CUSC Workgroup Consultation Response Proforma

CMP311 Reassessment of CUSC credit requirements for Suppliers, specifically for "User Allowed Credit" as defined in Section 3, Part III section 3.27 of the CUSC

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses by **29 October 2019** to cusc.team@nationalgrideso.com Please note that any responses received after the deadline or sent to a different email address may not receive due consideration by the Workgroup.

Any queries on the content of the consultation should be addressed to Chrissie Brown at christine.brown1@nationalgrideso.com

These responses will be considered by the Workgroup at their next meeting at which members will also consider any Workgroup Consultation Alternative Requests. Where appropriate, the Workgroup will record your response and its consideration of it within the final Workgroup Report which is submitted to the CUSC Modifications Panel.

Respondent:	Chris Welby, chris.welby@bristol-energy.co.uk
Company Name:	Bristol Energy
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	We agree with the views expressed by some members of the working group that the defect is not proven. Part of the issue is with suppliers under forecasting their demand, which if anything this modification will make worse as suppliers are incentivised to under forecast to reduce the level of collateral they need to post, and certainly does nothing to resolve. We also note that ESO has been tardy in resolving non-payment by suppliers and have therefore aggravated the amount unpaid to the detriment of consumers. If this continues then any credit provided would soon be used up and unless ESO acts swiftly, then bad debt will still occur. The issue of poor forecasting and resolution of non-payment are in the control of the ESO, and in our view it needs to fix these issues first before placing additional costs on suppliers and consequentially energy consumers. We understand ESO position that following its creation it is an asset light business, but with an asset heavy parent. Most suppliers are also asset light, but do not have the recourse that ESO has to have any bad debt recovered by price control. Therefore, ESO is in a better financial position than most suppliers in terms of its ability to mitigate bad debt. Finally, whilst the proposer states this will be in the interest of consumers by reducing mutualisation, they have failed to evidence this or prove that the consequential impact will not in fact cost consumers more over several years than the protection it provides for occasional mutualisation instances which we believe will be the case.

Standard Workgroup consultation questions

Q	Question	Response
1	**Do you believe that CMP311 Original proposal (revised since originally proposed to just remove the Payment Record Sum) better facilitates the Applicable CUSC Objectives than current arrangements?**	No. We believe it will have a negative effect on objective (b) as it will increase costs to all suppliers, who have finite capacity to provide credit cover. Given ESO can resolve bad debt from suppliers through an application to Ofgem in its price control, in a way that suppliers cannot when customers do not pay (including the TNUoS/BSUoS element which suppliers have to make good). Ultimately, it is possible that financially sound suppliers may have exit the market as the overall demand for credit across the UK energy system exceeds their capacity to service. We also believe it has a negative effect on obj(d) as it removes the current incentive on suppliers to pay on time. This will increase the amount of work ESO will have to do to chase outstanding invoices. It will also need to increase its management of funds in escrow. It does incentivise suppliers to under forecast to reduce their credit cover and will require better management of forecasting by ESO to counter.
2	**Do you support the proposed implementation approach, both in terms of allowing at least 12 months to make arrangements and the Workgroup suggestion to commence in April with the Financial Year?**	Whilst we do not support the proposal. If it was implemented it commence in the first April, 15 months after an Ofgem decision. It may take parties a significant amount of time to source alternative credit arrangements, so a long lead time for existing players should be available. This does not preclude new parties being subjected to the new arrangements earlier.
3	**Do you have any other comments?**	
4	**Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?**	No

Specific questions for CMP311

Q	Question	Response
5	**What impact do you think this modification would have on suppliers entering the market?**	We believe this proposal will create an additional barrier to entry to the market as Ofgem will be looking for a higher level of financial backing than would be the case when assessing a supply licence application. This will particularly hit new innovative companies trialling new business models who do not have well-funded parent companies.
6	**What impact do you think this modification would have on existing suppliers and what would be the cost to your business?**	The impact on existing suppliers is an increase in costs for all, but it will particularly impact suppliers with a finite capacity to provide credit. In a worst-case scenario, a supplier may have to be more exposed to the short-term power market as it will have less cash to hedge in advance, this increases the risk of failure to the detriment of all market players. In terms of Bristol Energy, we estimate we will need to find an additional £500k in cash with this requirement increasing in future years, despite been backed by a Local Authority which makes us a low risk in terms of default.
7	**Two potential solutions other than that Proposed have been discussed by the Workgroup, what are your views on these?**	We do not believe either of the other solutions fundamentally change the problems the proposal will cause suppliers. Both proposals will allow a supplier into the market but create a “cliff edge” after two years which could cause a fast-growing supplier to fail as it cannot meet the credit demands.
8	**What impact do you believe this modification would have on the Consumer?**	This modification will increase costs to consumers on a permanent basis, as opposed to a potential occasional cost that occurs when a supplier fails, which should in itself reduce due to Ofgem’s work on supplier entry and ongoing monitoring. The overall effect is likely to be detrimental to consumers in terms of costs and in preventing innovative energy retailers entering the market.