

**Energy Balancing Credit Committee Meeting**  
**Energy Networks Association, 52 Horseferry Road, London**  
**SW1P 2AF**  
**21 November 2008**

**Participants**

**Joint Office  
(Non voting)**

John Bradley (JB) Chair  
Tim Davis (TD)  
(Secretary)

**Shippers**

Brett Date (BD)	Statoil
David Trevallion (DT) (Non Voting)	Scottish and Southern Energy
Gary Russell (GR)	Corona Energy
Gavin Ferguson (GF)	Centrica
Julie McNay (JM)	Scottish and Southern Energy
Michael Doherty (MD) (Non Voting)	Centrica
Richard Fairholme (RF)*	E.ON
Simon Howe (SH)*	RWE

**xoserve**

**(Non Voting)**

Mark Cockayne (MC)  
Sandra Dworkin (SD)

**National Grid NTS**

**(Non Voting)**

Claire Thorneywork\* (CT)

**Apologies**

Ed McDonald	Scottish Power
Lorraine McGregor	Scottish Power

**Ofgem**

**(Non Voting)**

Rahaina Braimah (RB)

\* teleconference

**1. Introduction**

JB welcomed the members to the meeting, which was quorate. The availability of members was discussed and MC agreed to contact those who had been nominated by the Gas Forum but were not in attendance.

**2. Minutes from the Previous Meeting**

The minutes from the previous meeting held on 21 October 2008 were approved.

**3. Actions Update**

**EBC10/01: Prior to instructing the US law firm to commence the proceedings in the US, xoserve (MC) to obtain an alternative quote for comparison.**

MC confirmed that an alternative quote had been obtained, which was very similar to the original. The work had therefore been commissioned. **Closed**

**EBC10/02: xoserve (MC) to establish and review exact exposures, calculate and propose appropriate limits, and circulate information to the Committee for review.**

See 5 below.

**Closed**

**EBC10/03: xoserve (MC) to assist Centrica in drafting a Modification Proposal to address the User's ability to appeal Cash Call Notices and National Grid NTS' ability to process adjustments to a User's outstanding Balancing Indebtedness.**

Proposal 0233 has been raised. BD questioned if this would address all the issues arising from Lehman's failure. GF confirmed that it did not but the Proposals provided some mitigation. MC suggested that to go further would require changes to insolvency law. **Closed**

**EBC10/04: xoserve (MC) to assist RWE in drafting a Modification Proposal to address the identified inconsistency between TPD Sections X and V of the UNC in respect of User Default and Termination.**

Proposal 0234 has been raised. **Closed**

**EBC10/05: xoserve (MC) to assist E.ON in drafting a Modification Proposal to address Recovery of Debt and smearing of revenues via Energy Balancing Neutrality.**

Proposal 0235 has been raised. **Closed**

**EBC10/06: xoserve (MC) to issue a communication to all Shippers to be affected by the Lehman's smear.**

MC confirmed that notices had been issued on 14 November. **Closed**

**EBC10/07: Corona (GR) to draft a Modification Proposal to address the identified exposure from Users who are traders at the NBP.**

GR had produced a paper. This was discussed under 6 below. **Closed**

**EBC10/08: EDF Energy (LS) to provide the name of an alternate and appropriate contact details as soon as possible.**

No contact provided. JB agreed to contact the Gas Forum to seek further nominations given Lee Selway's departure from EDF. **Closed**

#### **4. Operational Update**

MC provided the following Operational update:

The EBCC Pack was issued on 10 November 2008 and placed on the Joint Office website.

##### **Cash Call Notices:**

During September 2008, there were thirty Cash Call Notices (CCN) issued. Nineteen were paid on the due date, four appealed, two withdrawn and one was reissued. Six Failure to Pay Cash Call Notices were issued and one unpaid Cash Call Notice did not have an associated Failure to Pay Cash Call Notice.

During October 2008, there were twenty one Cash Call Notices (CCN) issued. Fifteen were paid on the due date, two appealed, two withdrawn and one was paid late. There were three Failure to Pay Cash Call Notices paid and one unpaid Cash Call Notice did not have an associated Failure to Pay Cash Call Notice.

##### **Further Security Requests:**

Eight further Security Requests were issued during September 2008.

Seven further Security Requests were issued during October 2008.

**Settlement:**

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
September	99.95%	100.00%
October	100.00%	100.00%
Year to date	99.02%	100.00%

**5. Neutrality Account Banking**

MC explained that the revised charging arrangements put forward by the bank for the neutrality account would, if applied to cash flows in the previous year, have increased costs by £10k. MC ran through some of the contributory factors that caused variation in the account balance and assured Members that xoserve would continue looking at these and would seek to minimise variances. GR asked MC to ensure he sought to minimise both positive and negative variances. MC assured members that this was existing practice and would continue.

GR asked for confirmation of his understanding that the bank would not extend the overdraft beyond £12m. This had consequences as it was likely to be exceeded in certain circumstances – for example a debt of a Terminated Shipper. MC explained that the bank was aware of this and arrangements had been made to allow for brief excursions provided these were notified in advance. The bank had provided a Director level relationship manager and this had been very useful.

**6. Potential Changes to Energy Balancing Credit Rules**

On gradation of maximum exposure limits and potential scale back, MC suggested amending the EBCRs to include new exposure limits based on credit rating and outlook. This would significantly scale back the existing framework to what MC felt would be a more appropriate level, whilst avoiding any negative impact on individual Users.

DT questioned the treatment of those on watch, and MC suggested these could be placed between those with/without a specific outlook. Not taking on any new exposure that would breach the limits set in the EBCR, was agreed as being sensible given the expectation of a downward rating movement.

GR asked whether it was worth having three limits rather than simply adopting the level for negative outlook security providers. MC thought it would need to be the middle rating to avoid impacting existing users and the current headroom. However, GR thought the guiding principle was about dealing with risk rather than reflecting existing headroom.

Members agreed that a simpler, single scale, approach should be adopted. Given this, it was agreed that this should be based on the Aa stable rating, with no additional allowance for Aaa rated organisations. MC agreed to circulate revised EBCRs on this basis for approval by email, which would also ask for notice of implementation to be waived such that it would be immediate.

**EBC11/01: xoserve (MC) to circulate revised EBCRs for approval by email, which would also ask for notice of implementation to be waived such that it would be immediate.**

MC confirmed that he was progressing subscriptions for online access to Moody's Investment Services and Standard & Poor's.

MC confirmed that notice had been issued to affected Users regarding the value of the Lehman's smear. However, since some appeared unaware of the notice, MC agreed to clarify to whom the notice had been sent.

**EBC11/02: xoserve (MC) to clarify to whom the neutrality impact notice had been sent.**

## **7. Potential UNC Modification Proposals**

GR introduced the paper he had provided on changes in behaviour at the NBP and potential security requirements. When a sudden and unexpected increase in exposure was seen, it seemed appropriate to initiate an immediate cash call, and GR questioned whether it was practical for this to be ascertained from 0600 nomination data at an aggregate level for each User. MC felt the best trigger, were this to be adopted, would be a financial value and should be implemented subsequent to Modification Proposal 0233. GR emphasised that he was not looking to capture marginal changes, but big shifts – for examples, a User might balance each day and it would be immediately clear they were in difficulties if they became hugely out of balance on a single day. Hence the basis of the trigger and its level was unlikely to be critical. If exceeded, the User would either provide appropriate credit or an explanation of their position which was acceptable to the EBCC.

To be effective, and given the need for immediate security, it was recognised that a faster process than that set-out in the UNC merited consideration.

BD was concerned that any rules to make this work would create difficulties. His view was that market players were generally aware of problems arising and would stop trading with parties that created concerns. It may be better to look for pre-emptive action which called for security ahead of difficulties arising. GR thought looking for an imbalance event as soon as possible was as far forward as this could be pushed.

SH questioned whether informal contact could be made with Users who appeared to be in potential difficulty. GR said that the concern was that Users in difficulty were the least likely to respond, and that action was needed in the case of non-response as opposed to awaiting a response.

Returning to the trigger, MC suggested setting a financial value which the industry was comfortable with. SH wondered if it would be appropriate to set a trigger based on the percentage of the available credit to which they were exposed ie if imbalance was, say, over 50% of the security level. MC was concerned that in some cases security could be, say £10k, and looking at a percentage change could catch issues that were not material to Users in general.

GR remained concerned that a fast track mechanism should exist for where behaviours change and there is insufficient security - he would welcome a low trigger. GF suggested running with an absolute financial trigger plus a second test based on the percentage of their credit limit which was exceeded.

SH asked if the rules could allow for termination prior to non-payment of a cash call, such as when someone said they could not pay. Others felt that it would be necessary to await a physical event - efforts to remove the failure to pay notice had been made in the past, but rejected by Ofgem. The key was how early a default could be created and whether this could be brought forward.

GF summarised that two measures could get you to a position where there would be a same day cash call and EBCC could be asked to take a view and

would have a right to request National Grid NTS commence the Termination process. This would be when Users have stepped over their security limit and either:

1. Imbalance was in excess of, say, £500k on any single day; or
2. Imbalance was in excess of, say, 10% of their security limit.

GR suggested this could be automatic with a notice issued by National Grid whenever the triggers were hit, which could be shortly after 0600.

It was agreed that this issue should be reconsidered at a subsequent meeting.

**EBC11/03: xoserve (MC) to draft a Modification Proposal to address the identified exposure from Users who are traders at the NBP.**

**8. Any Other Business**

None raised.

**9. Next Meeting**

The next meeting will be held on 16 December 2008 at 14.30. This will be a teleconference.

## Action Log – Energy Balancing Credit Committee: 21 November 2008

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC10/01	21/10/08	4.1	Prior to instructing the US law firm to commence the proceedings in the US. obtain an alternative quote for comparison.	xoserve (MC)	Alternative quote obtained <b>Closed</b>
EBC10/02	21/10/08	4.3	Establish and review exact exposures, calculate and propose appropriate limits, and circulate information to the Committee for review.	xoserve (MC)	Presented at November meeting <b>Closed</b>
EBC10/03	21/10/08	4.6.2	Assist Centrica in drafting a Modification Proposal to address the User's ability to appeal Cash Call Notices and National Grid NTS' ability to process adjustments to a User's outstanding Balancing Indebtedness	xoserve (MC)	Modification Proposal 0233 drafted <b>Closed</b>
EBC10/04	21/10/08	4.6.3	Assist RWE in drafting a Modification Proposal to address the identified inconsistency between TPD Sections X and V of the UNC in respect of User Default and Termination.	xoserve (MC)	Modification Proposal 0234 drafted <b>Closed</b>
EBC10/05	21/10/08	4.6.4	Assist E.ON in drafting a Modification Proposal to address Recovery of Debt and smearing of revenues via Energy Balancing Neutrality.	xoserve (MC)	Modification Proposal 0235 drafted <b>Closed</b>
EBC10/06	21/10/08	4.6.4	Issue a communication to all Shippers to be affected by the Lehman's smear.	xoserve (MC)	Issued on 14/11/2008 <b>Closed</b>
EBC10/07	21/10/08	4.6.5	Draft a Modification Proposal to address the identified exposure from Users who are traders at the NBP.	Corona (GR)	Paper presented at the November meeting. <b>Closed</b>

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC10/08	21/10/08	6.2	Provide the name of an alternate and appropriate contact details as soon as possible.	EDF Energy (LS)	LS left EDF without establishing an alternate. <b>Closed</b>
EBC 11/01	21/11/08	6	Circulate revised EBCRs for approval by email, which would also ask for notice of implementation to be waived such that it would be immediate.	xoserve (MC)	
EBC 11/02	21/11/08	6	Clarify to whom the neutrality impact notice had been sent.	xoserve (MC)	
EBC 11/03	21/11/08	7	Draft a Modification Proposal to address the identified exposure from Users who are traders at the NBP	xoserve (MC)	