Flexibility Not Failure
How to Manage Change

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Agenda

- Recap/Summary of 2018/19
- What caused suppliers to go into Liquidation?
- How do we as suppliers cover on-going risks?
- What do TPIs/Consultants need to consider when working with suppliers?
- Q&A

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2018/19 Recap

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2018/19 – What happened?

- A large number of energy suppliers went bust
- ROCs & FiT mutualised across the industry
- Capacity Market Suspension
- UK's 3rd largest TPI went into liquidation

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What caused suppliers to go into Liquidation?

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What caused suppliers to go into liquidation?

Short answer: the electricity market…

- Price cap/CMA
- Hedging capabilities
- No restrictions
- Debt/accounting

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What caused suppliers to go into liquidation?

<u>Price cap/CMA</u>

- How has this affected suppliers?
    - Investment appetite low
    - Price cap supplier margins quite small
    - Microbusiness directives
    - Unable to balance portfolio losses

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What caused suppliers to go into liquidation?

Hedging Capabilities

- Limited access to protective products: insurance, portfolio balancing
- Limited cash flow & small credit lines

Purchasing ahead on electricity also creates risk:

  - It can take up to 50 days to collect the commodity payment
  - Market swings can affect mark to market position
  - Settlement costs and balancing in day

What caused suppliers to go into liquidation?

<u>Debt/Accounting</u>

Poor customer debt
For a supplier to survive they need 0.5-1% written off debt in electricity & 2-3% in gas.

Accounting of governmental charges
ROCs cash call tipped a number over the edge. Payments made in one go whereby suppliers couldn't find the funding.

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What caused suppliers to go into liquidation?

No restrictions

- Supplier License easy to obtain
- No tests/academic level required to trade
- No price restrictions – no floor
- Limited audits/reviews on performance and business models

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How do we as a supplier cover these on-going industry risks?

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Covering Risk

Settlements & Pricing

- First of all we need to understand how metering is settled
- There are 100's of NHH metering set ups, each one settled in different ways.
- Industry reporting & internal analysis helps us come to a p/kwh charge
- Risks forecasted into pricing

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Covering Risk

Settlements & Pricing

For example, the capacity market charge is calculated as follows:

- Capacity Market is settled at ''GSP'' level

Covering Risk

Commercial Products

- Multiple products needed to spread risk
- Suppliers that offer a mixture of commercial arrangements need to spread risks
- Investments in emerging markets/other avenues

What do TPIs need to consider when working with suppliers?

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What do TPIs need to consider when working with suppliers?

<u>What to consider</u>

- If the price looks to good to be true, it probably is…
- Understanding your supplier, it's forward plans and risk appetite
- How open are they? Accounts available via companies house
- Service ratings – does your supplier benchmark themselves?

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Thank you!

Any questions?

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