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Dear Hannah

**Arrangements for responding in the event that an energy network company experiences deteriorating financial health: Consultation Document**

We have reviewed the consultation document and draft guidance document considering 'Arrangements for responding in the event that an energy network company experiences deteriorating financial health' published by Ofgem on 11<sup>th</sup> May 2009. This letter is our response to that consultation. We have made reference where our comments relate to specific chapters of the guidance document.

We are supportive of the guidance, in that it gives greater clarity as to the practical process of dealing with these circumstances and the specific circumstances when it is considered appropriate to reopen price controls.

We have long been advocates of the existing financial ring-fence adopted by Ofgem and believe Ofgem should continue to reinforce it. Any implied or specific reference to or consideration of other financial structures could have the consequence of passing risk to customers from debt or equity holders.

The guidance document would benefit from added clarity on which elements relate to PECs only and those that are relevant to all energy network companies. This could be achieved either by inclusion of a summary table within the document that highlighted the PEC only chapters or paragraphs or by an indication within each chapter/paragraph.

Chapter 3 of the guidance document sets out the approach and likely pre administration stages of a network company experiencing financial distress. This chapter could be



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improved by extending the section on monitoring financial health to consider the steps Ofgem may take when there is sufficient evidence, through its monitoring arrangements, to suggest that a company may be experiencing deteriorating financial health. Companies are responsible for informing Ofgem of any expected financial distress, however this document should consider the active steps Ofgem will take, on behalf of consumers, to address signs of financial distress in network companies that become apparent through its monitoring arrangements.

The final guidance document will also benefit from addressing whether Ofgem's approach would be different if more than one PEC were to suffer from financial distress simultaneously. It is likely that those events outside of the control of PECs could be such that they affect more than one network company at any given time, causing multiple companies to be affected by the process laid out in the guidance. The guidance document should address what difficulties may arise as a result of this and what Ofgem's approach should be.

The Position Paper issued by Ofgem in December 2008, and this consultation document, made reference to a simulation or 'War-Games' exercise. The consultation would have benefitted from including a section including details on what this exercise involved and the findings of it, and whether this has altered Ofgem's guidance that has been issued. We would appreciate it if this could be included as part of the publication of the final guidance.

I hope that you find our response valuable in finalising the guidance document and if you have any questions please do not hesitate to contact either me or Angela Tyler ([angela.tyler@central-networks.co.uk](mailto:angela.tyler@central-networks.co.uk)).

Yours sincerely

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