

Energy Balancing Credit Committee Minutes
Friday 25 November 2011
ENA, 52 Horseferry Road, London

Participants

Joint Office (Non voting)

Bob Fletcher (BF) Chair

Xoserve (Non voting)

Mark Cockayne (MC)

Lorraine O'Shaughnessy (LO)

Shippers (Voting)

David Holland (DH) *teleconference

David Trevallion (DT)

Gavin Ferguson (GF)

John Costa (JC)

Jonathan Wisdom (JW)

Richard Fairholme (RF)

Observer

Nick Reeves (NR) National Grid NTS

Ofgem (Non voting)

Anna Barber (AB)

Steffan Felix (SF)

Lewis Heather (LH)

Apologies

Tabish Khan

1. Introduction

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

2. Minutes and Actions from the Previous Meeting

2.1 Minutes

There were no minutes from previous meetings to approve.

2.2 Actions

EBC 02/01: MC to advise on River Barle's (RB) response following their customer interface meeting later in the year.

Update: MC advised that discussions were taking place based on RBs requirement for increased security. They have been impacted by recent downgrading of UK banks, though they have been proactive and have been paying funds into their cash call account. RB are going to continue injecting into storage until the end of November and will then cease operations until May 2012. It was agreed that Xoserve would continue to monitor RB's position. **Carried Forward**

EBC 06/02: Provide the expected reporting date for the SCR to enable a meeting of the EBCC to be arranged to review the implications.

Update: RF advised that conclusions are likely by next Spring and a report provided to DECC by May 2012. **Closed**

EBC 10/01: Write to members to seek authority to continue discussions with Market Operator to provide the support required to help them draft a modification to increase their indebtedness to 85% in line with other Users.

Update: MC continues to discuss options with the market operator and it unlikely to move forward until 2012.

EBC 10/02: Provide a view on market positions for bank security.

Update: See item 7.2. **Closed.**

EBC 10/03: Circulate a post-meeting note to seek views on members on the most appropriate way to respond to Skaddens to resolve the claim.

Update: The item was discussed at the last meeting and details can be found in the notes of the meeting. **Closed**

3. Operational Update

MC provided the following Operational update for October 2011.

3.1 Cash Call Notices

During October there was 9 Cash Call Notice issued, 6 were paid, 1 was revised, 2 were appealed and 1 withdrawn.

Further Security Requests (FSRs)

No Further Security Requests (FSR) were issued during October 2011.

3.2 Settlement:

The following performance was reported:

Month	Payment Due Date	Payment Due Date +2
September 2011	100%	100%
October 2011	99.47%	100%
Rolling 12 Months	99.79%	100%

4. Modifications

4.1 Alternative to UNC 0233V - Changes to Outstanding Energy Balancing Indebtedness Calculation

MC advised the modification is on hold pending the outcome of the SCR.

4.2 Modifications 0395 - Limitation on Retrospective Invoicing and Invoice Correction and 0398 - Limitation on Retrospective Invoicing and Invoice Correction (3 to 4 year solution)

MC advised these modifications have highlighted an issue that any dividend payments received cannot be smeared back to Users if the payment relates to the period prior to the close out date. The payments will remain in the neutrality account until the issue is resolved by a change to the close out rules.

Members need to be mindful of the proposed changes to the close out provisions and potential payments from Lehman's.

4.3 Modifications 0335 - Offtake Metering Error - Payment Timescales; 0335A - Significant Offtake Metering Error - Small Shipper Payment Timescales

JW advised that these modifications are currently out at consultation. There should be no energy balancing impacts as these have been excluded from the modifications.

5. Significant Code Review Update

AB advised the consultation document has been published, explaining that they wished to understand the impacts on energy balancing. In particular the cash out price for firm load shedding. This is proposed to be £20 per therm. The recommendations are to be developed further under a separate workgroup managed by Ofgem.

AB explained Ofgem were seeking views on how the proposals can be implemented now that VoLL has been established at £20 per therm – in particular what the system changes are likely to be needed and the associated industry costs.

NR gave a presentation on the potential high-level implementation solutions for the SCR proposals. He advised that the impacts are from stage 2 of the emergency process onwards.

GF asked if a site reduces its demand from what it is expected to use under normal conditions, how does this action impact the Shippers position. NR advised that it is fed into the energy balancing position as its normal position and a payment will be made to compensate the Shipper. MC advised they have a manual process to identify a specific Shippers exposure, but this is only used where the Shipper exceeds 85% of their Secured Credit limit - it was not designed to be adopted for all Shippers on an ongoing basis and a system solution would be required for a more enduring solution.

JW felt that of the two options offered, the post event option is preferable as it allows a Shipper time to respond to the event. GF was concerned that a failing Shippers position may get worse due to the additional time

allowed and that any associated costs will be socialised across the industry.

JC asked if a contract is required with firm customers to allow demand to be turned down – in particular DM sites. AB did not think this was the case as it is an emergency situation and should follow emergency firm load shedding procedures. NR agreed, warnings are likely to have been given a number of days ahead as the systems starts to look out of balance.

GF asked in the event of the post event solution, does the cash out position generate credits should the shipper shed the load. SF advised that the details of the solution have not been agreed. GF was concerned a failing company may be given credits for load shedding and then be given a large bill for balancing purposes which it can't pay – this would expose the industry to additional risk.

MC advised that it is not easy to model the impacts of a gas balancing alert, though it may be possible to review historical records to provide a flavour of those who may be impacted due to insufficient security i.e. some shippers may be impacted at a price of £2.00 per therm, let alone higher values.

JC asked if it were known who could provide security for up to £20.00 per therm, would it remove some parties from the market. MC advised that currently, Xoserve hold approximately £350m in security – he explained under emergency conditions exposure would be much higher than the actual security held, though it was sufficient for normal conditions.

SF asked if there would be less of an imbalance if the longer-term post event solution were implemented. NR felt that would be the case.

MC advised it would be administratively easier from an energy balancing point of view to manage a post event rather than within day. GF was concerned that it may be difficult to identify failed Shippers due to the scale of the issue being addressed.

RF wanted to understand how billing is to be managed, whether it's 10 days or a month and 10 days in the future – either way these are significant payments even for larger Users. AB felt that there might be an option for part payments. RF was concerned that this may have an impact on neutrality – parties who have their payment delayed are then funded by the industry.

SF explained that recent analysis had identified that the worst case scenario is in the region of £7bn. However, the worst case based on actual experience, exposure would be in the region of £1.5bn – which is not a significant exposure for the industry.

GF was concerned that a process may be implemented the industry cannot live with due to the level of credit required. This may be of more concern to smaller parties, though a larger User may be impacted - in particular where they have a spread of licenced entities.

NR asked for comments and views from the EBCC, either now or following the meeting.

New Action EBC 11/01: to consider the proposal and provide feedback to NR.

New Action EBC 11/02: MC to meet with Ofgem to provide evidence of the impacts these changes could bring and consider possible options to make the process work, including information from previous Gas Balancing alerts.

6. Winter Planning

MC provided an overview of the recent amendments, which will be issued to members for their review. Xoserve are currently walking through the process, MC also advised that additional insolvency training has recently taken place for team members.

MC advised that a revised winter planning pack would be issued to each of the members shortly. LO asked members if they could provide their availability over Christmas and New Year period in the event of Emergency EBCC Meetings, including alternates in their absence.

New Action EBC 11/03: members to provide their availability over Christmas, including whom their alternates are in their absence.

7. Any Other Business

7.1 Deposit Deed

MC gave an overview of the progress made to date on implementing the Deposit Deed. Currently approximately £40m is currently held in cash. All parties who have signed the deed have had accounts set up (there has been a 40% take up so far with 23% in progress). MC advised that the figures are dynamic. There have also been a number of parties who have had monies returned and the remainder will use different arrangements or are considering leaving the market by voluntary discontinuance.

7.2 Review of Downgraded Banks.

MC provided a presentation on the position of banks updated following the previous presentation during the Spring of 2011. He advised 3 banks were reported as on watch as they could be subject to further downgrades and this could affect up to 17 additional Users.

There are a mixture of organisations being affected; these range

from smaller to larger Users. LO to circulate information on the amended limits based on the rating and default level.

MC advised that there may be an option to open up ratings to accept lower bank ratings eg A2, A3, A or A- Moody's and Standard and Poors respectively. to spread risk across a larger base and in turn reduce the ratio of Users to banks providing security.

LO reminded members that it is beneficial for all parties to contact Xoserve when renewing credit facilities with banks, so that they can advise on available headroom.

DT gave an overview of his recent investigations with rating agencies in terms of defaults. Although defaults are lower in 2010 compared to 2009, more failures are happening with financial institutions, though this happens at a lower value than their investment levels so can be predicted. The average failure level is BB-, whereas Utility failures tend to happen on average around BB+. DT considered that the energy industry appears to have higher security values than is general practice for commercial organisations.

MC advised that there might need to be some amendments to the credit rules to ensure that Xoserve can respond appropriately in the changing market.

Members felt it would be useful to the industry to allow lower rated banks to provide credit.

New Action EBC 11/04 : Provide new values of allowable credit by lower rated banks (based on A+ and above analysis carried out recently)

7.3 Lehman's Commodity Services

MC gave an overview of previous discussions.

Members agreed that it would be beneficial to sell the claim subject to a 10% discount and advice to do so from Skaddens.

7.4 Voluntary Discontinuances

Carron Energy – LO advised that the account has not been active since 2008 and IX facilities have been removed. Members agreed to the discontinuance.

Valero Energy – LO advised a new entity had been set up by its parent company and no activity had been noted. MC advised that meter errors cost may still be outstanding and members agreed to review the discontinuance in 6 months time.

8. Date of Next Meeting

The next planned EBCC meeting is as follows:

Monday 19 December 2011 commencing at 10.30 by teleconference.

Action Log – Energy Balancing Credit Committee

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC 02/01	25/02/11	2.2	Provide River Barle's response following their customer interface meeting later in the year.	Xoserve (MC)	Carried Forward
EBC 06/02	24/06/11	5.0	Provide the expected reporting date for the SCR to enable a meeting of the EBCC to be arranged to review the implications.	Ofgem (TK)	Closed
EBC 10/01	28/10/11	7.1	Write to members to seek authority continue discussions with APX ENDEX to provide the support required to help them draft a modification to increase their cash utilisation to 85%.	Xoserve (MC)	Closed
EBC 10/02	28/10/11	7.3	Provide a view on market positions for bank security.	Member (DT)	Closed
EBC 10/03	28/10/11	7.4	Circulate a post meeting note to seek views on members on the most appropriate way to respond to Skaddens to resolve the claim.	Xoserve (MC)	Closed
EBC 11/01	25/11/11	5.0	Members to consider the proposal and provide feedback to National Grid NTS.	All	Pending
EBC 11/02	25/11/11	5.0	Arrange to meet with Ofgem to provide evidence of the impacts these changes could bring and consider possible options to make the process work, including information from previous Gas Balancing alerts.	MC	Pending
EBC 11/03	25/11/11	6.0	Members to provide their availability over Christmas, including whom their alternates are in their absence.	All	Pending

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EBC 11/04	25/11/11	7.2	Provide new values of allowable credit by lower rated banks (based on A+ and above analysis carried out recently)	MC	Pending