

Ofgem's conclusions on best practice guidelines for Network Operator credit cover - brief background and initial thoughts

Paul Murphy – Commercial, Charging and Revenue

Brief History

- **March 2002** - Arrangements for gas and electricity supply and gas shipping credit cover consultation
- **February 03** - Arrangements for gas and electricity network operator cover
- **August 03** – Working Groups – Credit Cover Steering Group
 - Remedies for payment default
 - Protection of credit exposure
 - Payment terms & billing and collection procedures
 - Identification and assessment of credit exposure
- **September 04** - Recommendations for best practice guidelines for gas and electricity network operator credit cover
- **March 05** - Best practice guidelines for gas and electricity network operator credit cover – conclusions document

Ofgem Proposals

Proposal	CUSC - currently	NGC on the Record (response to Sept 04 consultation)
Unsecured Credit Limit 2% of Regulatory Asset Value (£120m)	There are no credit limits within CUSC subject to the party meeting the “NGC credit rating”, A- for connections and BBB- for Use of System.	NWOs should set credit limits based on corporate credit risk appetite, with justification provided to Ofgem upon request.
Calculation of value at risk - calculation proposes 6 weeks of UoS charges and monitoring of VAR on a daily basis.	VAR calculated as 10% demand related Transmission Network Use of System charges and 32 days of Balancing Services Use of System charges.	Willingness to accept this calculation methodology would be intrinsically linked to the ability to recover bad debts through pass-through.
Credit Limits for rated Companies – sliding scale based on credit rating as % of unsecured limit	There are only two criteria to obtaining credit within the CUSC both related to the “NGC credit rating”, A- for connections and BBB- for Use of System.	Result in companies that currently meet NGC rating having to post additional security.
Credit Limits for unrated Companies - afford unrated companies up to 2% of credit limit base upon payment history, with an option for independent assessment.	Unrated companies are not afforded any unsecured credit.	Would afford unrated companies up to 2% of credit limit base upon payment history, with an option for independent assessment, which may allow them up to 13%.

Ofgem Proposals contd.

Proposal	CUSC -currently	NGC on the Record (response to Sept 04 consultation)
Independent Assessment of Credit Allowance – three agencies appointed and paid for by NOW.	Assessment is currently carried out 'in house'.	NWO should retain ability to choose agencies to carry out assessment and be able to fully recover costs.
Interest on Late Payments application of late payment of Commercial Debts (Interest) Act 1998	The CUSC allows for interest to be levied on late payments at base rate + 4%.	Adopt improved incentive at base rate + 8%.
Enforcement ability for customers in default - Statutory demands, draconian actions of recovery within short timescales.	CUSC allows for the application of late interest and the ultimate sanction of de-energisation.	Expressed wish for Ofgem to take an 'active' role in enforcing Licence and Code obligations and supporting the general escalation process.
Criteria and arrangements for pass-through of bad debts - 100% dependent on credit and collection procedures. Recovery at next price control.	No explicit arrangements	Bad debts and unrecovered sums should be recoverable via an adjustment to maximum allowed revenue in the formula year following that in which they are incurred.

Next Steps

- NGC to consider further the impact on CUSC of Ofgem's Best Practice Guidelines
- Propose modifications at May CUSC panel
- Implement modifications in order to meet Ofgem deadline - October 05