



EBCC Winter Preparation

January 2019

Agenda

- Objectives
- Background
- Triggers for Termination
- High Level Process Flows
- Post Termination Activities
- Xoserve Activities
- Areas for Improvement

Objectives

- This presentation aims to provide clarity on the Terminations process and the Energy Balancing Credit Committees (EBCC's) role within that process.
- Included are specific timelines, scenarios and summaries to demonstrate possible Termination actions.
- Topics covered include:
 - Contractual/Regulatory Requirements
 - Triggers for Termination
 - Role of the EBCC
 - Effects of Termination
 - Xoserve's Role

Powers of the EBCC

- Powers of the EBCC are primarily concerned with Energy Balancing, covering Cash Management, Security Management and Exposure Monitoring. It is in these areas that the EBCC must make the decision concerning terminations. The committee's vires only extends to the operation of Section X of the Uniform Network Code (UNC).

Credit Risk Management Energy - Powers

- Where a User becomes party to the UNC they become responsible for the financial implications of balancing their daily gas flow and assume a share of the credit risk associated with other User's Energy Balancing activity.
- Section X1.1.1 of the UNC outlines how exposures are managed i.e. ..if a User fails to make payment of any Energy Balancing Charge when due, all other Users may become liable for (in aggregate) an equivalent amount (together with an amount in respect of the cost of financing such non-payment).
- The management of this activity is undertaken by Xoserve as the Central Data Services Provider appointed by National Grid NTS.

Section X UNC Energy Balancing Regime Powers

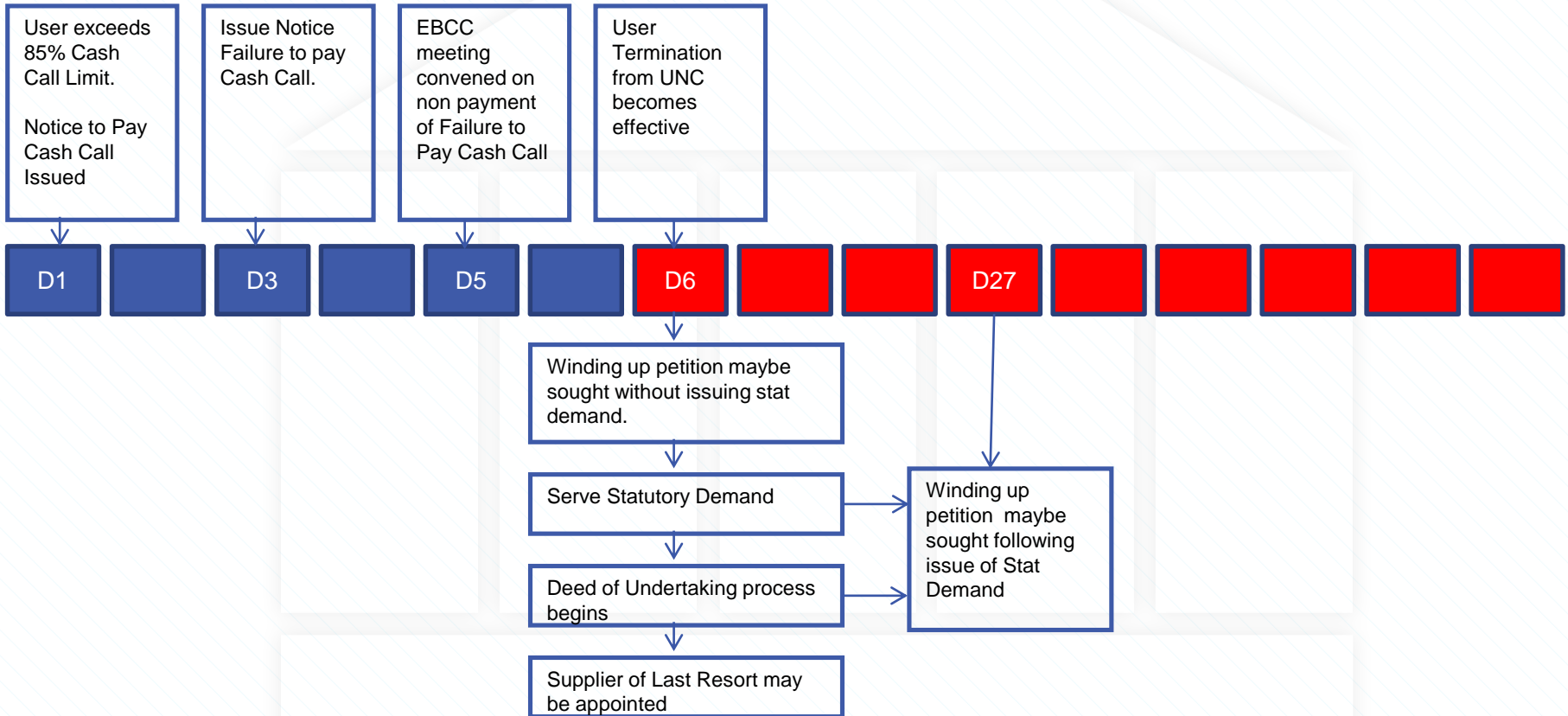
Power	Section X
Revise/initiate revisions to Secured Credit Limits	X2.2.6
Release Security	X2.3.4
Identify current Energy Balancing Indebtedness	X2.5.1
Issue Cash Call Notices	X2.6.1
Respond to Cash Call Appeals	X2.7.1
Release surplus Cash Call Account funds	X2.8.6
Issue Notices of Failure to Pay Cash Call	X2.9.1
Issue Failure to Make Payment Notices	X3.2.1
Issue Termination Notices for services	X2.9.3 & X3.2.2
Recover outstanding indebtedness including realising Security	X3.3.1 & X3.4
Issue Request to Provide Further Security Notices	X2.10
Respond to Request to Provide Further Security Appeals	X2.10

Triggers for Termination - User Default

- Proceedings leading to Termination of a User are initiated by User Default which may be Energy Balancing, Transportation related or as a result of a Data Services Contract (DSC) default. The types of default are listed below:
 1. Failure to Pay Cash Call (Energy)
 2. Failure to Supply Further Security (Energy)
 3. Failure to Pay Energy Balancing Invoice (Energy)
 4. Failure to Pay a Data Services Contract invoice (DSC)
 5. User's Value at Risk Exceeds 100% of Code Credit (Transportation)
 6. Outstanding Debts >£10,000 (Energy & Transportation and DSC)
 7. Material Breach of UNC (Energy & Transportation)
 8. Licence Revocation (Energy & Transportation)
 9. User is Unable to Pay Debts/Insolvent (Energy, Transportation, and DSC)

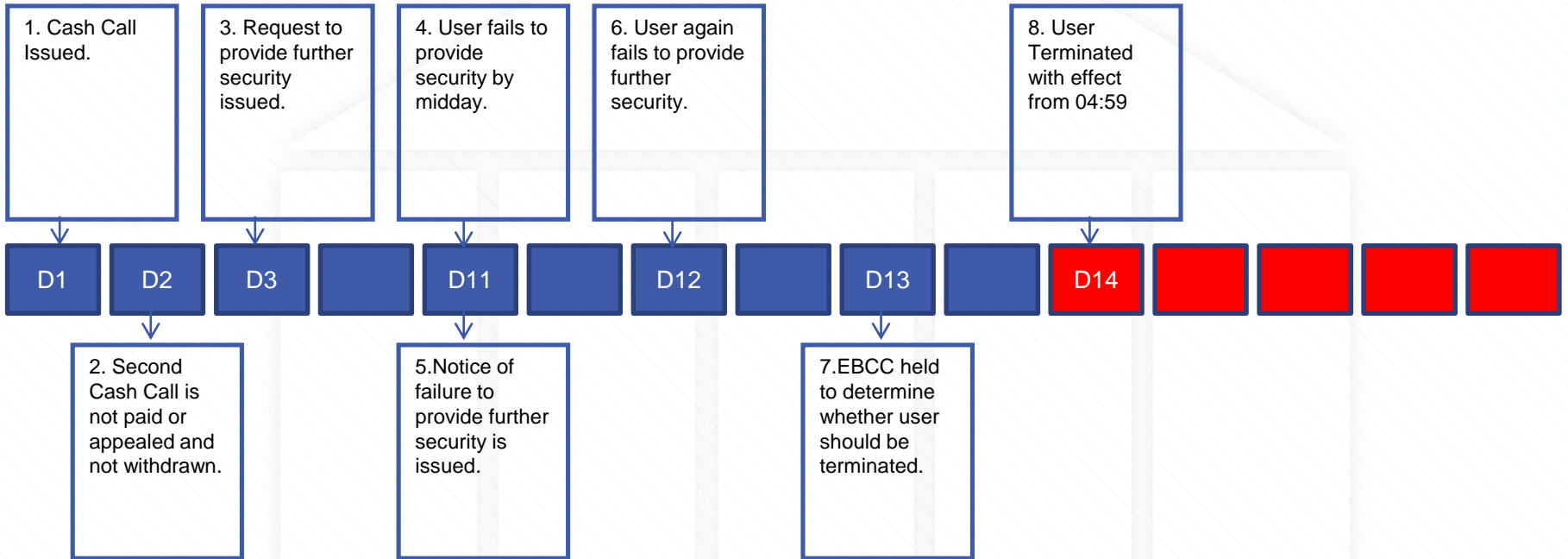
Triggers for Termination

1. Failure to Pay Energy Cash Call - Cash Call Timeline (min exposure period)



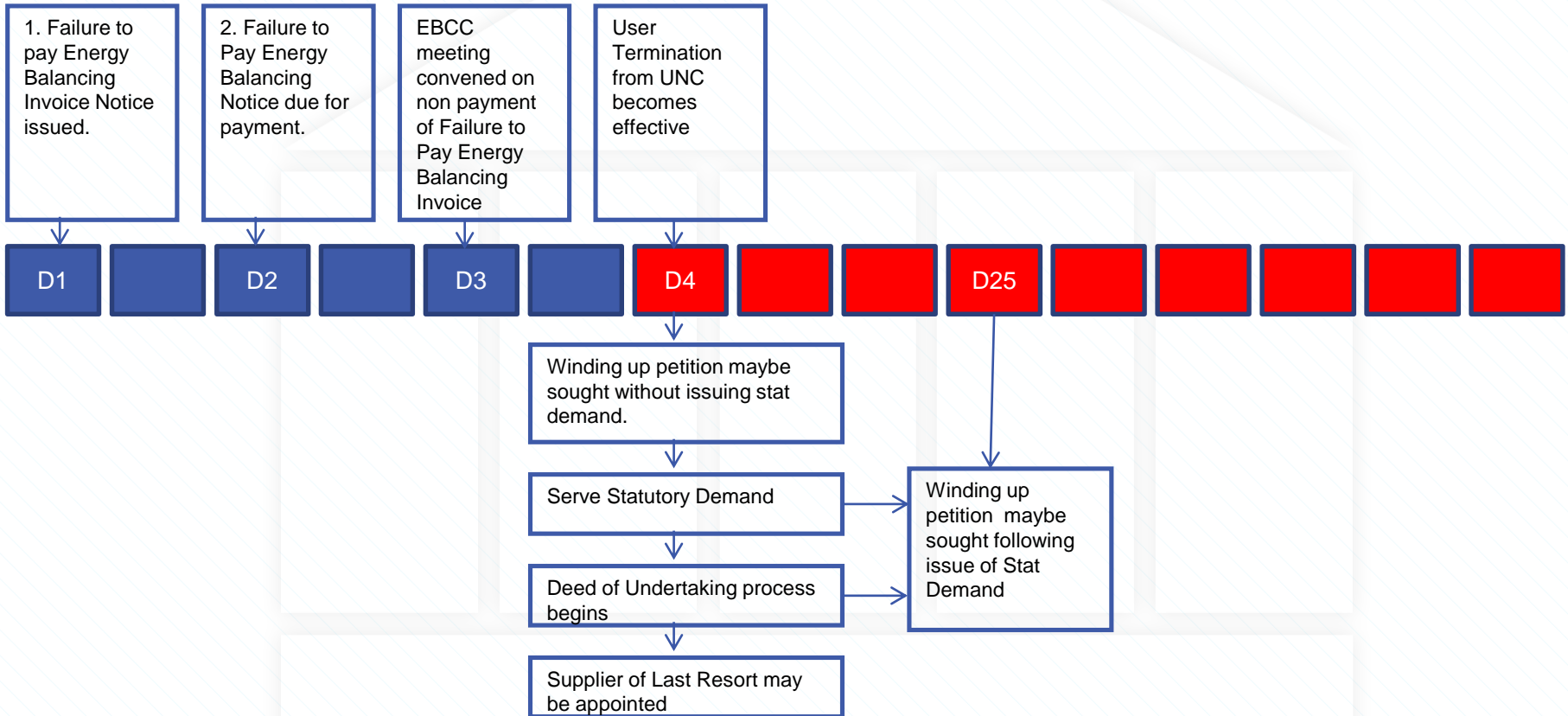
Triggers for Termination

2. Failure to supply further energy security - Timeline (min exposure period)



Triggers for Termination

3. Failure to Pay Energy Balancing Invoice -Timeline (min exposure period)



Triggers for Termination

5. User's Outstanding Debts >£10,000 (Transportation & Energy)

- Section V 4.3.1 (a) permits the Termination of a User where;
 - There is an outstanding debt >£10,000 which has not been paid by the 5th business day after the due date for payment;
 - A Notice requiring payment has been issued and;
 - The User has not made payment by the 5th business day after the Notice was issued.

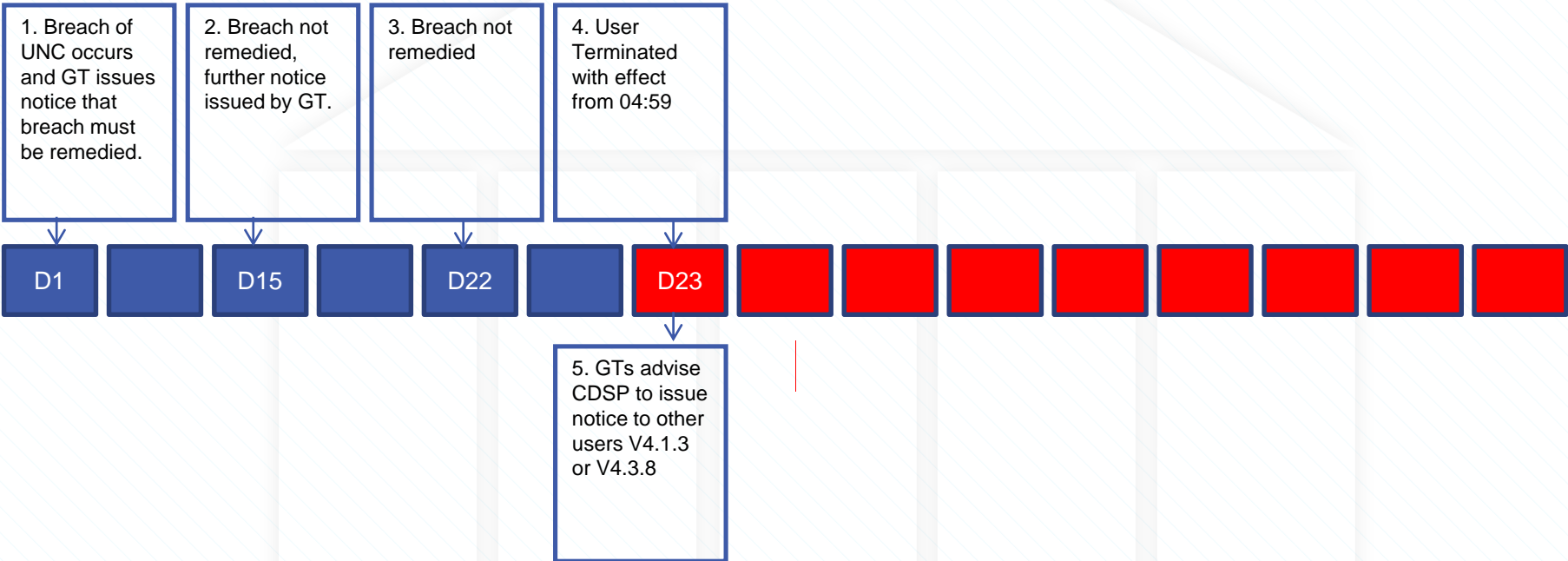
Triggers for Termination

6. Material Breach of UNC (other than payment - Energy & Transportation)

- Where a User has committed a material breach of UNC, Termination may occur where:
 - The User has been given notice to remedy the breach. (V4.3.1(c)(iii))
 - The breach has not been remedied within 14 days after the Notice was issued or a programme for remedy has not been provided. (V4.3.1(c)(iv))
 - The breach is not remedied in all material aspects (V4.3.1(c)(v))
 - The breach is unremedied after the expiry of a further 7 days following the provision of further Notice to remedy. (V4.3.1(c)(vi))

Triggers for Termination

6. Material Breach of UNC- Timeline



Triggers for Termination

7. Shipper Licence Revocation (Energy & Transportation)

- Section V4.3.1(f) permits that a Shipper User may be terminated if their licence is revoked by Ofgem.
- This does not apply where a User assigns all of its rights and obligations under UNC and the Framework Agreement per Section B 6.1, although such assignment does not remove any obligations accruing up to the date of assignment.

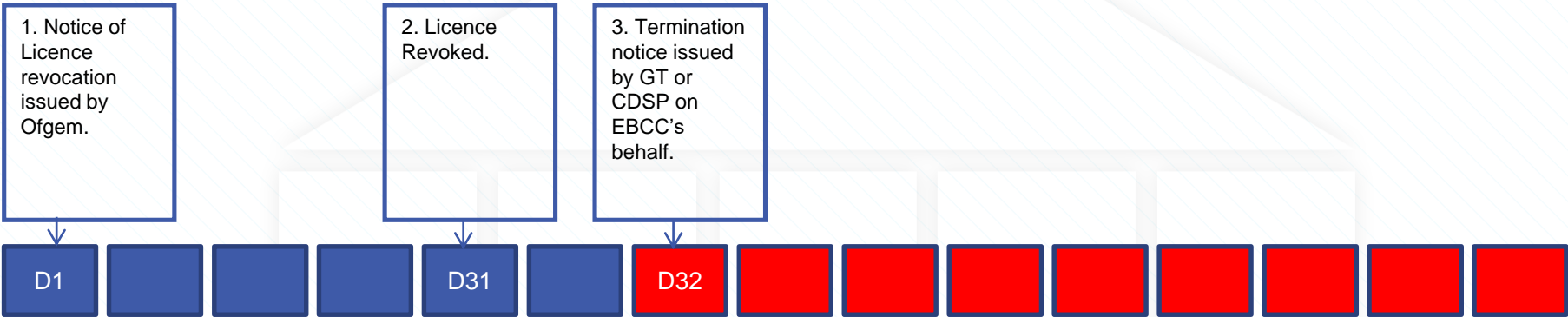
Triggers for Termination

7. Shipper Licence Revocation (Cont.)

- **Ofgem SoLR Guidance instructs that a Shipper licence may be revoked where:**
- The licensee agrees to the revocation.
- The Shipper User fails to make payment to Ofgem.
- Failure to comply with a final order to prevent or stop the User breaching their licence conditions.
- Licensee does not commence business within 1 year of the issue of their licence.
- Licensee has falsified licence application information.
- The licensee is subject to a winding up order or voluntary arrangement.
- Licensee is in receivership or administration.
- Failure to pay penalties imposed by Ofgem.
- Failure to comply with a court order.
- Licensee ceases its business as a gas shipper User.

Triggers for Termination

7. Licence Revocation – Timeline (min exposure period)



Triggers for Termination

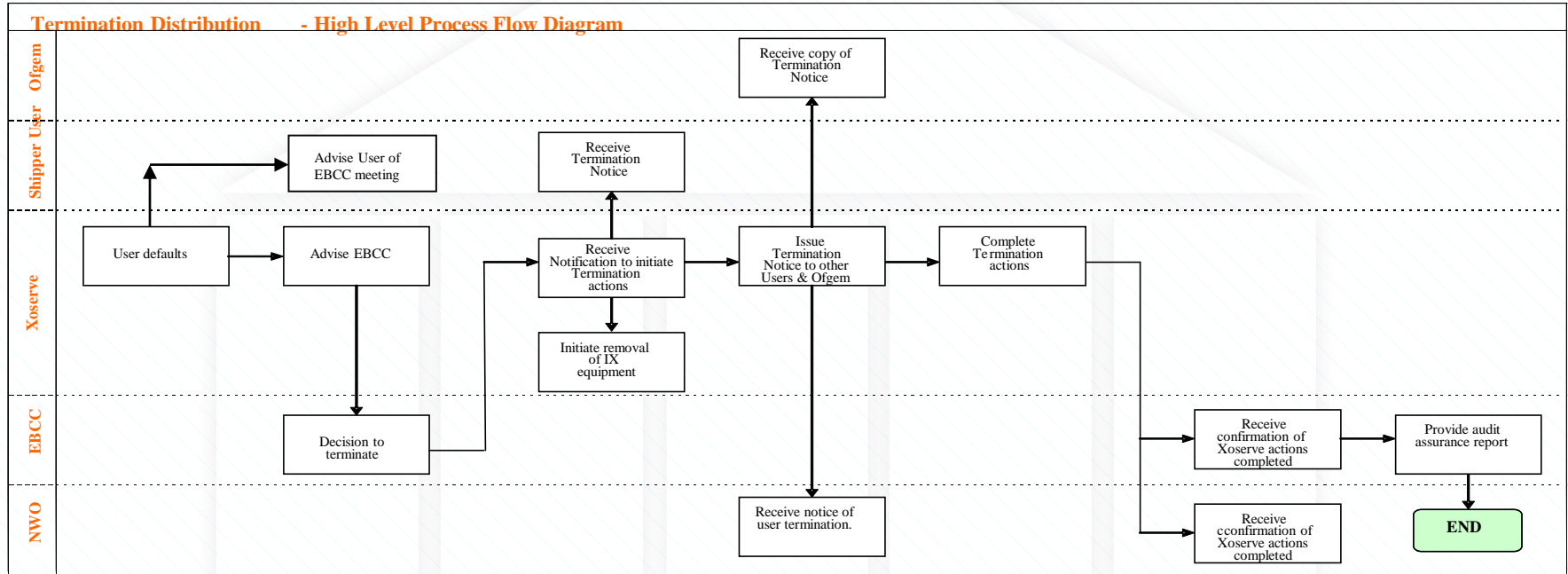
8. User is Unable to Pay Debts/Insolvent (Energy & Transportation)

- Insolvency and unpaid debt may fall within a number of other Termination triggers (licence revocation, outstanding debt etc.) but can be captured under Section V4.3.3
- In general a User must be considered as unable to pay their debts (defined in the Insolvency Act), which may result in the appointment of an insolvency practitioner.
- Under Section V4.3.5(b), where an insolvency practitioner has been appointed the IP must give an undertaking to discharge debts accrued from the date of their appointment as soon as reasonably practicable from that appointment or Termination may be sought.
- Implementation of Mod 446 means a Termination due to insolvency may be effective from the date of the Termination Notice, in the same manner as Energy Balancing defaults.

Energy Balancing Termination Process

- There are a number of steps prior to Termination for an energy balancing default:
 - Emergency meeting held with the EBCC to discuss the default and decide if the User should be Terminated.
 - If the EBCC direct Termination should occur then Xoserve will issue a Termination Notice which details the time of Termination.
 - Xoserve issue a copy to Ofgem, who may revoke the User's licence.
 - Notification is made to all Users and to the Transporter.
 - EBCC may then instruct National Grid NTS take Directed Recovery Steps under Section X.3.4.2 UNC

Energy Balancing Default Swim Chart



Post Termination Activities

- There are a number of possible activities or situations which are triggered by Termination:
 1. **Winding Up**
 2. **Supplier Undertaking**
 3. **Supplier of Last Resort**
 4. **End User Undertaking**

1. Winding Up

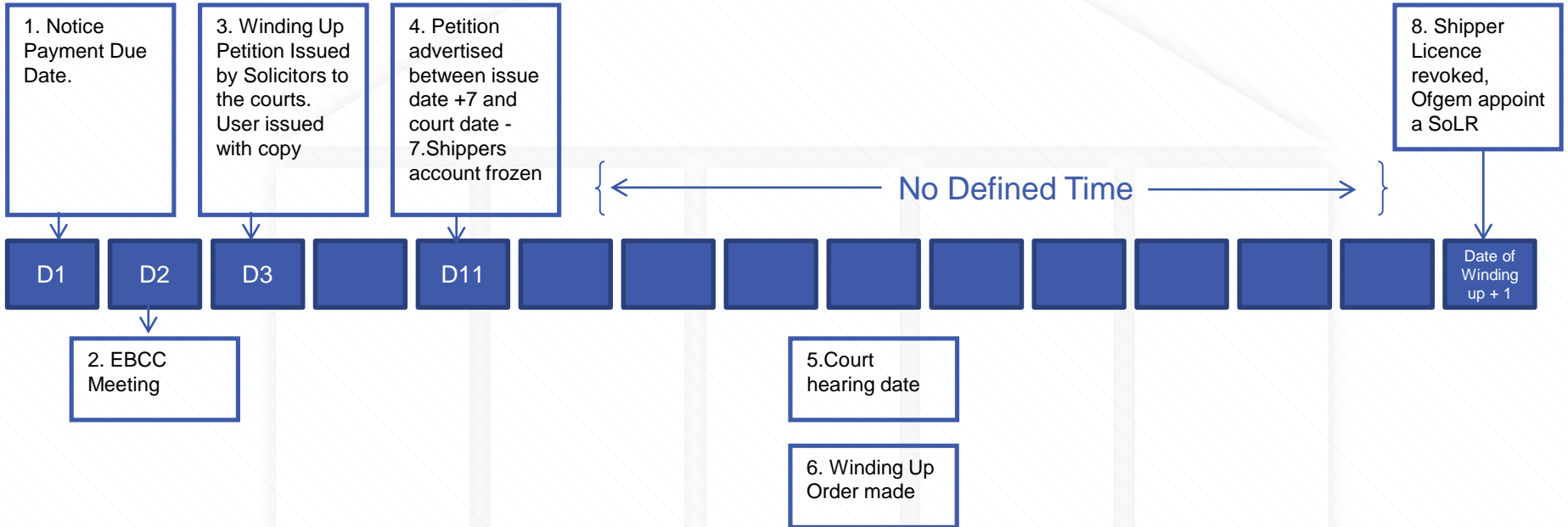
- Xoserve may continue to pursue any outstanding Energy Balancing debt after a User is Terminated due to default. The EBCC will direct Xoserve on the preferred recovery steps which may include seeking a winding up order.
- In order to apply for a company to be wound up a creditor must prove that the company cannot pay its debts (Insolvency Act S.122(f)).
- This can be proved by issuing a demand for payment pursuant to the Insolvency Act S.123(1)(a) (a statutory demand), which provides the defaulting User with 21 days to make full payment.

Winding Up (Cont.)

- After the expiry of 21 days a winding up order may be sought by application.
- Notice of the application must be publicised in the time period between the issue of the application +7 days and the court date -7 days.
- A statutory demand is not necessary where there is already substantial proof that the User is unable to pay their debts.

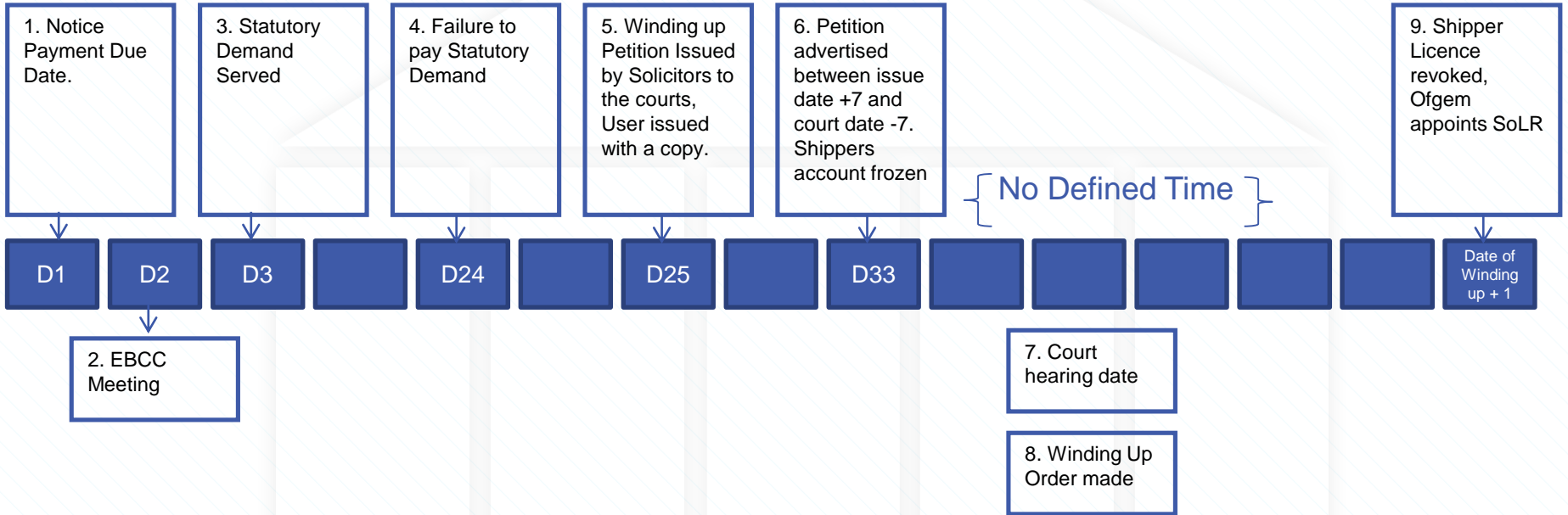
Winding Up Timescales (Cont.)

Minimum Time Period Between User Default and Obtaining a Winding Up Order without issuing a stat demand)



Winding Up Timescales (Cont.)

Minimum Time Period Between Issuing a Stat Demand and Obtaining a Winding Up Order for EB Debt



2. Supplier Undertaking

- Where a Shipper fails, licence condition 18 requires that the Supplier takes over payments for the supply of gas to the end user until the Supplier has found a new Shipper.
- This condition also applies to companies who are joint entities (both Shipper and Supplier).
- The Supplier must sign a Deed of Undertaking document, which allows the Supplier 25 business days in which to find a Shipper.
- For the 25 business day term, the Supplier must provide Security for the exposure within 2 days from commencement.
- If a Shipper is not found in the term, Ofgem may impose financial penalties or issue orders.

Supplier Undertaking - Timeline

Minimum Exposure Period For Condition 18 Supplier Undertaking

1. Shipper Terminated. Supplier Undertaking invoked

D1

2. Supplier Notifies CDSP or the GT of new Shipper

D25

3. If Supplier cannot find a new Shipper then Ofgem may instigate enforcement action.

D26

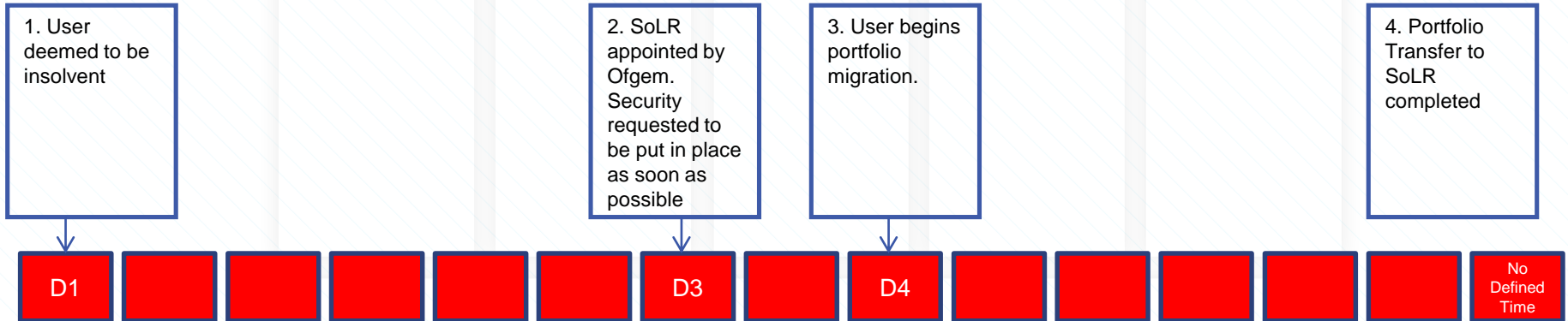


3. Supplier of Last Resort

- Where a company acting as both Shipper and Supplier fails and is terminated, Ofgem may appoint a Supplier of Last Resort.
- There is no obligation to make an appointment and it is usually unnecessary as the failing User will have arranged a portfolio sale.
- Ofgem may only appoint a SoLR after the Supplier licence has been revoked.
- Usually the SoLR will be appointed within 24 hours of the licence revocation or by 6am of the next gas flow day following that 24 hours, but they may be retrospectively appointed.
- A SoLR can only be used for 6 months.

Supplier of Last Resort (cont) - Timeline

This timeline represents a basic example of the time periods involved with a SoLR. Ofgem may give either 24 hours or 30 days notice to revoke a Supplier licence, depending on the cause, and a SoLR may only be appointed after the revocation. Although usually the case, Ofgem do not guarantee that the appointment will take place on the day after revocation.

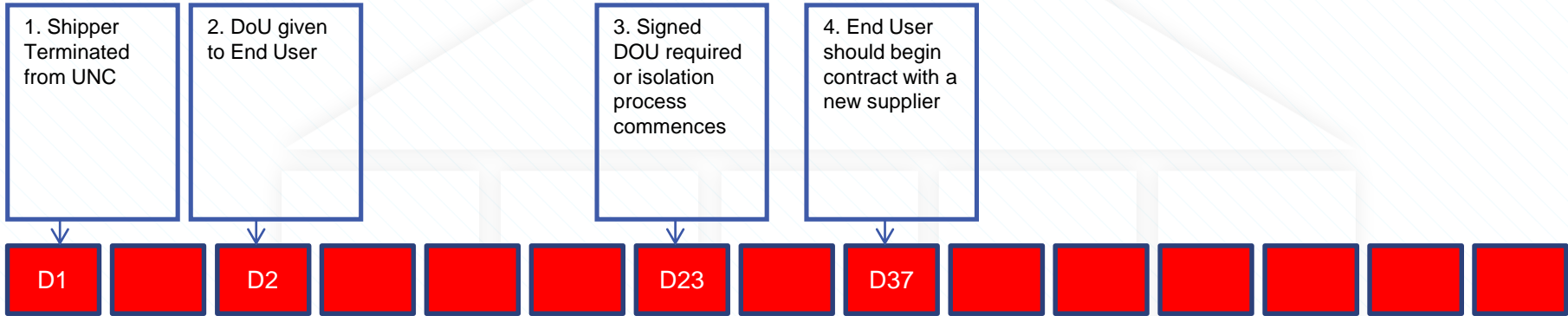


4. End User (Consumer) Undertaking

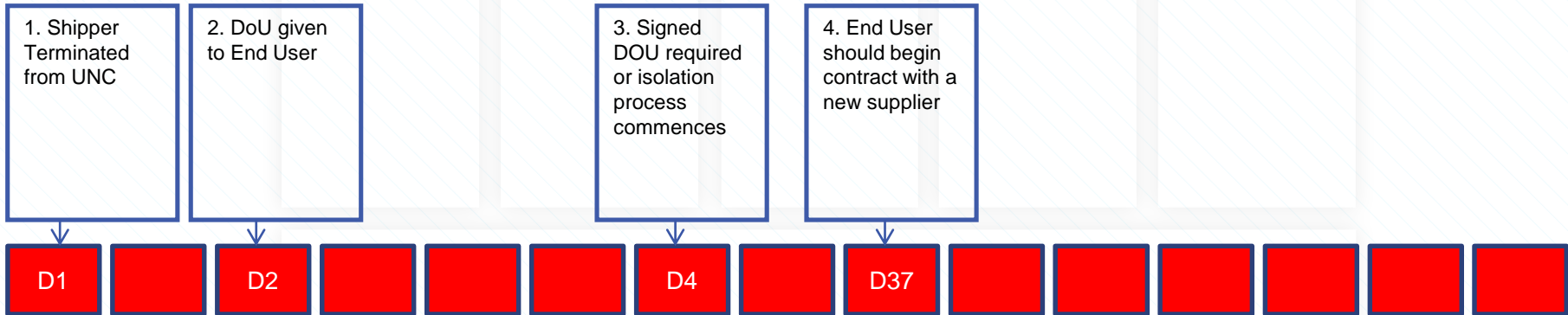
- It is possible for an End User to be responsible for finding their own Supplier, but due to hardship regulations only a very small number of End Users would fall within this category.
- End Users must sign an End User Undertaking, although the time in which to do so differs by consumption:
 - <2,196,000kWh = 21 days
 - >2,196,000kWh = 2 days
- If the Undertaking is not signed then the End User may be isolated.
- Gas supplied during this period is sourced by the System Operator and financial exposure bourn by the shipping community via neutrality.
- All Users have 35 days to find a new Supplier.

End User Undertaking – Timelines

Minimum Time Period for End User Deed of Undertaking <2,196,000 kWh



Minimum Exposure Period for End User Deed of Undertaking >2,196,000 kWh





Energy Supply Company Special Administration Rules

Energy Supply Company Special Administration

- The Energy Act 2011 has provisions for a special administration regime for energy supply companies, which is intended as an alternative to insolvency and SoLR arrangements.
- The regime functions by permitting a large energy supplier which is in financial difficulty to continue operating until it can be rescued, sold or its customers transferred.
- A court order must be sought upon application for an administrator to be appointed on the basis that the supplier is or will be unable to meet its debts and/or it is in the public interest.
- The supplier will then be funded by the Secretary of State until a new supplier can be found.

Energy Supply Company Special Administration (Cont)

- The community will bear the cost of any funding provided by the Secretary of State.
- The Department of Business, Energy and Industrial Strategy placed a cost recovery mechanism via an amendment to User licences whereby National Grid will be permitted to raise additional charges against the community.
- Introduced in 2013.



Xoserve Activities

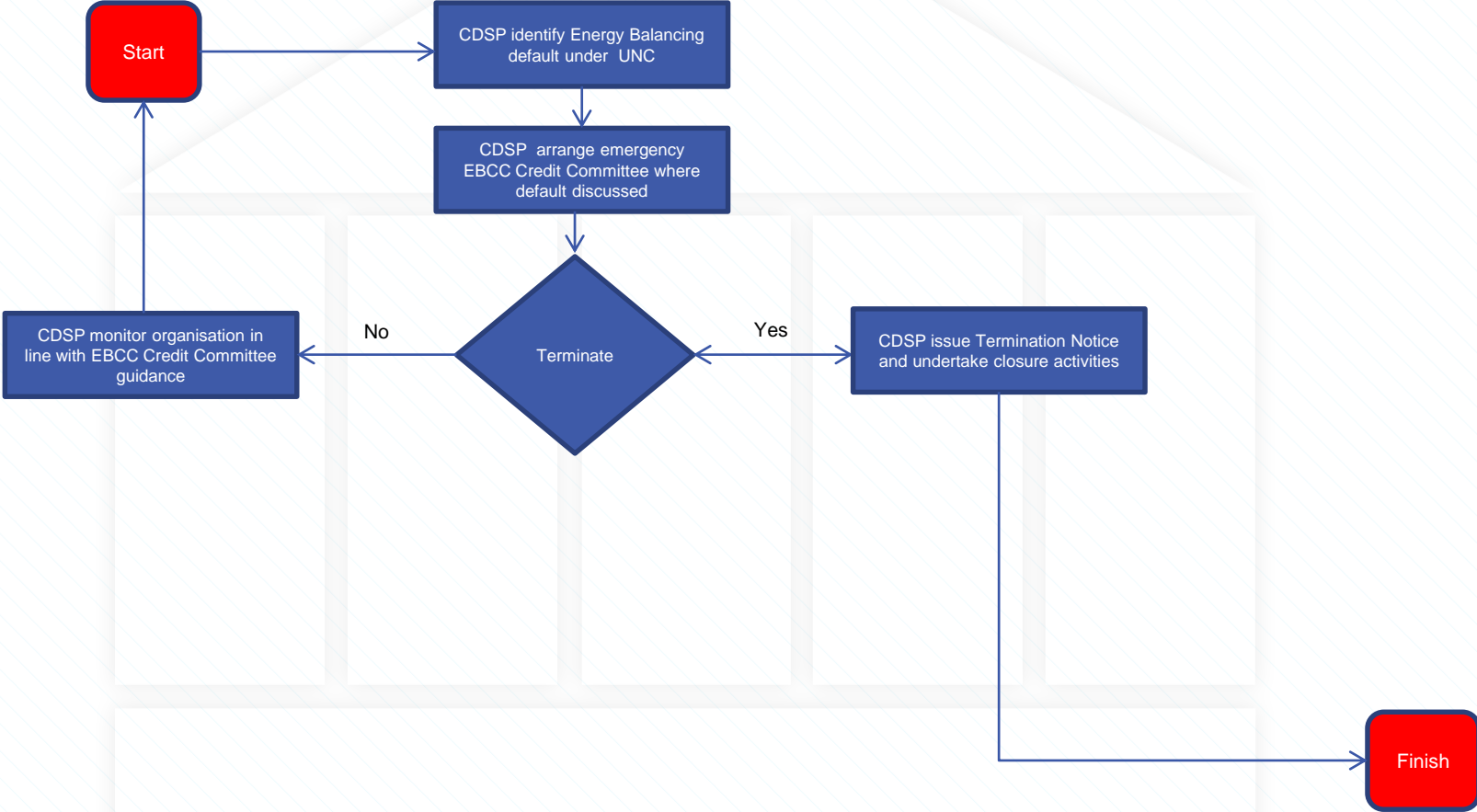
Xoserve Activities

- UK Link sanctions
- Issue Termination Notices
- Issue Ceased User Notice
- Revoke System User Access
- Invoke Supplier Undertaking
- Manage Portfolio transfer
- Confirm outstanding Operational queries e.g. adjustment requests.
- Remove IXN Equipment
- Close Shipper accounts on UK Link/Gemini/DES
- Invoke Section S1.7.2 UNC provisions
- Energy Balancing Credit Security for SoLR where required

Credit Risk Management – Energy Activities

- Co-ordinate EBCC and agree communications with National Grid and Customer Lifecycle.
- Advise Xoserve Management Team of decision by EBCC.
- Claim against Energy Balancing Security.
- Serve statutory demand for Energy Balancing Debt.
- Start winding up proceedings for Energy Balancing Debt.
- Take Directed Recovery Steps and update the EBCC on progress.

Energy Balancing Termination Decision Tree



Areas for Improvement

- Introduce template with key information ahead of Emergency EBCC so participants are clear on the position and cause of the default to aid decision making.
- Develop greater awareness of Transportation, Energy and DSC Terminations processes internally and externally.
- Seek your views on what Xoserve could do better in terms of the EBCC and the Terminations process.

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Questions?

