

# Credit cover

Ofgem industry seminar

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# Overview

- Types of credit cover
- Supplier/shipper failures
- Bad debt - gas and electricity
- Main proposals - outline
- Cost
- Issues arising so far

# Types of credit cover

- Industry codes and agreements allow:
  - Approved Credit Rating (ACR)
  - Parent Company Guarantee (PCG)
  - Letter of Credit (LoC)
  - Cash
  - Bonds
  - Advance payment

# Supplier/shipper failures

- Independent Energy
  - timescale
  - bad debts with various industry parties
  - threat of customer de-energisation
- Enron
  - timescale
  - bad debts with various industry parties

# Bad debt (Gas)

- Independent Energy
  - LoC for transportation
  - LoC for balancing but additional money owed
- Enron
  - ACR/PCG for transportation
  - ACR/PCG for balancing

# Bad debt (Electricity)

- Independent Energy
  - £28m owed to Pool
  - £19m owed to Distribution Companies
- Enron
  - LoC for balancing
  - £16m owed to Distribution Companies (£4-8m)

# Main proposals - outline

- No more ACRs/PCGs
- Align credit requirements for gas balancing with BSC (LoC/cash only)
- Networks:
  - LoC/cash only
  - price control
  - combination
- Other options

# Cost

<b>Activity</b>	<b>Amount provided</b>	<b>LoC cost</b>	<b>Additional cost</b>
Electricity distribution	£528m	£3-4m	£2.5 - £3.5m (£502m)
Gas transportation	£812m	£5-6m	£2.7 - £3.7m (£536m)
Gas balancing	£180m	£1-1.5m	£0.1 - £0.2m (£18m)
<b>Total</b>		<b>£9–11.5m</b>	<b>£5.3 - £7.4m</b>



# Issues

- Cost of new arrangements
- Escalation procedures, enforcement, incentives
- Impact of settlement timescales
- Calculation of indebtedness
- Exposure to banks providing LoCs
- Impact on other areas (gas capacity auctions)