

Energy Balancing Credit Committee Minutes
Thursday 30 April 2015
31 Homer Road, Solihull B91 3LT

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office	Non-Voting
Lorna Dupont (Secretary)	(LD)	Joint Office	Non-Voting
Gemma Truran	(GT)	Shipper	Voting
James Hill	(JH)	Shipper	Voting
Pauline Babb	(PB)	Shipper	Voting
Richard Fairholme	(RF)	Shipper	Voting
Mark Cockayne	(MC)	Xoserve	Non-Voting
Sandra Dworkin	(SD)	Xoserve	Non-Voting

Apologies received

Gavin Ferguson (GF)

1. Introduction

BF welcomed the members to the meeting, which was quorate.

2. Review of Minutes and Actions

2.1 Minutes

The minutes of the last meeting were approved.

2.2 Actions

Action EBC 1102: Clarify the process for the appointment of alternates by the emergency EBCC Chair.

Update: SD advised that the EBCR have been amended and that a draft would be sent out to members to review. MC reiterated what was required in the role of emergency Chair. **Closed**

Action EBC 1102b: Identify options for extending or enhancing EBCC membership. Include reviewing other UNC and non UNC committees/groups for ideas to expand membership.

Update: This remains an issue with membership now standing at 5 persons; quoracy may be difficult to achieve in the event of an emergency. Members discussed the potential for an industry agreed/nominated panel of persons that could be called upon, especially when an emergency meeting had to be convened and quoracy had to be immediately established. RF suggested approaching trade associations to provide appropriately qualified members. BF pointed out that User

Members are appointed by the Gas Forum, and that appointment process may need review. It was agreed that nominees should have an interest and the right level of industry knowledge and financial expertise. The number of permitted alternates was discussed and it was suggested that the Gas Forum might be instructed to provide an agreed number of nominations via its processes. The nomination of multiple members from the same organisation had been tried in the past, but although recognising that members operated independently of their employer, external industry perceptions of this practice had been quite negative.

RF agreed to write to appropriate industry trade associations to try and generate more interest and commitment.

Xoserve would focus on what is required as a member and provide some 'sales literature' to promote the work and importance of EBCC and its members. **Carried forward**

NEW Action EBC 1102C: *Increasing/promoting EBCC Membership* - RF to write to appropriate industry trade associations.

Action EBC 0301: Members were requested to advise if they use or were aware of a product/system for pooling accounts across banks.

Update: SD confirmed that some responses had been received and that Xoserve was investigating. **Closed**

3. Operational Update

SD provided the following Operational update for March 2015.

3.1 Cash Call Notices

During March 2015 there was one Cash Call Notice issued, which was appealed and withdrawn.

3.2 Further Security Requests (FSRs)

No FSRs were issued during March 2015.

3.3 Settlement

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
February 2015	99.99%	100%
March 2015	100%	100%
Rolling 12 Months	99.63%	100%

One Notice of Failure to Pay Energy Balancing Invoice was issued during

March 2015.

MC confirmed that cash collection results were particularly good as March had been a very heavy collection period.

Members briefly discussed targets and how they could add value; MC to consider reviewing.

PB asked had the EBCC sufficient visibility of information in respect of cash calls. MC explained the actions Xoserve took behind the scenes. This was briefly discussed, and it was recognised that perhaps a review of the current level of management information provided to EBCC would be welcomed, so that EBCC can better understand where it might need focus on deeper questioning or taking action. More detail would also enable the EBCC to appreciate the work that the Xoserve Teams completed in the background to achieve the continuing very high level of performance. MC indicated he would welcome the sharing of any best practice ideas from EBCC members, and would be happy to plan Face-to-Face visits with the Xoserve Teams for any organisations. This was agreed to be a good initiative and Xoserve will make some arrangements and communicate the details.

Action EBC 0401: *Face to Face visits with the Xoserve Energy Balancing Credit Teams - Xoserve to make appropriate arrangements and communicate the details.*

3.4 Modifications

a) Modification 0521 - Revision of User Admission Criteria to include Transporter verification of its ability to transact with the Applicant User

SD gave an update on the position. It was understood that Ofgem was not able to direct implementation.

Xoserve was continuing the process of bank account set up with HSBC enabling the User Admission issue to be addressed.

b) Modification 0233V - Changes to Outstanding Energy Balancing Indebtedness Calculation

National Grid NTS has taken Modification 0233V through the initial stages of its internal process however it does not have the resource to continue at the moment but would support a Shipper if raised sooner. MC confirmed he would discuss further as it may be more suitable for National Grid NTS to pursue following on from the work completed when the modification was first raised.

4. Bank Ratings Review

SD gave an overview of Financial Institution downgradings over the last 6 months and their impacts:

- In November 2014 Rabobank Netherlands was downgraded by Standard and Poor's from AA- to A+ affecting 4 Users who have

either moved to alternative Financial Institutions or underwritten their exposures via Deposit Deed – the impact of this was that security value of £30,213,000 had to be scaled back by 17% - £5,136,210.

- In December 2014 Bank of Tokyo-Mitsubishi UFJ Ltd and Sumitomo Mitsui Banking Corporation were downgraded by Moody's from Aa3 to A1. Although the downgrade impacted the band rating to the lower level, there was sufficient headroom available for both Financial Institutions to absorb the downgrade and therefore no Users were affected.

A summary of the risk profiles of Financial Institutions (FIs) was presented. Currently security from 25 Financial Institutions is managed.

- 8% of all FIs currently providing Security have been subject to a downgrade change during the previous 6 months by Standard and Poors and Moody's Ratings Agencies.
- Currently 80% of FIs are in the lowest categories of investment grade rating. This reflects no change since the last reported figures.
- 21 FIs are subject to a negative outlook – this equates to £313m out of £359m held as security subject to a possible downgrade.

SD presented a chart illustrating the aggregate Letters of Credit (LOC) security managed at each rating band over the last 2 years. This showed from April 2014 to April 2015 that there is a decrease in the upper band by £15m and an increase of almost £30m in the lower band.

SD commented on the pie charts that demonstrated the Moody's and Standard & Poors outlooks. Of the 25 Financial Institutions currently being monitored Moody's state 8% are subject to a possible downgrade whereas Standard & Poors have 76% on negative outlook.

SD went on to discuss the total security held over the last 2 years and the split between Deposit Deed and LOC. The total amount of security had increased from £373m to £398m. The total percentage of security held in LOC had dropped marginally from 91.7% in 2013 to 90.3% in 2015.

In conclusion SD summarised that, whilst there was an increase in the overall value of security during the period April 2014 to April 2015, of which approximately 90% is in the form of an LOC, there is a consistent move to lower rated financial institutions within each rating category. The value held in security is far greater within the lower band therefore the risk has a broader spread.

However, there is a risk within the lower band as an FI may fall out of the acceptable rating category as most of the FIs are on negative watch/outlook. Xoserve continues to monitor those FIs that are currently on possible negative outlook with Standard & Poors and Moody's.

Standard & Poors has taken a cautious approach and placed 6 FIs on negative outlook, as it believes that those FIs may face a challenging environment if subjected to the Capital Requirements Directive. This explains why the majority of FIs rated within the existing portfolio are subject to negative outlook. Moody's, conversely, have not taken such steps.

Xoserve is looking at spreading the risk of Deposit Deeds in the future and additionally is investigating alternative methods of securitisation such as the Pensions Protection Fund.

5. Review since November 2014

SD gave an overview, summarising the performance, activities, and key points over the period.

SD confirmed that Cash Collection figures on a rolling 12 month performance were the highest over the past 5 years, in November 2014 reaching 99.98% which had been maintained for several months.

- Cash Collection Monthly figures were 100% over the past 12 months on 9 occasions.
- Continued pro-active engagement with Users reaching 70% of indebtedness to minimise Cash Calls, which has resulted in the lowest quantity of Cash Calls issued over the previous 5 years.
- Security Renewals at 100%.
- 2 Terminations managed.
- Energy Balancing Credit Rules were revised on 30 January 2015.
- Chartered Institute of Credit Management Quality accreditation (CICMQ) awarded, MC explained how this had been achieved.
- The Credit Team are building on the success of their previous ICM exam results and are undertaking a further Module relating to Accounting Principles.
- Working with Treasury to appoint a new bank.
- Continues to support development of
 - Significant Code Review
 - EU Reform
 - Gemini Consequential Change.

Xoserve continues to pro actively engage with Users to minimise any adverse effects and to address any individual's underlying problems. The Teams' processes have been reviewed and lessons had been learned from each experience. It was recognised that the last industry major 'Failure' incident had occurred 8 years ago. MC gave examples of how impacts from a smaller User incident had been a useful exercise to review current expertise, processes, and potential scenarios so that the Teams can be potentially ready for a larger impact, should one arise.

MC gave an update on the changes of internal responsibilities in response to the major industry changes that were under preparation. The focus would still be on 'business as usual' as well as managing change.

6. Focus for 2015

MC outlined the various areas, highlighting key points of focus:

- Committee membership/profile to be reviewed.
- Risk Management – spreading the profile investigating a new account for Deposit Deeds and looking at the potential of a Pension Protection Fund
- Team CICM training programme, Performance Excellence and review of structure.
- Change Programme support for Gemini Consequential Change (UK Link Replacement programme), Significant Code Review and EU Reform.

7. Customer Satisfaction

Levels had been maintained. Members were asked to provide any feedback/comments to MC.

8. Any Other Business

8.1 EU Third Energy Package

MC gave a brief update on the impacts. He reported that the project was in the User Acceptance Testing (UAT) phase due to be completed by the end of July 2015. The User Trials (where Shippers, TSOs, etc, will be involved) phase is for 4 weeks, commencing 10 August 2015. MC confirmed there were no concerns from his perspective.

Referring to the Gas Day change, transitional issues were being managed and work was continuing to meet 01 October 2015 implementation. RF observed that parties had expressed concerns, i.e. unpredictable balances may flow into credit for a little while. MC did not believe there would be any system impacts.

Referring to the UK Link Programme (UKLP) changes, MC reported that modifications had been raised to request that some parts be deferred. Xoserve was looking at how processes could be supported and what any potential impacts might be. The Teams were being very proactive, looking ahead and addressing any potential change.

8.2 Market Operator

As advised to members via email the Market Operator (MO) was in Cash Call position on Monday 26 April 2015. UNC Section X 2.11.2 (a) determines that EBCC members are contacted as soon as is reasonable to convene a meeting.

MC clarified that this was their first ever Cash Call and as already indicated was due to a Bank Holiday in the Netherlands. The situation was rectified on Tuesday 27 April 2015. Discussions had taken place with the MO regarding the rules and its obligations, and this had now been resolved; no further action was required by the EBCC.

On a different topic, following the recent changes to the MO's platforms, MC confirmed that Xoserve had received some errors but these had been recognised, averted and resolved, with Xoserve making changes (not

visible to Shippers) to its own systems to prevent any adverse effect on Users.

8.3 Voluntary Discontinuances

Two requests for completion of Voluntary Discontinuance were considered. MC gave an update on the progress of two parties through the exit process.

a) Briteil Ltd (Reg No: SC077750)

MC confirmed this party had no active Supply Points or CSEPs, its last invoice had been of minimal value (£0.24), and there were no outstanding queries.

The EBCC gave its approval for market exit to be completed.

b) Phillips 66 Trading Ltd (Reg No: 7835064)

MC confirmed this party had no active Supply Points. Its most recent invoicing activity was an EBI in February (under £50); there were no outstanding queries and no future charges forecasted.

The EBCC gave its approval for market exit to be completed.

8.4 Security of Supply - Significant Code Review

MC gave a brief overview, indicating there were no concerns at present. It was possible that a modification might be raised to facilitate the recovery of costs through an appropriate mechanism but this would be discussed at EBCC.

MC then drew attention the final slides and suggested that, due to time constraints, members peruse the information outside of the meeting and forward any questions/comments to MC and SD if necessary.

9. Date of Next Meeting

EBCC meetings are scheduled as follows:

Date	Location
Tuesday 26 May 2015, 10:30	Via teleconference
Monday 22 June 2015, 10:30	Via teleconference
Monday 20 July 2015, 10:30	Via teleconference
<i>[Monday 24 August 2015, 10:30]</i>	Via teleconference
Monday 21 September 2015, 10:30	Via teleconference

Monday 19 October 2015,10:30	Via teleconference
Monday 23 November 2015,10:30	Via teleconference
Monday 21 December 2015,10:30	Via teleconference

Action Log – Energy Balancing Credit Committee (30 April 2015)

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC 1102	24/11/14	2.0	Clarify the process for the appointment of alternates by the emergency EBCC Chair.	Xoserve (MC)	Closed
EBC 1102b	26/01/15	2.0	Identify options for extending or enhancing EBCC membership. Include reviewing other UNC and non UNC committees/groups for ideas to expand membership.	JO/Xoserve (BF/MC/SD)	<i>Continuing</i> Carried forward
EBC 1102C	30/04/15	2.2	<i>Increasing/promoting EBCC Membership</i> - RF to write to appropriate industry trade associations.	RF	Pending
EBC 0301	30/03/15	4.0	Members were requested to advise if they use or were aware of a product/system for pooling accounts across banks.	All	Closed
EBC 0401	30/04/15	6.	<i>Face to Face visits with the Xoserve Energy Balancing Credit Teams</i> - Xoserve to make appropriate arrangements and communicate the details.	Xoserve (MC/SD)	Pending