CMP311 WG3 NGESO proposal update

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17th June 2019

Proposal – the why

- **Failing suppliers x 10 in FY 18/19 = £1.5m for ESO to recover…..this time**

- Consumers can pick up the bill twice
- Bad for consumer confidence to continue to shop for the best deals, so affects competition

- What if a bigger supplier went into administration?
  - e.g. Even a more established smaller supplier with 2 or 3 invoices in arrears, could leave approx. £5-20m owing

- 2 year funding gap for ESO waiting for cost recovery in K factor (recovery in future TNUoS)
  - Cashflow cost put onto consumers
- Ofgem have indicated there may be tougher scrutiny of future claims

- Suppliers obtain credit for trading and energy balancing, so do have other options
- LoC would ask industry to obtain approx. £143m at cost to industry of approx. £3m (2%) p.a.

Proposal – the why 2

- **NGESO has reduced assets and max profit up to £30m**

  - The ESO has a small asset base (currently £200m RAV) yet transacts significant revenues on behalf of the industry (£4bn – of which TNUoS £2.7bn).
  - Any exposure to customer credit risk therefore creates volatility to its cashflows and underlying profits of the business.
  - These exposures are significant in relation to its size and ability to bear the downside consequences putting pressure on its credit rating.
  - The ESO have the ability to appeal to Ofgem to allow for the resocialisation of any unrecovered monies this is not certain and can take a number of years to complete. In the mean time the ESO bears the impact of this.
  - Would you continue to take on this level of unsecured credit risk?
  - Something has to change with unsecured credit, it is not a sound business model for NGESO
  - Ofgem best practice understood, but NGESO is an asset less business now so our business model is different to when this was written

CMP311 Solution changes

1. **Focus on removing Payment Record Sum (PRS) only**
    - Reminder split for each of the 3 types of User Allowed Credit
        - PRS: £742m, Credit Rating: £760m, Independent Credit Assessment: £41.9m

Current PRH calculations:

- *NGET RAV = £14,696m*
- *Maximum Unsecured Credit Cover is 2% of NGET RAV = £293.921m*
- *PRS 2% of Maximum Unsecured Credit Cover = £5.878m (£98k each month of good payment)*
- *So £98K credit available every month to every supplier built up over 5 years = **£6m approx.***
- *PRS remains at 2% of Maximum Unsecured Credit Cover after 5 years*

2. Implementation date 12 months after Ofgem approval

Questions?