

Part A: Generic

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1>DCP 314:</h1> <h2>Appropriate treatment of Bad Debt following appointment of Supplier of Last Resort.</h2> <p><i>02 January 2018</i></p> <p><i>Rob Johnson</i></p> <p><i>ESP Electricity</i></p> <p><i>Independent Distribution Network Operator</i></p>		<p>01 – Change Proposal</p> <p>02 – Consultation</p> <p>03 – Change Report</p> <p>04 – Change Declaration</p>
<p>Purpose of Change Proposal:</p> <p>This DCUSA change proposal seeks to implement a process that is triggered in the event that a Supplier of Last Resort (SoLR) is appointed following a supplier default. Under these circumstances, it is proposed that Distribution Network Operators (DNOs) must credit Local Distribution Network Operators (LDNOs) for the amount of DUoS charges attributable to the defaulting supplier where the LDNO has not received payment.</p>		
	<p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Part 1 Matter • Treated as a Standard Change • Proceed to Working Group <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p>	
	<p>Impacted Parties: DNOs and LDNOs</p>	
	<p>Impacted Clauses: Section 2B – Clause 46, Schedule 4 (Payment Default) and Schedule 19 (Portfolio Billing)</p>	

Contents

1	Summary
2	Governance
3	Why Change?
4	Solution and Legal Text
5	Code Specific Matters
6	Relevant Objectives
7	Impacts & Other Considerations
8	Implementation
9	Recommendations

 Any questions?

2 Contact:
4 **Code Administrator**

4  **DCUSA@electr
alink.co.uk**

6  **0207 432 3011**

6 Proposer:
7 **Rob Johnson**

8  **Rob.Johnson@esp
ug.com**

 **01372 587 507**

Other:
Victoria Parker

 **Victoria.Parker@es
pug.com**

 **07587 553 318**

Indicative Timeline

The Secretariat recommends the following timetable:

Initial Assessment Report	17 January 2018
Consultation Issued to Industry Participants	February/March 2018
Change Report Approved by Panel	16 May 2018
Change Report issued for Voting	18 May 2018
Party Voting Closes	08 June 2018
Change Declaration Issued to Parties	12 June 2018
Change Declaration Issued to Authority	12 June 2018
Authority Decision	17 July 2018
Implementation Date	First DCUSA Release following Authority Approval

1 Summary

What?

- To provide LDNO parties a mechanism to request the credit of a portion of portfolio billing payments back from DNOs without penalty under the specific circumstance whereby the LDNO has not received payment due to supplier default. This is triggered by the appointment of a SoLR.

- Credited payments should be reflective of the amounts payable to the DNO by the LDNO attributable to supply points held by the defaulting supplier for the duration of the defaulted payments.

Why?

Under the portfolio billing DUoS charging mechanism, an LDNO collects DUoS revenue from the supplier in respect of both its assets and the upstream DNO assets. The LDNO is then billed by the DNO for DUoS charges in respect use of the DNO's upstream assets by the LDNO's customers. Should there be a supplier default event, the LDNO may not receive its DUoS revenue from the supplier, but would still be bound to pay the DNO. The LDNO is therefore taking on payment risk and exposure for both revenues due in respect of the use of its assets and in respect of the use of upstream DNO assets should there be a supplier default event.

For the purposes of this DCP, Bad Debt is defined as the invoiced amount that is unrecoverable from a supplier that has defaulted and the SoLR appointed to resume supply for the affected customers.

How?

By introducing provisions that allow for LDNOs to request a credited amount from upstream distribution charges to the host DNO for portfolio billing. This is accomplished via the following process:

- The LDNO must provide supporting information to the DNO in order that the sum to be credited can be calculated. This information will be from an extract from MPAS of the number of energised MPANs for the relevant defaulting supplier;
 - for HH supply points the LDNO will give notice that it is seeking a credit to the DNO by re-submission of the most recent HH DUoS report that details that MPANs, consumption and Upstream Network as described in Schedule 19 of the DCUSA document;
 - for NHH supply points, a new report to be sent by the LDNO to the DNO is required detailing all the NHH Transferred MPANs to SoLR (TraMS Report). The TraMS report details the required information that the DNO will need in order to calculate the Credit to return; and
 - the data submissions to the DNO must only reflect the period of billing where the LDNO is seeking a credit. This should be the period from the point payments from the defaulting supplier to the LDNO ceased up to the point when the SoLR has been appointed and normal DUoS payments have resumed.
- The DNO must then, taking into account of the data submitted by the LDNO, advise the LDNO of the billed amount of portfolio charges for the relevant MPANs attributable to the defaulted supplier for the relevant period – the amount to be credited;
 - The LDNO may, if it disagrees with the DNO, enter into a negotiation period in order to agree the amount to be credited.
 - Should the LDNO and DNO not reach an agreement on the amount to be credited, the LDNO may make an appeal. The final decision on the amount to be credited then rests with the Authority.
- The DNO must then issue a credit note to the LDNO in line with the agreed amount (or the Authority if the appeals process has been carried out).

- The LDNO may then make payment as agreed with the DNO (or the Authority if the appeals process has been carried out) taking into account the credit note from the next portfolio billing invoice from the DNO.

2 Governance

Justification for Part 1 and Part 2 Matter

Due to the material nature of this DCP, it should be considered as a Part 1 Matter.

Requested Next Steps

This Change Proposal should:

- Be treated as a Part 1 Matter
- Be treated as a Standard Change
- Proceed to Working Group

3 Why Change?

LDNOs have no specific mechanism for the recovery of Bad Debt within the Electricity Distribution Licence or the DCUSA. Ofgem have granted DNOs allowances to recover Bad Debts incurred through supplier default previously, but as LDNOs do not have allowed revenue determined by Ofgem, no such option is available to them.

Under current arrangements there are no mechanisms that allow LDNOs reconcile payments to the DNO to reflect the Bad Debt created by a defaulting supplier. Furthermore, the only grounds for an LDNO User to dispute charges with the DNO are where there has been a Manifest Error or where the accuracy of the data is under dispute. The net effect of these deficiencies are that LDNOs are obligated to pay portfolio charges to DNOs irrespective of whether the supplier has paid the LDNO or not and that the LDNO is exposed to the DNOs share of risk from Supplier default.

The threat of supplier default represents significant financial risk for LDNOs. The proposer believes that the current arrangement places an undue burden on the LDNO in respect of bad debt exposure. It is appropriate to consider the element of an LDNO's portfolio bill attributable to the defaulting supplier's supply points as efficiently incurred bad debt on the part of the DNO and it should, therefore, be recoverable through the existing bad debt recovery processes for DNOs.

Part B: Code Specific Details

4 Solution and Legal Text

It is proposed that a paragraph be added to the text of the DCUSA Document Section 19 that:

- defines Bad Debt;

Furthermore, additional text should be added that stipulates that under the specific circumstances of supplier default followed by appointment of SoLR that:

- within 90 days of the Authority appointing a SoLR, the LDNO will notify the DNO of the LDNO's intention to request a credit from the DNO to offset an amount of Bad Debt caused by supplier default;
- the LDNO shall resubmit to the DNO the most recent HH Site Specific Data report and MPAN report (DCUSA Schedule 19, paragraphs 3 and 4 respectively) in order to verify the HH MPANs that are attributable to the defaulted supplier;
- the LDNO shall submit a new report (Transferred MPANs to SoLR – “TraMS report”) that details the NHH MPANs that have been transferred from the defaulted Supplier to the SoLR;
 - the TraMS report is populated with an extract from MPRS and the LDNOs own records that details:
 - how many MPANs are on the LDNO's Network that have been transferred from the defaulted supplier to the SoLR;
 - The LLF and PC for each MPAN; and
 - the total consumption against each tariff for the defaulted period (listed in MPAN Days);
- the data submissions the LDNO sends to the DNO must only reflect the period where the LDNO is seeking a credit. This should be the period from the point payments from the defaulting supplier to the LDNO ceased up to the point when the SoLR has been appointed and normal DUoS payments have resumed;
- the LDNO will notify the DNO of the duration the defaulted supplier did not pay the LDNO for Portfolio invoices – this must be accompanied by backing data detailing the missing payments from the Defaulting Supplier;
- the DNO must then, taking into account the data submitted by the LDNO, advise the LDNO of the billed amount of portfolio charges for the relevant MPANs attributable to the defaulted supplier for the relevant period;
 - the LDNO may, if it disagrees with the DNO enter into a negotiation period that lasts no longer than 28 days in order to come to an agreement regarding the credit amount;
- should the LDNO and DNO not reach agreement on the amount of credit to be returned, the LDNO may make an appeal to the Authority within 28 days of the close of the negotiation period;
- all appeals must have written justification with supporting data;
- the final decision on the amount of the credit to be returned following an appeal rests with the Authority who will make a decision within 14 days;
- the DNO must then issue a credit note (as per Section 2A 21.2C of DCUSA) to the LDNO in line with the agreed amount of credit to be returned (or as determined by the Authority if the appeals process has been carried out);
- the LDNO will take into account the credit note in the next due portfolio charging invoice payment to the DNO.

Legal Text

The proposer of this DCUSA Change proposal will draft legal text once the solution has been finalised by the working group.

Text Commentary

5 Code Specific Matters

None.

6 Relevant Objectives

DCUSA Charging Objectives	Identified impact
<input type="checkbox"/> 1 that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	None
<input type="checkbox"/> 2 that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	None
<input type="checkbox"/> 3 that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	None
<input type="checkbox"/> 4 that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	None
<input type="checkbox"/> 5 that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
<input type="checkbox"/> 6 that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	None
DCUSA General Objectives	Identified impact
<input checked="" type="checkbox"/> 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	Positive

<input checked="" type="checkbox"/> 2 The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity	Positive
<input type="checkbox"/> 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	None
<input type="checkbox"/> 4 The promotion of efficiency in the implementation and administration of the DCUSA	None
<input type="checkbox"/> 5 Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
<p>The proposal better facilitates the DCUSA General Objective 1 as this change will help to ensure LDNO business continuity in the event of supplier default. This allows LDNOs to better recover the costs incurred in operating its distribution business and is a more appropriate allocation of risk between distributor parties.</p> <p>The proposal also better facilitates the second DCUSA Objective as it ensures a more reflective allocation of risk between different classes of distributor party. The reallocation of risk fairly reduces exposure to LDNO parties and may, therefore, encourage competition in distribution.</p>	

7 Impacts & Other Considerations

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

Does this Change Proposal Impact Other Codes?

- BSC
- CUSC
- Grid Code
- MRA
- SEC
- Other
- None

Consideration of Wider Industry Impacts

8 Implementation

Proposed Implementation Date

At the time of drafting, no system changes are anticipated in implementing this DCUSA Change Proposal. Therefore, we propose that the change is implemented as soon as practicable following an Authority decision to do so.

9 Recommendations

Part C: Guidance Notes for Completing the Form

Ref	Section	Guidance
1	Attachments	Append any proposed legal text or supporting documentation in order to better support / explain the CP.
2	Governance	<p>A CP must be categorised as a Part 1 or Part 2 matter in accordance with Clause 10.4.7 of the DCUSA. All Part 1 matters require Authority Consent.</p> <p>Part 1 Matter</p> <p>A change Proposal is considered a Part 1 Matter if it satisfies one or more of the following criteria:</p> <p>a) it is likely to have a significant impact on the interests of electricity consumers;</p> <p>b) it is likely to have a significant impact on competition in one or more of:</p> <ul style="list-style-type: none"> i. the generation of electricity; ii. the distribution of electricity; iii. the supply of electricity; and iv. any commercial activities connected with the generation, distribution or supply of electricity; <p>c) it is likely to discriminate in its effects between one Party (or class of Parties) and another Party (or class of Parties);</p> <ul style="list-style-type: none"> i. it is directly related to the safety or security of the Distribution Network; and ii. it concerns the governance or the change control arrangements applying to the DCUSA; and iii. it has been raised by the Authority or a DNO/IDNO Party pursuant to Clause 10.2.5, and/or the Authority has made

		<p>one or more directions in relation to it in accordance with Clause 11.9A.</p> <p>Part 2 Matter</p> <p>A CP is considered a Part 2 Matter if it is proposing to change any actual or potential provisions of the DCUSA which does not satisfy one or more of the criteria set out above.</p>
3	Related Change Proposals	Indicate if the CP is related to or impacts any CP already in the DCUSA or other industry change process.
4	Proposed Solution and Draft Legal Text	<p>Outline the proposed solution for addressing the stated intent of the CP. The Change Proposal Intent will take precedence in the event of any inconsistency. A DCUSA Working Group may develop alternative solutions.</p> <p>The plain English description of the proposed solution should include the changes or additions to existing DCUSA Clauses (including Clause numbers).</p> <p>Insert proposed legal drafting (change marked against any existing DCUSA drafting) which enacts the intent of the solution. The legal text will be reviewed by the Working Group (if convened) and is likely to be subject to legal review as part of its progress through the DCUSA change process.</p>
5	Proposed Implementation Date	<p>The Change can be implemented in February, June, and November of each year or as an extraordinary release. For Charging Methodology CPs, select an implementation date which takes into consideration the minimum notice periods for publishing tariffs. These are:</p> <ul style="list-style-type: none"> • 15 months, for DNOs acting within their Distribution Services Areas; or • 14 months, for IDNOs and DNOs acting outside their Distribution Services Area. <p>Please select an implementation date that provides sufficient time for the Change to be incorporated into the appropriate charging model and the DCUSA in order to be reflected in future tariffs.</p> <p>Contact the DCUSA helpdesk for any further information on the releases dcusa@electralink.co.uk.</p>
6	Impacts & Other Considerations	Indicate whether this Change Proposal will be impacted by or have an impact upon wider industry developments. If an impact is identified, explain why the benefit of the Change Proposal may outweigh the potential impact and indicate the likely duration of the Change.
7	Environmental Impact	Indicate whether it is likely that there would be a material impact on greenhouse gas emissions as a result of the proposed variation being made. Please see Ofgem Guidance .

8	Confidentiality	Clearly indicate if any parts of this Change Proposal Form are to remain confidential to DCUSA Panel (and any subsequent DCUSA Working Group) and Ofgem
9	DCUSA General Objectives	Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.
10	Detailed Rationale for DCUSA Objectives	Provide detailed supporting reasons and information (including any initial analysis that supports your views) to demonstrate why the CP will better facilitate each of the DCUSA Objectives identified.
11	DCUSA Charging Objectives	Indicate which of the DCUSA Charging Objectives will be better facilitated by the Change Proposal.
12	Defining 'Material' for Charging Methodology Changes	In respect of proposals to vary one or more of the Charging Methodologies, such proposals shall be deemed to be "material" if they might reasonably be expected to have a significant impact on the tariffs calculated under one or more of the methodologies.