

**23rd May 2014**

Jody O’Boyle

The Utility Regulator

Queens House

14 Queens Street

Belfast

BT1 6ED

***Re: Consultation on NIE’s payment security policy – Response from firmus energy.***

Dear Jody

Thank you for providing firmus energy with this opportunity to respond to the above consultation.

As an active supplier in the Industrial and Commercial electricity market, we are supportive of the desire to protect customers from the impact of supplier bad debt. However we are also concerned that a fair balance be reached between the cost to suppliers of increased credit cover and the likelihood of such a default occurring. We would like any solution to reflect the mix of a suppliers’ customer base and how this may impact upon the potential exposure to DUoS and PSO charging.

firmus energy’s response to the questions asked in the consultation are outlined below.

Should you wish to discuss this, you can contact me direct on 9442 7835.

Yours sincerely

*John*

John French

**Head of Regulation and Pricing**

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

firmus energy are of the opinion that security cover calculations should take into consideration the mix of customers a supplier may have. Interval metered customers’ DUOS and PSO charges are billed every month as compared to quarterly billing for Non – Interval metered customers. Should a supplier payment default occur, the accrued amount owed will cover a shorter time frame for Interval metered customers than it would for Non-Interval metered customers.

We believe the shortfall calculations outlined in Option 1, offsetting 2 months charges against the security provided, are the most realistic for our business.

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

firmus energy do not have sufficient knowledge of our competitors’ credit ratings or operational and financial procedures to ascertain the probability of a default on their payment obligation to the network company. We are unable to comment on the likelihood of such an outcome.

We are of the opinion that, based on our current customer mix, the level of cover provided by our Letter of Credit would be sufficient to ensure recovery, within 6 months, of any debt we may have outstanding due to default.

1. **Do Suppliers consider that the 1% charge is a ‘typical rate’ for them to provide additional cover?**

In firmus energy’s experience 1.5% is more reflective of the ‘typical rate’ being charged by financial institutions with higher credit ratings.

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

Given the high costs associated with entering the electricity market we believe the proposal to increase credit cover may be significant enough to deter new entrants.

1. **Which of NIE’s options strikes the best balance between the risk and cost to the consumer?**

firmus energy’s customer base is predominantly made up of Interval customers who are billed monthly for DUOS and PSO and therefore do not expose NIE to the same level of potential bad debt as Non Interval Customers. We consider Option 1 - Maintain the Status Quo strikes the best balance between risk and cost to the consumer. Given our customer base, the 5 weeks cover provided under this option should be sufficient to recover outstanding charges in the unlikely event of a default. There will be no need for firmus energy to increase tariffs under this option and costs to our customers are minimised.

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

firmus energy would encourage investigation into the possibility of a prepayment mechanism that allows suppliers to prepay NIE for forecast DUOS and PSO charges. We feel this has worked well within the gas market and is a viable alternative to the provision of Letters of Credit. This option provides the consumer with greater levels of protection from increased costs and would be beneficial to competition as the market entry costs could be lower for smaller suppliers.