



DCUSA Change Report

DCP 100 – Payment Timescales Alignment and Simplification

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 100 – Payment timescales alignment and simplification. The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.2 Parties are invited to consider the proposed legal text amendments (Appendix A), together with the Consultation documentation (Appendix B), the summary of Industry Codes and Agreements' payment terms (Appendix C), the RFI documentation (Appendix D) and submit their votes using the form attached as Appendix E to dcusa@electralink.co.uk by 03 February 2012.

2 SUMMARY

- 2.1 DCP 100 was raised by NPower and seeks to align the arrangements for the payment of Use of System charges with other similar industry arrangements and to facilitate the management of credit cover, particularly over Bank Holiday periods. Additionally, the CP will also amend the timescales for raising disputes as set out in Schedule 4 of the DCUSA to align with the new payment timescales that are proposed in DCP 100.
- 2.2 The proposer notes that different Industry Codes and Agreements currently specify different timescales and arrangements for the payment of invoices. This inconsistency creates difficulties and additional costs for Parties.
- 2.3 In cases where the payment timescales are specified in "days" rather "Working Days", Parties potentially have to make special arrangements for paying invoices that are due on or around Bank Holidays. This leads to an increased workload on the days prior to Bank Holidays, and on occasions Suppliers have to make special payment arrangements with banks to avoid default.
- 2.4 It is noted that Parties do not have to make such arrangements for paying invoices in which the payment timescales are defined as "Working Days", as this excludes Bank Holidays.

- 2.5 DCP 100 would allow some Parties to plan their workload more effectively and allow more time to validate invoices that are due on or around Bank Holidays which should result in fewer erroneous disputes.
- 2.6 If the CP was implemented, there would be a reduction in the need to make special bank payment arrangements, or make early payment of invoices in the run up to Bank Holidays. This will result in some Parties being better able to manage their cash flows. It should also reduce the number of incidences where warning notices have to be issued by DNOs, credit cover limits are breached and Distributors have to handle cash payments or other short-notice credit arrangements.

3 DCP 100 – WORKING GROUP

- 3.1 The DCUSA Panel established a Working Group to assess and refine DCP 100. The Working Group met on 6 occasions and consisted of representatives from DNOs and Suppliers.

4 CONSULTATION

- 4.1 The Working Group carried out a Consultation to give Parties an opportunity to review and comment on DCP 100. Eleven responses were received back from Parties and are documented in full in Appendix C.
- 4.2 The responses to the consultation were mixed. The Working Group discussed each response and their comments are summarised alongside the Consultation responses in Appendix B. A summary of the responses received, and the Working Group's conclusions are set out below:
- 4.3 Question 1 - Do you understand the intent of DCP100 and are you supportive of its principles? All Respondents understood the intent of DCP 100; however there was a split as to whether they were supportive of the CP. All 6 Supplier respondents supported DCP 100 whilst 4 of the 5 DNO respondents did not.
- 4.4 Some respondents drew attention to the mention of "similar arrangements" within the intent of the CP, seeking further detail on this and questioning whether the intent was indeed being satisfied. The Working Group discussed this point, and it was agreed that a written summary of other Industry Codes and Agreements' payment terms would be compiled and included with the Change Report to support the CP. This

summary is attached as Appendix C.

- 4.5 Question 2 - Which version of legal text drafting (version 1 or version 2) do you think is more appropriate to meet the intent of DCP 100? Some respondents raised concern that both versions of the legal text could have detrimental impacts on DNO's cash flows. However, it was equally noted during the Working Group's discussion that the current arrangements could also be seen to have a detrimental impact on Suppliers' cash flow positions.
- 4.6 The Working Group reviewed the responses to this question and did not reach a majority view on which version was more robust in delivering the intent of DCP 100. Some respondents argued that the case for making the change was not sufficiently explained by the CP and that the proposed drafting did not reflect its intent.
- 4.7 The Proposer of the CP indicated that as the Working Group could not reach a consensus on this point; the original version of the legal text which was submitted with the CP, and is attached as Appendix A, is the version which is their preference to take forward as it will deliver the intent of DCP 100 more effectively in their opinion.
- 4.8 Question 3 - If DCP 100 is approved, do you think that the disputes timescale needs to align with the payment timescales as is the current practice? There was a general consensus that the disputes timescale should be aligned if DCP 100 were approved and implemented, and this is reflected within the Legal Drafting of DCP 100.
- 4.9 Question 4 - Would there be any changes to current systems necessary to implement DCP 100? If so, please provide an overview of the changes along with an estimation of the costs and a timescale. Respondents indicated a range of lead times (up to a maximum of 6 months) and work required in order to implement the CP.
- 4.10 The Working Group agreed to set the implementation date as the June release of the DCUSA in order to allow time for system changes to be made by DNOs and other Parties. This implementation date should allow all Parties to be compliant and would remove or reduce the need for derogations.
- 4.11 Question 5 - Do you agree that DCP100 better meets the DCUSA General

Objectives - The Working Group considered the Consultation responses regarding whether DCP 100 better facilitated each of the DCUSA General Objectives. There were eleven responses to the Consultation and 6 agreed that the CP better facilitates the DCUSA General Objectives 2 and 4, 4 did not agree and 1 respondent had no comment. The full set of Consultation responses are attached as Appendix B.

4.12 All DCUSA General Objectives were evaluated in respect to this CP, and it was identified by the Proposer that General Objectives 2 and 4 are better facilitated by this CP.

4.13 The Working Group members were unable to come to a unanimous decision as to whether the DCUSA General Objective 2 was better facilitated:

- Objective 2 –The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity.

4.14 Respondents in support of DCP better facilitating Objective 2 noted that by removing inconsistencies and allowing Parties to use their resources more effectively which will ultimately reduce costs.

4.15 Those respondents felt that if DCP 100 were implemented that it will simplify the management of credit cover and will reduce Parties costs but should not have any impact on the business of the Distributors. These reasons will allow easier access to the market for new participants as payment timescales will be clearer and easier to manage.

4.16 Respondents who did not agree that Objective 2 was better facilitated surmised that the current payment terms have already been agreed and are current practice. Therefore it is difficult to make an argument of how DCP 100's principles could better facilitate Objective 2, such as competition when the current payment terms are the same for all Parties.

4.17 The Working Group members were unable to come to a unanimous decision as to whether the DCUSA General Objective 4 was better facilitated:

- Objective 4 – The promotion of efficiency in the implementation and

administration of this Agreement

- 4.18 It was noted by Parties who think that Objective 4 is better facilitated that DCP 100 will promote efficiency in the administration of this Agreement by easing the process of paying Use of System charges, thus enabling a better opportunity for the validation of invoices, raising of disputes and the management of credit cover requirements.
- 4.19 One respondent highlighted that whilst the Working Group makes a case for Objective 4 being better facilitated by DCP 100; it is unclear how changing payment terms between Parties will better facilitate the efficiency in the administration of the DCUSA as charges between Parties do not form part of the administration of the DCUSA.
- 4.20 It was noted in the Working Group that Objective 4 relates to efficiency in the administration of the DCUSA, not individual Party processes. This will negate the arguments as DCP 100 better facilitating Objective 4 on the basis of improving the efficiency of Parties.
- 4.21 Question 6 - Do you believe that the intent of DCP100 is adequately met or that there are alternative ways of meeting the intent of DCP100 that have not been considered by the Working Group - The Working Group noted that most comments agreed that the intent of DCP 100 has been met. The other comments were noted by the Working Group.
- 4.22 Question 7 - Do you agree with the implementation date of DCP 100 - The responses to this question were mixed, and reflected the Party category views of the consultation responses. The respondents which were not in agreement with the implementation date of DCP 100 cited that they would need additional time in order to update their billing systems in order to change from a calendar day to a business day invoice.
- 4.23 The Working Group discussed this point and it was agreed that since the longest timescale for updating the billing system given by any respondent was six months, that the implementation date would be pushed forward by that amount of time in order to accommodate these updates.
- 4.24 Question 8 – The Working Group discussed the financial effect on Parties of implementing or not implementing this CP. Please provide comments as appropriate on the following issues which were raised:

- If DCP 100 is implemented, Distributors would be receiving payments at a later date during most months of the year as weekends would be affected with the use of the term “working days”.
 - If DCP 100 is not implemented, there are financial impacts on Suppliers from continuing to have to make payments early during periods with bank holidays in order to remain compliant with the DCUSA.
 - If DCP 100 is implemented, there was concern that as the interest rates currently stand the financial implications are on current rate thresholds, however, when interest rates are higher then the resulting delayed payments could have implications which need to be considered. Please provide any potential impact that you feel may have relevance to this point, along with supporting comments.
- 4.25 One Party noted that DCP 100 appears to encourage the practice of making payment on the last day prior to default. The Working Group and Proposer clarified that the intent of the CP is to allow more days for validation and payment of invoices when bank holiday periods occur.
- 4.26 A complete and detailed summary of all Party responses, and Working Group comments, to the questions posed in the Consultation are set out in Appendix B.

5 REQUEST FOR INFORMATION

- 5.1 The DCUSA Panel, at its November meeting, requested that the Working Group carry out a Request for Information (RFI) in order to obtain additional information in regard to specific areas which the Panel felt required more clarity.
- 5.2 The Working Group carried out the RFI to give Parties an opportunity to review and comment on the additional items requested by the Panel for DCP 100. There were eight responses received back from Parties; 4 DNOs, 1 IDNO and 3 Suppliers.
- 5.3 The Working Group discussed each response to the RFI and it was noted that there was not a complete set of responses received from all DNOs or Suppliers. However, the responses which were received will provides further information and an indication of the materiality of costs which was requested from the DCUSA Panel.
1. Question 1 - If DCP 100 were implemented, please provide the materiality of the impacts on cash flows for the following scenarios:

- Daily, monthly, and yearly basis – quantified for the following interest rates: 0.5, 2.5, 5, 7.5 and 10%; and
- The overall impacts on cash flows over the holiday season including Christmas and New Year

5.4 The responses which were received were not provided in a consistent format, and in order to illustrate a comparative level of materiality for the majority of the respondents, please see the table below which shows the annual impact on cash flows at various interest rates.

Table 1: Annual Cash Flow Impacts

Interest Rate	0.5%	2.5%	5.0%	7.5%	10.0%
DNO1	5,072	25,361	50,721	76,082	101,442
IDNO1	168	930	1,860	2,790	3,720
DNO2	8,000	40,000	80,000	120,000	160,000
DNO3	2,307	11,535	23,070	34,605	46,140

- 5.5 The Working Group noted that these figures could be slightly misleading as the DNOs vary in size (number of MPANs) and also in the number and amounts of the invoices that are produced. These numbers provide a guide to the differing impacts among the Distribution businesses.
- 5.6 One respondent also noted that the figures above represents lost interest on delayed cash receipts that otherwise could have been earned through investment in the money markets. There is also an underlying assumption that the delays in the cash receipts would not need to be substituted by short-term borrowing and at a varying interest rate which is likely several basis points above the Bank of England current base rate of 0.5%, and this additional cost for this is not accounted for in these values.
- 5.7 Question 2 - How many invoices, on a monthly basis, are raised and of those how many are disputed - It was noted by the Working Group that with the large number of invoices that are raised by the Parties which responded, with a range from 10k to over 30k per month, that only a notional amount of these are disputed, generally less than 1%.
- 5.8 The Working group noted that there was one exception to this pattern, and this was the response from "Supplier 3". The number which was reported in their response seemed disproportionately high in comparison to other

Suppliers or DNOs. The Working Group surmised that this Respondent most likely included “general enquiries” within their response, and it should have been only “genuine disputes”.

- 5.9 Question 3 - For DNOs: If DCP 100 is approved and implemented, please detail any manual follow-up processes that would need to be performed, as well as any costs associated with these processes. The Working Group noted that there was a mixed response received back from this question.
- 5.10 Two DNOs responded that the any type of manual process would align with their follow-up procedures that are currently in place for their invoice validation. The other two DNOs stated that there would be system changes required that would be a difficult and laborious process; with costs ranging from £15k to tens of thousands for software and system updates to their current systems.
- 5.11 Question 4 - For Suppliers: Provide details and examples of when your validation processing period has been impacted by bank holidays, and any corresponding costs associated resulting from this - It was noted by a member of the Working Group that none of the Suppliers who responded to this question provided any details of costs that would be associated with the validation processing period.
- 5.12 The responses from the two Suppliers which were received detailed the complications which arise from having a reduced validation period for invoices when there are bank holidays. The time period which is referred to as an example is the Christmas and New Year bank holidays.
- 5.13 One Supplier noted that this time period mainly affects their Supercustomer invoices. It was noted by both Suppliers that it is beneficial for their businesses to have as much time as possible to validate invoices, and when there is multiple bank holidays in short amount of time – such as Christmas and New Year – that they can operate on a pay first, validate later type of scenario, which should not be an acceptable practice.
- 5.14 It was noted that during this time period, it is not uncommon to lose as much as 4 working days processing time. This is compounded further when they are issued paper invoices. It was noted by one respondent that it would be extremely helpful if all invoices were issued electronically.
- 5.15 Question 5 - If DCP 100 was approved and implemented, please provide

details of what system changes would be required in order to deliver the intent of the CP, as well as any costs associated with these changes - For Suppliers, the responses ranged from no changes needed to be implemented, to having minor system upgrades with costs ranging from zero – £2.5k.

5.16 For DNOs, all respondents stated that system changes would be required in order to meet the intent of DCP 100. The respondents estimated that the cost of these works would range from £15k to £50k and the works could take up to 6 months to complete.

5.17 The detailed responses to the RFI are attached as Appendix D.

6 WORKING GROUP CONCLUSIONS

6.1 Working Group opinion, reflecting Party opinion as presented in the consultation responses, is divided on the requirement for and merits of DCP 100. However, members have concluded that the proposed drafting best meets the intent of the CP and therefore should be issued for voting and party determination.

7 PROPOSED LEGAL DRAFTING

7.1 The proposed legal drafting of DCP 100 has been considered by the Working Group, and reviewed by Wragge and Co, and is attached as Appendix A.

7.2 The legal text amends the invoice payment timescales within DCUSA so that payments must be made within Working Days, rather than Calendar Days. In order to align the disputes process set out in Schedule 4 of the DCUSA with the payment timescales for the Use of System Charges, the legal text will change this from a dispute being raised within 14 days of receiving a request for payment to 10 Working Days.

8 IMPLEMENTATION

8.1 DCP 100 is classified as a Part 2 matter in accordance to Clause 9.4.2 (B) of the Agreement and does not therefore require Authority consent.

8.2 The implementation date, subject to Party approval of the CP, would be the June 2012 release of the DCUSA.

9 ENGAGEMENT WITH THE AUTHORITY

- 9.1 Ofgem did not participate in the development of this CP as it is a Part 2 matter and does not require Ofgem consent.

10 PANEL RECOMMENDATION

- 10.1 The Panel approved this Change Report at its meeting on 18 January 2012. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 100.

- 10.2 The timetable for the progression of the Change Proposals is set out below:

Activity	Date
Change Report issued for voting	20 January 2012
Voting closes	03 February 2012
Change Declaration	07 February 2012
CP Implemented	June 2012

11 APPENDICES:

Appendix A - DCP 100 - Legal Drafting

Appendix B - DCP 100 – Consultation Documents and Working Group Comments

Appendix C – DCP 100 – Summary of Industry Codes and Agreements' payment terms

Appendix D – Collated summary of RFI Responses

Appendix E - DCP 100 - Voting Form