

15 December 2000

Dear Sir/Madam,

Ofgem's Supplier/Shipper Failure Project

Following Independent Energy's receivership, I am writing to outline the key elements of Ofgem's project to consider all aspects of supplier failure. The project will, in particular, consider what action (if any) Ofgem would need to take in the event of a gas shipper failure.

The project will take into account the lessons learned from Independent Energy's failure. It will consider all aspects of financial risk that occur when a gas/electricity supplier fails and will clarify how Ofgem would select a Supplier of Last Resort.

Ofgem will shortly be issuing a consultation document dealing with supplier failure issues in respect of the Balancing and Settlement Code. We anticipate that in February 2001, Ofgem will publish another consultation document on aspects of financial risk.

Ofgem published a document 'The Utilities Act Standard Licence Conditions Volume 1: Final proposals' on 25 October 2000. This outlined the proposed changes to the licence conditions that deal with the arrangements for appointing a Supplier of Last Resort in the event of a gas supplier failing. At the end of March or the beginning of April we intend to publish another consultation document on all aspects of appointing a SoLR. This will be followed by a decision document at the end of June.

An essential part of the project is to gather information from all relevant parties about what they consider to be the lessons learned from Independent Energy's failure. Ofgem therefore invites you to provide your organisation's views on this by 15 January. You are welcome to comment on any aspect of the process that you consider relevant and it would be helpful if, in identifying any specific problems, you could say whether you consider that there is any particular solution that should be adopted. Your views will be taken into account in considering Ofgem's policies towards financial risk and appointment of a SoLR. You will, of course, have the opportunity to comment on the consultation documents that Ofgem publishes.

Please do not hesitate to contact myself or Nigel Nash if you want to discuss any aspects of the project.

Yours sincerely

Fran Gillon
Manager, Supply