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# EBCC MEETING

24th November 2014

# AGENDA

- 1.0 Introduction
- 2.0 Minutes and Actions
- 3.0 Operational Update
- 4.0 Modifications
- 5.0 Significant Code Review Update
- 6.0 Bank Ratings
- 7.0 Letter concerning Non Registrable Deposit Deed
- 8.0 Review since April 2014
- 9.0 Risk Register
- 10.0 Team Structure
- 11.0 AOB
- 12.0 Dates of meetings for next 12 months

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# Operational Update

October 2014

# Operational Update

- **October 2014**

- 2 Cash Call issued which were appealed and withdrawn
- Cash Collection 100%
- Rolling 12 Months 99.98%
- No Failure to pay notices issued
- No Further Security Request Notices Issued

No Failure to Pay notices issued

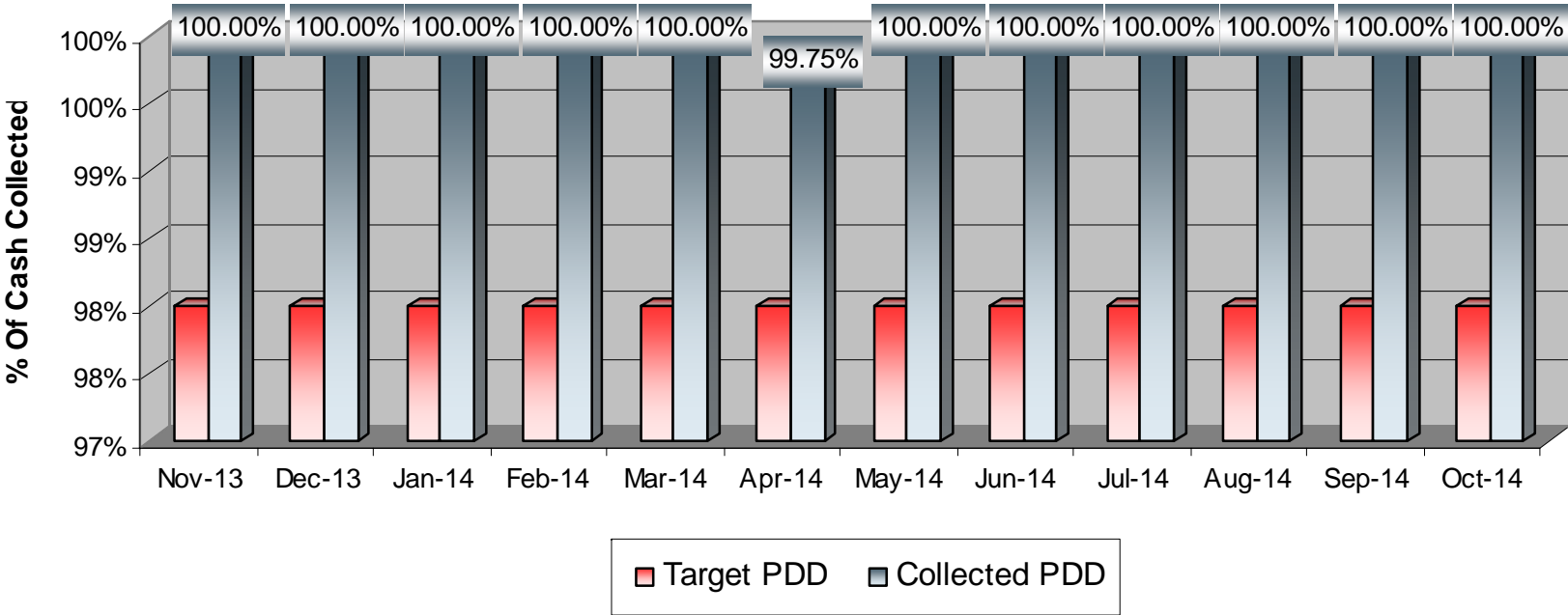
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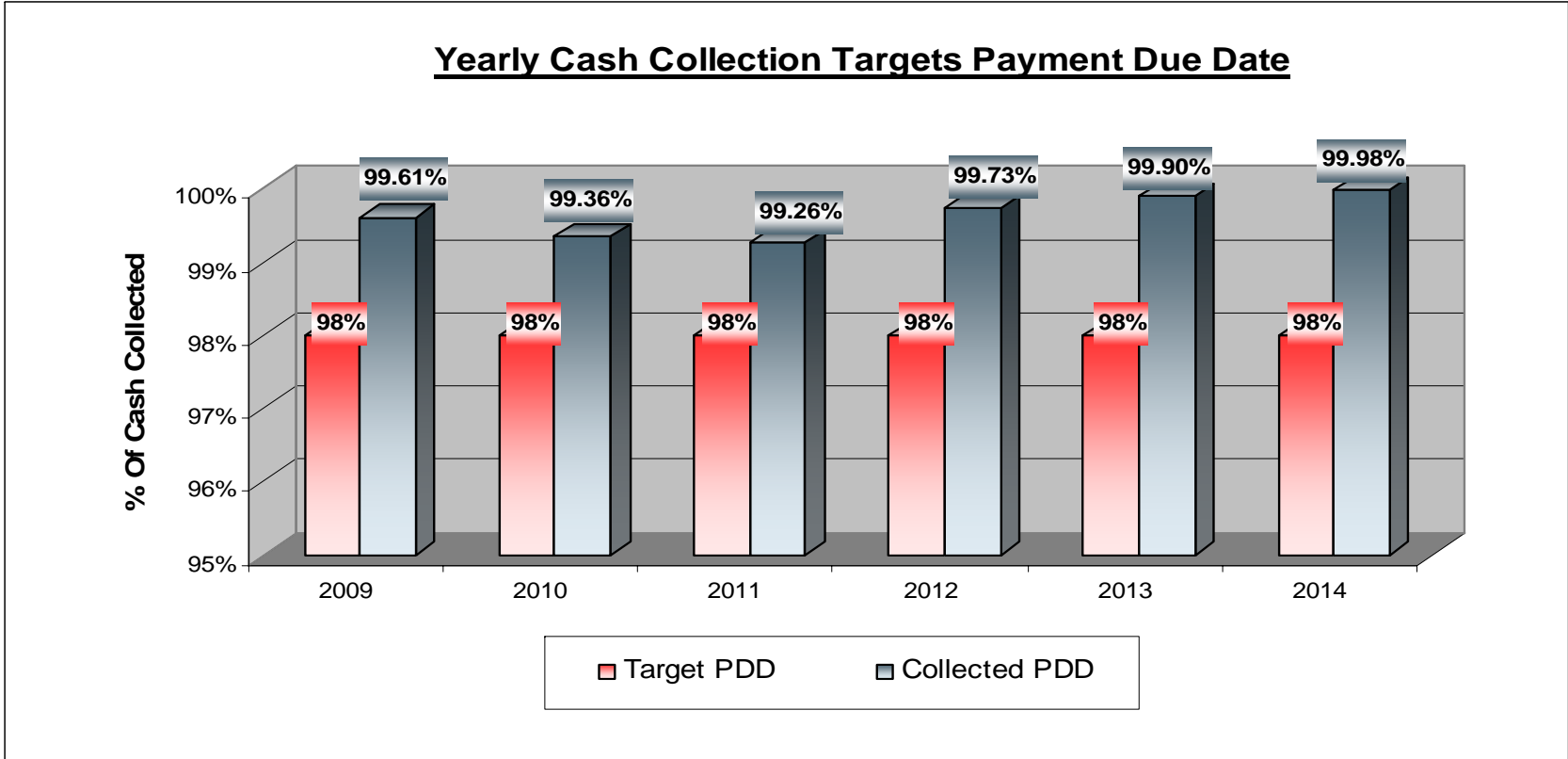
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# Cash Collection

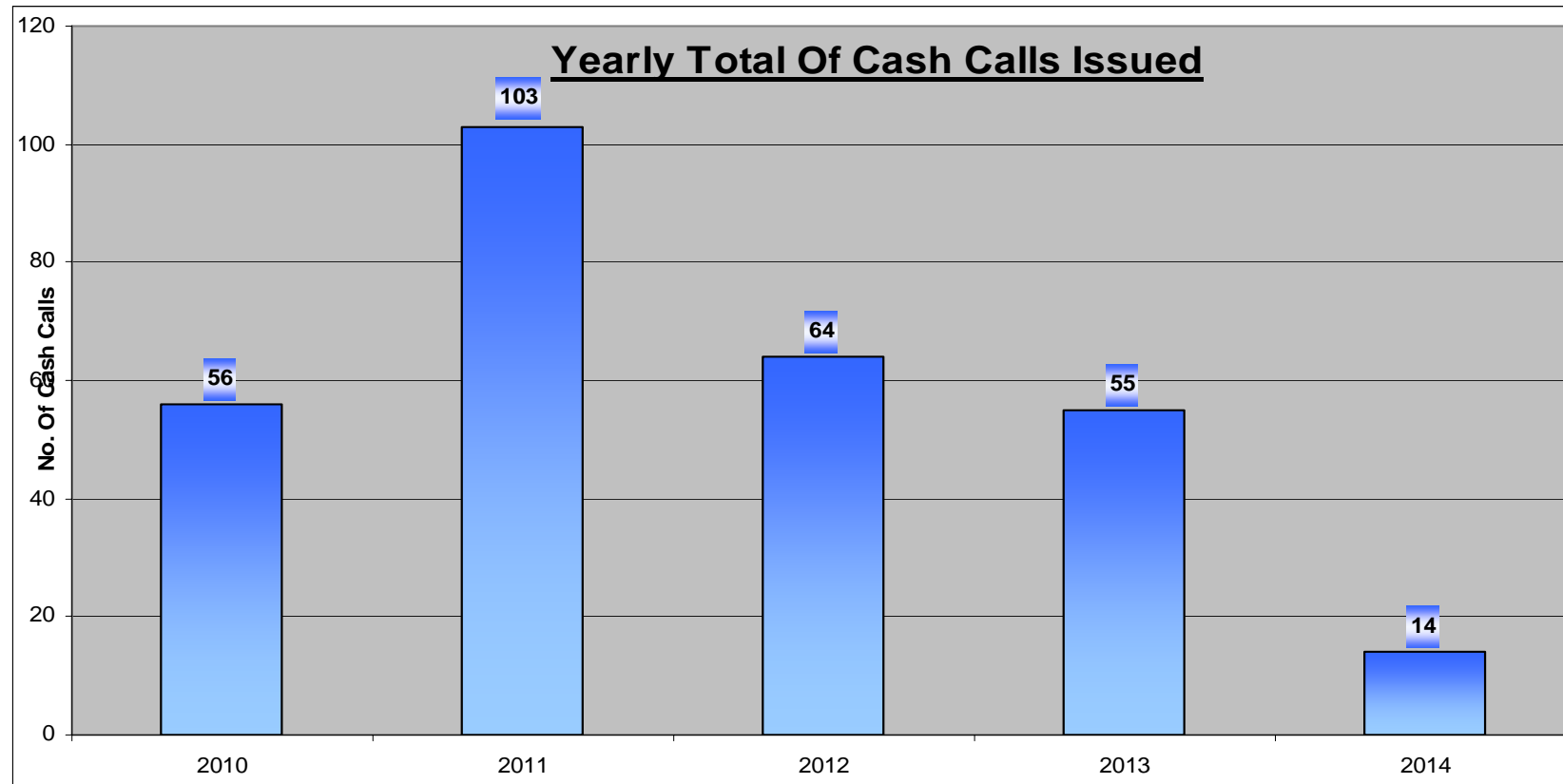
**Monthly Breakdown Of Cash Collected At Payment Due Date**



# Cash Collection



# Cash Call Issued

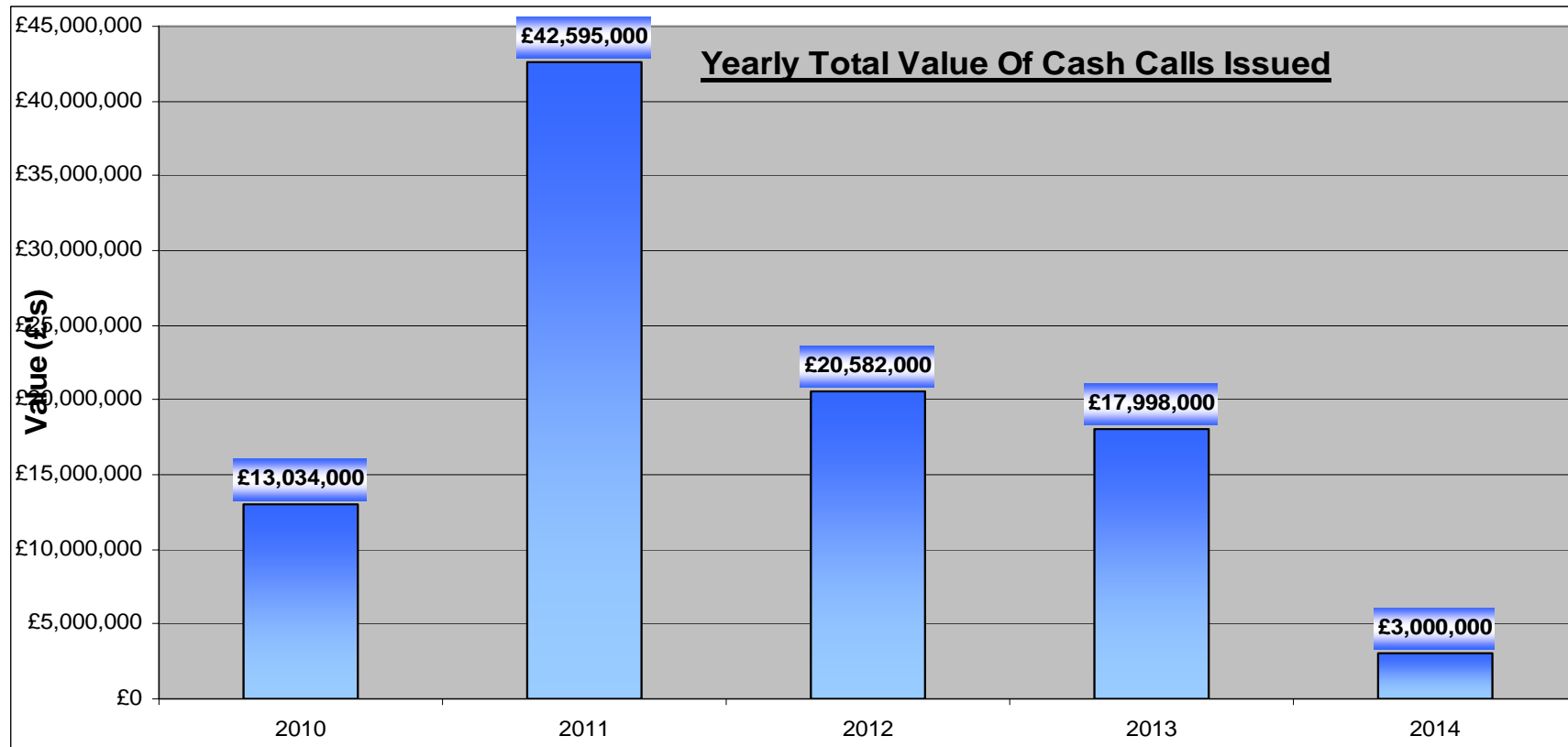


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# Value of Cash Call Issued



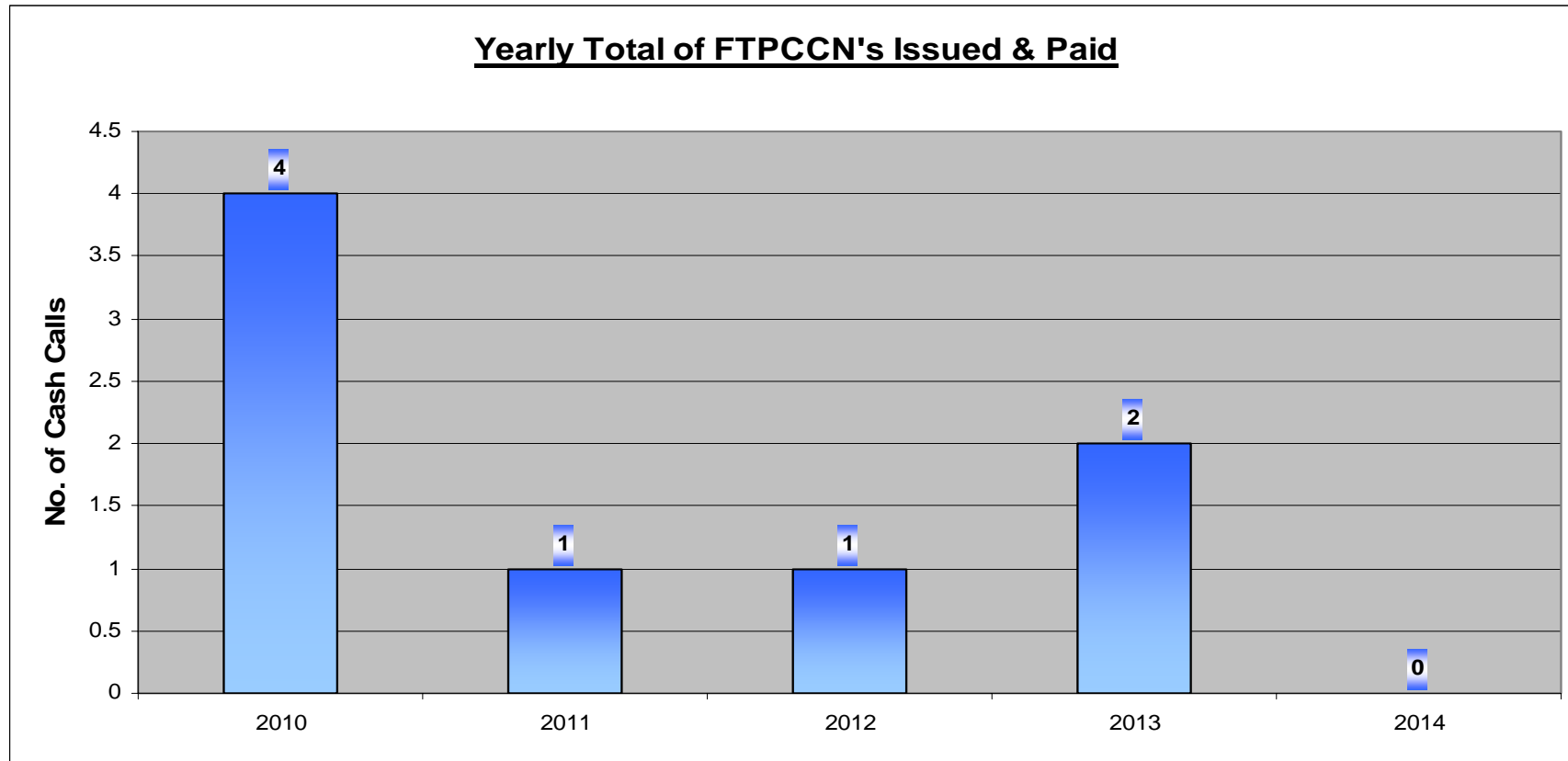
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# FTPCCN's – issued & paid



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# Modifications

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# Significant Code Review Update

# Security of Supply Significant Code Review

- OFGEM published their final proposal on 12<sup>th</sup> February 2014.
- EBCC response provided to Ofgem on 11<sup>th</sup> April 2014.
- Work is currently underway to put in place operational procedures as per the mind maps previously discussed on the following slides.
- OFGEM published their Notice of implementation on 23<sup>rd</sup> September 2014.
- Project underway. Analysis commences 5/1/14 (23 wk Project)
- Implementation to be effective from 05.00 hrs on 1<sup>st</sup> October 2015.

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# Mind Maps - SCR

- The following mind maps were put together to address areas where it was identified that additional work is required to operate. We are currently working through items highlighted as red.
  - Operating Process
  - Priority of Scoring for EBCC meetings
  - EBCC Operation
  - Relaxing Current arrangements EBCC

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# Operating Process

- **Suspension of all Services**

- As a committee we need to address the areas currently within the powers of the EBCC
- Review existing timescales and conclude what would be reasonable to suspend / relax? **It was agreed by Committee to suspend the FSR process. All other processes would be business as usual.**

- **System Access**

- existing rules for access require 5 day SLA need to agree special arrangements for identified resource – (On hold)

- **Cost**

- increase cost of resource consider how budget affected / may need to agree recovery via neutrality possible modification? This would need modification and careful drafting.

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# Operating System continued

- **Modification 0233V - Changes to Outstanding Energy Balancing Indebtedness Calculation**
  - Xoserve have engaged with National Grid to review redrafting of modification.
  - Ofgem are aware of these proposals and will consider if the reasons for non implementation have been addressed.
- **Banking Services**
  - We have discussed possibilities of increasing current overdraft facilities to establish if feasible and to what maximum limit. From initial discussions the possibility of extending credit does not look possible, however further analysis is taking place to assess the potential values.
- **Shipper Information:-**
  - We will be writing out to all Users to confirm contact details with an ongoing 12 month review. Discussions have been held with our Analytical Team. – Still in progress.



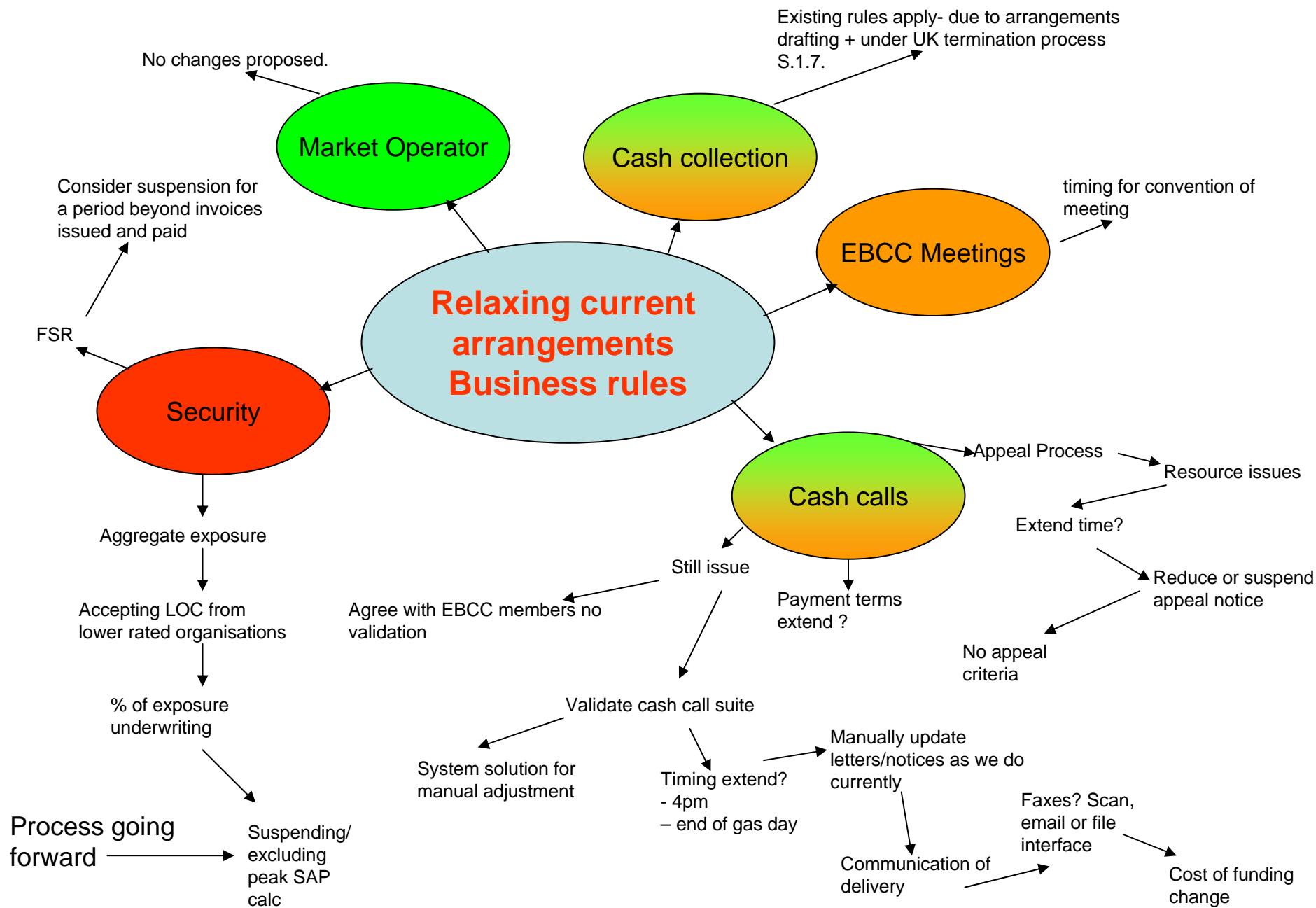
# Powers and Duties of EBCC

<http://www.gasgovernance.co.uk/sites/default/files/EBCC%20Rules%20V3.20%20v1%20Approved%2001.08.2014%20Master.pdf>

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# Priority of Scoring EBCC meetings

- Risk Categorising all parties to establish how to manage volumes of potential EBCC meetings in the event of an Emergency taking into account various sources of information.
- Example on following slide provides a suggested template to identify High, Medium or low risk customers.
- Aspiration to have this in place for all customers before Winter 14.
- Reviewed monthly through monthly Operational Meetings and we will give some consideration on reporting requirements.

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# Priority Scoring - Low Risk Categorisation

	High	Medium	low
Shipper A			X
Shipper B		X	
Shipper C	X		

Shipper A	
Cash Call Notices Issued last 12 months	None
Energy Balancing Invoices Paid on due Date	All paid on due date.
Customer does not respond to communication within agreed time scales.	Always responds to communication.
Security in place on Renewal Date	Yes – All in place prior to or on Renewal Date.

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# Priority Scoring - Medium Risk Categorisation

	High	Medium	low
Shipper A			X
Shipper B		X	
Shipper C	X		

Shipper B	
Cash Call Notices Issued last 12 months	None
Energy Balancing Invoices Paid on due Date	No - 2 Occurrences over last 12 months
Customer does not respond to communication within agreed time scales.	Sometimes
Security in place on Renewal Date	No – In place D+2

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# Priority Scoring - High Risk Categorisation

	High	Medium	low
Shipper A			X
Shipper B		X	
Shipper C	X		

Shipper C	
Cash Call Notices Issued last 12 months	3 Failure to Pay Cash Calls
Energy Balancing Invoices Paid on due Date	4 Occurrences over last 12 months
Customer does not respond to communication within agreed time scales.	Frequently
Security in place on Renewal Date	No – Repeated Calls

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# Profiling Analysis

<b>Total = 167</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>Securities</b>	<b>6</b>	<b>40</b>	<b>121</b>
<b>Cash Collection</b>	<b>104</b>	<b>33</b>	<b>30</b>
<b>Cash Calls</b>	<b>8</b>	<b>19</b>	<b>140</b>
<b>Further Security Request</b>	<b>1</b>	<b>5</b>	<b>161</b>

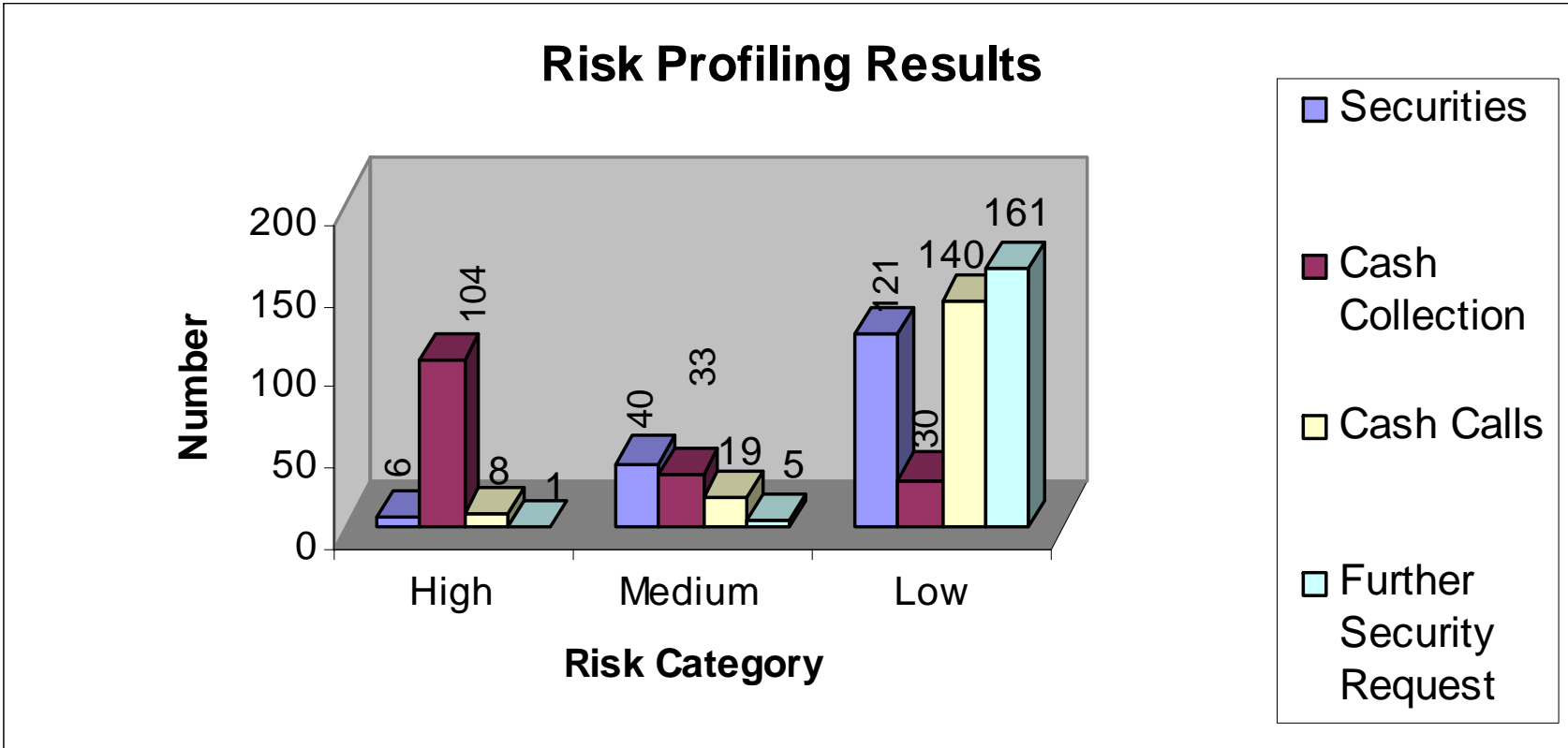
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# Risk Profiling Results



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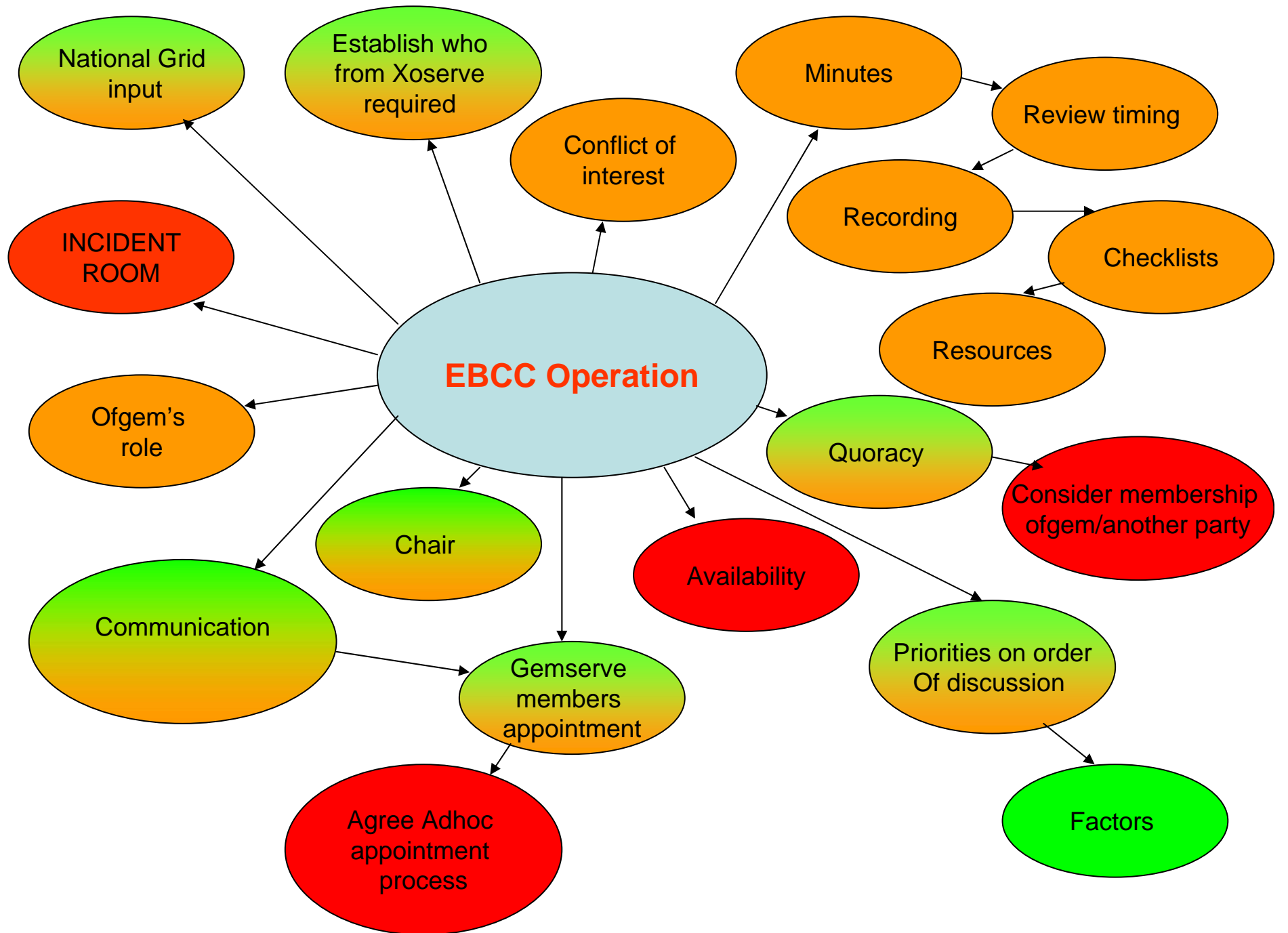
# Risk Profiling Commentary

- **Cash Collection** - although there are a large number of parties highlighted as high risk. The risk is based upon a timing issue in responses from shippers and the pro-active approach of the CRM team. This results in the perception of risk rather than actual risk.
- **Securities** – 100% securities maintained. However, the medium to high categories reflect delayed responses, incomplete or altered security documents returned from parties and queries which further delay the completion of the security process.
- **Cash Call** – Anticipated relatively low volumes to be reflected within the medium to high categories. This is in most part due to maintaining sufficient security levels, pro-active cash call indebtedness monitoring and combined with advance warnings to parties of high indebtedness levels. Thereby, allowing them to address their indebtedness position.
- **Further Security Requests** – Driven by the cash call process. Anticipated low volumes within the two higher categories. It follows that the lower the number of cash calls issued the lower the likelihood of further security requests.

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# EBCC Operation

- Conflict of Interest
- Minutes – We would get additional Resource to support
- Quoracy – Would we still require 3?
- Ofgem's role – Ofgem have provided a contact for SCR
- National Grid's role – Awaiting NG to confirm contact

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# Bank Ratings

# Current Position

- Since April 2014 whilst the Banking outlook has been stable, there have been political developments in particular to EU and US sanctions applied against Russia.
- This has affected an existing User and New User wishing to enter the market. Both of these have been discussed at previous EBCC meetings.
- In July 2014 Deutsch Bank were downgraded by Moody's from A2 to A3, 8 Users would have been affected however the aggregate level remained in the same banding.
- In November Rabobank Netherlands were also downgraded by Standard and Poor's from AA- to A+ affecting 4 Users who have been.
- The following chart provides a summary of customers exposures to each rating category.

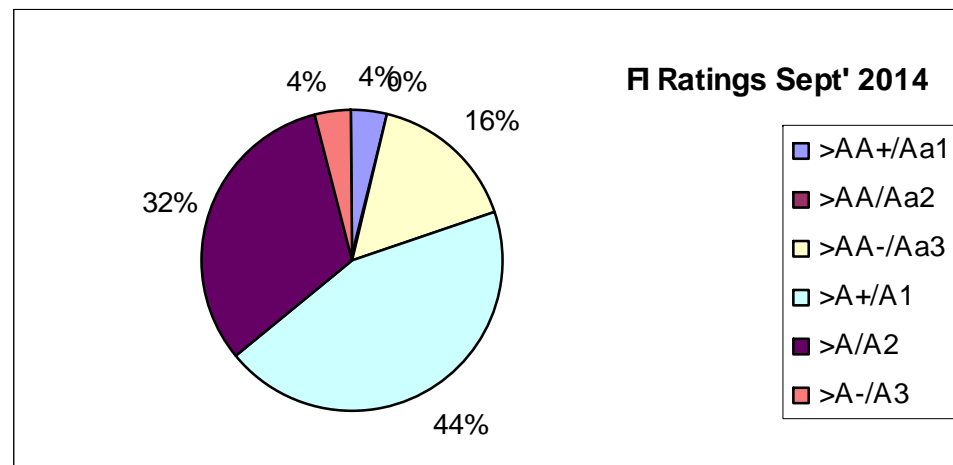
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# FI Risk Profile

- 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 an 1% increase from the last reported figures. This is in part due to a movement within the same rating band.



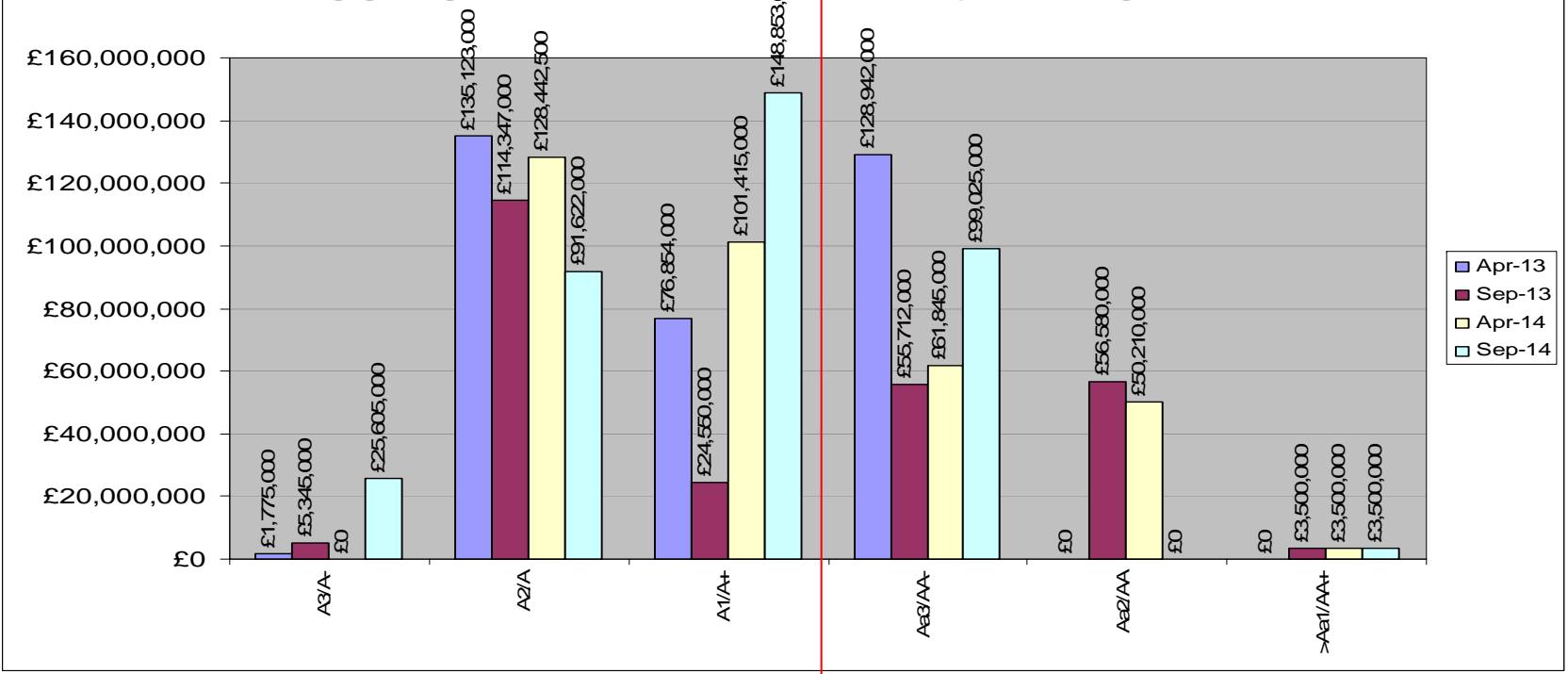
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# Spread of FI Exposure

**Aggregate secured credit by rating band**



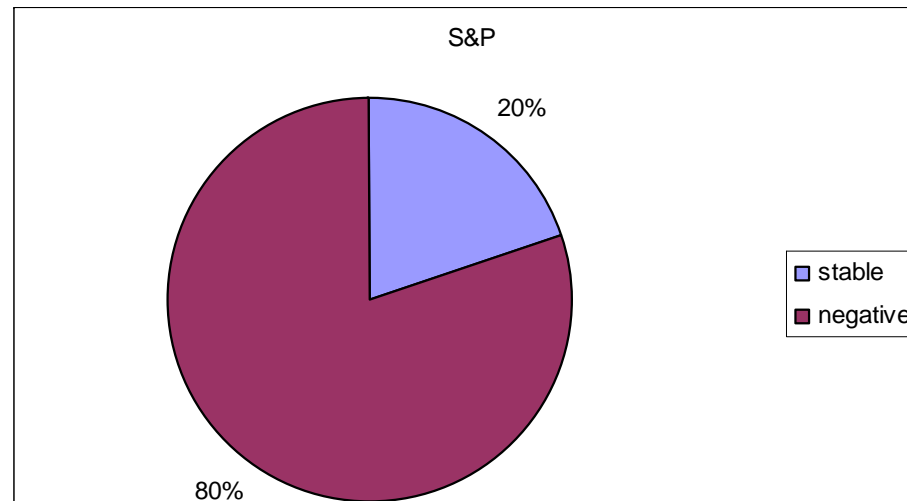
£25,605,000

£62,000,000



# Current Outlook

- **Moody's** undertook a rating review in June 2014. Since this review no FI's are on Watch with Moody's.
- **S&P** we previously reported 58% which were on Negative outlook. Since having commenced a significant review across a large number of FIs, this has increased to 77% showing a negative outlook.



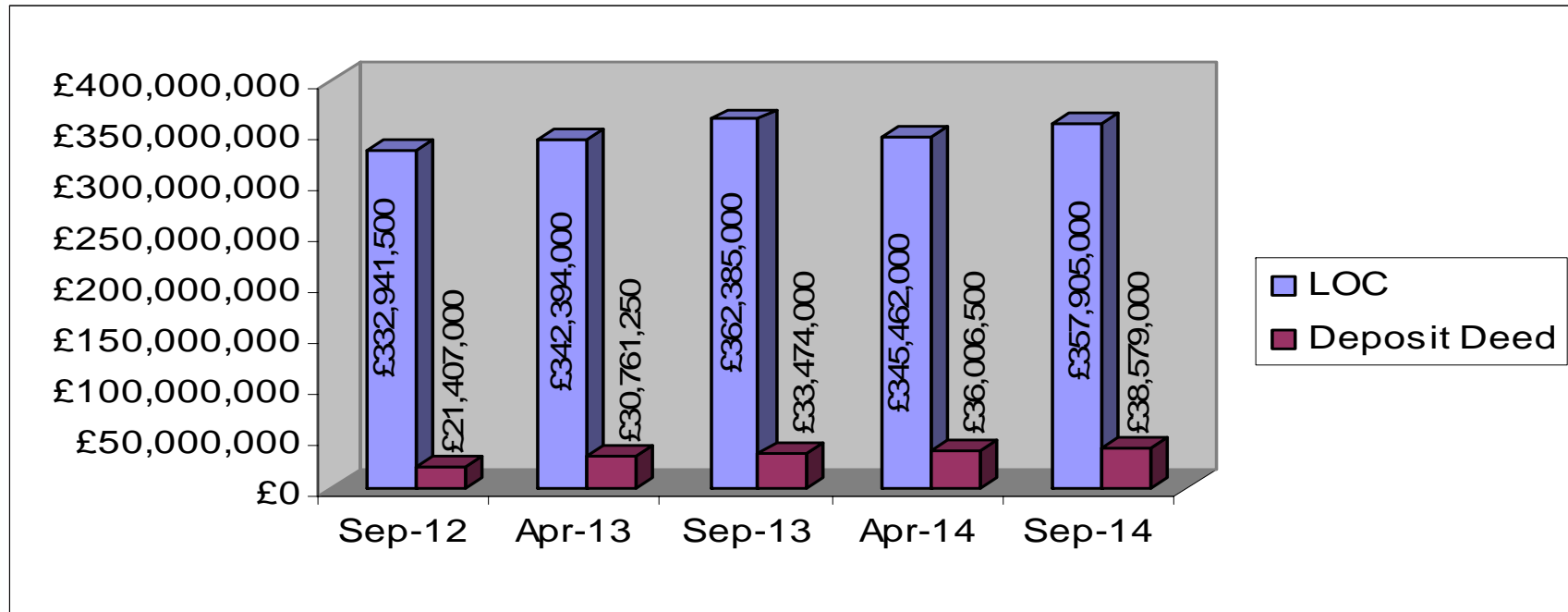
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# Deposit Deeds

- Value of credit secured via Deposit Deed and LOC – comparison between Sept' 2012 to Sept' 2014



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# Summary

- Whilst we have seen a slight increase in the overall value of security during the period Sept' 12 to Sept' 14, there is a consistent move to lower rated financial institutions within each rating category.
- We continue to monitor those FI's which are currently on possible negative outlook with Standard & Poors

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# Review since April 2014 Update

## Review since April 2014

- Cash Collection figures on rolling 12 month performance remain the highest over the past 5 years.
- Cash Collection Monthly figures 100% over the past 12 months on 11 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.
- No Terminations managed - No financial losses
- Security Renewals 100%
- Energy Balancing Credit Rules were revised 1<sup>st</sup> August 2014 to provide more clarity in respect of the calculation for existing users Security Requirements whereby funds held in the Cash Call Account are excluded from the calculation of peak indebtedness over the previous 12 months.
- The Credit Team recently undertook training with the Institute of Credit Management with 100% pass rate.

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## Focus for 2013/14 addressed at April 2013 meeting

- From the meeting held in April 2014, the following key areas were identified to focus on :-
  - Increase the profile of the committee
  - Emergency Credit Rules
  - Watching brief on EU Reform
- Members to review if there are any other significant areas that they would like the committee to focus on.

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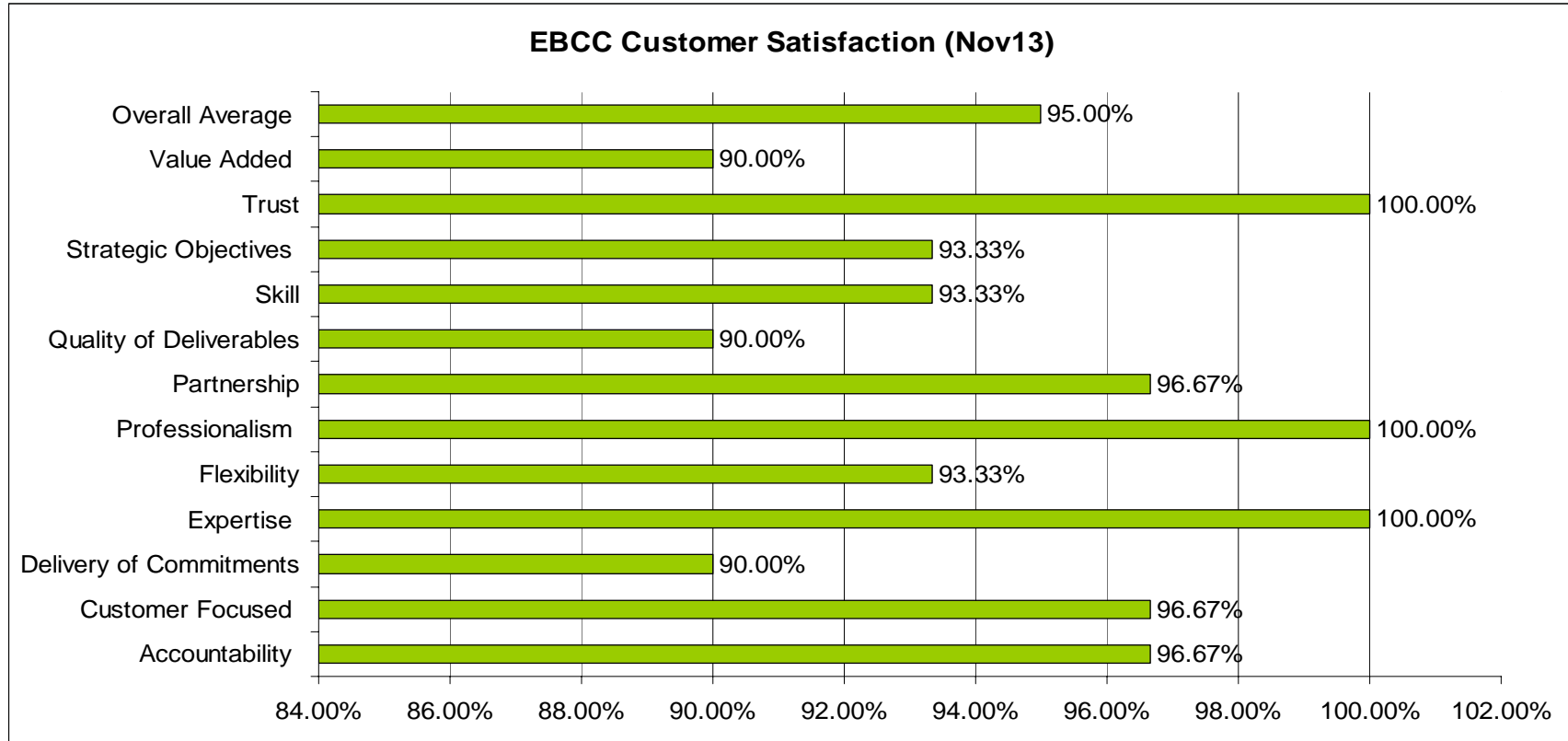
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# Focus for 2014/15 Update

# EBCC Customer Satisfaction (Nov 13)



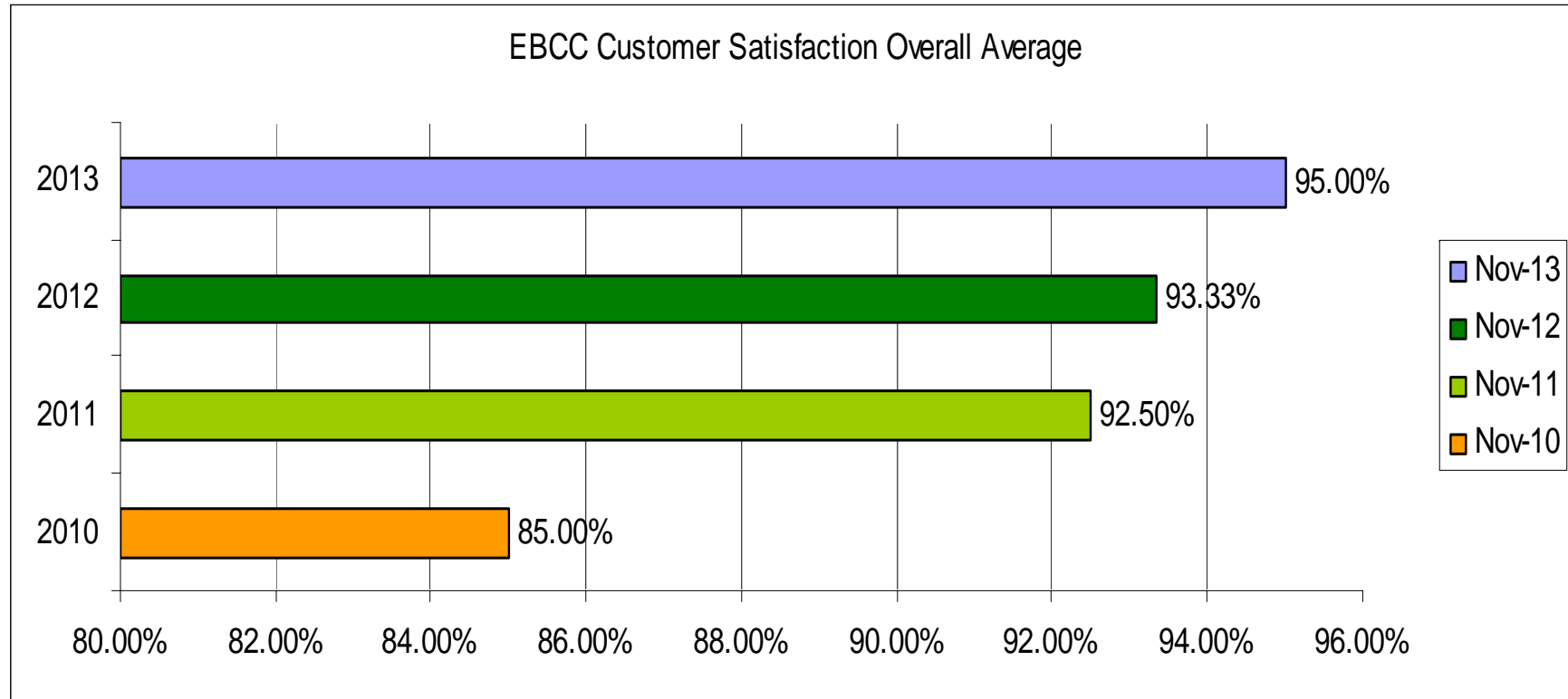
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# EBCC Customer Satisfaction Year on Year Comparison



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# Focus for 2014/15

- Carried forward from 2013
  - Increase the profile of the committee
  - Significant Code Review
  - Watching brief on EU Reform
- Focus for 2014/15
  - Gemini Consequential change (UK Link Replacement programme)
  - Feedback from Customer Satisfaction (November 2013)
  - Exploitation of synergies with Neutrality finance
- Members to review if there are any other significant areas that they would like the committee to focus on.

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# EU Third Energy Package

## Update

# Team Changes

- Effective From 1st December 2014
  - Sarah Blewer will be moving to the Credit Risk Team to replace Loraine O'Shaughnessy for 12 months secondment.
- Effective from 1<sup>st</sup> January 2015
  - Loraine will be moving over to manage the Energy Balancing Invoicing Team.
  - Sandra Dworkin will be the lead on EBCC
  - James Sweeney will be moving over to Operational Change to support UK Link.

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# Risk Register

## Update

# Register Part 1

## Risk Register as at 24/11/13 :

	Risk	Likelihood - comments	Likelihood
H1	loss of Gemini system - sustained loss for 1 working day or more	Once in 10 years – to date Gemini over 2 years Gemini has had 1 short overnight outage. Also due to Oracle Software Upgrade, Gemini affected between 22nd and 25th October. Loss of Gemini on 14th and 15th May due to Server problems. <b>GRP implementation planned 9<sup>th</sup> June.</b>	Suggest move from a 2 to a 3
H2	Calculation for IMS is found to be incorrect.	Has happened in Dec 05 and also recently when during Oracle OS upgrade UAT it was found that accruals not included in a D-1 or D-2 recalculation – twice in last 6 to 7 years – once in 5 years. April 08 data was uploaded incorrectly. <b>Recent issues identified on the 7<sup>th</sup> of March and 6<sup>th</sup> April following batch job issues.</b>	Suggest move from a 3 to a 5
H3	APX Gas files containing system prices and trades arrives late.	Pre Gemini IMS this used to stop PIMS jobs running – since introduction of Gemini IMS this has not happened – once in 5 years. Controls and monitors are now in place to ensure files are received.	3

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# Register Part 2

## Risk Register as at 24/11/13 :

	Risk	Likelihood - comments	Likelihood
H8	User's unable to provide CVA data due to the CVA system / website being down	This happened once on 13/03/07 – Once in 5 years. Controls in place that would receive notification from CVA.	3
H9	In the absence of being unable to adjust the ABI calculation the industry could be unduly exposed to avoidable financial debt. Should NGD be aware of more up to date information.	Due to SCR Mod 233 this was put on hold to await outcome of SCR consultations. <b>Potential implementation of OFGEM SCR proposal has the potential to increase the likelihood and impact of this issue.</b>	Suggest move from 3 to 4
H10	Due to the current European financial climate, there is a risk that the number of FI's meeting the relevant criteria to provide security could reduce significantly.	Moody's are currently have a schedule to review all FI's current rating in June 2012. <b>Moody's review of FIs completed over the summer of 2012, S&amp;P now anticipate conducting their own review.</b>	4

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# Voluntary Discontinuance

- **Questions/ Any further business?**

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