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EBCC MEETING

24th October 2016

- **1.0 Introduction & Status Review**
- 1.1 Approval of Minutes
- 1.2 Actions
- **2.0 Operational Update**
- 2.1 Update at September 16
- 2.2 12 Month Review
- 2.3 Focus for 2016/17
- 2.4 Security Review
- 2.5 Brexit
- 2.6 Project Update
- **3.0 Modifications**
- **4.0 AOB**
- **5.0 Diary Planning**





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Outstanding Actions



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Operational Update

- **September 2016**

- Cash Collection 96.91%
- Rolling 12 Months 99.28%
- 3 Failure to Pay Invoice Notices issued
- No Cash Calls issued
- No Further Security Request Notices Issued
- No Failure to Pay Cash Call Notices issued

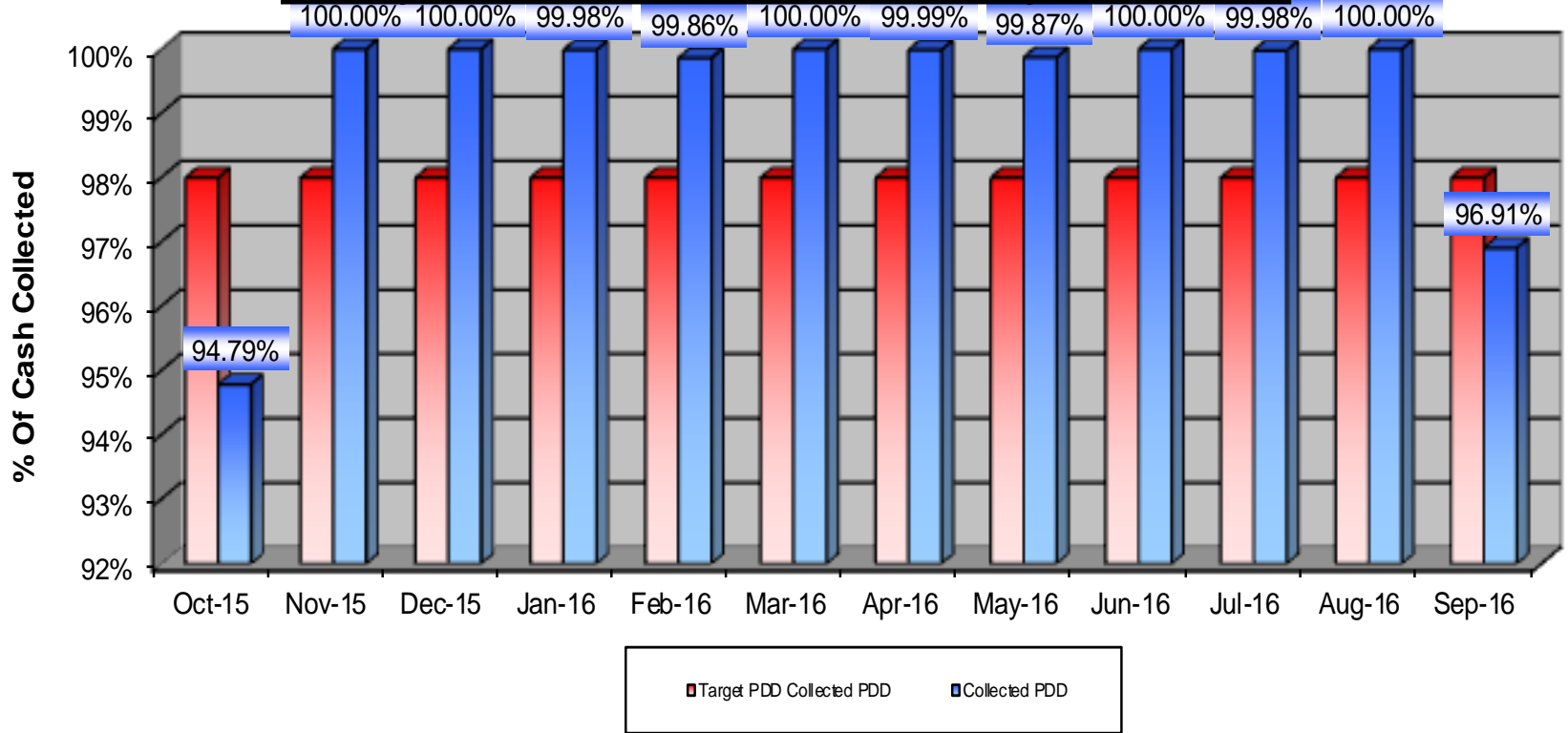
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Cash Collection

Monthly Breakdown Of Cash Collected At Payment Due Date



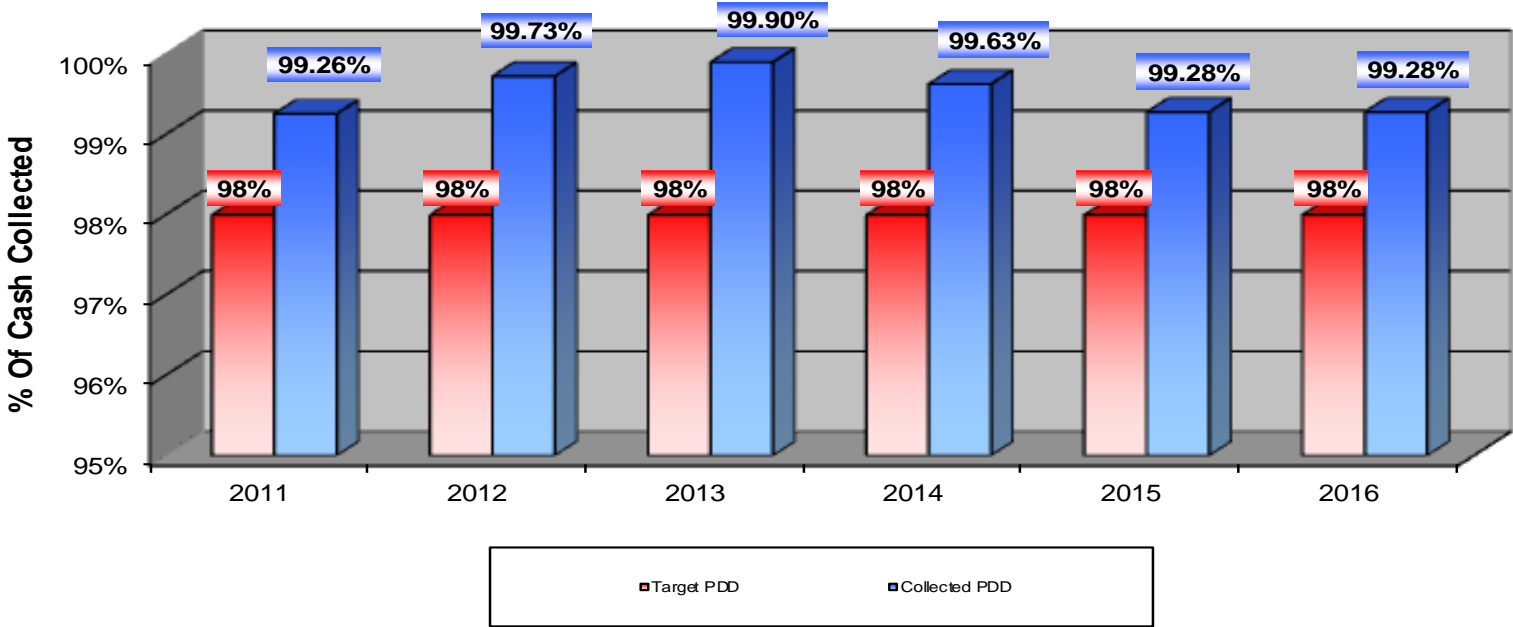
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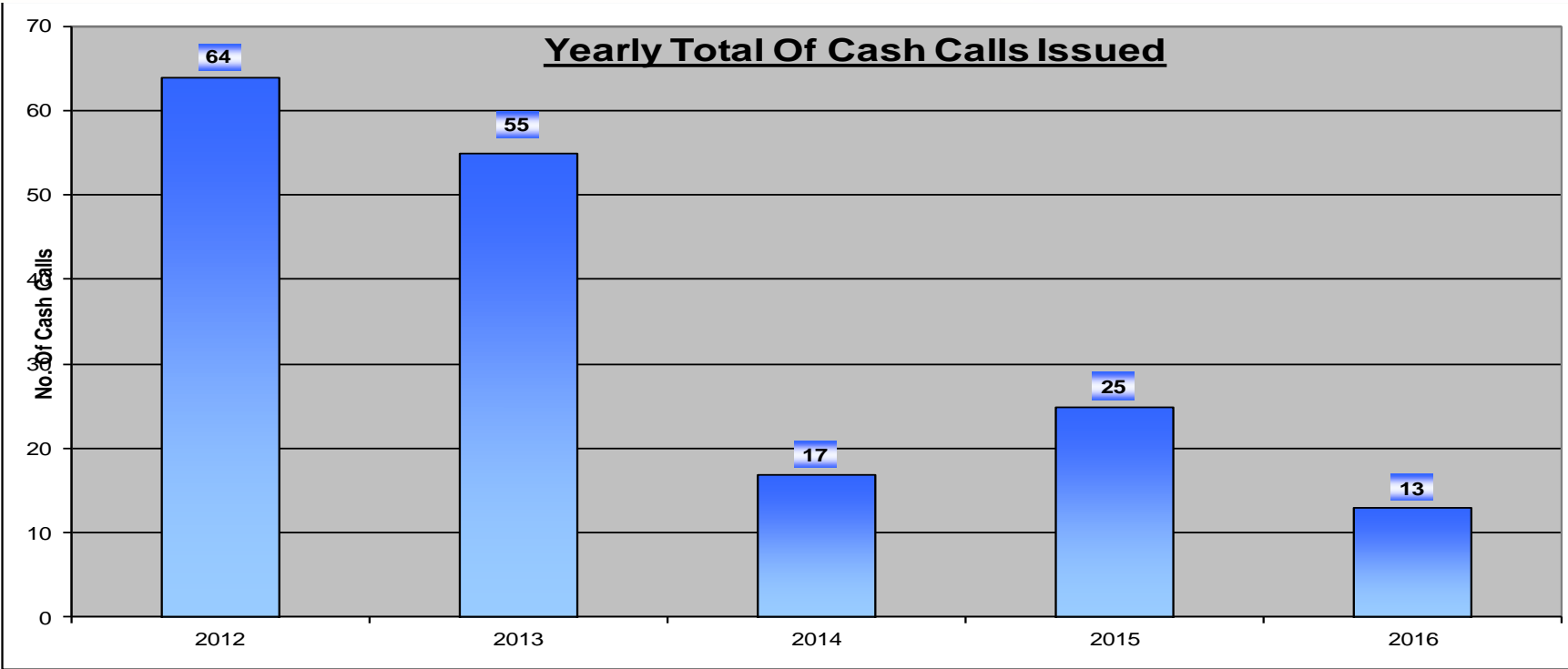
Cash Collection

Yearly Cash Collection Targets Payment Due Date



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Cash Call Issued

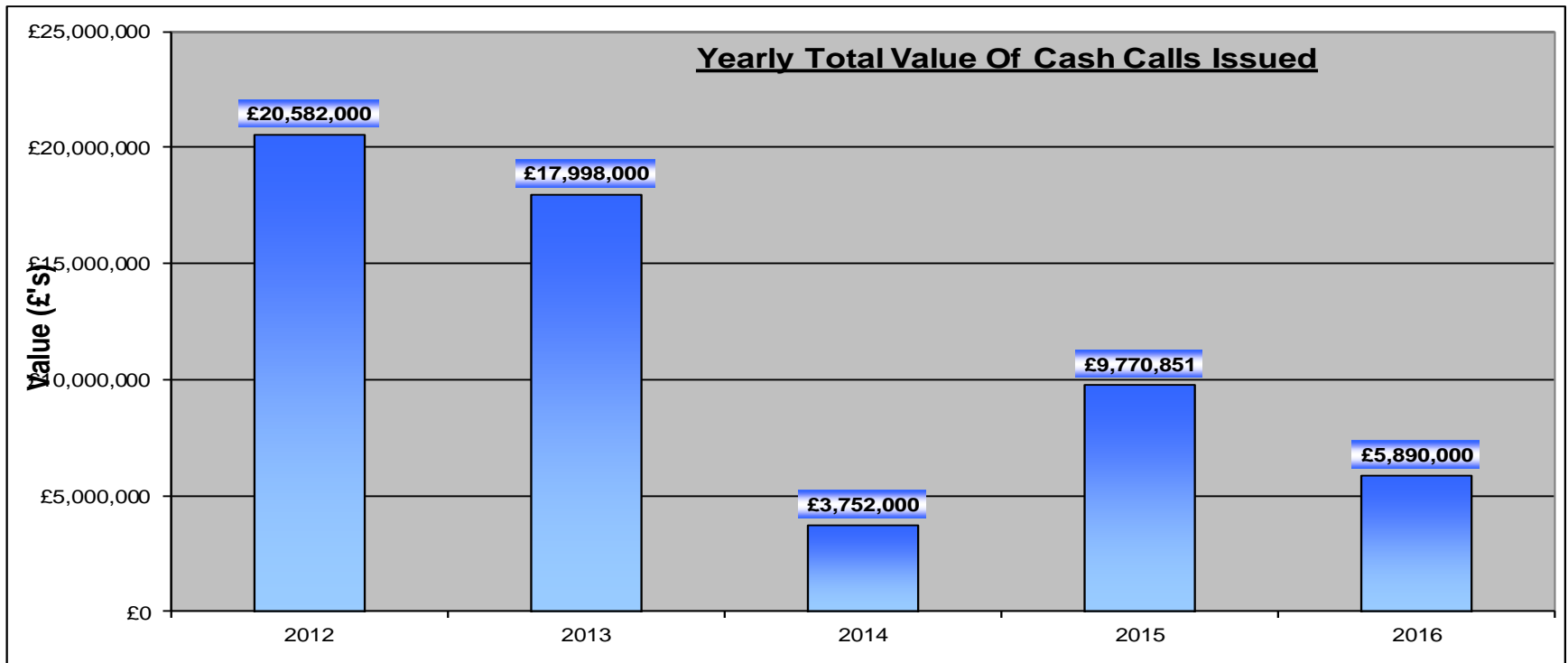


This Graph provides a yearly breakdown of cash calls issued.



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Value of Cash Call Issued



This graph is a year To Date breakdown by financial value and should be viewed in conjunction with the yearly breakdown of cash calls issued.

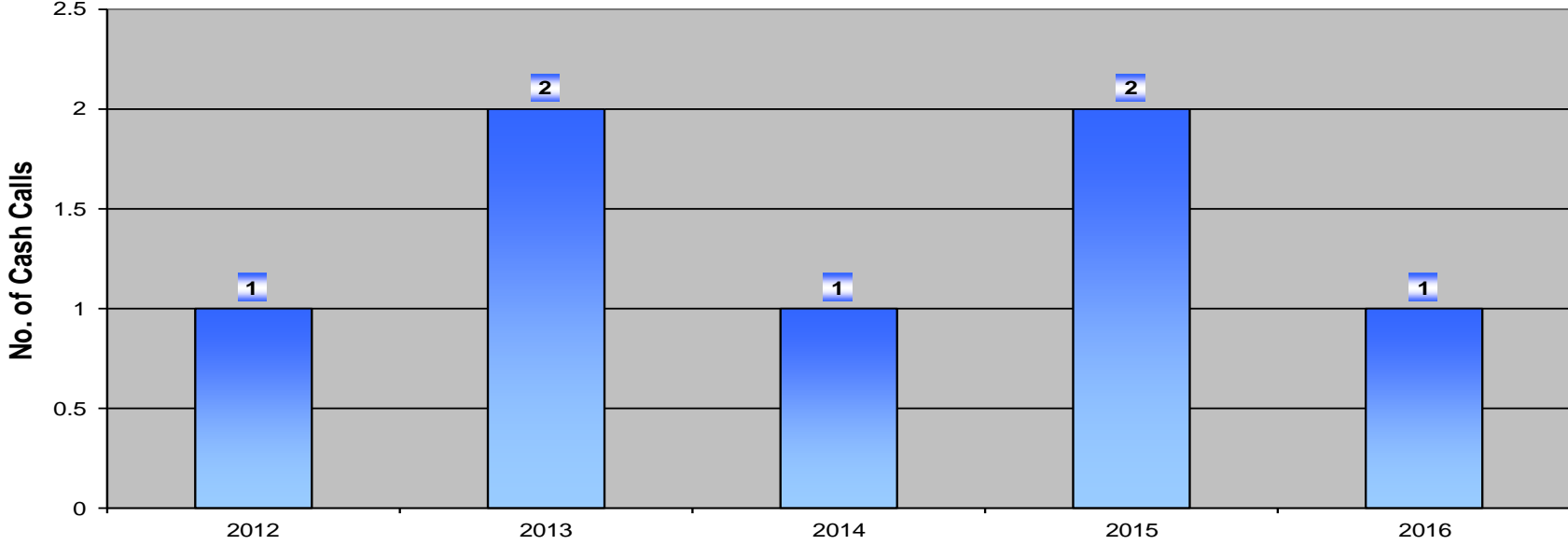
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FTPCCN's – issued & paid

Yearly Total of FTPCCN's Issued & Paid



This graph is a yearly breakdown of Failure to Pay Cash Call Notices issued and paid.



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Review since 2015

Review of Last 12 Months

- Cash Collection figures saw challenges in October 2015 and September 16 However, the rolling 12 month performance remains 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 Mod 568 Security Requirements and Invoice Payment Settlement Cycle for the Trading System Clearer, resulting in daily billing to the Market Operator wef 1/8/16.

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Review of Last 12 Months

- Proactively working 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 March 2016
- Continue to support development of - EU Reform & Gemini Consequential Change
- Worked with Treasury to open new bank accounts to ‘spread the risk’ Currently moving cash collateral supported by a non registrable Deposit Deed approx £40M
- The Credit Team continue with their ICM training with 6 members of the team completing the Business Law module

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Focus for 2016

Proposed Focus for 2016/17

- Committee membership\Profile
- Risk Management
 - Spreading Profile
 - Pension Protection Fund/ABTA/ATOL/Motor Insurance Bureau
- Team
 - CICM Training programme
 - Performance Excellence
 - Review of Structure
- Change Programme
 - Gemini Consequential change (UK Link Replacement programme)
 - EU Reform
 - FGO

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Energy Balancing Security Review

Bank Ratings Current Position

- DZ Bank was upgraded from Aa2 to Aa1 then subsequently downgraded back to Aa2
- Standard Chartered was downgraded from Aa2 to Aa3 by Moodys and from A+ to A by S & P
- BNP Paribas was downgraded from A+ to A by S & P
- Santander upgraded from A1 to Aa3 by Moodys

Note any rating below Moodys A3 or Standard and Poors A- is not acceptable - the lowest prevailing rating is always used

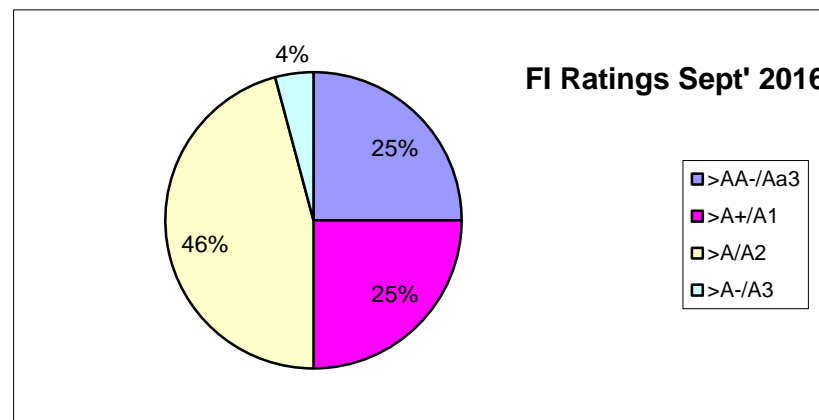
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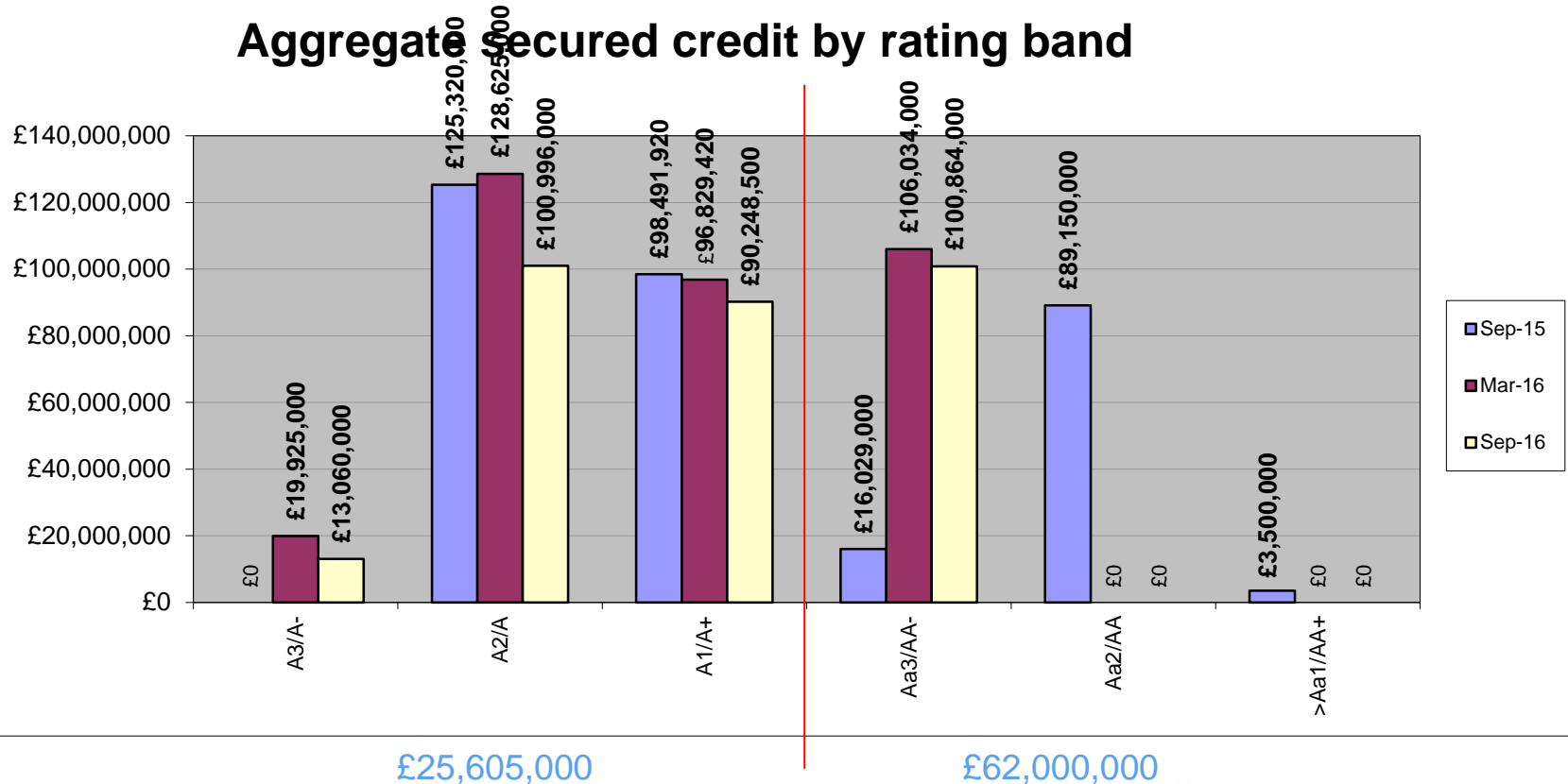
The following chart provides a summary of customers exposures to each rating category

- We have seen a move over the last 12 months in to the lower acceptable rating categories
- We no longer have any FI's in the AA+/Aa1 or AA/Aa2 rating categories.
- There are now more FI's in the A2 category equating to 46% and currently have 1 FI in the lowest acceptable rating category or A3



Spread of FI Exposure

Aggregate Secured credit by rating band



The movement since Sept' 2015 to Sept' 2016 is a decrease of overall value in LOC's to £305m. However, the spread of risk is heavily weighted in favour of the lower band. This is demonstrated by the absence of securities held within the Aa1 & Aa2 rating bands.

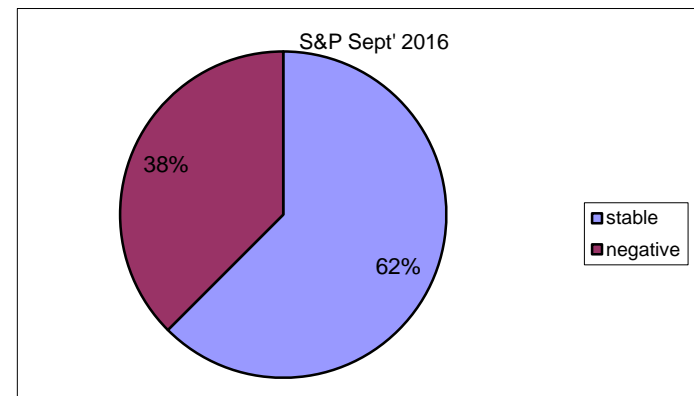
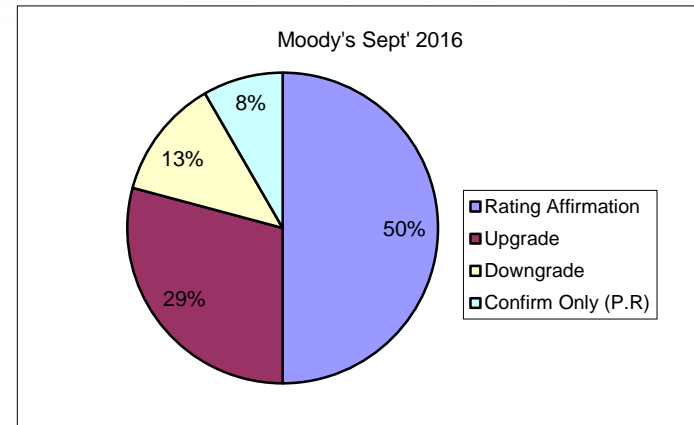
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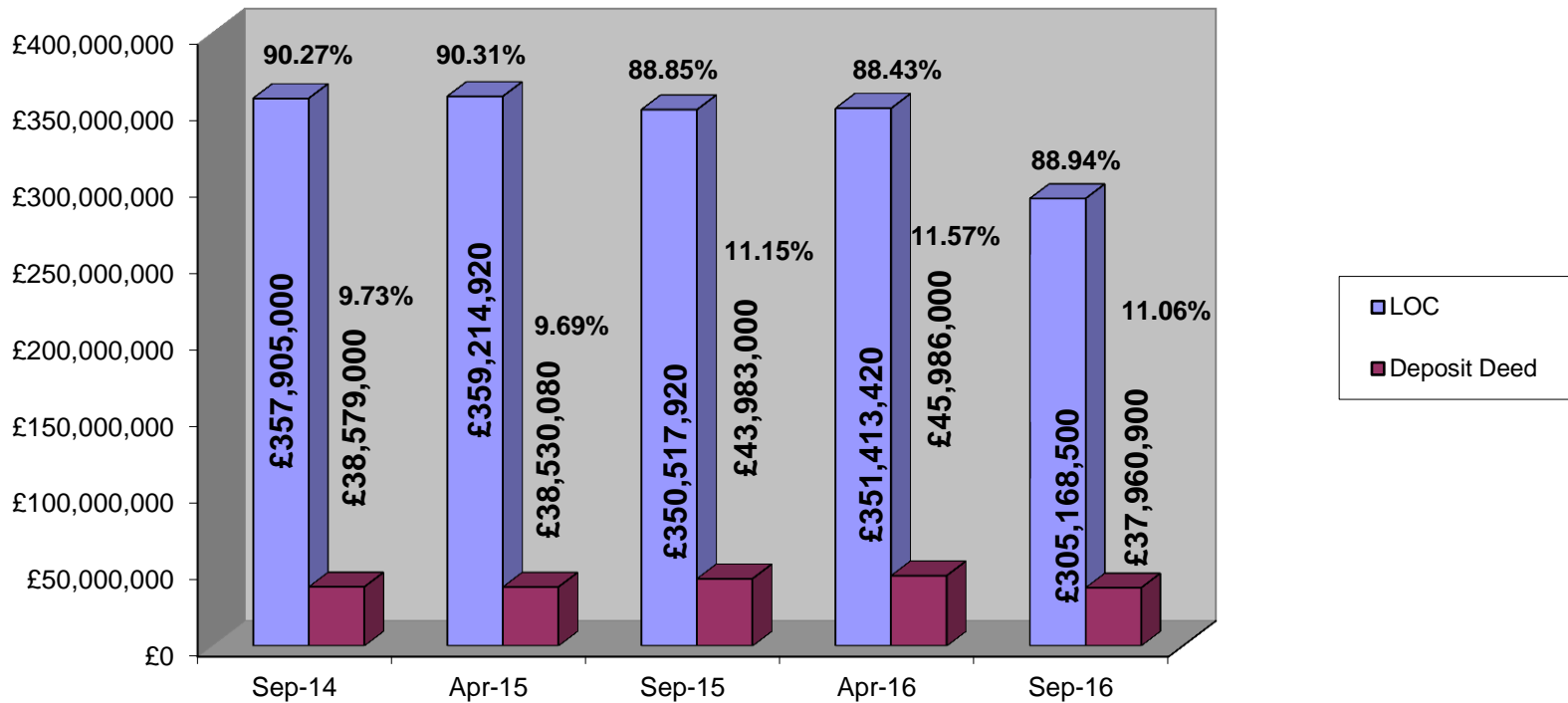
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- **Moody's anticipate their next review of FI's to take place in April 2017. Moody's have affirmed the ratings for 12 FI's which equates to half the existing portfolio of FI's. A Committee within Moody's determines if a rating is affirmed and this results in a longer view of the FI.**
- **The 3 FI's subject to a downgrade (Bank of Tokyo-Mitsubishi(A1), Standard Chartered Bank(Aa3) & Sumitomo Mitsui Banking Corp'(A1)) equate to £46m.**

* **S & P - Since September 2015 there have been five FI's placed on negative outlook; Barclays, Royal Bank of Canada (London), HSBC, Lloyds Bank & Santander. Negative outlook exposure (9 FI's) is £137m. Particular concern is Barclays plc (A-) and any further downgrade will result in re-assignment to alternative FI's.**



- Value of credit secured via Deposit Deed and LOC – comparison between Sept' 2014 to Sept' 2016



- **We have seen an decrease in the overall value of security (LOC's) during the period Sept' 2015 to Sept' 2016 by £46m. This has been driven by a number of Users who have had their security reduced. For example one User has had the security reduced by almost £20m. The lower rating band holds £204m of the value of (LOC) security held. The prospect of adverse conditions for FI's post Article 50 particularly for Barclays Bank plc are challenging as any further downgrade will result in a B Grade Rating and will require re-assignment of securities. The remaining FI's within the lower band can withstand one rating downgrade. The securities in band Aa3/AA-(£90m) are on the lowest rating within the upper band and any further downgrade will affect six FI's. We continue to monitor the risk posed by 18 financial institutions which sit in the lower rating band and where most of the securities are held.**
- **S & P maintains a more risk averse approach to ratings compared to Moody's. S & P have placed Barclays, Royal Bank of Canada (London), HSBC, Lloyds Bank & Santander on negative outlook.**
- **We continue to monitor those FI's which are currently on possible negative outlook with Standard & Poors & Moody's**
- **Deposit Deeds held have seen a decrease of £6m in the last 12 months. Driven by a refund of monies and User's re-alignment of security. Continue to take over an 11% share of overall security. Deposit Deed funds were held in Barclays however we are currently moving the funds to Lloyds.**



- The UK will be leaving the E.U following results of the E.U Referendum on 23rd June 2016.
- We have carried out some analysis along with sources from Moody's and S & P with the following possible outcomes;
- E.U. likely to take a strong position on trade negotiations to ensure other E.U. Members are discouraged from exiting. UK likely to reach an agreement on trade but not on all sectors. Uncertainty in economy likely to lead to increase in inflation.
- Article 50 of the Lisbon Treaty permits a member state a minimum of 2 years from the date it submits its application to exit the E.U (not from the date of the referendum). The longer the period for completing the exit, the greater the likelihood of uncertainty within the economy.
- Possible short term adverse impact on FI's ratings after Article 50 activated, until Markets stabilise.
- UK Banks will see downward pressure resulting from economic uncertainty. B of E four pronged stimulus package identified risk; rate cut to 0.25%, quantitative easing, corporate debt buys and Term Funding Scheme for banks. In order to prepare Markets for post Article 50 impact.

- DN Sales – UAT completed on the interim solution. Analysis underway for enduring solution post Nexus
- EU Phase 4a – Scope of this release is being finalised. Target implementation date of Apr-2017 with a further release in Oct-2017
- iGMS Evolution programme – Ongoing issues resulting in incorrect data being sent to Gemini. Analysis ongoing
- Gas Deficit Emergency – 1st usage test of live system completed and all results were as expected



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Modifications

- **Mod 0587** - Seasonal Energy Balancing Credit Cover on 20/10/16 the UNC Modification Panel recommended implementation to become effective from May 2017 on a User Pays basis





AOB

Credit Rules Update
Customer Satisfaction
New Members Introduction
Members Profiles



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Any Questions?
Date of Next Meeting