

Energy Balancing Credit Committee Minutes
Monday 24 October 2016
Lansdowne Gate, 65 New Road, Solihull, B91 3DL

Attendees

| | | | |
|----------------------------|------|--------------|---------------|
| Les Jenkins (Chair) | (LJ) | Joint Office | Non-Voting |
| Karen Visgarda (Secretary) | (KV) | Joint Office | Non-Voting |
| Adam Lane | (AL) | Shipper | Voting Member |
| Colette Baldwin | (CB) | Shipper | Voting Member |
| Gemma Truran | (GT) | Shipper | Voting Member |
| James Hill* | (JH) | Shipper | Voting Member |
| Pauline Babb* | (PB) | Shipper | Voting Member |
| Richard Fairholme | (RF) | Shipper | Voting Member |
| Mark Cockayne | (MC) | Xoserve | Non-Voting |
| Sandra Dworkin | (SD) | Xoserve | Non-Voting |

Copies of all papers are available at: <http://www.gasgovernance.co.uk/ebcc/241016>

1. Introduction and Status Review

LJ welcomed the members to the new Gas Year meeting, which was quorate, and he introduced Colette Baldwin and Adam Lane, who were new EBCC Committee members.

Approval of Minutes (27 September 2016)

SD proposed some minor changes to the minutes, which were then approved and were republished.

1.1 Actions

EBC 0501: Xoserve (MC) to speak with Ofgem (JD/TF) to understand Ofgem's thoughts and next steps. (*draft EBCC membership mod*)

Update: MC sought opinions from the Committee Members as to what was the best approach in relation to increasing the EBCC membership and whether raising a new Modification was necessary. Following a lengthy discussion, it was agreed that MC and SD would continue a targeted approach, together with a more generalised promotion throughout the industry to increase the membership. It was believed that any future requirement for an Industry Expert could be sourced through the Central Data Service Provider (CDSP) arrangements and so the new Modification would not be raised at this time. To ensure this was kept under consideration in future, an EBCC membership topic would be included on future agendas. This action was then closed. **Closed.**

EBC 0503: Xoserve (MC) Confirmation of first Sub Group meeting to be held in London or Windsor, date and venue to be confirmed.

Update: MC said this action was linked to action 0501 and so it could subsequently also be closed. **Closed.**

EBC 0901: Xoserve to provide an update on the Invoice Payment escalation route with ICE Endex and National Grid.

Update: MC confirmed that a meeting had been scheduled to take place on 19/10/16, but unfortunately this had now been re-scheduled to 25/10/16, so an update would be provided

at the next meeting. **Carried Forward.**

EBC0902: Xoserve to provide clarity on the values provided within the presentation and confirmation on the recovery of the OCM balancing charges.

Update: SD explained the EBCC October Update presentation was given at last month's meeting regarding OCM Balancing Charges to Neutrality, which was published on the Joint Office web site. She also said there had been a request to clarify whether the costs were 50k or 65k lower since February.

SD said that Xoserve had subsequently discussed this matter with National Grid Gas who agreed the figures were confusing and had now amended the presentation to show £65K (the difference was the LOC handling fee rounded).

The EBCC members had also said that it would have been useful to have further clarity regarding the recharge of costs back to April 13. National Grid Gas had taken on the feedback and had now amended the presentation to make reference to the UNC paragraph which enforced the cut off date. These changes were subsequently completed before presenting to the Transmission Workgroup on 6/10/16 at:

<http://www.gasgovernance.co.uk/Tx/061016>

The presentation now reads:

"ICE LoC Handling Fee – this has unfortunately been missed previously. Costs of c£35k back to 1st Apr 2013 (the earliest allowed under the TPD S1.4.4 – "Code Cut Off Date") will be recharged."

It was then agreed this action could then be closed. **Closed.**

2. Operational Update

SD confirmed provided the operational report for September 2016.

2.1 Cash Call Notices

During September there were no Cash Call Notices issued.

2.2 Further Security Requests (FSRs)

During September there were no Further Security Requests issued.

2.3 Settlement

The following performance was reported:

| Month | Payment Due Date | Payment Due Date +2 |
|-------------------|------------------|---------------------|
| August 2016 | 100% | 100% |
| September 2016 | 96.91% | 100% |
| Rolling 12 Months | 99.28% | 100% |

Failure to Pay Invoice Notices

SD said during September there were 3 Failure to Pay Notices issues and all paid 1 day late. SD explained the issues were around the National Grid clearing bank, releasing funds following bank charges and rounding issues, which had now been resolved. She also explained that Xoserve were discussing an escalation route with ICE. SD said the second User had experienced an internal validation issue, which had been subsequently resolved, and that the third User was a very low value with staff issues.

There were no Failure to Pay Cash Call Notices issued.

2.4 12 Month Review

SD provided an overview for the last 12 months activities as detailed below:-

- Cash Collection figures saw challenges in October 2015 and September 2016 however, the rolling 12 months performance remained above 99%.
- Continued pro-active engagement with Users reaching 70% of indebtedness to minimise Cash Calls.
- Up front payment of Cash Calls limited to 3 times implemented
- Security Renewals 100%
- Worked with National Grid to appoint a new Market Operator wef 24/2/16
- Implemented Modification 0568 Security Requirements and Invoice Payment Settlement Cycle for the Trading System Clearer, resulting in daily billing to the Market Operator wef 1/8/16.
- Proactively worked with Users to support change – looking at the removal of the minimum Security requirement & seasonal energy balancing credit cover
- Energy Balancing Credit Rules were revised in March 2016
- Continued to support development of - EU Reform & Gemini Consequential Change
- Worked with the Treasury to open new bank accounts to 'spread the risk' and currently moving cash collateral supported by a non registerable Deposit Deed approximately £40M
- The Credit Team continued with their ICM training with 6 members of the team completing the Business Law module

The EBCC Update presentation: <http://www.gasgovernance.co.uk/ebcc/241016>

2.5 Focus for 2016/17

Committee Membership\Profiles

MC moved on to provide an overview of the focus for the remainder of 2016 and 2017. It was agreed the Committee Membership topic would be added to the forthcoming meeting agenda's for the further discussion on progress.

Additionally SD requested that all Committee Members fill in a profile sheet, which could then be published on the Joint Office Website, to provide an overview of each Committee Member. All members were in agreement with this suggestion and SD showed an example from a format perspective.

Risk Management

- Concerning the Spreading Profile, MC and SD said the team were currently in the process of using a different bank for the Deposit Deed funds and would complete that exercise, and that the team would continue to look at further options.
- In relation to the Pension Protection Fund, ABTA, ATOL and the Motor Insurance Bureau, MC explained that a networking exercise was underway to explore and understand how these associations secure security and under write exposures within their specific industries to consider an alternative approach. LJ said that it could be worthwhile to explore how the

Water Industry was addressing this from a Code and insurance perspective, since their regulatory code was along similar lines to the UNC. MC said he would investigate this area further.

Team

MC overviewed the developments that had taken place within the team and said that more of the team members had now gained their Chartered Institute Credit Management (CICM) Diploma accreditations and that work was in progress to become accredited for Quality and a Centre of Excellence.

Change Programme

MC highlighted the areas of change that the team continued to support including; Gemini Consequential change (UK Link Replacement Programme), EU Reform, and the Funding, Governance and Ownership (FGO) Programme.

2.6 Security Review

Bank Ratings Current Position

SD highlighted the bank rating changes over the last 12 months. SD also drew attention to the fact that any rating below Moodys A3 or Standard and Poors A- was not acceptable, and that the lowest prevailing rating was always used.

SD then overviewed the schematics of the Financial Institutions (FI) Risk Profile, together with the Spread of FI Exposure, Current Outlook and Deposit Deeds.

SD then moved on to explain that there had been a decrease in the overall value of security (LOC's) during the period Sept' 2015 to Sept' 2016 by £46m and that this had been driven by a number of Users who had had their security reduced. For example one User's security had been reduced by almost £20m. The lower rating band held £204m of the value of (LOC) security held. She then explained the prospect of adverse conditions for FI's post Article 50 particularly for Barclays Bank plc were challenging as any further downgrade would result in a B Grade Rating and would require re-assignment of securities. The remaining FI's within the lower band could withstand one rating downgrade. The securities in band Aa3/AA- (£90m) were on the lowest rating within the upper band and any further downgrade would affect six FI's. She said that the EBCC continued to monitor the risk posed by 18 financial institutions, which sat in the lower rating band and where most of the securities were held.

SD pointed out that S&P maintained a more risk averse approach to ratings compared to Moody's and that S&P had placed Barclays Bank Plc, Royal Bank of Canada (London), HSBC, Lloyds Bank & Santander on a negative outlook. SD said however, the EBCC continued to monitor those Financial Institution's (FI's) which were currently on possible negative outlook with Standard & Poors & Moody's. RH asked if MC had looked at Fitch? MC said in the past that agency had been investigated but that he was happy to re-look at Fitch and would provide feedback in due course.

New Action EBC 1001: Xoserve (MC) to investigate Fitch from a ratings approach and to discuss this with National Grid.

In relation to the Deposit Deeds, SD said these had seen a decrease of £6m in the last 12 months, which had been driven by a refund of monies and User's re-alignment of security. SD also said that 'Letters of Credit' was still the largest form of security at the present time, Deposit Deeds continue to take over an 11% share of overall security. Deposit Deed funds were held in Barclays but currently funds are being moved to Lloyds.

2.7 Brexit

MC said that clearly there was still a period of instability with short term adverse impacts on some organisations and this would continue to be monitored accordingly.

3. Modifications

3.1 Modification 0587 – Seasonal Energy Balancing Credit Cover

Available at: www.gasgovernance.co.uk/0587

MC explained that on 20 October 2016 the UNC Modification Panel recommended this be implemented. It is expected that if approved it would be implemented before May 2017, which would bring about a change to the Credit Rules.

4. Project Updates

MC provided an update on the key projects Xoserve were involved in:

DN Sales – MC explained the UAT had been completed on the interim solution and that analysis was underway for an enduring solution post Project Nexus. He said that work was taking place to look at splitting the charges in the Legacy and the UK Link Systems and that a Transitional Manager had now been recruited to take this forward.

EU Phase 4a – MC said the scope of this release was being finalised, with a target implementation date of April 2017 with a further release in October 2017.

iGMS Evolution programme – MC explained the ongoing issues resulted in incorrect data being sent to Gemini, and so further analysis was still ongoing. CB said this issue had caused the Shippers quite a few problems and that no information had been available from either Xoserve or National Grid NTS. MC said he had been speaking with David Lavender and that he would pass on this feedback from CB. LJ said this matter had been discussed in the October Transmission Workgroup within a presentation entitled 'Gas Control Suite Update' published on 28 September 2016 and that the presentation could be viewed at: <http://www.gasgovernance.co.uk/Tx/061016>

Gas Deficit Emergency – MC said the first usage test of the live system was now completed and the results were as expected.

UNC Funding, Governance and Ownership (FGO) - MC explained that a vast amount of work was still being done in relation the FGO programme and that a DSC Credit Policy document had been drafted and was presently being circulated for comment. He explained under the DSC Credit Committee the cost of the FGO would be socialised across the industry. He also said the new rules had been kept to a similar content and format as the existing EBCC Credit Rules.

5. Any Other Business

5.1 Credit Rules Update

MC confirmed that any previous reference to the 'The Gas Forum' was now being removed.

5.2 Customer Satisfaction

SD confirmed the next Customer Satisfaction Survey was due to be circulated.

5.3 New Members Introduction

SD said that an introduction session would be arranged for both Colette Baldwin and Adam Lane in relation to the workings of the EBCC.

5.4 Members Profiles

SD said she would welcome the member's profiles and would circulate a template for the suggested format and content.

5.5 Quarterly Report

LJ said that previously discussions had taken place as to what kind of information should be supplied to the UNCC on a quarterly basis. Following a brief discussion, it was agreed to supply information on the following areas:- Cash Calls, Failure to Pay Cash Calls, Cash Collection performance and specific issues and trends. LJ said this information should be made available prior to the UNCC meeting and that Bob Fletcher would co-ordinate the material to be published.

6. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

EBCC meetings are scheduled as follows:

| Time Date | Venue |
|-------------------------------|----------------|
| 10:30 Monday 28 November 2016 | Teleconference |
| 10:30 Monday 19 December 2016 | Teleconference |

Action Table (24 October 2016)

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner | Status Update |
|-----------------|-----------------|------------|--|--------------|------------------------|
| EBC 0501 | 23/05/16 | 5.2 | Xoserve (MC) to speak with Ofgem (JD/TF) to understand Ofgem's thoughts and next steps. | Xoserve (MC) | Closed |
| EBC 0503 | 23/05/16 | 5.2 | Xoserve (MC) Confirmation of first Sub Group meeting to be held in London or Windsor, date and venue to be confirmed. | Xoserve (MC) | Closed |
| EBC 0901 | 26/09/16 | 3.1 | Xoserve to provide an update on the Invoice Payment escalation route with ICE Endex and National Grid. | Xoserve (MC) | Carried forward |
| EBC 0902 | 26/09/16 | 5.1 | Xoserve to provide clarity on the values provided within the presentation and confirmation on the recovery of the OCM balancing charges. | Xoserve (MC) | Closed |
| EBC 1001 | 24/10/16 | 2.6 | Xoserve (MC) to investigate Fitch from a ratings approach and to discuss this with National Grid. | Xoserve (MC) | Pending |