

Energy Balancing Credit Committee Minutes
Wednesday 25 June 2014
By Teleconference

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office	Non-Voting
Bhavna Mannan	(BM)	Shipper	Voting
Esther Sutton	(ES)	Shipper	Voting
Lorraine O’Shaughnessy	(LO)	Xoserve	Non-Voting
Mark Cockayne	(MC)	Xoserve	Non-Voting

Apologies

David Holland	(DH)	Shipper
Dimuthu Wijetunga	(DW)	Shipper
Gavin Ferguson	(GF)	Shipper
John Costa	(JC)	Shipper
Pauline Babb	(PB)	Shipper

1. Introduction

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

2. Minutes and Actions

The minutes from the previous meeting were accepted.

EBC 1002: *Future Failures ‘outside Europe’* - Consider how to manage foreign exchange (FX) risks/exposures going forward

Update: MC advised that the initial views from treasury were that it was not possible to mitigate foreign exchange risks as the values were not guaranteed to be settled by an insolvency practitioner and as taking any action to hedge the FX risk may actually incur more cost. Any mitigation would need to be established at the time of the event once the values were established. **Closed**

EBC 0401: *Review of Mind Maps: Provision and deployment of extra resources* – Establish how costs might be funded/recovered.

Update: MC advised that analysis is still ongoing to establish how many resources would be required, however further work on system requirements is being completed by the SCR internal workgroup which should provide more clarity to inform requirements. **Carried Forward**

EBC 0402: Xoserve to write out to all Users with a forecast of Security Values calculated at £14 a therm based on Users peak exposures for previous 12 months.

Update: MC explained that the analysis undertaken so far indicated that the initial security values were much higher than anticipated, so further analysis is required/ planned and communications put on hold. There has been interest from Stephen Jarvis, Ofgem and it is apparent that Ofgem were seeking clarity on how the security values submitted to the SCR, which were based on the previous Gas Balancing alert during December 2010 were calculated.

MC proposed further analysis be completed and outlined a number of changes to the approach is to be developed further to test the analysis and methodology proposed, the outcome of which will be discussed with the committee . **Carried Forward**

EBC 0403: *Review of Mind Maps: EBCC Operation* - MC to establish and engage with an appropriate Ofgem contact to support the EBCC in the event of market failure.

Update: MC advised that initial discussions have taken place and it is hoped to make progress now a specific Ofgem contact had been provided.
Carried Forward

EBC 0404: *Review of Mind Maps: EBCC Operation* - MC to establish and engage with an appropriate National Grid NTS contact to support the EBCC in the event of market failure.

Update: MC advised that a meeting had been arranged with National Grid NTS for the following week to consider this action. It should also be noted that new Modification 0504 - Development of a Demand Side Response Methodology for use after a Gas Deficit Warning has been raised and has been incorporated into a new Demand Side Response Workgroup.
Carried Forward

EBC 0405: *Review of Mind Maps: EBCC Operation (Minutes)* – Review previous templates and devise/streamline where appropriate for use in an emergency situation.

Update: No further update provided **Carried Forward**

EBC 0406: Reissue profile Templates for Members to complete.

Update: No further update provided. **Carried Forward**

EBC 0501: LO to summarise the calculations discussed during the meeting and provide to Ofgem via email.

Update: MC advised that an update had been provided by LO following the meeting and subsequent discussions had taken place with Ofgem to provide further clarity. **Closed**

EBC 0502: SJ to raise the need for Ofgem contacts/attendance at EBCC operational and emergency meetings.

Update: MC asked members to note that SJ had confirmed by email that they would support EBCC operational and Emergency meetings as required.
Closed

3. Operational Update

LO provided the following Operational update for May 2014.

3.1 Cash Call Notices

During May 2014 there were no Cash Call Notices issued.

3.2 Further Security Requests (FSRs)

There were no FSRs issued during May 2014.

3.3 Settlement

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
April 2014	99.75%	100%
May 2014	100%	100%
Rolling 12 Months	99.97%	100%

No Failure to Pay Notices were issued during May 2014.

4. Modifications

Not discussed

5. Significant Code Review Update – Security of Supply

Outstanding actions were discussed. MC advised that Xoserve are currently reviewing system requirements and continuing to engage with NGD

6. Bank Ratings Review

Not discussed

7. Any Other Business

a) Voluntary discontinuances

Members agreed to defer consideration to the next meeting as the meeting was not quorate.

b) Changes to VAT applied to Energy Balancing

MC explained the recent changes to VAT from HMRC. Effective from the 1st July 2014, HM Revenue and Customs (HMRC) is implementing a measure which will introduce a reverse charge for wholesale supplies of gas and electricity. This will result in the customer being liable to account for the VAT on wholesale supplies rather than the supplier. The measure was announced in Budget 2014, and is an anti-fraud measure. Further details regarding the HMRC directive and reason for the change can be found via the HMRC website detailed below.

<http://www.hmrc.gov.uk/briefs/vat/brief2314.htm>

Effective from 1st July 2014 all invoices issued on and after this date by Xoserve which contain Energy Balancing charges will have zero (0%) VAT applied including the Energy element of the Reconciliation Invoice. MC advised that an update in respect of this change had been advised via Xoserve's Industry Engagement Forum on 17th June 2014. MC further advised that if any further information is required regarding the VAT change members should refer to the HMRC website in the first instance and suggested that any Invoicing related queries should be directed to either himself or Dean Johnson (Transportation Billing Manager).

c) Market Operator Changes

MC advised that the Market Operator is seeking a meeting as it is under pressure from its members to reduce the settlement period and that this may have an impact on the energy balancing invoice. MC advised that impact upon the existing change programme would need to be considered as the number of SME's available to support such change is limited.

d) Review of Credit Rules

MC explained that a smaller User who is relatively new to the market has challenged the Security Renewal calculation. The User has made reference to Section 3 of the Energy Balancing Credit Rules which outlines the calculation of Outstanding Energy Balancing Indebtedness Equation, the calculation takes account of the Cash Call Account Balance, which is correct. However, when calculating a Users peak indebtedness as part of the security renewal process Xoserve currently excludes monies held in the Users cash call account. The Users challenge is that this is not clear in Section 2.1c of the Energy Balancing Credit Rules. MC advised that Xoserve has worked with Users proactively to avoid cash calls the aim being to work with Users to increase their security to reduce the need to issue cash call notices. This is a pro-active management of exposure and has significantly reduced the amount of cash calls issued each month. However often monies have been simply paid into the cash call account building the expectation from Users that they can operate in this way on an ongoing basis. The smaller User is concerned that the amount of credit required has an 85% utilisation whereas cash held in the Cash Call Account has 100% – this creates an extra burden on the User and potentially impacts their cash flow as they need to provide more credit to meet their portfolio's requirements. MC advised that Cash Call funds were excluded from the calculation in order to establish the true level of potential financial loss that the industry would be exposed too should an organisation fail. Members present agreed that the principle of excluding Cash Call Funds from the

calculation is appropriate in establishing the level of exposure that should be secured. , MC suggested that an amendment to the rules is drafted to provide additional clarity and issued for EBCC Members approval post the meeting. **Post meeting note:** Xoserve to monitor this practice with a view to removing its proactive intervention in the cash call process should difficulties be experienced in maintaining appropriate levels of security for Users.

8. Date of Next Meeting

EBCC meetings scheduled by teleconference:

Date	Location
Friday 25 July 2014, 10:30	Via teleconference
Friday 29 August 2014, 10:30	Via teleconference (to be reviewed at July meeting)
Friday 26 September 2014,10:30	Via teleconference

Action Log – Energy Balancing Credit Committee

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC1002	25/10/13	6	<i>Future Failures ‘outside Europe’ - Consider how to manage foreign exchange (FX) risks/exposures going forward.</i>	Xoserve (MC)	Closed
EBC 0401	30/04/14	5.1	<i>Review of Mind Maps: Provision and deployment of extra resources – Establish how costs might be funded/recovered.</i>	Xoserve (MC)	Carried Forward
EBC 0402	30/04/14	5.1	Xoserve to write out to all Users with a forecast of Security Values calculated at £14 a therm based on Users peak exposures for	Xoserve (MC)	Carried Forward Update provided but suggested that this is put on hold at the

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
			previous 12 months.		moment.
EBC 0403	30/04/14	5.1	<i>Review of Mind Maps: EBCC Operation - MC</i> to establish and engage with an appropriate Ofgem contact to support the EBCC in the event of market failure.	Xoserve (MC)	Carried Forward
EBC 0404	30/04/14	5.1	<i>Review of Mind Maps: EBCC Operation - MC</i> to establish and engage with an appropriate National Grid NTS contact to support the EBCC in the event of market failure.	Xoserve (MC)	Carried Forward
EBC 0405	30/04/14	5.1	<i>Review of Mind Maps: EBCC Operation (Minutes)</i> – Review previous templates and devise/streamline where appropriate for use in an emergency situation.	Xoserve (LO)	Carried Forward
EBC 0406	30/04/14	5.1	Reissue profile Templates for Members to complete.	Xoserve (LO)	Carried Forward
EBC 0501	23/04/14	5.0	LO to summarise the calculations discussed during the meeting and provide to Ofgem via email	Xoserve (LO)	Closed.
EBC 0502	23/04/14	5.0	SJ to raise the need for Ofgem contacts/attendance at EBCC operational and emergency meetings.	Ofgem (SJ)	Closed