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28 October 2013

Dear Jacob

Re: Payment terms between wholesalers and retailers – a consultation

This letter forms our response to the above consultation. We have followed the development of the standard payment terms through the PR14 methodology and the Open Water programme and are happy with the standard payment terms as set out in the consultation. We have structured our response to specifically answer the five questions set out in the consultation. For ease of providing our position we have addressed similar questions together where appropriate.

Q1 Is our proposal to set standard terms, but to allow companies to agree to vary these terms, appropriate?

Q2 Are our proposals around publication of non-standard payment terms appropriate?

Given that the English market will contain a significant number of both wholesaler and retail participants, there will be a significant number of market relationships. We believe that option four, fixing standard terms provides a number of benefits specifically that fixing standard terms provide the clearest understanding of the rules for all market participants. By having fixed standard terms, this will minimise the costs associated with regulatory intervention and the need to build complexity into the Market Operator structure. Both of these will influence the costs associated with market participation. Having fixed terms will provide transparency and compliance with these terms will be easy to observe.

Q3 Is a settlement period of one day appropriate?

The consultation makes reference to our tariff which contains a 'maximum daily demand' component. In order for us to continue to apply this component within wholesale tariffs we support the consultation recommendation that the settlement period is a single day. This would also align with the settlement period in the Scottish Market.

Q4 Is it reasonable to apply the same payment terms to all products and services in the markets?

Applying the same payment terms to all products and services will support the Market Operator in carrying out the calculation of charges for all direct and indirect services. Given that payment will be in arrears we agree with this approach, but acknowledge that the products which will be settled by the market operator are currently being discussed through the Open Water programme.

Q5 Are the details of the standard payment terms – billing period, payment period and collateral requirements – appropriate?

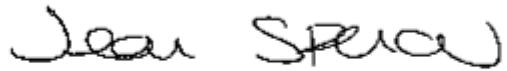
The billing and payment periods set out in the consultation seem reasonable.

Regarding collateral requirements, we do not believe that as part of the creation of the non-household retail market, wholesalers should be exposed to additional risks by interacting with retailers with varying levels of credit worthiness.

Wholesalers will naturally want to assess the credit worthiness of each the retailers it does business with. For the benefit of the market, we consider the guiding principle for assessing credit worthiness is that the assessment which a single wholesaler carries out should be transparent and consistently applied to all retailers. On this basis, we support the proposals in the consultation that retailers be required to either hold a minimum investment grade credit rating themselves or have a letter of credit from a guarantor with a minimum investor grade credit rating.

I trust that this sufficiently provides our views on the consultation questions, however please do not hesitate to contact me if you wish to discuss any of the specific points in this response.

Yours sincerely,

A handwritten signature in black ink that reads "Jean Spencer". The signature is written in a cursive, slightly slanted style.

Jean Spencer
Regulation Director