

**UNC Workgroup 0568 Minutes**  
**Security Requirements and Invoice Payment Settlement Cycle for**  
**the Trading System Clearer**  
**Thursday 03 December 2015**  
**ENA, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF**

**Attendees**

Andrew Blair	(AB)	Interconnector
Andrew Malley	(AM)	Ofgem
Anna Shrigley	(AS)	Eni
Charles Ruffell	(CR)	RWEST
Colin Hamilton	(CH)	National Grid NTS
David Reilly	(DR)	Ofgem
Egbert-Jan Schutte-Hiemstra*	(EJ)	Ice Endex
Gareth Davies	(GD)	National Grid NTS
Gerry Hoggan	(GH)	ScottishPower Energy Management
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JC)	SSE
Jennifer Randall*	(JR)	National Grid NTS
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Karen Visgarda (Secretary)	(KV)	Joint Office
Kirsten Elliott-Smith	(KES)	Cornwall Energy
Les Jenkins (Chair)	(LJ)	Joint Office
Lucy Manning	(LM)	Gazprom
Mark Cockayne*	(MC)	Xoserve
Mark Lyndon*	(ML)	National Grid NTS
Nick Wye	(NW)	Waters Wye Associates
Phil Lucas	(PL)	National Grid NTS
Sandra Dworkin*	(SD)	Xoserve
Sarah Lloyd	(SL)	National Grid NTS
Steve Nunnington	(SN)	Xoserve
Thomas Farmer	(TF)	Ofgem

\*via teleconference

Copies of all papers are available at: [www.gasgovernance.co.uk/0568/031215](http://www.gasgovernance.co.uk/0568/031215)

The Workgroup Report is due to be presented at the UNC Modification Panel by 17 March 2016.

**1.0 Outline of Modification**

LJ introduced the modification and explained that it had been the subject of discussion with the Energy Balancing Credit Committee (EBCC) for sometime; short-term arrangements had been put in place and there was now a need to formalise and enshrine it within the UNC with the help of the EBCC. LJ then introduced the Proposer, Egbert-Jan Schutte-Hiemstra from ICE Endex.

EJ explained that ICE Endex was designated by Ofgem and appointed by National Grid NTS as the Trading System Operator of the On-the-Day Commodity Market (OCM) and is a 'Restricted User' under the UNC. He confirmed that ICE Endex currently designated APX Commodities Limited as the Trading System Clearer (TSC) to provide clearing services in relation to transactions resulting from trading on the OCM.

EJ explained that ICE Endex will assume the role as TSC. ICE Endex will discharge its obligation as TSC by relying on ICE Clear Europe Limited (ICE Clear) to provide clearing and settlement services.

This in turn, introduced a problem in that ICE Endex (the UNC party) would be unable to provide the required Security because clearing would be provided by another party; ICE Clear, who would actually be holding the collateral it receives as security for the OCM transactions it is responsible for.

EJ went on to describe the regulatory oversight of ICE Clear, supervision of its' formal Clearing House activities by the Bank of England and its' application under the EU Regulation on derivatives, central counterparties and trade repositories (EMIR). He clarified that under EMIR there is no ability for ICE Clear to provide the collateral it receives as Security to National Grid.

EJ proposed that to provide a resolution to this issue, amendments were necessary to ensure that ICE Endex were able to fulfill its obligations as TSC, with the aim of the modification proposal to make all ICE Endex markets available on ICE's trading infrastructure and provide post trade services through ICE Clear Europe.

EJ explained that lengthy discussions had taken place between ICE Endex and the EBCC regarding this matter and that the EBCC had granted a 'waiver'. This 'waiver' was in relation to the wording contained in UNC TPD Section X.2.1, to remove the obligation on the TSC to provide security. However, this was conditional on the TSC being a recognised Clearing House, or having appointed a recognised Clearing House to discharge its obligations under the UNC.

He pointed out there was reduced credit risk, due to the proposed shortened settlement invoice payment cycle, with a change to the UNC TPD Section S.3.1, to ensure that the 'Invoice Due Date' did not apply in relation to Energy Balancing Invoices applied to a TSC. Also the Invoice Due Date for the TSC could be a shorter period as long as it was agreed upon with National Grid NTS, following consultation with the EBCC. EJ wanted it noted that only Market Balancing Actions contained within Energy Balancing Invoices for transactions concluded by National Grid NTS on the OCM, were within the scope of this proposal.

## **2.0 Initial Discussion**

### **2.1. Initial Representations**

None received.

### **2.2. Issues and Questions from Panel**

None raised.

### **2.3. Initial Views**

GD provided an overview of National Grid NTS' view regarding charging settlement and daily trades, in relation to the bilateral arrangements between National Grid NTS and ICE Endex. He explained that the proposal could result in TSC / NTS trade invoices being accrued daily, however the current shipper neutrality cycle would continue on a monthly basis. Therefore there is a concern that the mis-alignment between daily TSC invoice settlement and monthly balancing neutrality could expose shippers to additional risks.

MC said the settlement process only related to invoices raised by National Grid NTS for trades on the OCM, and that all 'net' transactions were monitored by the EBCC. He explained that in his view this did not pose a materially greater risk, as the control process for daily billing would still be undertaken, with everything reconciled on a daily basis.

GJ asked what the systems costs would be in relation to daily invoicing and MC said there would be minimal system changes with slightly increased resource costs. Further

discussion ensued concerning this process and LJ proposed that a 'Process Flow Diagram' would be helpful, EJ and MC both confirmed they would produce a document for the next meeting detailing the Energy Balancing billing process and timeline.

**New Action 1201: Xoserve (MC) and ICE Endex (EJ) to provide a Process Flow Diagram for the Energy Balancing billing process.**

DR asked if ICE Endex had a formal Credit Rating and EJ stated that no, ICE Endex did not have a formal Credit Rating.

General discussion ensued surrounding the potential debt and default situation and EJ stated that in any debt situation, ICE Clear Europe would settle any default on behalf of ICE Endex and that ICE Clear Europe was obligated through contract to settle any defaults incurred by ICE Endex. He explained that to date, the largest single global exposure had been £35million and that ICE Clear Europe had a fund in excess of \$1.85 billion to cover any such defaults, so from ICE Endex's perspective he felt there was no risk. MC also proposed that there would need to be a failure of the TSO before any debt was passed on to the community. He explained the current settlement cycle was 35-45days and that the new settlement cycle would be 7 days, so the financial values would be greatly reduced due to the shorter settlement cycle. MC confirmed that a significant amount of detail had been considered by EBCC and that these were on the EBCC page on the Joint Office website, together with ICE Endex's financial 'Waterfall Model'. Some participants felt that the analysis should be stress-tested for typical Winter throughput levels.

LJ suggested that as this was such a specialised area that it would be useful to take a month's 'pause' for participants to digest and gain clarity of Modification 0568's impacts for their organisation. General discussion took place and all participants agreed that this would be helpful. NW raised the point that he understood the reason for raising this modification, but he was unclear regarding the direct impact to the Shipper community, and that he thought there would be a cost reduction in their service provision to the market. EJ confirmed this was correct, due to a reduced risk component of their costs.

LJ proposed that all participants should consider the proposal in the widest context, including the Self Governance proposal. It would be helpful if participants could provide feedback prior to the next meeting on 07 January 2016, EJ requested that the feedback be provided directly to him (via the email address on the cover page) a few days prior to that meeting, to allow a tailored presentation to be produced..

EJ proposed that members of the EBCC should be present at the meeting on 07 January 2016 to encompass all views. MC confirmed he would raise this matter at the next EBCC meeting on 21 December 2015.

GD also highlighted that it would be useful for the workgroup to see EBCC analysis on the potential risks to the market.

### **3.0 Next Steps**

LJ confirmed that further clarity and background was required to allow the Workgroup to fully understand all the implications of the changes proposed and that these would be discussed at the next meeting on 07 January 2016.

### **4.0 Any Other Business**

None.

### **5.0 Diary Planning**

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Thursday 07 January 2016.	Elexon 350 Euston Road London Lon NW1 3AW UK	<ul style="list-style-type: none"> <li>• Issues and Questions on the Proposal</li> <li>• Process Flow for Energy Balancing Billing process</li> <li>• Development of the Workgroup Report</li> </ul>

**Action Table (03 December 2015)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
<b>1201</b>	03/12/15	2.3	Xoserve (MC) and ICE Endex (EJ) to provide a detailed Process Flow Diagram for the Energy Balancing Billing process.	Xoserve (MC) ICE Endex (EJ)	<b>Pending</b>