

Energy Balancing Credit Committee Minutes
Wednesday 30 April 2014
31 Homer Road, Solihull B91 3LT

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office	Non-Voting
Lorna Dupont (Secretary)	(LD)	Joint Office	Non-Voting
Bhavna Mannan	(BM)	Shipper	Voting
Pauline Babb	(PB)	Shipper	Voting
Esther Sutton	(ES)	Shipper	Voting
John Costa	(JC)	Shipper	Voting
Lorraine O'Shaughnessy	(LO)	Xoserve	Non-Voting
Mark Cockayne	(MC)	Xoserve	Non-Voting
Sandra Dworkin	(SD)	Xoserve	Non-Voting

Apologies

David Holland	(DH)	Shipper
Dimuthu Wijetunga	(DW)	Shipper
Gavin Ferguson	(GF)	Shipper

1. Introduction

BF welcomed the members to the meeting, which was 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 scenarios had been discussed with National Grid's Treasury team and he was awaiting their response. He was not sure that anything at all could be done, except to agree a process to invoke should any such scenarios occur. **Carried Forward**

3. Operational Update

LO provided the following Operational update for March 2014.

3.1 Cash Call Notices

During March 2014 there was one Cash Call Notice issued (paid in full).

3.2 Further Security Requests (FSRs)

There were no FSRs issued during March 2014.

3.3 Settlement

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
February 2014	100%	100%
March 2014	100%	100%
Rolling 12 Months	99.98%	100%

One Failure to Pay Notice was issued during March 2014, however this was a very small value therefore not affecting the overall performance position.

4. Modifications

An update was given on the status of the modifications of interest to the EBCC; of particular note were the following.

4.1 Modification 0429 – Customer Settlement Error Claims Process

MC confirmed that the modification was implemented on 01 April 2014, and Xoserve has contributed to the development of UNC framework guidelines for managing claims. It was agreed that Xoserve will provide transparency of any claims received to EBCC members.

4.2 Modification 0474S – Inclusion of the guidelines relating to the “Customer Settlement Error Claims Process” within UNC governance

This modification is now in its consultation phase, closing out on 07 May 2014.

4.3 Market Operator Security Provisions

MC confirmed the Prepayment Agreement received did not have the expiry date on and therefore was returned for completion; its return was awaited. MC advised that a Deposit Deed is now in place and there were no concerns from an exposure perspective.

5. Significant Code Review Update – Security of Supply

MC confirmed that a further response, on behalf of EBCC, had been provided to Ofgem. National Grid had provided a Change Order and a project team has been set up to manage the process of enacting the requirements of the SCR. Existing functionality will be used where possible and manual controls and adjustments developed as necessary. Visibility will be maintained through the Neutrality Statement.

Mapping is ongoing and tomorrow there will be a workshop with National Grid to sign off the high-level process maps. Scoping workshops are being set up to look at what can be included in Gemini and what falls outside of the system.

BF added that National Grid NTS was going to raise this at the May UNC Modification Panel to examine how this and any modifications might be managed going forward.

5.1 Review of Mind Maps

A separate hand-out was circulated and the mind maps were reviewed and discussed.

Resource

Responding to a question from JC, MC confirmed that exposure was not monitored over weekends, and action can only be taken on a business day. Staff could be brought in over a weekend if required, but UNC TPD Section X monitors exposures on business days only and does not provide for taking action on non business days.

Emergency MOD

Currently as Code is drafted Xoserve cannot take action if it notes something different happening in the system to how the accrual methodology anticipates exposure. MC confirmed that the Lehman event was quite different in character and precluded any action being taken until such time as actual exposures replaced accruals. Discussions based on rejected Modification 0233V were ongoing with National Grid NTS.

Banking Services

Discussions with Barclays have concluded this is potentially an unbankable proposal and is unlikely to be underwritten. It would also have a significant impact on National Grid's operations. MC suggested amending the status from Amber to Red; the period of exposure would last 76 days, and MC went on to explain how the processes might operate. It had to be accepted that in any such scenario every party would be trading far in excess of their limits, and EBCC may need to be comfortable with exposures being unsecured. Every User could be in breach and the choices would be fairly limited – either to terminate or allow continuing trading knowingly in breach. Realistically there may be no alternative course of action because of 'domino' effect of potential multiple failures.

MC explained some scenarios in more detail, highlighting points of major risk, and how the pool over which risk could be spread might be become increasingly reduced.

Costs

Should the magnitude of the event dictate the bringing in of an additional 20 – 30 persons to manage the position then this was not currently funded. MC will pursue this with the relevant Contract Manager for the Transporters to solicit views on how costs might be recovered.

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

System Access

This was on hold, pending the appointment of a new Information Security Manager. BCM accounts were currently available for the interim, until arrangements for a further quantity could be negotiated.

Suspension of all services

A second separate hand-out was circulated, to enable review of "Appendix 16: High Level Summary of Powers and duties under Section X of the UNC relating to EBCC".

MC briefly described previous scenarios/experiences from which it had been concluded that it was often better to let existing processes continue to flow and not issue a Termination Notice until there was no other option. He believed this should continue. As a Committee there may need to be changes made in the way it forecasts forward, meeting on a daily basis, and how decisions are made forward, the focus being to limit exposure.

It was recognised that members might be precluded from functioning in their role as an EBCC member as their employer might instruct them to concentrate on its position. EBCC may potentially not function at all.

Conflict of interest and exemptions/abstentions from discussions/decisions were briefly discussed. MC observed that the special measures envisaged by the government do not quite measure up to the task of addressing a whole market failure. Consideration needs to be given as to how to demonstrate that the EBCC has acted in good faith and taken reasonable actions under the circumstances to defuse any potential allegations of negligence. MC explained how the events leading up to the Lehmans failure had unfurled. MC confirmed following its issue to the affected User, the Authority and any relevant Transporter, wider notice of a Termination Notice is issued to all other UNC parties at the same time. MC reiterated that the committee may be left with no alternative other than to let as much as possible of the current services continue to flow, and suggested that EBCC might look to suspend the current FSR process and put in place some more specific arrangements that could be varied as appropriate to respond to circumstances, i.e. continue to apply the Rules as normal and issue notices while letting exposures continue to flow, and refrain from issuing the Termination Notices. It was thought that there should be some concrete rules that EBCC could fall back on in these circumstances.

MC then referred to UNC TPD Section Q which covered emergency arrangements and which clarified/permitted the suspension of a number of processes under emergency circumstances. It might be possible to raise a modification to include the suspension of certain activities or perhaps give the EBCC power of suspension under certain circumstances.

JC asked if we could provide some indication on what these values are likely to be and MC suggested writing out to all portfolio Shippers with an estimate of what their peak exposure would be at £14 per therm based on previous 12 months' exposures and seek a view on whether putting enough security in place to cover that (over a 3 day non-deliverability) would be a problem. This suggestion was briefly discussed. It was observed that the potential exposures to the activities of traders had been debated over a number of years with no satisfactory outcome.

Xoserve will 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. It was

agreed that this could be carried out annually as part of the normal renewal process.

Action 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.

Trading System Clearer

Following engagement and discussions with APX MC did not feel that these elements should be relaxed at all, so there was no proposal to change.

Failure to make a Payment

It was proposed to let the processes run and continue to issue notices as usual.

Enforcement and Recovery Steps

This addressed the position after the event. Previously, for events involving foreign parties, appropriately qualified Solicitors (experienced in the laws of the particular country) have been appointed with EBCC's assent.

Appointment of a Receiver

It was proposed to let the processes run as usual. In the past an undertaking from a third party to underwrite the debt had been accepted.

Attention was then directed back to the main presentation (Slide 17).

Priority of Scoring EBCC

LOS had been developing a scorecard, with the aspiration of having this in place for trialling before winter 2014/15. It was a work in progress; some example scoring tables were provided, and LOS explained in more detail.

EBCC Operation

Some concerns were still evident and it was suggested that detailed discussion be deferred to a later meeting.

Ofgem's Role - It was noted that there was very little engagement with Ofgem. It was suggested that this would need to change in the event of an emergency and that it would be prudent to recognise whom in Ofgem the EBCC would need to engage with and at what level.

Action 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.

National Grid NTS' Role - MC then explained the role that he fulfilled as Energy Balancing Credit Manager and how this was subtly different to acting as a representative for National Grid NTS. After a brief discussion the EBCC agreed that it would be helpful to have a specific National Grid NTS representative to engage with in the role of 'informant' rather than as a Committee member, and who could provide a reliable source of information on progress from an operations perspective in the event of an emergency.

Action 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.

Minutes – To be taken by Xoserve staff who would aim to provide a 24 hour turnaround to inform EBCC's decision making. Xoserve will look at previous

templates and devise/streamline where appropriate for use in an emergency situation. PB suggested the teleconferences could be recorded (evidence to support and demonstrate after the event why a particular decision may have been made).

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

Quoracy - An ability to appoint additional members at short notice might be required. It was suggested it might be better to extend the existing membership. Alternates are in place but again might be called on to address their organisation's difficulties in the event of a crisis, rather than be permitted to support the EBCC.

MC suggested writing out to all parties to draw attention to the role and work of the EBCC to generate interest and hopefully a greater degree of involvement. Members were encouraged to complete and return their profiles to MC and LO for publication.

Action EBC 0406: Reissue profile Templates for Members to complete.

6. Bank Ratings Review

MC advised that the position has become more stable. A slight increase in the overall value of security during the period April 2012 to April 2013 had been seen, there was a consistent move to lower rated financial institutions within each rating category. Xoserve will continue to monitor those FIs that were currently on possible negative outlook with Standard & Poors.

7. Review of progress since October 2013

MC outlined the key points of 2013, a period in which performance in all areas had been very successful.

Attention was drawn to a couple of minor findings from the LRQA audit, which will be addressed appropriately.

The target continues to be to manage the risk and any repeat 'offenders'.

Performance graphs were briefly reviewed. Proactive engagement with all parties has produced very positive results.

8. Focus for 2014

The EBCC Members customer satisfaction survey graphs were reviewed and briefly discussed. Members were asked to consider if there were any areas of concern or that needed prioritising differently. PB suggested agreeing priority within the meeting was sufficient.

MC then outlined the focus for the coming year, drawing attention to the fact that he has recently also taken on responsibility for Neutrality Finance and that this should bring some synergies in terms of process and knowledge.

9. Any Other Business

9.1 EU Third Energy Package

Members were provided with an update on a published document for EBCC members to review and if any questions to discuss at future meetings.

9.2 Risk Register

Members were provided with the Risk Register and associated risk matrix to review outside this meeting.

9.3 Voluntary Discontinuances

None to report.

9.4 Supplier's Licence Condition 18

MC referred to Supplier's Licence Condition 18, drawing attention to an issue that had been identified. As further clarity was required this item was not on the Risk Register but flagged merely for awareness at this time.

10. Date of Next Meeting

The next EBCC meeting will take place via teleconference, **starting at 09:15** on Friday 23 May 2014.

EBCC meetings scheduled for 2014:

Date	Location
Friday 23 May 2014, 09:15	Via teleconference
Friday 27 June 2014, 10:30	Via teleconference
Friday 25 July 2014, 10:30	Via teleconference
Friday 29 August 2014, 10:30	Via teleconference
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'</i> - Consider how to manage foreign exchange (FX) risks/exposures going forward.	Xoserve (MC)	Carried Forward

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC 0401	30/04/14	5.1	<i>Review of Mind Maps: Provision and deployment of extra resources</i> – Establish how costs might be funded/recovered.	Xoserve (MC)	Pending
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 previous 12 months.	Xoserve (MC)	Pending
EBC 0403	30/04/14	5.1	<i>Review of Mind Maps: EBCC Operation</i> - MC to establish and engage with an appropriate Ofgem contact to support the EBCC in the event of market failure.	Xoserve (MC)	Pending
EBC 0404	30/04/14	5.1	<i>Review of Mind Maps: EBCC Operation</i> - MC to establish and engage with an appropriate National Grid NTS contact to support the EBCC in the event of market failure.	Xoserve (MC)	Pending
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)	Pending
EBC 0406	30/04/14	5.1	Reissue profile Templates for Members to complete.	Xoserve (LO)	Pending

