

Fran Gillon  
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3<sup>rd</sup> May 2002

Dear Fran,

**Response to Consultation on Credit Cover**

We welcome Ofgem's consultation on credit cover. We have contributed to and support the joint response prepared by the EA Distribution Commercial Group. The comments below are in support of, or additional to, the joint response.

In common with other distributors, we have experienced the failure of two suppliers, and remain exposed to significant risk of further failure. This risk was not allowed for in our price control, and we have very little real ability to manage our exposure.

We support Ofgem's conclusion that distribution businesses should be protected from supplier failure. We wish to find a solution that minimises our risk, that aids the development of a vibrant and competitive market for electricity supply, and that results in least cost to customers. Both options put forward by Ofgem have the potential to minimise distributor risk, but, on balance, we believe that the pass-through option will best achieve the three goals listed above.

Before we give unqualified support to this option however, it is essential that Ofgem develop a transparent and equitable process that gives distributors full pass-through, provided they behave reasonably.

If, however, Ofgem decide to back the alternative option of security deposits, we would want very clear and rigidly enforceable rules that ensured all suppliers provided and maintained suitable deposits, and that these were protected and readily accessible in the event of failure. To be effective, such deposits would need to be sufficient to cover the worst case scenario of supplier failure. In our view this would mean significantly more than 60 day's DUoS on deposit.

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We would be happy to work with Ofgem in developing the details of the processes needed to ensure we achieve a robust and equitable solution to this thorny problem.

Yours sincerely