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

SUBJECT	ISSUE
Reason for Consulting	2 significant supplier failures since full competition Industry concerns as to whether the current credit cover arrangements are appropriate e.g. – barriers to entry for new suppliers, barriers to growth for smaller suppliers
Customers of a Failing Supplier	Industry processes do not currently support quick transfer to a new supplier Contract terms (in the case of I&C customers) often bind the customer to the supplier for a fixed period of time, and do not allow transfers to another supplier unless the failing supplier becomes insolvent or if a large termination fee is paid. Customer groups should take forward proposals for changing contract terms and for educating customers that suppliers are participants in a competitive market, and that from time to time companies fail. Having a licence to supply is no guarantee of financial stability.
Costs of Proposals in the Consultation Document	Respondents are invited to provide costing information about each of the proposals
Cash and LoCs	Cash and LoCs raise different issues for consideration, particularly on cost. Costs of LoCs have increased significantly since the failure of Enron
Insurance Scheme	Seminar attendees expressed interest in further work on the opportunities that exist for providing some form of 'insurance' scheme rather than moving to a regime that only allows LoCs or cash Insurance potentially a much cheaper option, especially if linked to other changes e.g. shortening of Network Operators invoicing cycles
Indebtedness and Escalation Procedures	Methods used to calculate of indebtedness may not be sufficient Escalation procedures, including the ability of Network Operators to call on credit cover need to be considered further Network Operators regard sanctions restricting registrations by failing suppliers as a 'strong threat'
Price Control Pass-Through	What steps would Network Operators need to take when invoicing failing suppliers/shippers and chasing bad debt in order to be granted 100% pass-through of costs? Implications, particularly on smaller parties, of pass-through of bad debt resulting from the failure of a very large supplier/shipper