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:	*Lindsay Biginton* *lindsaybiginton@utilita.co.uk*
Company Name:	*Utilita*
Please express your views regarding the Workgroup Consultation, including rationale. (Please include any issues, suggestions or queries)	We do not believe the Modification supports the CUSC Objectives for the Use of System.

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 the modification negatively impacts CUSC objective d, by restricting competition in the market.
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?**	No, we do no not support the modification and so oppose the implementation approach.
3	**Do you have any other comments?**	We believe the credit risks of supplier default represent no danger to NGESO. Even without the tangible assets of the Transmission Owner, this source of protected income provides NGESO with a far lower cost of capital than any supplier could have; consequently, the lowest overall cost to the industry (ultimately paid for by customers) is for NGESO to hold this risk until they can be made whole through mutualisation. This directly refutes the main arguments within the Consultation justifying why this needs to happen. The proposal works against the stated interests it claims to represent, claiming this is to avoid financial costs, but in reality this would pass costs to a more expensive area downstream.
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 it would restrict Suppliers entering the market, and would restrict the growth of those that do enter the market.*

Q	Question	Response
6	**What impact do you think this modification would have on existing suppliers and what would be the cost to your business?**	Utilita would be required to post, £3.5m, which would increase with business growth. Utilita has experienced considerable variation between the ICAs, and even between reports from the same ICA, within relatively short periods. As such, even if these were an option, it would be necessary to retain a significant portion (even 100%) of any amount saved, in the event the credited value fluctuated, resulting in a cash call. This represent a considerable opportunity cost in frozen assets and would restrict growth. Utilita believe small to mid-sized suppliers would incur a comparable impact with frozen or ringfenced capital restricting growth, investment and innovation. Utilita is a relatively large independent supplier, achieving relatively high profits in recent history, compared to industry averages. Therefore, it is likely that the ICA issues described above would impact all independent suppliers at least comparably. Big Six suppliers will be unaffected, all six publish ratings by the major approved agencies, providing greater credit limits than the PRS (min. 15% of Unsecured Credit Cover vs 2% for PRS).
7	**Two potential solutions other than that Proposed have been discussed by the Workgroup, what are your views on these?**	No
8	**What impact do you believe this modification would have on the Consumer?**	The increased costs of capital will either be passed onto the consumer through tariffs or further erode margins afforded under the price cap, risking further supplier exits or even contribute to failures, acting as a disruption to the customers directly affected and a disincentive to switch across the industry. This may seem extreme but the nature of the TNUoS credit calculation (quarterly security periods) results in a sudden, large swing in requirement, every 01-Jan. This is two months after the late payment deadline for the RO, when otherwise solvent suppliers are least likely to afford ringfenced funds, in the event of an ICA downgrade.