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MP095 ‘Alignment of SEC Credit Cover’

April 2020 Working Group Meeting Summary

Overview

SECAS provided an overview of the issue identified by MP095 and the proposed solution.

Issue:

- In the past two years more than 15 Energy Suppliers have ceased trading
- This has resulted in over £700,000 in socialised costs
- The Credit Cover calculation changed after [SECMP0016 ‘Consideration of Maximum Credit Value’ in Credit Cover Calculation](#)

Proposed Solution:

- To use the credit cover calculation pre SECMP0016’s implementation as a foundation to work from
- To consider whether SEC Parties with DCC costs totalling less than £2,000 a month should continue to provide no credit cover
- To consider the length of time a SEC Party has been operating in the market

Solution Discussions

The Working Group understood the issue and agreed that it should be addressed. Working Group members were shown figures of two former SEC Parties’ credit cover calculations pre and post SECMP0016’s implementation as an example of how the risk of debt socialisation has increased.

The Working Group advised that simply reverting to the previous credit cover calculation would result in the return of the issue identified in SECMP0016 (requirements acting as a barrier for new entrants to the market). It was then discussed that a middle ground should be sought between the two calculations, with an emphasis on modifying the previous calculation.

The Working Group dismissed the suggestion of taking into consideration the length of time a SEC Party has been operating in the market as this would once again place new participants at a disadvantage.

Working Group members agreed that the SEC should state a financial cap which if reached, a SEC Party must lodge sufficient credit cover. This would stop SEC Parties whose monthly DCC invoices total less than £2,000 accumulating a substantial amount of debt.

Next Steps

The following actions were recorded from the meeting:

- SECAS will investigate the financial cap relating to accumulated sub-£2,000 DCC invoices.
- SECAS will investigate modifying the credit cover calculation pre SECMP0016's implementation and will provide numbers at the next available Working Group.