

UNC Workgroup 0568 Minutes
Security Requirements and Invoice Payment Settlement Cycle for
the Trading System Clearer
Thursday 07 January 2016
at Elexon, 4th Floor, 350 Euston Road, London NW1 3AW

Attendees

Amrik Bal	(AB)	Shell
Andrew Malley	(AM)	Ofgem
Andrew Pearce	(AP)	BP
Angharad Williams	(AW)	National Grid NTS
Anna Shrigley	(AS)	Eni
Charles Ruffell	(CR)	RWEST
Chris Logue	(CL)	National Grid NTS
Colin Hamilton	(CH)	National Grid NTS
David Eastlake	(DE)	CVSL
David Reilly	(DR)	Ofgem
Egbert-Jan Schutte-Hiemstra	(EJ)	ICE Endex
Fergus Healy	(FH)	National Grid NTS
Gareth Davies	(GD)	National Grid NTS
Gerry Hoggan	(GH)	ScottishPower Energy Management
Graham Dickson	(GD)	Interconnector
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JC)	SSE
Jennifer Randall	(JR)	National Grid NTS
Jessica Harris	(JH)	National Grid
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Justin Goonesinghe*	(JG)	National Grid NTS
Kirsten Elliott-Smith	(KES)	Cornwall Energy
Les Jenkins (Chair)	(LJ)	Joint Office
Mark Cockayne	(MC)	Xoserve
Mike Berrisford	(MB)	Joint Office
Nazareen Noor Mahomed	(NNM)	ICE Clear Europe
Nick Wye	(NW)	Waters Wye Associates
Richard Fairholme*	(RF)	Uniper
Steve Nunnington	(SN)	Xoserve
Sue Ellwood*	(SE)	TPA Solutions
Terry Burke	(TB)	Statoil
Thomas Farmer	(TF)	Ofgem

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/0568/070116>

The Workgroup Report is due to be presented at the UNC Modification Panel by 18 February 2016.

1.0 Introduction and Status Review

1.1. Approval of Minutes (03 December 2015)

EJ explained that he had a few suggested amendments to the previous meeting minutes and agreed to supply these in writing following the meeting for inclusion in an amended set of 03 December 2015 meeting minutes.

Thereafter, the minutes of the previous meeting were approved.

2.0 Issues Arising

2.1. Proposer's Update

In introducing the 'EBCC – OCM Market Operator Security Requirements' presentation, EJ confirmed that even though it is highlighted as 'Confidential' it is suitable for publication under the meeting materials on the Joint Office web site.¹

Running through the presentation EJ confirmed that there had been no further requests for information and that there were no changes to the 0568 modification, before providing an explanation behind the process framework slide – please see item 2.2 below.

Moving on, EJ focused attention on the key process change points in the diagrams on the 'APX and ICE Clear Europe Models Compared' slide (i.e. current v's future model comparison around the TSC & User to TSO, TSC & User key stages).

NM then continued the overview of the presentation from the 'ICE Clear Europe' slide onwards and explained that as far as the clearing member being the counterparty for an underlying client was concerned, ICE Clear Europe has no direct relationship to the client(s).

NM went on to explain that the futures and options executions are dealt with and managed as separate entities.

Moving on to examine the 'ICE Clear Europe: Risk Waterfall' slide, NM explained that the four top boxes in the diagram are combined to ensure that ICE Clear have sufficient collateral available, whilst supporting criteria information is available on the ICE Clear web site. As far as the adjustment of clearing members collateral through the daily debit / credit aspects are concerned, this is in essence a profit / loss statement on a daily basis.

EJ then provided a brief comparison to the APX model, explaining how the proposed risk exposure model seeks to better protect the market (i.e. via a reduced level of risk). He also took the opportunity to point out that as far as the Enron / Lehmans debt was concerned, no ICE Endex customers were impacted.

In considering the 'ICE Clear Europe: Lines of Defence' slide, EJ reminded everyone that should the current APX go bust, the clearing house disappears with it, whilst in the new proposed model, it would stay in place – in short, this also potentially reduces counterparty risk levels. However, other parties pointed out that even if the APX goes down, there is still some financial protection available to the market.

Moving on, EJ explained that the security requirements are related to the EBCC aspects. When asked whether or not the modification potentially introduces increased risk related costs (when compared to the APX model), EJ advised that whilst he has no direct cost related information to hand, that is some information available of the ICE Endex web site that might alleviate concerns.

¹ Post meeting note: a copy of the OCM Market Operator Security Requirements presentation was published after the meeting on the Joint Office web site at: <http://www.gasgovernance.co.uk/0568/070116>

When asked how having two entities (ICE Endex and ICE Clearing) might impact reducing the cost of trading and risk exposure, both EJ and NM responded by pointing out that the new model (as proposed in the modification) seeks to reduce exposure. NM provided a brief explanation around how clearing money would be utilised on the OCM.

When asked how settlement (physical / locational) would be expected to work, EJ explained how daily trades are envisaged to work, including day ahead trades and associated notional values (i.e. collateral etc.) from a buyer / seller perspective on the delivery date. In essence, locational trades are treated in a similar manner as title trades, whilst any 'imbalance' aspects are resolved with assistance from National Grid NTS, via an imbalance charge.

Moving on to examine the modification proposal, GD highlighted some of National Grid NTS's previous concerns / questions relating to exposure and timescales. Responding, MC pointed out that the new proposals are looking to reduce both aspects and payments would either be released / received earlier in the process. (i.e. a funding timing related change).

As far as National Grid NTS's concerns relating to neutrality bank account exposure aspects, MC explained that a comparison between the new proposals with the current APX regime (£10m overdraft facility / breaches) had been completed on an every day analysis basis over the last 5 years.

MC went on to explain that Xoserve is undertaking an Impact Assessment and a draft Rough Order of Magnitude (ROM) has been raised for Modification 0568. LJ suggested that costs are a minor concern as the real question is whether the modification qualifies as a User Pays modification or not. In acknowledging this point, FH suggested that further consideration of the UP aspects would be needed.

In considering the daily settlement cycle reference contained in the modification (TSC reference), some parties wondered whether it would be preferable to default to UNC provisions.

Closing discussions, EJ advised that he would consider all the points discussed at the meeting with a view to potentially amending the modification in due course.

2.2. Process Flow for Energy Balancing Billing process

In reviewing the process flow diagram, EJ explained that step 1 had been amended to take in to account Code obligations etc. and although the information is not public, National Grid NTS and EBCC have both had sight of it.

Steps 5 through to and including 8, form the bulk of the non market specific agreements. EJ pointed out that the new 'Clearing Member' step, is normally undertaken by a bank.

When asked whether any collateral is held by ICE Clear Europe, EJ explained that ICE Clear Europe is not allowed to touch monies as their role is to ensure that users do not abuse the system - in short, ICE Endex provides the 'notional' money to National Grid Gas.

When asked, EJ confirmed that ICE Clear Europe is a regulated entity that seeks to comply with both UK Law / Bank of England and European Law requirements.

LJ indicated that he would look to add the process flow map as an appendix to the Workgroup Report in due course.

2.3. Outstanding matters for consideration

None.

3.0 Workgroup Report

3.1 Introduction of the Workgroup Report

In reminding everyone that the Workgroup Report is due to be submitted to the February Panel, LJ noted that discussions suggest that further information is required before looking to complete the Workgroup Report.

During a quick onscreen review of the draft Workgroup Report, LJ focused attention on the relevant objectives section and requested that should anyone wish to suggest changes to please provide these to the Joint Office and these would be incorporated into the (draft) Workgroup Report for consideration at the next meeting. MC provided a brief update behind the National Grid Gas Letter of Credit process to ICE Endex and explained that the cost for this is covered by the neutrality invoice mechanism.

EJ indicated that he would be looking in more detail into incorporating additional underwriting security aspects across the market into the modification.

Concluding, LJ reminded National Grid NTS that they need to confirm that the legal text is final.

New Action 0568 0101: National Grid NTS (GD) to provide a view on the User Pays status (inc. answers to the questions contained within the table) for consideration at the next meeting.

New Action 0568 0102: National Grid NTS (GD) and Xoserve (MC) to provide background information relating to the underwriting security across the market.

New Action 0568 0103: National Grid NTS (CL) to assess and provide a view, on the Relevant Objectives.

3.2 Reconsideration of Self-Governance Status

LJ advised that he would amend the (draft) Workgroup Report to state that the Workgroup believes that the modification does NOT satisfy the self-governance criteria.

3.3 Development of Workgroup Report

LJ requested provision of supporting documents for inclusion in the Workgroup Report before requesting that National Grid NTS provides a narrative around its concerns / questions for inclusion within the Workgroup Report in due course.

New Action 0568 0104: National Grid NTS (GD) to provide a narrative for inclusion in the Workgroup Report that highlights their concerns / questions.

4.0 Review of outstanding actions

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

Update: MC advised that whilst the diagram had been provided to the Joint Office, it is not ready for public consumption at this time (i.e. formal publication on the JO web site).

During a brief onscreen review of the document, MC highlighted that the only change is to the (ad-hoc) BD Invoice generation via IX. LJ suggested that it maybe beneficial to include this as an appendix with the Workgroup Report in due course. **Carried Forward**

5.0 Next Steps

LJ requested that all action owners please look to providing their updates well in advance of the next Workgroup meeting so the report can be finalised at the same meeting.

6.0 Any Other Business

None.

7.0 Diary PlanningFurther details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:00 Thursday 04 February 2016.	Elexon 350 Euston Road London Lon NW1 3AW UK	<ul style="list-style-type: none"> • Consideration of amended modification • Consideration of legal text • Completion of Workgroup Report

Action Table (07 January 2016)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0568 1201	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)	Carried Forward
0568 0101	07/01/16	3.1	To provide a view on the User Pays status (inc. answers to the questions contained within the table) for consideration at the next meeting.	National Grid NTS (GD)	Pending
0568 0102	07/01/16	3.1	To provide background information relating to the underwriting security across the market.	National Grid NTS (GD) & Xoserve (MC)	Pending
0568 0103	07/01/16	3.1	To assess and provide a view, on the Relevant Objectives.	National Grid NTS (CL)	Pending
0568 0104	07/01/16	3.3	To provide a narrative for inclusion in the Workgroup Report that highlights their concerns / questions.	National Grid NTS (GD)	Pending