



**Energy Balancing
Credit Risk Management**

An Overview

Energy Balancing Background

- Network code assigns responsibility for Energy Balancing as follows:
 - National Grid is responsible for maintaining an overall physical balance of the network
 - The shippers are responsible for the financial costs associated with this – National Grid must remain 'Cash Neutral to these Energy Balancing Activities



Energy Balancing Credit Committee (EBCC)

Energy Balancing Credit Committee (EBCC)

- User Representatives are elected and appointed annually on 1st October.
- Chaired by the Joint office and attended by up to nine elected User representatives.
- Members are representatives in their own right and do not represent the company by which they are employed.
- Meetings are held Monthly
- Quorate of three members are required to vote by a majority.
- Emergency EBCC meetings can be convened at any time under the powers of the EBCC stipulated in the Energy Balancing Credit Rules.



Energy Balancing Security Management

EB Security Management - New Users

- Customers Liaise with the Customer Lifecycle Team and submit a Customer Application Form (CAF)
- Customers provide a projected annual throughput forecasting their predicted usage. The CAF form provides information relating to the type of User e.g.: Shipper, Trader or Non portfolio Shipper, portfolio.
- Security is Calculated in accordance with the calculation of new users (Section 2.1c of the EBCR)
- Users determine the form of acceptable Security. Under UNC Section X 2.3.1

Energy Balancing Security Management cont'd

- Under UNC Section X 2.3.1 the only two forms of acceptable security are:
 - **Irrevocable Standby Letter of Credit**
 - Must be put in place with a Financial Institute with a UK branch with an acceptable Credit Rating with Moody's and Standard & Poor's Rating.
 - **Non Registerable Deposit Deed.**
 - Funds are placed in a designated Deposit Deed account.
 - National Grid seal the Deed

NB. Security is deemed to have a value of zero 30 days prior to expiry.

EB Security Management – Existing Users

- The following triggers initiate a change to Energy Balancing (EB) Security. This is detailed under UNC Section 2.2.6 in summary:
 - at intervals of approx. 12 months
 - where any published credit rating of a provider is revised downwards
 - where (but without prejudice to any requirement of the Energy Balancing Credit Rules) any instrument of Security expires or is determined
 - Where at any time National Grid NTS has reasonable grounds to believe that the effect of the review will be to reduce the User's Secured Credit Limit
 - Submission of a Further Security Request, 2 Cash Calls or more in within 28 days of date on which the original

Rating Comparison Table

Ratings Comparison		Aggregate Limit (Maximum exposure acceptable for an individual Financial Institution)	Rating Action
Moody's	S&P		
Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	£62,000,000	Rating is acceptable provided that the maximum Aggregate Limit is not exceeded.
A1, A2, A3,	A+ A, A-	£25,605,000	Rating is acceptable provided that the maximum Aggregate Limit is not exceeded.
Baa, Baa1, Baa2, Baa3	BBB+ BBB, BBB-	Zero	Rating is not acceptable. In the event of a downgrade below Moody's A3 or equivalent rating, User(s) will be notified to provide alternative Security within 30 days . If alternate Security is not provided within 30 days the User(s) Secured Credit Limit will be set to zero and indebtedness will be managed via the Cash Call process.
Ba1, Ba2, Ba3 or below	BB+, BB, BB- or below	Zero	Rating is not acceptable. In the event of a downgrade to below Moody's Baa3 or equivalent, the User(s) will be notified to provide alternative Security and the User's Secured Credit Limit will be set to zero with immediate effect indebtedness will be managed via the Cash Call process.



£25,605,000 aggregate limit now includes ratings A2, A3 and A, A-



Indebtedness Monitoring Cash Call Process

Monitoring Indebtedness

- Shippers indebtedness is monitored daily.
- Users are issued a Cash Call when utilisation exceeds 100%. The Secured Credit Limit is the amount that Users hold as Security. The Cash Call Limit is 85% of the Secured Credit Limit.
- Indebtedness is the total value of the Outstanding Energy Balancing Indebtedness. Equation is Net Energy Balancing Indebtedness divided by the Cash Call Limit to determine the utilisation percentage.
- Users who exceed 100% Utilisation are issued with a Cash Call Notice before 3pm on the same business day. Cash Calls can be appealed by 12 noon the following business day or payment is required by D+1 of Issue of the Cash Call being issued.
- If a User received more than 2 Cash Calls within 28 day measurement period, a Further Security Request is issued and additional security must be lodged for a minimum of 90 days.

Exposure Monitoring - How the Cash Call is calculated

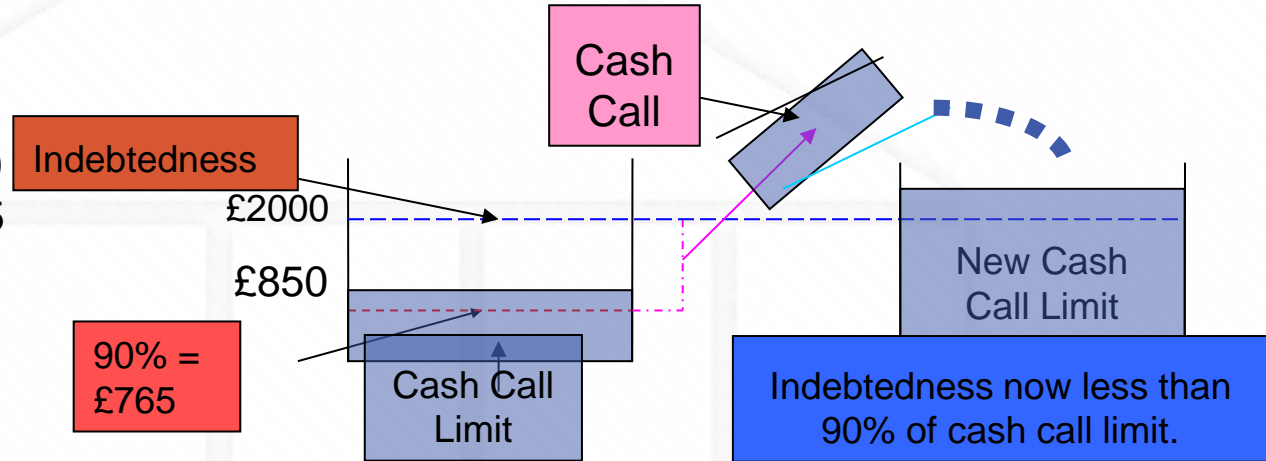
Example –

Security - £1,000

Cash Call limit 85% - £ 850

90% Cash Call Limit - £765

Indebtedness £ 2000



Calculation is Indebtedness – 90% cash call limit = £x rounded up to nearest £1,000

Therefore we get $£2000 - £765 = £1,235 = £2000$

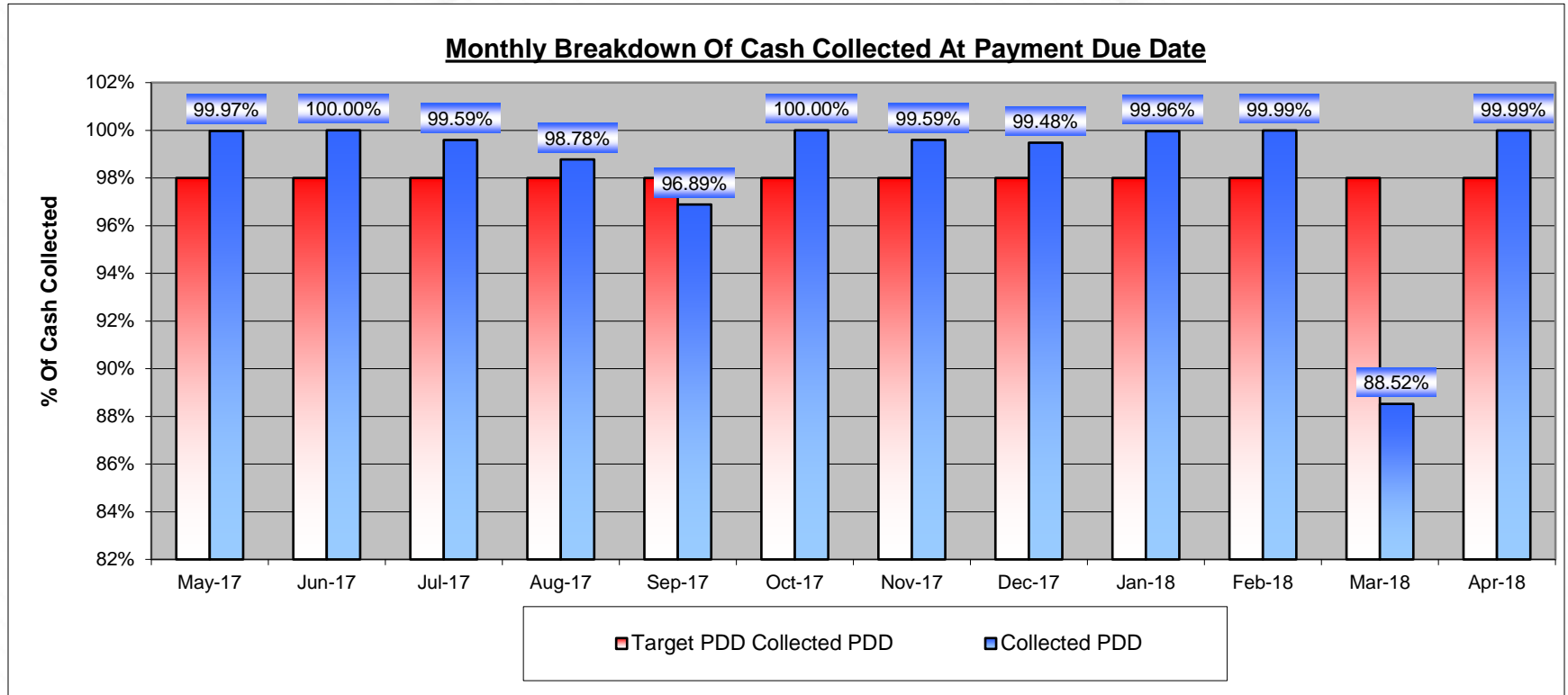


Cash Management

Cash Management

- All Energy Invoices must be settled in full on the Payment Due date (PDD) and queried after any adjustments are processed on a future Energy Balancing against the associated adjustment charge type.
- Where a User fails to make a payment on the due date a Failure to Pay Notice (FTPN) is issued on PDD + 1 day and a copy is issued to Ofgem.
- If payment is not received by PDD + 3 days an emergency EBCC meeting will be convened to discuss the next course of action, which may result in a Termination.
- Late payment Interest charges are incurred in accordance with the Late Payment of Commercial Debts (Interest) Act

Cash Management Performance





Accounts Receivable

Accounts Receivable

- Ensure all Energy Balancing Invoices which are issued with an overall Credit balance, are paid to customers on the payment due date.
- Monitor all receipts and payments within the Credit Risk process
- Allocate payments.
- Reconciliation of the Neutrality account, SAP, Gemini and AMS Banking System.

Energy Balancing Neutrality

- National Grid must remain ‘Cash Neutral to these Energy Balancing Activities’
- Any costs and revenues incurred by National Grid are therefore allocated back to the shipper community via a ‘smear’ on the Energy Balancing Invoice
- The smear to each shipper is calculated based on their throughput as a proportion of the total community throughput
- Throughput is defined as the total inputs and outputs into the system



Energy Balancing Useful Links

Energy Balancing – Useful Links

- Joint Office <https://www.gasgovernance.co.uk/>
- Energy Balancing Credit Rules
<https://www.gasgovernance.co.uk/sites/default/files/ggf/EBC%20Rules%20V3.28%20Final.pdf>
- UNC Section X
<https://www.gasgovernance.co.uk/sites/default/files/ggf/page/2017-07/TPD%20Section%20X%20-%20Energy%20Balancing%20Credit.pdf>
- EBCC Meetings/Agenda'/Operational Stats
<https://www.gasgovernance.co.uk/EBCC>
- Email account for raising all Credit Risk related queries
.box.xoserve.CRM_Securities@xoserve.com
- Energy balancing Cash Collection queries to
xoserve.crm@xoserve.com

The logo for xserve, featuring the word "xserve" in a blue, sans-serif font. The "x" is stylized with a double arrow pointing left and right. The background of the slide features a faint, light blue grid pattern that forms a house-like shape with a gabled roof.

xserve

Any Questions?