

UNC Workgroup 0569S Minutes
Removal of the minimum security requirement from the Energy
Balancing Credit Rules
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 Hill	(CHi)	Locus Energy
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 NTS
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
Rob Hill	(RH)	Locus Energy
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/0569>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 January 2016.

1.0 Outline of Modification

Opening the meeting, LJ explained the need for a speedy turnaround of the modification in order for the Workgroup Report to be considered at the January Panel meeting. He

explained that should the Workgroup feel unable to complete the Workgroup Report at this meeting, he would look to submit an interim report in its place.

During the following discussions, LJ made on screen amendments to the draft Workgroup Report.

RH and CH then explained the rationale behind Locus Energy raising the modification, with CH explaining that the subject had already been broached with the EBCC.

CH went on to provide a quick update on the EBCC discussions around a possible alternative solution before explaining that, from Locus's point of view, the alternative simply replaced one potential barrier (to entry into the market) with another. He also added that whilst the December Panel had agreed self-governance status for this modification, this was not necessarily Locus's original view.

At this juncture, MC provided a brief résumé of the EBCC potential alternative solution based around a 9 days rule (currently 3), and removing the default lower limit of £10k, that seeks to reduce unnecessary risk exposure for parties.

In looking at the potential materiality involved, MC explained that circa 32 Users currently provide security at the minimum rate of £10k. Of these, 7 are in voluntary discontinuance (but still incur credit exposure), 20 have no activity (and under 0569S would provide NO security and therefore could still incur credit exposure), 2 existing Users would secure a combined £9k (i.e. £11k less than under present regime) and 2 new Users would secure a combined £6k (i.e. £14 less than under present regime). In short, 0569S would potentially remove circa £300k of security. RH put this in context of the overall £300m security in place – 0.1%.

When asked, MC confirmed that of the 7 Users in voluntary discontinuance, some activity is still taking place. He went on to suggest that care is needed in assessing this matter as exposure can escalate (out of control) very quickly, especially when considering that the EBCC cannot influence their trading actions.

During a quick discussion around an apparent lack of consideration of the Traders particular aspects / impacts within the modification, it was recognised that it is up to the Proposer(s) of 0569S to make that call. RH confirmed that he intended to simply remove the arbitrary lower threshold of £10k and let the Energy Balancing Credit Rules (EBCR) operate as at present. He offered a view that, should a significant debt be run up by a trader (referring to the £5.7m in one day by Lehman Bros), then £10k of security was not going to mean much.

LJ pointed out that as far as governance was concerned, the EBCC could if it wished, change the rules but has decided not to do so at this time. Code provisions allow for a party (signatory) to raise a modification and Locus have exercised this right. For the avoidance of any doubt, we do not have two proposals on the table at this time. LJ also advised that regardless of the modification being approved, the EBCC could still invoke their 9 day alternative solution.

CH took the opportunity to explain why the current process / credit levels form a barrier to their (Locus's) business model. When asked how new entrants would be managed under the 0569S proposals, RH explained the first year approach, whilst MC highlighted that currently security is monitored annually, but can be reviewed on a more frequent basis where a need arises.

In acknowledging the EBCC (9 days) alternative solution, RH felt that whilst it has some merit, it does not fundamentally undermine the 0569S modification. However, he is not suggesting that Shippers should not be cognisant of their own risks and need to continue to manage their 'imbalance' positions.

RH went on to point out that whilst the current regime is not a huge barrier to a normal sized organisation, it remains a major concern for the smaller new entrants as it remains

difficult for them to secure credit within the current economic climate (i.e. the need to post cash with the EBCC).

LJ suggested that the debate was extremely helpful in aiding parties towards compiling their formal representations on this matter in due course.

LJ then reminded those present that should it wish to, the Workgroup could make a recommendation around the self-governance status of the modification, or ask Panel to reconsider – no significantly adverse reaction was forthcoming. On screen tweaking to the wording for the relevant objectives section of the Workgroup Report was undertaken in response to discussions around the table.

When asked, RH confirmed that the example provided within the modification was based around a possible portfolio size of 1000 and that the minimum credit could be set to zero for new entrants for the first 12 days. When asked what level of (industry) protection is built in to the modification to prevent a sudden influx of smaller new entrants to the market, RH responded by explaining that as far as their business model is concerned, Locus is not looking for rapid expansion once it has signed up to the market.

2.0 Initial Discussion

2.1. Initial Representations

As per discussions under item 1.0 above.

2.2. Issues and Questions from Panel

There were no issues or questions from Panel for the Workgroup to consider.

3.0 Next Steps

When asked, there were no objections to the on screen Workgroup Report being finalised and published for formal submission to the January 2016 Panel meeting.

4.0 Any Other Business

None raised.

5.0 Diary Planning

There are no further Workgroup meetings scheduled at this time.