

CMP311 WG5 NGESO defect and impacts

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Background and the defect

- User allowed credit is a free facility offered by NGESO to all electricity suppliers (approx. 115).
- 1 of the 3 areas of credit available is Payment History allowance (PHA)
 - This is a credit facility that builds up monthly over 5 years up to approx. £6m per supplier.
 - This credit remains in place after the 5-year period
- There is currently £708m available credit with PHA and £187m is being utilised by suppliers.
- This credit facility was set up (driven by Ofgem best practice guidance set in 2005) when there were many fewer suppliers and NGESO was part of NGET and owner of billions of pounds worth of assets.
- PHA is now inappropriately large for NGESO business and allows often poorly run suppliers to get into difficulty before we have time to act.
 - Note: Removing PHA after payment default does happen in line with CUSC but for poor suppliers is often ineffective
- **Defect: This PHA model is no longer fit for purpose for NGESO as a now asset less business with a max of 30m profit attainable per annum, rather than a network owner with billions of pounds worth of assets to secure PHA against**
 - Who would offer this level of credit where an organisation extends credit well beyond its own OTE/asset base?

Consumer and NGENSO impact

- In 2018/19 10 x suppliers went into administration leaving £1.5m to be recovered, there is no guarantee for this to be recovered by NGENSO via future TNUOS. Ofgem decide.
- If this money is recovered by future TNUOS (2 years later) consumers will be paying double for this money and interest accrued.
- NGENSO cashflow is affected as TOs still must be paid in this time.
 - There is a real cost to NGENSO here from drawing on this capital or fees paid to investors.
- NGENSO has a licence requirement to keep a bbb rating, these bad debts could affect that
- With NGENSO as an asset less business and Supplier failures increasing, the risk to NGENSO and cost to consumers has increased and could increase in the future
 - For example, an existing small/medium size supplier who misses 2-3 invoices and leaves it as a bad debt could owe NGENSO between £5-20m
 - A market where suppliers are continuing to fail leaves consumers paying for the failures
 - It also could discourage new suppliers to the market if consumers become more cautious and less likely to shop around for the best deals.

Wider industry issue

- Other network codes and operators do not offer this level of credit.
 - The UNC (Gas code) only offers 2 years of PHA credit and removes the facility after this time.
- Credit changes have been proposed in DCUSA, BSC
- A Supplier Licence Review is happening which is also looking to address supplier failure
- The best practice guidance written by Ofgem in 2005 has been confirmed as current by Ofgem, but NGESO believe that our new business model is no longer aligned with it.
 - The document was written nearly 15 years ago and with network owners with assets in mind.
 - Best practice can be reviewed in the event of a significant or material change in the industry
 - legal separation is a significant change

Questions?