

Michael Fewes
Ofgem
9 Millbank
London
SW1P 3GE

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Our Reference:
Your Reference:

Telephone: 01738 456400
Facsimile: 01738 456415
Email:

Date: 2 April 2004

Dear Michael

Gas and Electricity Licence Applications – Guidance Document 02/04

Thank you for the invitation to comment on the revised gas and electricity licence applications. I am aware that we have missed your deadline, but I hope you will still be able to reflect one concern we have with the present guidelines in your future policy.

The revised guidance removes the requirement on supply licensees to provide financial information or a statement of business proposals. We are concerned that this relaxation of the licensing requirements will lead to a greater risk of supplier insolvency.

We accept Ofgem's point entirely that no amount of checks can ever guarantee that a supplier will not fail. However, the reverse is demonstrably not the case and in our view a brief check of financial information/business plans would at least root out the very highest risk suppliers. We also believe that the provision of such information would not be onerous for a new entrant supplier since one would presume that any such supplier would have financial forecasts for their own purposes. Indeed, it is likely that detailed financial information and business plans would have been prepared in advance of securing the necessary finance to enter the market.

Against this background, we would urge Ofgem to reconsider removing this requirement from the regulations. If Ofgem nonetheless retain the existing guidelines, we firmly believe that the increased risk to network companies of supplier failure should be recognised in the industry credit arrangements, which are presently under review. I have therefore also copied this letter to Nilesh Chetty.

Apologies for missing your deadline for responses, but I hope this is nonetheless helpful.

Yours sincerely

Rob McDonald
Director of Regulation