

Proposal for a Capacity Market Rules Change



Making a positive difference
for energy consumers

Reference number (to be completed by
Ofgem): CP309

Name of Organisation(s) / individual(s):
First Utility Limited / Jeremy Guard

Date Submitted:
16/10/17

Type of Change:

- Amendment
- Addition
- Revoke
- Substitution

If applicable, whether you are aware of an alternative proposal already submitted which this proposal relates to:

Not aware of any alternative proposal.

Proposal summary (short summary, suitable for published description on our website)

Consideration of "Maximum Credit" and "Credit Assessment Score" in the credit cover calculation.

What the proposal relates to and if applicable, what current provision of Rules the proposal relates to (please state provision number):

The credit cover calculation set out in The Electricity Capacity (Supplier Payment etc.) Regulations 2014 Part 6 provision 27.

Description of the issue that the change proposal seeks to address:

Part 6 of The Electricity Capacity (Supplier Payment etc.) Regulations 2014 provide 2 mechanisms for credit cover provision: cash or a letter of credit. The calculation for the amount of credit cover required is 110% of the monthly Capacity Market Supplier Charge.

New entrant suppliers are unlikely to be able to use the letter of credit option, leaving cash as the only realistic option, whereas larger, more established companies, are able to use the letter of credit facility without the need to use cash. This puts new entrant suppliers at a competitive disadvantage when compared with more established companies.

The regulations should be changed so that the calculation of the amount of credit cover required takes into account the "Maximum Credit" (MC) value and the "Credit Assessment Score" (CAS) that are calculated for independent assessor credit reports (such as those from Dun & Bradstreet).

By way of example, Acme Utility enters the market and manages its financials in a prudent manner. After a few years the result of a Dun & Bradstreet comprehensive report on Acme Utility shows a CAS of 3A3 and an MC of £5,000,000. In calculating the amount of credit cover to be paid by Acme Utility the regulations should take into account the CAS and MC. Through the use of the table below, that has been taken from the Smart Energy Code (SEC) the CAS can be mapped to an Unsecured Credit Factor (%), in this example of Acme Utility this would be 8%. This factor should then be applied to the MC of £5,000,000, which results in a value of £400,000. The proposal is that the 110% of the monthly Capacity Market Supplier Charge is discounted by £400,000 in order to arrive at the final credit cover requirement. This is identical to the principle as approved by BEIS for the SEC through modification SECMP0016 on 26 January 2017.

Check It (ICC) Credit Score Report	Dunn & Bradstreet / N2 Check Comprehensive Report	Equifax	Experian Bronze, Silver or Gold Report	Graydons Level 1, Level 2, or Level 3 Report	Unsecured Credit Factor (%)
95-100	5A1/	A+	95-100	1A	10
90-94	5A2/4A1	A /A-	90-94	1B/2A	9.5
80-89	5A3/4A2/3A1	B+	80-89	1C/2B/3A	9
70-79	4A3/3A2/2A1	B/B-	70-79	2C/3B/4A	8.5
60-69	3A3/2A2/1A1	C+	60-69	3C/4B/5A	8
50-59	2A3/1A2/A1	C/C-	50-59	4C/5B/6A	7.5
40-49	1A3/A2/B1	D+	40-49	5C/6B/7A	6.5
30-39	A3/B2/C1	D/D-	30-39	6C/7B/8A	5
20-29	B3/C2/D1	E+	20-29	8B	3.5
10-19	C3/D2/E1	E/E-	10-19	8C	1.5
Below 10	Below E1	Below E-	Below 10	Below 8C	0

If applicable, please state the proposed revised drafting (please highlight the change):

The Electricity Capacity (Supplier Payment etc.) Regulations 2014 Part 6 provision 27 would need to be aligned with Section J3 – Credit Cover of the Smart Energy Code to implement this proposal.

<https://www.smartenergycodecompany.co.uk/sec/sec-and-guidance-documents>

Analysis and evidence on the impact on industry and/or consumers including any risks to note when making the revision - including, any potential implications for industry codes:

The current arrangements do not well facilitate competition in the energy market; the implementation of this proposal would result in a more level playing field for suppliers.

Following extensive analysis and consultation, BEIS took the decision in January 2017 to approve similar changes to the credit cover calculation for the Smart Energy Code. The proposer sees no reason why the same principle cannot be applied to The Electricity Capacity (Supplier Payment etc.) Regulations 2014. The proposer has no information regarding the amount of credit cover paid by other parties so is unable to assess the full extent of any risks this change might afford.

Details of Proposer (please include name, telephone number, email and organisation):

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