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NIAUR Consultation Paper
NIE payment Security Policy

Vayu welcomes the opportunity to comment on the Northern Ireland Authority for Utility Regulation ("NIAUR") consultation paper which considers NIE's proposal to increase the payment security cover for use of the NIE gas network and payments to NIE for their services via Distribution Use of System ("DUoS") charges and a Public Service Obligation ("PSO") charge. It also highlights the potential customer impact of NIE's proposals and seeks stakeholder's views on these proposals.

We do not support the proposed options 2, 3 or 4 and believe that the status quo should be maintained. The proposed changes would result in suppliers incurring increased costs for providing additional financial security, which in turn would lead inevitably to higher costs for Customers. Balancing the risk of supplier failure against higher costs for Customers must remain as a key criterion to be assessed.

The scenarios presented by NIE in relation to supplier failure would appear to be excessive and do not reflect the reality of commercial business. Although the paper mentions that the billing cycle was changed from monthly to quarterly, this is not happening for all suppliers as they continue to receive monthly invoices for DUoS and PSO charges incurred in a calendar month. This appears to be the main driver for requesting higher financial security.

The paper suggests that structural changes in the market have prompted the need to amend the financial security policy, which included an increase in the number of suppliers and the economic downturn in Northern Ireland. We do not believe that these are strong enough reasons to support the proposed changes.

An increase in the number of suppliers does not justify this radical change in policy. In fact, what is proposed will lead to a barrier to entry for new suppliers, who may not have the same financial history as well established participants. These entities may have access to credit at much lower costs as they may rely on a parent credit rating. NIE's Customer engagement should have increased in response to a downturn to avoid bad debts being incurred.

Our comments on specific questions follow:

Question 1
What is the realistic security cover shortfall that should be considered when reviewing the current Payment Security Cover policy?

The paper provides no support for using the figure of Stg£50 million as the potential security cover shortfall. It would be highly unlikely that a number of suppliers would default at the same time to crystallise an exposure of this magnitude. We would suggest that the billing of DUoS and PSO charges revert to monthly billing and that NIE engages with its Customers on a more proactive basis to avoid any escalation in outstanding debts. As mentioned above, it appears that monthly billing of these charges is the normal billing pattern and on this basis alone we see no benefit in moving away from the status quo.

Question 2

What is the likelihood of a Supplier/Suppliers defaulting and NIE being unable to recover the debt within 6 months or earlier?

We would not expect a synchronous failure of suppliers occurring and NIE also being unable to recover outstanding debts in the 6 month timeframe. However, we also believe the likelihood of NIE being able to recover a debt within 6 months is remote. It would be unusual for unsecured debts to be paid within 6 months in the event of an administration, receivership or liquidation.

That being said if the business was sold as a going concern it may take some time but there is a possibility of recovering a portion of the outstanding monies. The balance could be recovered from the market over an extended period to avoid a one year price shock for end-users.

Question 3

Do Suppliers consider that the 1% charge is a 'typical rate' for them to provide additional cover?

NIE may be able to source credit at a low cost of 1% and claim that this is a typical rate. Yet they claim that one of the reasons for requesting an increase in financial security is a downturn in the economy, which has resulted in the cost of debt and acquiring credit to increase. It assumes that all suppliers have access to the same sources of credit, which is obviously not the case. Typical rates found in the market are closer to 1.5% for letters of credit that are secured on book debts of a company or, if very fortunate to get access to it, 3-4% for unsecured letters of credit.

Question 4

Will an increase in Supplier cover be seen as a barrier to entry to new Suppliers?

There is little doubt that the proposed change will lead to higher costs for suppliers. This will lead existing suppliers to evaluate their business models, but more importantly will potentially exclude new entrants to the market. This would not be welcomed by the market which is looking for increased competition not a further squeeze on existing participants.

Question 5

Which of NIE's options strikes the best balance between the risk and the cost to the consumer?

In our view, the option which provides a stable market for both suppliers and end-users is Option 1 i.e. maintain the status quo. We have already mentioned changes in other areas of the value chain where simple changes by NIE could alleviate their concerns over bad debt exposure. These included a reversion to monthly billing and a more proactive account management function.

We note the views of NIAUR in this regard, which confirms that it may be "reasonable" to continue with the current arrangements. However, we are concerned that it has also arrived at a "minded to" position to consider Option 4 – Average two months DUoS and PSO charges in some detail. Using a "minded to" term within a consultation is not appropriate. This would appear to a fait accompli and would be more appropriate in a draft decision document.

Question 6

Should any other options / risk cost recovery mechanisms be investigated?

We believe that NIAUR should at alternative mechanism to managing exposure to supplier default, which could include incentivising NIE to revert to officially bill monthly and to take steps to improve its supplier payment history. NIAUR should also consider accepting alternative forms of financial security such as parent company or other forms of guarantee.