

## Ofgem credit cover seminar

### Panel Discussion

- Small supply business – an efficient supply business could be argued to have only minimal fixed assets and would not be expected to have large amounts of spare cash to provide credit cover. How would you define a well run supply business and assess its credit risk?

It would be expected that the business is financed properly, such that all contractual arrangements can be met. This would be a factor in assessing a supply business' credit risk.

There seems to be 2 extreme positions either good credit rating or not – need a middle ground. It seems appropriate that a suppliers are assessed for credit risk and the costs of providing the necessary credit cover are borne by the supplier's own customers rather than been spread across all customers.

Suppliers should be managing their customers such that they receive their cash timely and are able to meet their payment obligations. Whether or not suppliers receive payment from customers in a timely manner is not a concern of the DNOs. DNOs should only have to manage suppliers while suppliers should manage their customers.

- There is a considerable amount of cash tied up in credit cover at the moment. This needs to be addressed.

There are possible alternatives to the current credit cover system. These may be complex but they can work in concept, but would need to developing to take into account the characteristics of the energy sector.

Compensation funds and levity pot of money – people don't want to pay these charges up front.

Mutualisation is an option but needs commitment from industry participants.

- Pass through will smear the costs of a supplier failure across all customers whereas by having adequate credit cover arrangements, customers of each supplier pay for their own supplier's credit risk.

Regardless of the nature of the credit cover arrangements, customers will end up paying for the costs. Cheapest form of cover is not mutualisation as it costs more than pass through. This is because companies providing the mutualisation framework will have profit margins. Under a pass through regime only bad debt costs will be recovered by customers – and not a profit element. With the pass through there is a charge for the consumer - like CDI in America

The guidelines/arrangements ought to be for best solution not necessarily for the cheapest option. We need affordable quality.