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MP095 'Alignment of SEC Credit Cover'

June 2020 Working Group – meeting summary

Attendees

Attendee	Organisation
Ali Beard	SECAS
David Kemp	SECAS
Joe Hehir	SECAS
Bradley Baker	SECAS
Eessa Mansoor	SECAS
Joey Manners	SECAS
David Walsh	DCC
Chun Chen	DCC
Mari Toda	DCC
Remi Oluwabamise	DCC
Simon Trivella	British Gas
Paul Saker	EDF
Chiko Wade	Imserv
Elias Hanna	Landis + Gyr
John Noad	Npower
Lauren Irvine	PFP Energy
Steve Walker	PFP Energy
Mahfuzar Rahman	Scottish Power
Emslie Law	SSE
Matthew Alexander	SSE
Fotis Tsompanidis	Trilliant
Daniel Davis	Utiligroup
Gemma Slaney	WPD

Overview

SECAS provided an overview of the issue identified by MP095, a recap on previous Working Group discussions and five solution options that it had developed for consideration.

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'] was implemented in 2017
- During the April 2020 Working Group meeting members proposed a financial cap for defaulting Parties with monthly DCC invoices that are less than £2,000.

Solution Options:

1. Keep the current calculation
2. Revert to the previous (pre-SECMP0016) calculation
3. SEC Parties to provide 100% credit cover
4. No credit cover
5. SEC Parties to create a credit cover 'pool'

Solution Discussions

SECAS reconfirmed the points that were agreed at the April Working Group. This included codifying a financial cap for SEC Parties whose monthly DCC invoices are less than £2,000. SECAS suggested a financial cap of £6,000 of accumulated Value At Risk, after which such a Party then has to lodge credit cover. This will mean that there will be a limit to the number of monthly invoices that a Party can miss payment. Feedback regarding this will be requested in the Refinement Consultation. A Working Group member asked whether the Party, provided they do not cease to trade, would need to lodge credit cover for an indefinite period. Parties' views on this will also be sought via the Refinement Consultation.

SECAS provided an overview of each solution option and presented their advantages and disadvantages. The Working Group commented that options 3, 4 and 5 did not seem plausible. Members noted option 3 would not be reflective of Parties with good credit histories, while option 4 would pose a moral hazard where others would pick up the tab if a Party failed. Option 5 would be difficult to manage, may not reflect Parties' credit status, and felt like pre-socialisation. Members did not want to incentivise Parties to be lax in managing their positions by providing a safety net to catch them if they fell. As a result, SECAS will not be progressing these solutions, noting options 3 and 4 were included primarily to explore the impact of moving to the two extremes.

The Working Group was in favour of amending the current calculation to something between options 1 and 2 as reverting back to the previous calculation would expose the same issue SECMP0016 sought to resolve. Members requested firm options be written up so that they could take these back to their finance teams. One member requested it be made clear in the Modification Report this further solution was different to the five options originally discussed.

SECAS informed the Working Group that comments had been received from the EDF Credit Governance Manager shortly before the meeting. The comments received can be summarised in three main points:

- Generally speaking, a SEC Party should not have to lodge much in the way of credit cover if they have a good credit rating;
- As with the DCUSA, the CUSC and the UNC, there could be a sliding scale of unsecured credit limits available for rated entities, down to the rating 'BB-'; and

- It is felt that the current approach of mixing the Standard & Poor rating with the Dun & Bradstreet credit limit should not be used.

SECAS confirmed that it would hold a meeting with the EDF Credit Governance team to help develop the solution and request views from the Working Group ahead of issuing the Refinement Consultation.

Next Steps

The following action was recorded from the meeting:

- SECAS will engage with the Proposer and EDF Credit Governance to develop a further solution.