

**Arrangements for Gas and Electricity Supply  
and Gas Shipping Credit Cover- Industry Seminar  
Ofgem HQ, 9 Millbank, 12 April 2002**

**Organisations Represented:**

Bizz Energy	Maverick Energy
British Energy	National Grid Company
Centrica	npower
Cinergy	Ofgem
Corus Group	Powergen
Dynegy	Royal Bank of Scotland
Eastern Power Networks	Scottish and Southern Energy
East Midlands Electricity	Scottish Power
Electricity Direct	Seeboard
ELEXON	Shell
energywatch	Total Fina Elf
ENMO	Transco
Logica EPFAL	TXU Europe
GPU	Western Power Distribution
Goldman Sachs	Williams
London Power Networks	YEDL/NEDL
Manweb	

**1. Introduction**

- 1) Iain Osborne welcomed those present to the seminar. He said that it had been organised so as to allow the industry to debate the issues raised in Ofgem's March 2002 consultation document 'Arrangements for gas and electricity supply and gas shipping credit cover' before submitting responses, which had a 7 May deadline.
- 2) Iain Osborne gave an overview of the agenda for the day's events and confirmed that the minutes of the meeting would be circulated to all attendees and any other person who had requested a copy during the week commencing 22 April. He added that they would also be placed on the 'Supplier/Shipper Failure' pages on the Ofgem website, the address of which was [http://www.ofgem.gov.uk/projects/supplierfail\\_index.htm](http://www.ofgem.gov.uk/projects/supplierfail_index.htm)

**2. Overview of Ofgem's March 2002 consultation document 'Arrangements for gas and electricity supply and gas shipping credit cover'**

- 1) Fran Gillon introduced herself as Ofgem's Head of Retail Competition and Supplier Failure Regulation. She said that the credit cover consultation fell within the remit of Ofgem's 'Supplier / Shipper Failure' project, which had been initiated in December 2000 following the failure of Independent Energy. She said that further information about the project and the work to date could be found via the website pages mentioned by Iain Osborne.

- 2) The purpose of the March 2002 consultation document had been to open a consultation process with the gas and electricity industries and other interested parties about the costs to which parties are exposed when a gas or electricity supplier or gas shipper fails. The document considered and requested views on whether the current arrangements were an appropriate way to manage the risk of failure and minimise the overall cost of potential and actual failure.
- 3) Fran Gillon said that under the present arrangements, there were various types of credit cover that could be provided by parties active in the markets. She said that the type and amount of credit cover were determined by the relevant industry codes governing the supply of electricity and the supply and shipping of gas. She said that these were the 'Network Code' (NWC) for gas balancing and transportation, the 'Balancing and Settlement Code' (BSC) for electricity balancing, the 'Connection Use of System Code' (CUSC) agreement in electricity transmission and the 14 'Distribution Use of System' (DuoS) agreements in electricity distribution.
- 4) The various forms of credit cover used in the industries included Approved Credit Ratings (ACRs), i.e. credit ratings assigned by specialist credit rating agencies and defined in the various industry codes, Parent Company Guarantees (PCGs), Letters of Credit (LoCs), cash, bonds and advance payments. She said that the BSC was unique in that it only allowed LoCs or cash to be provided as credit cover.
- 5) Fran Gillon said that since full competition in gas and electricity there had been 2 significant company failures, Independent Energy (IE) in September 2000 and Enron in November/December 2002.
- 6) Fran Gillon said that the appointment of administrative receivers and administrators to the various companies of the Independent Energy Holdings plc group had been the culmination of a failure that had occurred over a relatively long timescale. She said that IE had been experiencing billing problems in early 2000, and that Ofgem had introduced a special licence condition into the company's electricity supply licence in May 2000 preventing the company from marketing to or registering new domestic customers until it could meet billing standards. Administrative receivers and administrators were eventually appointed to the various IE companies on 8 September 2000, and the portfolio of customers was purchased by Innogy plc.
- 7) Various industry parties were left with bad debts following IE's failure; £28m owed to Electricity Pool Members and £19m owed to Distribution Companies (DisCos), the majority of which was passed through the price control mechanism. ELEXON pointed out that the £28m owed to the Electricity Pool was that remaining after the credit cover provided by IE had been exhausted.
- 8) Fran Gillon said that Enron had failed over a much shorter timescale than IE. She said that as with IE, a number of industry parties had been left with bad debts. Enron had held ACRs and PCGs for both transportation and balancing, and an additional LoC for balancing, which had covered the balancing bad debts.

The indications from the administrators on the expected dividends to be paid meant that DisCos could expect between £4m and £8m in bad debts. As of the date of the seminar it was not clear as to how much Ofgem would allow to pass through the price control mechanism.

- 9) A customer group representative said that in both situations larger customers had been at risk from de-energisation, and that he did not believe that larger customers should be given any less protection than that afforded to smaller customers. Fran Gillon explained Ofgem's powers to appoint a 'Supplier of Last Resort' (SoLR) and said that Ofgem did not want to see any class of customer disconnected following a supplier failure.
- 10) A group attendee said that at a recent NWC Energy Capacity Workstream meeting the solution considered by the group had been that customers under the threat of disconnection should be able to quickly move to another supplier. Under existing industry processes, however, this was not feasible. In addition to transfer timescales, contracts tying customers to failing suppliers also prevented customers moving at short notice.
- 11) A group attendee said that during the failures of IE and Enron there had been much discussion about the threat of disconnection. She asked whether this was ever likely to happen in practice. Fran Gillon said that if it happened at all it was much more likely with very large customers than with domestic sites.
- 12) A DisCo representative said that no DisCo would want to disconnect a customer, but that in the case of IE, due to the absence of SoLR powers before the commencement of the Utilities Act 2000, it seemed to be the only option until the trade sale to Innogy occurred. He said that he did not believe that electricity should be different from other industries, where if a company being dealt with by another company began to default on payments, the company owed the payments would stop supplying services.
- 13) Fran Gillon said that the main proposals outlined in the document were to abolish the credit options of ACRs and/or PCGs, to align credit requirements for gas balancing with the BSC (i.e. allow LoCs or cash only), and for the Network Operator credit regime to move to LoCs or cash only, to 100% price control pass through (subject to incentives), or a mixture of both. She said that Ofgem was not ruling out other options, and that companies with ideas or suggestions should put these forward as part of the consultation exercise.
- 14) Fran Gillon presented a slide showing some basic costing information about the credit situation under the present regime. She said that at present the amount of credit in electricity distribution stood at approximately £528m, for gas transportation the equivalent figure was approximately £812m, and for gas balancing the figure stood at around £180m. Providing LoCs for this would cost between £9m-£11.5m. Taking into account that some companies already provide LoCs/cash this would represent an additional cost of £5m-£7.5m.
- 15) A group attendee said that the data did not take account of the fact that many companies participate in both industries, and that the total cost to these larger players of providing LoCs due to having to lodge a number of LoCs would be reduced.

Fran Gillon noted the point and said that the presented data was a guide only. She said that Ofgem hoped that companies would provide costing data as part of their responses.

- 16) Fran Gillon said that the main issues to discuss were the costs, advantages and disadvantages of the proposals along with the usefulness of escalation procedures.
- 17) A group attendee said that she believed that most organisations would rather have a PCG from a large multinational as opposed to a LoC from a bank with a potentially lower credit rating. She said that she did not see it as Ofgem's role to be dictating what should be normal commercial arrangements between organisations.
- 18) Iain Osborne addressed Ofgem's reasons for consulting later on in the 'context/rationale' section of the seminar (section 4 of the minutes).
- 19) A group attendee said that she was very worried that the consultation document showed that there was a large over-provision of credit in electricity. She said that despite this, Ofgem seemed to be saying that this model should be adopted by the rest of the industry. She said that Ofgem did not understand the cost to the industry of the proposals outlined in the document, and that in 11 years of competition the total amount of actual bad debt had been insignificant.

### **3. Credit cover in NETA**

- 1) Iain Osborne introduced Martin Wiles, Credit Analyst at Logica EPFAL, who had agreed to give a presentation on behalf of Logica EPFAL on the credit cover arrangements under the BSC.
- 2) Martin Wiles said that Logica EPFAL acted as the BSC Funds Administration Agent (FAA). EPFAL had been formed in 1990 as a subsidiary of the National Grid Company and had fulfilled the role of funds administrator for the Electricity Pool. It had successfully tendered for the role of FAA under the BSC and in February 2001 it became a subsidiary of Logica.
- 3) Martin Wiles explained that the BSC credit policy required 100% securitisation, which must be provided through either cash or LoCs. ACRs or PCGs were not accepted.
- 4) LoCs were accepted only from an issuing bank with an A-grade or higher ACR, and were subject to International Chamber of Commerce rules. The LoC must be of a standard wording, as defined in the BSC Annex M-1, making them easy to call upon in the event of default. Criteria were set out in the BSC section M 2.2.
- 5) Martin Wiles explained that the value of credit cover was set to cover a 29-day trading period. The Credit Assessment Price (CAP) was designed to avoid price spikes and was set at £25 + VAT = £29.38. CAP is used to convert energy imbalance in MWh to a cost in GB£. An example was given where a trading party incurred an energy imbalance of 1,000 MWh per day.

Multiplying this by 29 days for the trading period, and by CAP, gives a total energy indebtedness of £852,020. If the trading party lodged £852,020 credit cover its level of indebtedness would be 100%. Martin Wiles explained that in practice, to avoid going into credit default an amount in excess of £852,020 would need to be provided so that the level of indebtedness stayed below 80%.

- 6) Credit policy was covered in the BSC under section M. Credit default could occur at two levels, 'Level 1 Credit Default, and 'Level 2 Credit Default'. Martin Wiles explained that Level 1 kicks in when a party becomes indebted at 80% of credit cover, at which point that party would be required to either trade down or increase credit cover. At Level 2, in which indebtedness reaches or exceeds 90%, the possibility of contract notification refusal or rejection exists. At both default levels, the party is named on the ELEXON website as being in default.
- 7) A group attendee asked for clarification of the number of parties who had been in default since NETA began. ELEXON said that two parties had been in Level 1 and Level 2 default during the early days of NETA, and that these instances were due to the commencement of the new trading arrangements.
- 8) Martin Wiles said that a borrowing facility existed in electricity that could be used as an interim emergency fund to cover non-payment and banking errors, and to deal with the timing difference between calling on and receipt of collateral. The borrowing facility can only be used in accordance with Section N of the BSC. ELEXON confirmed that the fund value was defined in the BSC and that it stood at £4m.
- 9) Martin Wiles said that changes to the BSC credit policy could be proposed using the Modification procedures which includes industry consultation.
- 10) It was explained that the current total credit value provided by NETA participants stood at £455m, of which £30m was cash and the remainder LoCs. This could be justified by the long timescales involved in running off a liability once failure occurs.
- 11) Martin Wiles said that in his view, although the Enron failure had highlighted the risk involved in accepting credit ratings, if used correctly they could be valuable. He said that there was, for instance, a great deal of difference between the creditworthiness of a triple B- rated organisation and a triple A rated company.
- 12) A group attendee asked about the possibility of insurance as a means of covering potential supplier default. Martin Wiles said that he foresaw one problem as being whether any insurer would consider providing it. He said that there was also the issue of whether insurance should be provided by each organisation individually against its own operations and signed to ELEXON, or arranged by ELEXON on behalf of the market as a whole<sup>1</sup>.

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<sup>1</sup> NOTE – this would require significant changes to the BSC

- 13) A group attendee said that industry participants seemed to be going 'over the top' in worrying about credit cover. He said that in the early days of competition, the industry did not consider in great detail the possibility of default and how the risk would be mitigated. He said that in over a decade of competition, only 2 significant failures had occurred.
- 14) Martin Wiles said that some larger market participants had informed him that they would be prepared to increase their own credit cover as long as all players in the market did so. This would mitigate further the possibility of having to pick up smearing charges as a result of other parties failing. He added that larger participants may have lower costs of capital.
- 15) A group attendee said that after one year of NETA, many market participants were now in the process of renewing LoCs and cash credit. He asked whether EPFAL had seen the re-calculated amounts increase or reduce.
- 16) Martin Wiles said that some had been renewed 3 and 6 months into NETA, and that although there had been some minor adjustments to those lodged in respect of the BSC, there had been no significant increases or decreases. He said that the total amount provided by the industry currently stood at around £455m, compared to a level of £500m around the start of NETA.
- 17) A group attendee asked about the average % that companies choose to lodge credit cover over the required level. Martin Wiles said that some parties remain very close to the required level, whilst many larger participants with access to cheaper credit go somewhat over. It is the party's responsibility to determine how much credit cover to lodge. Some parties may have chosen to lodge amounts in excess of their historic trading position.
- 18) Martin Wiles said that it was important to consider that LoCs are not entirely risk-free. He said that there had been a recent situation where a bank had refused to pay on a LoC called upon by EPFAL, and that ELEXON Clear Ltd pursued the bank for a period before it received payment.
- 19) A DisCo representative said that some DisCos had suggested that a receiver may attempt to use security held by a DisCo. He said that DisCos would have an amount of distribution cost that the failed company had used but not been billed for, and that if the receiver called security back in before these invoices could be generated, the DisCo could face exposure.
- 20) Martin Wiles said that he did not see this as a problem under the BSC as monies were held as security until all amounts owed had been called on.
- 21) Fran Gillon asked for clarification as to what would happen to any debt that exceeded credit cover. Martin Wiles explained that this would be smeared across all other market participants.
- 22) Transco asked how often EPFAL called upon LoCs. Martin Wiles said that this occurred regularly, but for varying amounts. He said that the FAA is obliged by the BSC to call on credit if a party does not pay by a certain specified date. Transco asked about the borrowing facility.

Martin Wiles said that the use of this fund was laid down in the BSC, and that it could only be used to balance for up to 2 days.

- 23) A group attendee asked why no losses had occurred under NETA following the failure of Enron. Martin Wiles confirmed that as far as credit lodged in respect of BSC requirements this was due to a suitably sufficient LoC. If the LoC had not been sufficient the remaining bad debt would have been smeared to all other market participants.

#### **4. Context/rationale – why Ofgem considers that credit cover issues need to be addressed**

- 1) Iain Osborne said that Ofgem felt it necessary to consult on the current credit cover arrangements because the existing regime did not appear to be adequate. He said that Ofgem was working on an assumption that failures will occur again, and said that it would be rash for the regulator to work on any other assumption. He added that Ofgem sought only to get involved in matters where it felt that it was necessary and appropriate, but that because of the cost implications for customers, Network Operators and other market participants when a supplier or shipper fails, there was a need for regulatory intervention.
- 2) Iain Osborne said that in addition, Ofgem regulated the prices charged by Network Operators, and that because of this the regulator could not put these organisations in a situation where they lose money and are unable to fund their activities. Network Operators are obliged to contract on non-discriminatory terms.
- 3) Iain Osborne said that Ofgem is guided by statutory obligations, with the overriding objective of protecting customers, where appropriate through promoting effective competition. He said that the current arrangements did not seem to fulfil these statutory duties. He said that an example was the situation many smaller players found themselves in, with the requirement to provide large amounts of cash to Network Operators whilst larger players could rely on ACRs, which, as the Enron situation had demonstrated, were not 100% reliable.
- 4) A group attendee said that there were particular reasons why Enron had failed. She said that credit rating agencies were now under extreme pressure to ensure that they correctly assess the creditworthiness of organisations applying for ratings.
- 5) A group attendee said that an 'Investment Grade' credit rating did not completely rule out the possibility of default; a rating states that the 5 year default risk posed by the rated organisation is less than that of organisations with lower ratings.
- 6) A group attendee said that she understood the reasons why Network Operators needed protection, but that she felt Ofgem were completely against risk, which, she said, was an underlying characteristic of those companies competing in the gas and electricity industries. She added that the costs to industry participants resulting from the failure of IE and Enron were minimal, and that most companies would be happy to accept occasional smearing charges on this scale if it meant that they could compete in a dynamic marketplace.

- 7) Iain Osborne said that he understood this reasoning, but that there was a big difference between taking a risk on one's own behalf and taking a risk on another party's behalf, which was the way the markets work at present. He said that it was a major problem that the present industry arrangements had the effect of bearing down differently on different players in the market.
- 8) A group attendee said that he did not completely understand Ofgem's reasoning. He said that he understood the aim of protecting customers by competition where appropriate, but that he was hearing from Ofgem that the regulator did not like companies to take risks, which, he said, were the very actions that would lead to lower prices for customers.
- 9) Iain Osborne reiterated that Ofgem saw it fair that the companies taking the risks should bear the risk. The Network Operators are not allowed to refuse a risk. He said that the issues people were bringing up at the seminar were the very discussion points Ofgem wanted to see in the consultation responses.
- 10) A group attendee said that smaller players had no choice if they wanted to supply but to use the Network Operators, and that to do this they were forced to put up either cash or LoCs. He said that the electricity industry wrote off hardly any debt, and that smaller players find it very difficult to grow beyond a certain size because this requires an increase in the amount of security that needs to be provided. He said that there was a substantial over-provision of credit cover in the industry, and that this was not needed as the amount of bad debt incurred in electricity since the industry had opened up to competition was insignificant.
- 11) A DisCo representative said that he wished to raise the point that DisCos have no choice about who they trade with. He said that DisCos were obliged by their licences to offer terms, and that a clear method about how potential losses should be dealt with was overdue. He said that whilst he understood the points raised by supply market participants, credit cover or some other way of covering losses incurred by DisCos was a necessity.

## **5. Implications of changing to letters of credit / cash**

- 1) Fran Gillon said that the methods for calculating indebtedness have a direct impact on the level of credit cover required. She said that this it was also important to consider what the appropriate escalation procedures should be, and how, exactly, Network Operators should be able to call upon credit provided. She said that all of these issues would need to be considered in the final framework.
- 2) A DisCo representative said that there was presently no ultimate sanction that could be called upon if a supplier defaulted. He said that IE had failed to keep its LoCs up to date, and that it seemed reasonable to consider the proposal for pass-through of bad debts via the price control.
- 3) Transco said that it would be helpful if it explained the sanctions available to Transco in respect of transportation credit provision. Upon reaching or exceeding 85% of transportation credit cover Transco had the ability to stop the shipper from making new registrations or from booking any new capacity.

- 4) A group attendee said that when it became apparent that IE was in real financial strife, many large customers wanted to sever ties with the company and find a new supplier. However, due to onerous contracts, these customer had no choice but to remain with IE until either the company resolved its problems or became insolvent. He suggested that there could be a licence condition that meant that should a supplier default on a payment or get into financial difficulty, all customers should be able to cancel contracts and transfer to a new supplier.
- 5) Iain Osborne said that groups representing large customers could look at the options for including such terms and conditions in future contracts, but that it would inappropriate for Ofgem to become involved in matters of commercial contract, for which the regulator had no remit.
- 6) Fran Gillon said that the recourse was customer education. If a customer is unhappy with the terms of a contract, that customer should consider carefully the implications of signing it. She added that customers should not necessarily think that just because suppliers hold licences that they are guaranteed as financially stable.
- 7) A group attendee said that she understood the queries about contract terms, but that the real problem was the sheer amount of time it takes to transfer from one supplier to another. Fran Gillon said that it was important for the seminar to bear in mind that should a supplier become insolvent, Ofgem has the power to revoke that supplier's licence and appoint a SoLR. She said that upon being assigned to the SoLR, all existing contracts were null and void, and the customer would be supplied on a deemed contract until such time as s/he either signed a contract with the SoLR or transferred to another supplier, which s/he would be entitled to do.
- 8) A group attendee said that the SoLR process only worked once a supplier failed, and that the main problem for DisCos was getting suppliers to put up enough credit cover in the first place.
- 9) Iain Osborne asked about the usefulness of court action. Transco said that in a normal commercial situation, if you took a party to court you would cease to trade with that party. In gas and electricity the Network Operators would not have this option and would watch indebtedness rack up whilst they waited for a court to make a decision.
- 10) A group representative said that it was far easier to deal with non-payment as opposed to topping up credit cover.
- 11) A DisCo representative said that more clarity over the suspension of registrations was key. He said that over a single week this would not carry much weight, but that over a sustained period of time it would be a powerful sanction.
- 12) Transco said that under the gas balancing credit arrangements there was no obligation for shippers to provide any credit if they decided not to. In the case of the failure of IE, the company had maintained adequate credit cover until just prior to the failure.

## 6. Implications of using price control

- 1) Iain Osborne said that one of the proposals put forward by Ofgem in the consultation document was that of price control pass-through of Network Operator bad debt in supplier / shipper failure scenarios.
- 2) He said that while this seemed to be a very simple, easy to understand option, Ofgem and the industry would need to think hard about how parties might behave if this proposal was adopted. He said that Ofgem would be worried if adopting the price control proposal lead to a reduction in the amount of effort expended by Network Operators in chasing bad debt. He said that some form of incentive scheme would have to be worked into any proposal so that only those Network Operators who made all reasonable attempts in billing and chasing bad debt would be allowed to claim 100% pass-through.
- 3) Iain Osborne said that in the case of Independent Energy, Ofgem had allowed DisCos some pass-through, and consideration was currently being given to the amount that should be allowed as pass-through from the Enron failure.
- 4) A DisCo representative said that DisCos would be happy to move to a pass-through regime based in incentives as long as the steps that DisCos would have to take in order to receive 100% pass-through were clear, transparent, and known in advance. He said that he would be concerned if the decision was left up to regulatory discretion as it would place uncertainty on DisCos.
- 5) A group attendee said that there seemed to be more methods adopted by DisCos for the collection of DUoS charges than there were Distribution regions, and that it would be extremely difficult for Ofgem to measure which DisCos had taken all reasonable steps to chase debt compared to those who had not.
- 6) A DisCo representative asked for clarification from Ofgem as to what the incentives might be. Iain Osborne said that while these would be likely to cover the timeliness and accuracy of billing, the Network Operators chasing of overdue bills, the chasing of bad debt and appropriate use of the courts, Ofgem was seeking views from industry participants on this matter in responses to the document.
- 7) A DisCo representative said that in the past Ofgem had been guilty of giving mixed messages to Network Operators. He said that during the build up of the failure of IE Ofgem had been informing DisCos that they should be doing everything possible to stop the build up of bad debt, whilst at the same time saying that DisCos should not be considering disconnecting customers.
- 8) Transco said that the organisation had always had concerns over Ofgem's use of its SoLR powers. These concerns were centred around the use of the words 'Ofgem may revoke the licence of a failed company and appoint a SoLR' in the licences. Network Operators would always be left with some uncertainty, and those market participants who would pay for any balancing bad debt through the smearing mechanism would face similar uncertainty.

- 9) Fran Gillon said that parties interested in finding out more about Ofgem's SoLR powers and the procedures that would be followed in the event of a supplier failure should consult the March 2001 Guidance Document, which could be obtained at the Ofgem website address Iain Osborne had given earlier in the seminar.
- 10) Iain Osborne asked attendees for views on how the pass-through mechanism might work in the case of the failure of a very large supplier. A DisCo representative said that there would be a big effect on the immediate position of the Network Operator, especially if it were an ex-monopoly area supplier that had failed.
- 11) A DisCo representative said that his DisCo was planning to recover about £1.6m over the coming year from the allowable IE pass-through. He said that if a large supplier were to fail, DisCos would not be comfortable with passing through large sums over a long period of time.

## **7. Other options**

- 1) Fran Gillon said that whilst the consultation document had proposed some possible ways forward for industry credit cover, Ofgem had not ruled out the possibility of considering other alternatives. She said that these might include mutualisation, for example a mutual insurance policy or compensation fund, credit pools, or commercial insurance. She added that it was important to consider that smearing of all bad debts was also an option that would need to be looked at.
- 2) Fran Gillon said that the advantages of mutualisation were that the cost could be shared amongst the industry, and that the fund could be set at a level less than the total credit already provided. If the total amount available from the fund was exceeded, any additional bad debt could be passed-through the price control mechanism. Mutualisation would also have a lower total cover and so would be potentially more efficient.
- 3) The disadvantages were that robust rules about how the costs should be apportioned to parties based on risk would need to be developed, especially relating to the possibility of strong creditworthy parties providing a cross-subsidy to less creditworthy parties. An administration cost of running the scheme would also apply. Various attendees representing strong creditworthy companies said that they would be relaxed over the possibility of cross-subsidising less credit worthy parties if this option was pursued.
- 4) On the subject of credit pools, Fran Gillon said that Ofgem had considered the provision of two pools – one for suppliers providing ACRs/PCGS, and another for those with LoCs/cash.
- 5) The drawbacks would be the difficulty in deciding who should be eligible for each pool, as higher rated parties would have an incentive to exclude lower rated parties, and the ability of parties included in a pool to 'jump ship' to the other pool if a member of the original pool experienced financial difficulties.

- 6) Fran Gillon said that the final proposal Ofgem had detailed in the document was the potential for commercial insurance. This could take the form of either a policy purchased by Network Operators with premiums passed on to suppliers and shippers as part of, or as a supplement to, Use of System charges. Alternatively, suppliers/shippers themselves could take out individual policies.
- 7) A DisCo representative said that his organisation had considered the possibility of insurance but that it was very unlikely whether any insurer would consider offering such a policy because of the risk.
- 8) A group attendee said that it may be possible to define the rules in such a way so that the industry had a far more certain regime, making the policy more attractive to insurers.
- 9) A banking representative said that banks have tight rules governing insurance claims, and said that seminar attendees should also be aware that LoCs take up bank credit lines. Banks could be willing to offer insurance as a syndicate, although in order to cover the first loss banks would require some form of equity.
- 10) Iain Osborne said that a representative had mentioned earlier in the meeting that changing Network Operator invoice cycles could have a marked effect on the amount of credit cover that required by suppliers and shippers.
- 11) Transco said that in the case of its organisation this would be extremely difficult and very expensive.
- 12) Distribution Companies said that this would be difficult to action, and that even if this option was pursued, the timescales for making the changes would not be short term. A representative said that a reduction to weekly billing from monthly billing would not necessarily reduce the amount of credit cover required by enough to make the change worthwhile.

## **8. Summary, next steps and close**

- 1) Iain Osborne said that the seminar had been very useful for Ofgem in understanding the position of the different industry participants, and that he hoped it had also been useful for those who had attended.
- 2) He said that the formal closing date for responses was Tuesday 7 May, but that respondents were welcome to respond before this time if it was preferred. He said that Ofgem is keen to publish non-confidential responses, and that confidential responses or confidential parts of responses should be clearly marked-up. He added that where possible, Ofgem preferred to receive both a hard copy and electronic copy of responses so as to make it easier to place them on the website, and that responses should be sent to Fran Gillon at:

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SW1P 3GE

and also via email where possible to [Fran.Gillon@ofgem.gov.uk](mailto:Fran.Gillon@ofgem.gov.uk)