operating under the Deed of Undertaking) totalling £43,746,276.35.
Debt smeared to community via Energy Balancing Invoicing.
Net credit value of £7,664,390.94 smeared to industry in April 2022.

Thomas Grove (TG) asked if a view of the smeared debt could be shared.
Kirsty Dudley (KD) requested a narrative on the failed Users with information on what had happened and how it was progressed to capture some context behind the debts being smeared.
Brendan Gill (BG) accepted this.

<p>New Action 0501: Xoserve (BG) to collate a narrative on all failed Users with information on why they had failed and how the matter had been progressed to capture some context behind the debts being smeared.</p>

SB additionally shared a view of the upcoming debts to be smeared across the industry.

Escalations:

None to report for April 2022.

Invoicing:

Financial value for late paid charges accrued between February March and April nets to £1,884.12. To be issued in January 2023.

No issues with invoicing recorded.

Outlook:

Continuing to monitor financial institutions providing security and individual organisations through credit agencies.

Continued engagement with customers to identify any issues at an early stage with no indications given.

Continuing early communications with invoicing teams to obtain invoice data earlier to forecast any potential cash calls.

Direct Debit implementation for Energy invoices.

Financial Institutions Headroom

Agreed in March 2022 to increase headroom for all banks currently used for Letter of Credits.

Update made in draft copy of EBCC rules.

Following review of current security process and also challenge to wording in current rules may need further changes.

Plan walk through of all updates with EBCC.

3. Energy Balancing Smear Delay

Dan Wilkinson (DW) presented EDF's views on the delays in debt being smeared, including a view of historic debts.

DW proposed some of these debts could be deferred as without it more Users (Shippers and Suppliers) could go into administration.

BG advised that should energy debt not be passed through to the industry in line with the current process then Xoserve would experience cash flow issues in terms of the Neutrality bank account. The account currently has an overdraft limit of £10m. BG advised that based on the debts being smeared in recent months the account would run into issues if there were delays in smearing debt. Where a Shipper fails then National grid as residual balancer purchases gas for the failed Shippers portfolio and these trades must be settled through the Neutrality bank account within 2 days of the trading day. Should smearing be delayed then there could be insufficient funds in the account to settle these invoices placing National Grid in breach of its contract with the Market Operator.

DW asked that even with the debts being smeared, was there a possibility of the neutrality bank account or National Grid being impacted. BG explained that was not likely as except on failed User, all others have been paying their invoices. However, BG warned that changing the mechanism and storing up debt would likely have a detrimental impact.

DW remarked that there appeared to be some constraints to any potential solution, highlighting that the risk was more Users would exit the market unless the problem could be addressed.

Jane Morrison (JM) asked if DW had liaised with Ofgem regarding this issue. DW replied that he had not liaised with Ofgem directly, however, the idea behind this was Ofgem's deferral of charges during the COVID-19 period. DW suggested that as this is to address the market volatility, Ofgem may consider this in light of the knock-on effects on Users.

BG noted that Xoserve and National Grid had discussed the impacts of a large Supplier failing with Ofgem, and the impact on the Neutrality Account in addition to potential industry financial exposure.

<p>New Action 0502: Xoserve (BG) to liaise with Ofgem and raise the concerns brought forward by EDF as well as the level of debt month on month, so Ofgem have visibility of the debt being smeared.</p>

4. Supplier X Update

BG provided an update on Supplier X who had not complied with the security requirements under the Deed of Undertaking but are still generating invoices which have not been paid.

BG advised that Ofgem had initially issued a provisional order against the User, but some payments made equating around £600k satisfied the Statutory Demand and Ofgem withdrew their order. BG added that Ofgem have suggested that as the Statutory Demand has been satisfied, they cannot now revoke the User's licence.

BG advised the Committee that the User has not been paying their bills and a further Statutory Demand was to be issued this week for the outstanding debt.

An administration order court hearing is also scheduled for 6th June and BG expressed his hope that Ofgem would take some action as the User has not engaged in clearing their debts but are incurring additional debts.

5. Modifications

No Modifications raised.

6. Review of Outstanding Actions

Action 1205: Xoserve (SB/BG) to see if transporters can review and update the Deed of Undertaking and review its governance process and report to the Committee at the 2022 Q1 EBCC meeting.

Update: BG noted that the wording of this action needed to be tweaked as the Deed of Undertaking is a Transporter document and cannot be updated by Xoserve. BG added that this has been flagged to the Transporters who have been asked to review this. KD suggested that it may be helpful to have a view from RECCo to mirror what is used under REC. BG accepted this suggestion and noted he would liaise with Jon Dixon from REC. **Carried Forward.**

0201: Xoserve (BG) to circulate the Upcoming Debt Smear to all Contract Managers and will be providing a monthly update on this topic.

Update: This has been provided. **Closed.**

0202: Xoserve (SB) to provide a view of clawback debt smear amount.

Update: This has been provided. **Closed.**

7. Key Messages

It was agreed that there were no 'Key Messages' for dissemination after the meeting.

8. Any Other Business

8.1. Letter of Credit – Request for a new bank to be used

SB advised a User has requested for a new bank (Close Brothers) to be added to the Xoserve Financial Institutions who they accept Letters of Credit from. SB added that this bank has Moody's credit rating, but not the credit rating from the other agency Xoserve uses. The User has suggested that the EBCC rules requires any new banks to have only one and not both credit ratings.

SB asked to Committee to review and suggest whether Close Brothers can be added as a bank Xoserve will accept letters of credit from.

JM stated the rules are clear that one rating is sufficient and suggested the bank should be allowed. David Holland (DH) and TG agreed with this view.

DW asked if Xoserve have previously rejected any banks seeking to be added to Xoserve's Financial Institutions list. SB explained that all previous applicants have had both ratings, so this is an unprecedented situation.

TG noted that contractually Xoserve cannot refuse a bank holding only one rating unless they amend the EBCC rules.

The Committee was asked to vote on whether they accepted Close Brothers as a bank Xoserve would accept a Letter of Credit from.

The Committee unanimously voted to approve this.

SB confirmed the bank will be added to the Financial Headroom list based on their credit rating and will be monitored daily.

9. Next Steps

Agenda items for next month

10. Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Time / Date	Venue	Workgroup Programme
10:30 Wednesday 24 August 2022	Microsoft Teams	Standard agenda items
10:30 Wednesday 23 November 2022	Microsoft Teams	Standard agenda items

Action Table (as at 25 May 2022)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Due Date	Status Update
1205	13/12/21	3.0	Xoserve (SB/BG) to see if transporters can review and update the Deed of Undertaking and review its governance process and report to the Committee at the 2022 Q1 EBCC meeting.	Xoserve (SB)	Q3 24/08/22	Carried Forward
0201	23/02/22	3.4	Xoserve (BG) to circulate the Upcoming Debt Smear to all Contract Managers and will be providing a monthly update on this topic.	Xoserve (BG)	Q2 25/05/22	Closed
0202	23/02/22	3.4	Xoserve (SB) to provide a view of clawback debt smear amount.	Xoserve (SB)	Q2 25/05/22	Closed
0501	25/05/22	2.1	Xoserve (BG) to collate a narrative on all failed Users with information on why they had failed and how the matter had been progressed to capture some context behind the debts being smeared.	Xoserve (BG)	Q3 24/08/22	Pending
0502	25/05/22	3.0	Xoserve (BG) to liaise with Ofgem and raise the concerns brought forward by EDF as well as the level of debt month on month, so Ofgem have visibility of the debt being smeared.	Xoserve (BG)	Q3 24/08/22	Pending