

**Energy Balancing Credit Committee Meeting**  
held at the  
**Energy Networks Association, Dean Bradley House,**  
**52 Horseferry Road, London SW1P 2AF**  
on  
**22 June 2009**

**Participants**

**Joint Office (Non voting)**

John Bradley (JB) Chair  
Lorna Dupont (LD) Secretary

**Shippers (Voting)**

Audrey Shindler (AS)*	ScottishPower
Carl Wilkes (CW)	RWE npower
Gary Russell (GR)	Corona Energy
Gavin Ferguson (GF)	Centrica
Julie McNay (JM)	Scottish and Southern Energy

**Shippers (Non Voting)**

David Trevallion (DT)	Scottish and Southern Energy
Michael Doherty	Centrica

**xoserve (Non Voting)**

Lorraine O'Shaughnessy (LOS)  
Mark Cockayne (MC)

**Ofgem (Non Voting)**

Raihana Braimah (RB)	Ofgem
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**Apologies**

Richard Fairholme (RF)	E.ON UK
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\* via teleconference

**1. Introduction**

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

**2. Minutes and Actions from the Previous Meeting**

**2.1 Minutes**

Comments on the previous were received and reviewed. It was agreed to amend the minutes as follows:

Under section **3. Actions Update**, spelling error to be corrected

“xoserve (MC) to investigate whether funding for payment of Standard and Poor’s and Moody’s subscription is already covered in the Gas Transporter Licence and why the subscriptions for the two organisations ~~where~~ were so different.”

and new action EBC02/05 to be reworded:

“**EBC02/05:** RF to request the Gas Forum to publicise the current vacancies on EBCC in a targeted manner and hold an election if required.”

Under section **7. Any Other Business**, paragraph 3 to be reworded:

“RF declared that E.ON had an interest in ~~some~~ all of these shipper identities and therefore would not be taking part in the vote. No other member declared an interest.”

The minutes from the previous meeting held on 22 May 2009 were then approved.

## **2.2 Actions Update**

**EBC 11/03:** xoserve (MC) to draft a Modification Proposal to address the identified exposure from Users who are traders at the NBP.

Following extensive discussions at this meeting it was agreed that this would be addressed through the revised Proposal. **Closed**

**EBC 03/02:** xoserve (MC) to investigate the possibility of providing and/or publishing on its website a list of ‘acceptable’ financial institutions together with a percentage figure for headroom.

MC reported that a letter had been drafted that would be sent to the various financial institutions seeking their agreement to publication of specific information. This was subject to further discussion with the legal department.

### **Carried Forward**

**EBC02/04:** xoserve (MC) to draft a UNC Modification Proposal for revised Further Security Request provisions.

This had not been drafted yet as xoserve was still considering what may be viable in terms of process and was looking at UNC TPD Section V. Consideration was being given to the practical application to an organisation that has had multiple requests for Security and how to apply scaleback following the identification of issues linked to establishing the true value of the Security. It was hoped to be able to dovetail the Proposal with the existing rules.

CW referred to new Modification Proposal 0252 (MP0252) which involved credit and the reopening of best practice guidelines, which may affect this area. From initial discussions MC believed that energy balancing was excluded and it does not seem to be within the scope of MP0252. xoserve would be in attendance at meetings involving MP0252 and would monitor and report back to the EBCC.

JB then asked the members for suggestions as to what would be a reasonable trigger regarding the number of instances. GF responded that it should not be a large number; if a company has been through the process once then it should understand it better, and the second time should therefore be the trigger. It was agreed that this was logical, and would be supported by an Appeal route through the EBCC. MC pointed out that discussion had been centred mainly on small organisations, and questioned whether a different approach might be taken for larger organisation where larger amounts would be involved. The associated timeframes should also be considered, as there was an appreciable lag between the request and the actual putting in place of Security, which could result in a significant exposure. It was recognised that there was a need for organisations to focus on actions and timeframes and that failure to do so would trigger the exercise of more control.

MC will draft a Proposal placing a requirement on a User to increase the level of Security by 20% if it received more than one Further Security Request

within a 28 day Rolling Period. GR agreed that Corona Energy would sponsor the Modification Proposal and would be represented by Richard Street. **Carried Forward**

**EBC01/05:** xoserve (MC) to investigate whether funding for payment of Standard and Poor's and Moody's subscription is already covered in the Gas Transporter Licence and why the subscriptions for the two organisations are so different.

MC reported that the pricing structure of the two organisations differed, with one offering mix/match and the other a standard package. The organisations did not appear to be flexible in their offerings. The subscription(s) had never been funded through the PCR, so no allowance for this type of cost had been made. Currently xoserve pick up the costs and these are passed back to National Grid. A Proposal would therefore need to be raised to recover the costs, and MC will approach National Grid NTS to take this forward. **Carried Forward**

**EBC02/05:** RF to request the Gas Forum to publicise the current vacancies on EBCC in a targeted manner and hold an election if required.

RF is to raise the matter as an Agenda item at the Gas Forum meeting, which is running concurrently with this EBCC meeting. If no candidates then come forward, RF suggests that it may be necessary for the Chairman of the Gas Forum to formally write to members. A further update on the position will be provided at the next EBCC meeting. **Carried forward**

**EBC03/05:** Joint Office (JB) to request the Gas Forum to confirm CW and AS as full members of the EBCC for the remainder of Gas Year 2008/9.

JB to follow this up and report back. **Carried forward**

**EBC04/05:** Joint Office (JB) to draft changes to the Energy Balancing Credit Rules in respect of membership and quorum.

Redrafted and discussed at this meeting. **Carried Forward.**

**EBC05/05:** Joint Office (JB) to post current EBCC membership on its website.

The current EBCC membership was displayed on the website of the Joint Office of Gas Transporters. **Action closed.**

**EBC06/05:** Joint Office (JB) to arrange meeting with Ofgem to discuss potential UNC Modification, following the rejection of Proposal 0233V.

The meeting was arranged and the outcome to be discussed at this meeting. **Closed**

### 3. Operational Update

MC provided the following Operational update:

The EBCC Pack was issued on 11 June 2009 and placed on the Joint Office website.

#### Cash Call Notices:

During May 2009, there was one Cash Call Notice (CCN) issued, which was appealed and reissued. There were no Failure to Pay (FTP) Cash Call Notices issued.

#### Further Security Requests:

No Further Security Requests were issued during May 2009.

#### Settlement:

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
April	99.94%	100.00%
May	98.19%	100.00%
Rolling 12 Months	99.94%	100.00%

MC commented that there was no evidence of 'intentional' late payment; the incorrect SWIFT code had been included by the party concerned so a payment had arrived a day late.

GF remarked that after the problems encountered with particular parties at the end of the winter all appeared to have 'gone quiet'. GR believed that lower gas prices were helping. MC responded that of the two parties that were being monitored last winter, xoserve had continued discussions with one about the consequences of its storage injections, and one was looking at obtaining additional funding – it has a recalculated credit limit and would need a significant increase. It may return to the EBCC to discuss its situation as it may find it very difficult to address this position.

### 4. Modification Proposals

MC confirmed that no comments had been received on the detail of the Proposal for financing of Moody's/Standard and Poor's information as opposed to the principles.

#### Modification Proposal 0233V

Various perceptions were shared of the meeting that had taken place with Ofgem and the Proposer, following the Authority's rejection of Modification Proposal 0233V.

JB reported that it had been a very useful meeting and considerable sympathy had been evinced for the principles of the Proposal. Discussion had centred on how mechanistic a process could be that would take a Shipper to the EBCC. The problem was the perception that the Proposal was not totally exact in the way the calculations were done (vagueness of the interpretation that could be applied). Ofgem had advised looking at the Proposal in a purely mechanistic way to achieve a number to give clarity to the threshold that would direct a shipper to the EBCC.

It had then been questioned should this be done for all parties, but after discussion this was eventually felt to be warranted only for distressed parties.

MC then gave his impression of the meeting, whereby xoserve felt that Ofgem was pushing a more mechanistic approach and that too much discretion in the Proposal was seen to be a cause for concern. There appeared to be less concern about using published information as a trigger and then recalculating the position. This would put a different slant on the revision of the Proposal. MC had since revisited the Proposal and believed that minor revisions would address Ofgem's concerns. The trigger would be information in the public domain following which xoserve would recalculate exposure, issue a Cash Call Notice supported with evidence to enable the Shipper to decide whether to Appeal, and the current process would then carry on. Trade information was to be specifically included to remove any areas of ambiguity/open endedness (that had given Ofgem concern under 0233V) compared to the current arrangements. RB commented that if a certain level of discretion was still deemed necessary then an effective Appeals mechanism would be required that included an indication of what information could be utilised in support; EBCC may need to further debate these requirements. MC then asked that if EBCC wished to retain the existing process, whereby xoserve inform EBCC of a User's indebtedness; it was assumed there was an acceptable level of clarity; RB believed this to be so as the process was well understood.

MC will draft a new Proposal and forward to RB to ensure that Ofgem's concerns have been addressed before it goes forward to the wider audience on the understanding that any response from Ofgem did not constitute approval of the proposal itself. GR asked if changes were made, would it be possible to retain the flexibility and a realistic approach. MC believed that where pertinent information becomes available from sources within the public domain, there would still be a valid argument that knowledge of this should trigger a proactive contact to be made with the organisation concerned to verify the position and any potential recalculation. There would still be the safeguard of an Appeals mechanism.

RB pointed out that it had not been absolutely clear in MP0233V's legal text that a User could appeal EBI on various levels; it had appeared to be very open ended and Ofgem considered that it needed to be more explicit. Also would it be beneficial for Users to have a further right of Appeal and if not, the reasons why not should be made clear. Explanation of the reasoning behind certain processes had been lacking in MP0233V and this would need to be addressed in any new Proposal. MC would give further consideration to issues of transparency when redrafting the Proposal and hoped to make it simpler.

The timescales for the new Proposal were briefly discussed. It was recognised that members had various commitments and it was agreed that MC would email a draft by close of play on Tuesday 23 June 2009, with any comments expected to be sent to xoserve by the following Friday. It was the intention to take the new Proposal to the next Transmission Workstream meeting on 02 July 2009, and then to present it to the UNC Modification Panel on 16 July 2009.

As it was to be hoped that all previous issues raised would be addressed within the new Proposal it was agreed to close action EBC 11/03.

## 5. Energy Balancing Credit Rules

### 5.1 Committee Membership and Quorum

Amendments had been made to Section 1.2 and these were reviewed and discussed.

A further issue was identified – how would a vacancy be filled, when an EBCC member has ‘departed’ (for whatever reason, eg resigned, retired, lapsed) and failed to formally nominate an alternate. GR pointed out that it was the individual who was elected and stood in their own right, and not an organisation, and therefore such a person could still attend the meetings.

Further discussion resulted in agreement that some additional steps were required to address the shortcomings of the current rules.

Where an elected Member has not formally appointed a standing alternate and has either:

- formally resigned/retired/departed; or
- failed to attend for 2 consecutive meetings and has failed to respond to attempts to make contact via email/telephone

then in the interim until the next formal appointment (via the Gas Forum) the EBCC should have the ability/power to either:

- appoint a previously named Alternate; or
- write to ‘interested’ parties to commence an election/appointment process to fill the vacancy.

It was agreed that in the first instance, the organisation of the resigning/retiring/lapsed Member should be contacted to see if it was prepared to provide an Alternate for the interim. Failing this, the EBCC would then invite one of the other standing alternates to act as a member on an interim basis. All such interim appointments would expire once the Gas Forum had made an appointment and formally advised the Joint Office that the vacancy/vacancies have been filled.

GR pointed out that there be issues relating to voting at EBCC meetings as the election rules permit no more than one member per company and it is recommended that members should have credit management experience or a minimum of three years experience in the gas industry. GF believed that it was better to create opportunities to maintain quoracy so that inadvertent terminations would be precluded from occurring. For example, xoserve might bring certain situations before the EBCC which might lead to it instructing the Transporter not to proceed with certain actions. However, due to inquoracy the Transporter might, by default, be forced to proceed towards inappropriate termination of a User.

RB wondered if a within year renomination/voting process would cause any difficulty for the Gas Forum? It was thought that Richard Fairholme (absent from this meeting) would be best placed to seek an answer to this question. If this was not possible, then the EBCC would need to manage this perceived risk of inquoracy, and a practical solution was required to address what would be a short term gap until the next formal elections, which RB appreciated.

**Action EB01/06: Investigate and clarify Gas Forum rules relating to committee members and interim renomination, etc.**

**Action EB02/06: Revise EBCC Rules Section 1.2 to take account of the discussion on filling member/alternate interim vacancies and circulate new version to members for comment.**

## **5.2 Further Amendment**

On page 12, under Section 2 “How is the Cash Call Limit Calculated” MC drew Members’ attention to the text under ‘Existing Users’, and pointed out that the existing wording although appropriate for a Shipper with a portfolio it was not really suitable when addressed to a Shipper who was a ‘trader’. MC suggested that, for the avoidance of doubt, it should include a minimum level of Security that should equate to 3 days’ imbalance/non-deliverability. It could be explicit for a ‘trader’ to avoid problems for a smaller portfolio Shipper.

A brief discussion on the ramifications of adjusting the minimum level took place with references to the recent example of Lehmann’s.

It was questioned why a ‘trader’ should be treated any differently to a portfolio Shipper if each party is balancing every day.

It was agreed that members did not want parties to be oversecured, but conversely did not want to sanction the release and return of prudently held Security to parties to which the industry was most exposed.

It was questioned if ‘traders’ were subject to more volatile swings than portfolio Shippers, and was there any historic evidence to support such a view.

MC said that every 12 months xoserve looked back at peak exposure and had recently had to release two Securities; there needed to be more flexibility in the Rules.

GR thought there might be a significant effect on balancing behaviours, which would be of concern; GF understood that zero equalled good balancing behaviour and felt it would be perverse to incentivise parties to take up a worse position, ie out of balance, due to the presence of Security it would not have otherwise have utilised. It seemed right that there should be a process for determining what level of Security should be applied, but it was unknown what the ‘number’ should be.

MC pointed out that the Rules are flawed at present, with the original level of Security maintained. ‘Traders’ are not subject to neutrality and so do not pick up any portion of costs, but their costs are fed into neutrality.

JM suggested holding onto the original 3 days that were calculated at set up, reassessing could take place, but any assessment should be allowed to fall below the original assessment level. MC pointed out that this may give new entrants an incentive to lodge a much lower initial assessment amount.

The Elexon/BSC rules were briefly discussed, and it was suggested that xoserve might look at the rules operated at other energy hubs to see how any similar situation was handled for various market sectors.

**Action EB03/06: xoserve to look at the rules operated at other energy hubs in respect of initial and ongoing Security assessment in relation to various market sectors.**

There was a further suggestion that if a ‘trader’ defaulted then perhaps other ‘traders’ should be the parties who picked up the costs, and this was followed by a short discussion on ‘traders’ and how ‘trades’ operated. Another

suggestion was to consider bringing the trading side into neutrality, but there was no idea put forward as to how this might be done.

Any identified loopholes needed to be considered and addressed, but with fair treatment for all parties.

In the meantime MC will add further clarity to the paragraph, as it seemed to create some perversity, and will circulate the revised wording to members as soon as possible so that a postal vote can be taken to agree and implement the new wording.

**Action EB04/06: xoserve to add further clarity to the paragraph at Section 2 “How is the Cash Call Limit Calculated” - ‘Existing Users’, and will circulate the revised wording to members; Members to respond as soon as possible with comments/a postal vote to agree to implementation of the new wording.**

For information purposes, the UNC Committee would be made aware of any changes to the EBCC Rules.

**6. Any Other Business**

None raised.

**7. Next Meeting**

The next meeting will be via teleconference, to be held at 09.30 am on Friday 17 July 2009.



## Action Log – Energy Balancing Credit Committee: 22 June 2009

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
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)	See 4, above. <b>Closed</b>
EBC 03/02	06/02/09	5	xoserve to investigate the possibility of providing and/or publishing on its website a list of 'acceptable' financial institutions together with a percentage figure for headroom.	xoserve (MC)	Financial Institutions being approached for permission. <b>Carried Forward</b>
EBC 02/04	17/04/09	5	Draft a UNC Modification Proposal for revised Further Security Request provisions	xoserve (MC)	Further discussion held <b>Carried Forward</b>
EBC 01/05	22/05/09	3	Investigate whether funding for payment of Standard and Poor's and Moody's subscription is already covered in the Gas Transporter Licence and why the subscriptions for the two organisations are so different.	xoserve (MC)	See 2, above. Proposal to recover costs to be raised. <b>Carried Forward</b>
EBC 02/05	22/05/09	3	Request the Gas Forum to publicise the current vacancies on EBCC in a targeted manner and hold an election if required.	E.ON (RF)	Requested. <b>Closed</b>
EBC 03/05	22/05/09	3	Request the Gas Forum to confirm CW and AS as full members of the EBCC for the remainder of Gas Year 2008/9.	Joint Office (JB)	<b>Carried Forward</b>
EBC 04/05	22/05/09	3	Draft changes to the Energy Balancing Credit Rules in respect of membership and quorum.	Joint Office (JB)	<b>Closed</b>

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC 05/05	22/05/09	3	Post current EBCC membership on its website.	Joint Office (JB)	Completed 22/05/09. <b>Closed</b>
EBC 06/05	22/05/09	4	Arrange meeting with Ofgem to discuss potential UNC Modification, following the rejection of Proposal 0233V.	Joint Office (JB)	Completed. <b>Closed</b>
EBC 01/06	22/06/09	5.1	Investigate and clarify Gas Forum rules relating to Committee members and interim renomination, etc.	Joint Office (JB)	
EBC 02/06	22/06/09	5.1	Revise EBCC Rules Section 1.2 to take account of the discussion on filling member/alternate interim vacancies and circulate new version to members for comment.	Joint Office (JB)	
EBC 03/06	22/06/09	5.2	xoserve to look at the rules operated at other energy hubs in respect of initial and ongoing Security assessment in relation to various market sectors.	xoserve (MC)	
EBC 04/06	22/06/09	5.2	xoserve to add further clarity to the paragraph at Section 2 "How is the Cash Call Limit Calculated" - 'Existing Users', and will circulate the revised wording to members. Members to respond as soon as possible with comments/a postal vote to agree to implementation of the new wording.	xoserve (MC) and Members	