Seasonal Energy Balancing Credit Cover

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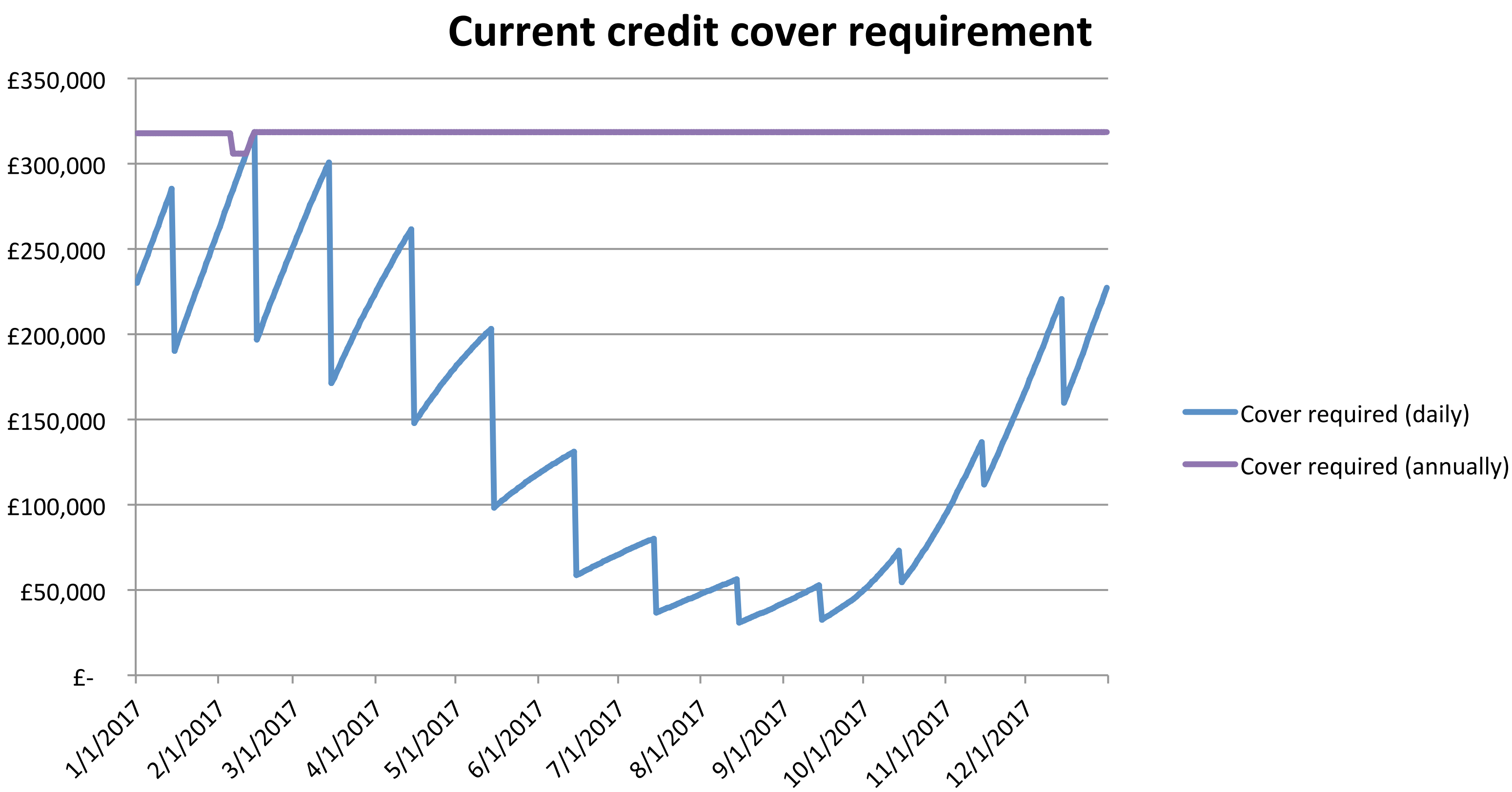
Issue

- Cash call limits set at 75% utilisation of peak indebtedness over the last 12 months. (EBCR clause 2.1c)
- Total system, and many users of it, have a large amount of seasonal variation in demand
- More demand means a higher likelihood of larger balancing indebtedness
- Therefore many users over collateralised in Summer months



Large gap between code requirement and actual exposure outside of winter

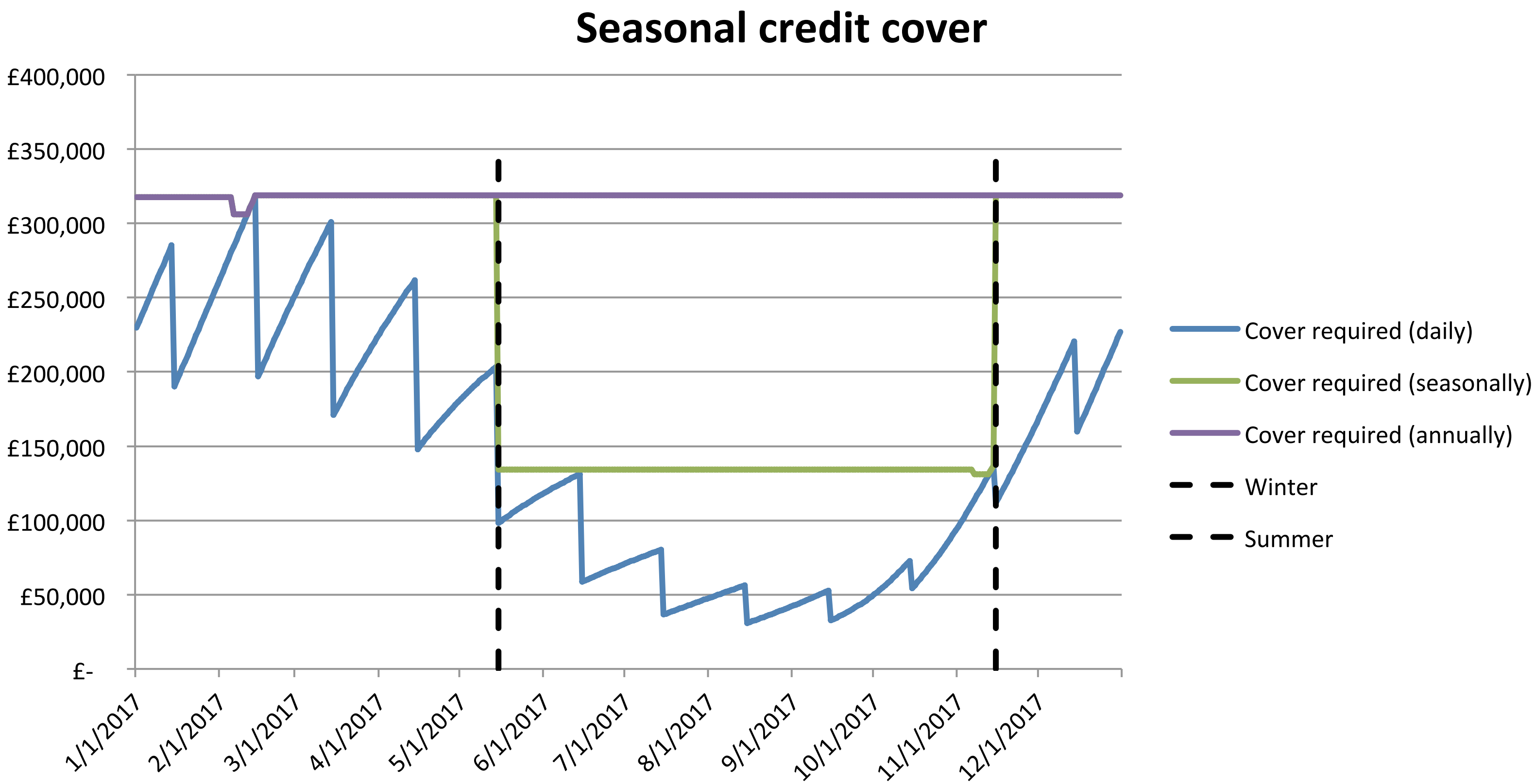
Taking a nominal shipper on single band 1 profile, 100,000 MPANs, 5% short, 10,000 AQ, SAP 1.2 p/KWh, maintaining 70% indebtedness. Excludes affect of weather and MOD640

Solution

- Replace annual requirement with one that reflects the seasonality of most users' exposure
- To clarify, no change to requirement to lodge cover to current exposure (UNC TPD X 2.2 & 2.3.5 (a))
- Therefore cannot make a user short on cover at a given point in time, which would be a risk to other shippers
- EBCC have indicated that daily would be impractical to administer, two options to discuss

Solution 1 – Summer Winter

- The largest disparity is between Winter and Summer requirements
- Simplest solution is to make the yearly period only consider dates within same season
- Season boundaries at mid-Nov and mid-May as balancing bills 2 months in arears

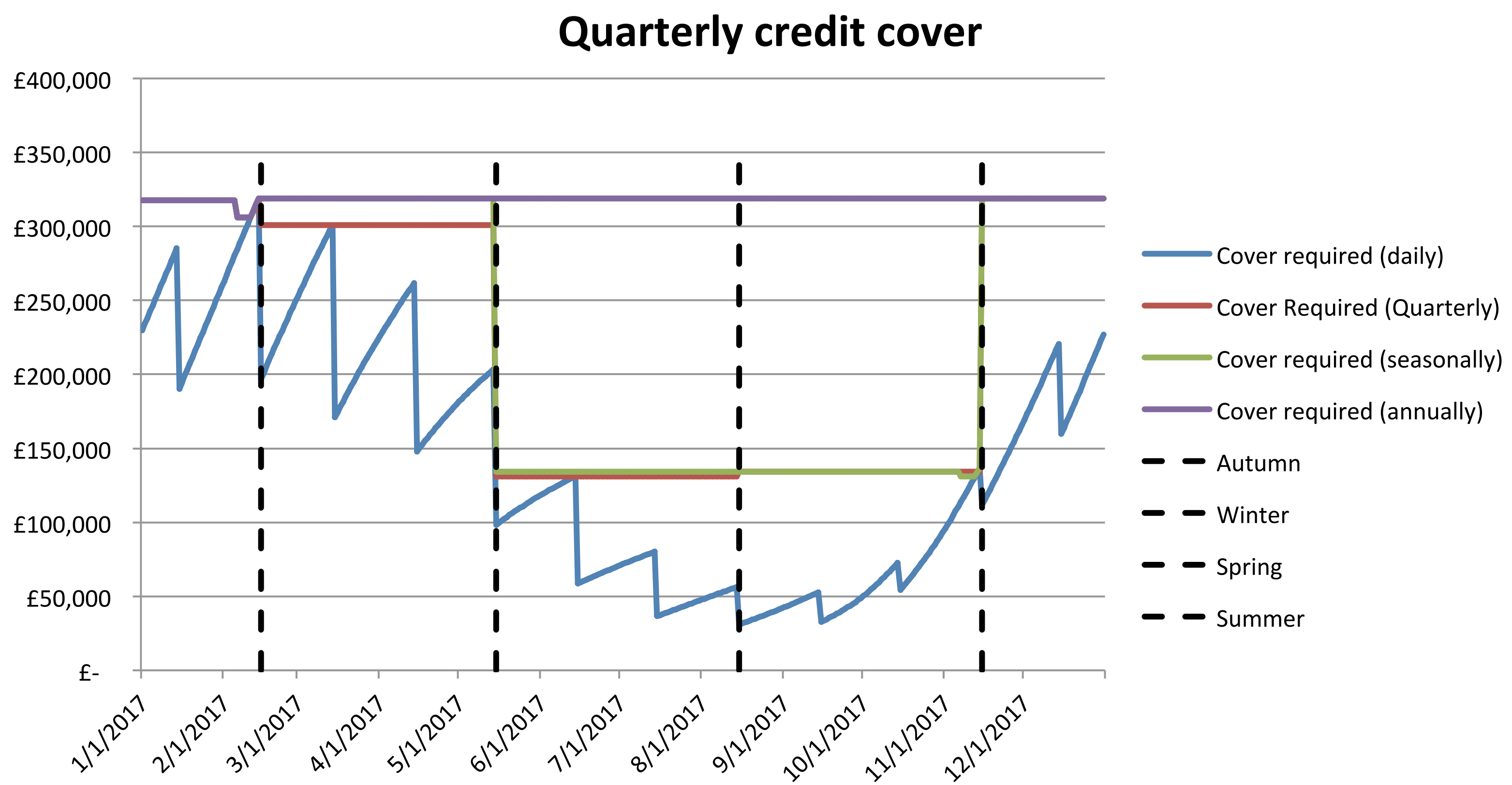


This removes the largest part of the error

Collateral requirement continues to be above daily requirements

Solution 2 – Quarterly load factors

- There is a disparity between all seasons
- Given the quantity of money involved shippers may be more comfortable with a more involved calculation
- 4 quarters cut at mid May, Aug, Nov, Feb
- Load factor as % yearly maximum calculated by Xoserve for each Shipper



For a profile shape this is not very different

But this is a simplistic example and it will account better for differences in actual shipper behaviours

Applicable Objectives

- Positive against d) - effective competition
  - Classes of shipper are currently impacted to differing extents
  - Reduction in unnecessary operating costs for shippers.
- Does not increase risk of default
  - new levels are appropriate to risk at the time
  - it remains a requirement to cover present exposure