

**DCUSA DCP 314 CHANGE DECLARATION**

**VOTING END DATE:** 8 FEBRUARY 2019

DCP 314 APPROPRIATE TREATMENT OF BAD DEBT FOLLOWING APPOINTMENT OF SUPPLIER OF LAST RESORT	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	DISTRIBUTED GENERATOR	GAS SUPPLIER
CHANGE SOLUTION DCP 314	Reject	Accept	n/a	n/a	n/a
CHANGE SOLUTION DCP 314A	Reject	Accept	n/a	n/a	n/a
IMPLEMENTATION DATE	Reject	Accept	n/a	n/a	n/a
RECOMMENDATION DCP 314	<p><b>Change Solution – Reject.</b>                      In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the change solution was less than 50% in all Categories.</p> <p><b>Implementation Date – Reject.</b>                      In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was less than 50% in all Categories.</p>				
RECOMMENDATION DCP 314A	<p><b>Change Solution – Reject.</b>                      In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the change solution was less than 50% in all Categories.</p>				

	<p><b>Implementation Date – Reject.</b></p> <p>In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was less than 50% in all Categories.</p>
<b>PART ONE / PART TWO</b>	<b>Part One</b> – Authority Determination Required

PARTY	SOLUTION DCP314 (A / R)	SOLUTION DCP 314A (A / R)	IMPLEMENTATION DATE (A / R)	WHICH DCUSA OBJECTIVE(S) IS BETTER FACILITATED?	COMMENTS
<b>DNO PARTIES</b>					
Electricity North West Limited	R	R	R	None.	<p>These changes seeks to 're-distribute' Unrecovered EDNO UoS Bad Debt by crediting DNO DUoS invoices to the EDNO which 'correspond' to this bad debt.</p> <p>It is not clear that either of the two approaches proposed under this change are in line with the Ofgem guidance note as we expect that there will be 'other approved means' for EDNOs to recover their bad debt in full. The Ofgem guidance note dates from 2005 and there are developments underway in this area so we are not sure that the guidance note is still</p>

					<p>representative of Ofgem's current thinking.</p> <p>In addition, we have significant concerns with the approach taken in the drafting of the changes involving crediting of valid DUoS invoices.</p> <p>It is our reading of the legal text changes that there does not appear to be a change in the process for the DNO in calculating DUoS invoices for EDNOs, or any new additional requirement for DNOs to credit EDNO DUoS invoices. The proposed paragraph 8 merely introduces a set of requirements for EDNOs only to provide data and calculations to the DNO. On this basis we do not believe the change meets the stated intent.</p> <p>If there is to be a change addressing this issue we would favour an approach that involves the EDNO raising a separate invoice to the DNO for the bad debt to be re-distributed, rather than the DNO applying credits to DUoS invoices. It is our view that EDNO invoicing would be more consistent with the aim of</p>
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					<p>maintaining true and fair records of the transactions between the parties and would lead to better outcomes overall as a result.</p> <p>The crediting of DUoS invoices would have the impact of reducing the DNO's collected revenue. This under recovery would then be ultimately collected later via the k-factor. The change also states (8.8) that the DNO party 'may include the EDNO data relating to the Defaulting Supplier as part of the DNO Party's submission for cost recovery to the Authority'. This would seem to imply a potential double recovery of this amount. We are sure such issues could be worked around but it is our view that it would be better to not introduce this issue in the first instance.</p>
SP Distribution plc	A	R	A	1 & 2	<p>We think that running the bad debt report at reconciliation final stage proposed by DCP 314 is more efficient way of managing the process.</p>
SP Manweb plc					

Western Power Distribution (East Midlands) plc	A	A	A	DCUSA General Objective 2	N/A
Western Power Distribution (West Midlands) plc					
Western Power Distribution (South Wales) plc					
Western Power Distribution (South West) plc					
Northern Powergrid (Northeast) Ltd	R	R	R	<p>General Objectives two and four will be negatively impacted by this change. General Objectives one, three and five will not be impacted by this change.</p> <p>General Objective two: this change will distort competition in the distribution of electricity. Independent Distribution Network Operators (IDNOs) and Distribution Network Operators (DNOs) operating out of area (collectively Licensed Distribution Network Operators or LDNOs) operate on an unregulated basis since they win new network</p>	<p>implementation of DCP 314 or DCP 314A at this time would be inappropriate. As mentioned above, we do not think it is appropriate for Ofgem to allow LDNOs to recover bad debts as this will result in a windfall gain for those companies. Hence we do not believe DCP 314 and DCP 314A have identified a defect in the current arrangements. Whilst we have yet to see sound justification for its position, we understand Ofgem considers that LDNOs should be allowed to recover bad debts, and so considers there is a defect.</p>

				<p>competitively. Bad debts associated with defaulting suppliers simply represent one of many business risks LDNOs face in a competitive market. LDNOs will have priced the risk of bad debts into business decisions made when adopting new developments. Any redistribution of bad debts would represent a windfall gain for LDNOs in respect of existing connections, and accentuate existing regulatory distortions between LDNOs and DNOs when competing for new developments.</p> <p>General objective four: this change would introduce a significant administrative burden into the DCUSA requirements, with the associated risk of error. We will be unable to use our DUoS billing system to generate this credit (the only way to do so would be to credit the invoice, which in turn would reduce billed revenue and so create under-recovery rather than additional bad debt). Whilst we accept that the bad debts to be redistributed from LDNO to DNO relate to the use of DNO assets, they remain LDNO bad</p>	<p>If we were to accept that LDNOs should be allowed to recover bad debts, then DCP 314 and DCP 314A both represent a partial mechanism to resolve the defect identified. LDNOs will still only be able to recover the element of their bad debts which relates to use of upstream DNO assets, leaving them with bad debts outstanding which relate to the use of their own assets.</p> <p>The solutions developed by the working group are administratively cumbersome, error-prone and imprecise. This is not a criticism of the solutions developed. We have been heavily involved in their development and consider they are the best solutions available to deliver the intent of the change. It is the underlying intent of DCP 314 and DCP 314A to partially transfer bad debts from LDNOs to DNOs which inevitably creates complications.</p> <p>Ofgem has recently launched its statutory consultation on changes to the distribution licence which will enable LDNOs to claim all bad debts (subject</p>
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				<p>debts (as it is the LDNO's invoices to the defaulting supplier which remain unpaid); hence if LDNOs are to be allowed to recover bad debts despite the reasons we set out as to why they should not, then this should be dealt with through licence changes enabling LDNOs to recover all of their bad debts.</p>	<p>to demonstrating compliance with credit cover requirements) from DNOs. DNOs will in turn recover those bad debts, along with DNOs' own bad debts, from customers. We have proposed DCUSA change proposal 333 'appropriate treatment and allocation of eligible bad debt costs' which seeks to ensure that customers connected to LDNO networks contribute to the recovery of bad debts to the same extent as customers connected to DNO networks, ensuring bad debts are appropriately 'socialised' across all customers. The changes to the distribution licence will enable LDNOs to recover bad debts in full, using a simple process with appropriate Ofgem oversight.</p> <p>In the context of pending changes to the distribution licence, we can see no justifiable reason why Ofgem would approve DCP 314 or DCP 314A.</p>
<p>Northern Powergrid (Yorkshire) plc</p>					
<p>Eastern Power Networks</p>	<p>R</p>	<p>R</p>	<p>R</p>	<p>We believe that DCUSA General Objectives are not</p>	<p>We believe that there are a number of inconsistencies</p>

				better facilitated by this change as it currently stands.	between this proposal and the recently published changes to the Distribution License which Ofgem are currently consulting on. Under the proposed License changes Ofgem will authorise all Bad Debt adjustments. We would therefore not be in a position to make payments to the LDNO, nor would the DNO be able to re-claim any cost under this proposal. We believe that further work should be undertaken once Ofgem have published their final position on the Standard License changes.
London Power Networks					
South Eastern Power Networks					
<b>IDNO PARTIES</b>					
BUUK Infrastructure	A	A	A	General Objective 1 will be better facilitated by this change as it will enable LDNOs to partially recover DUoS bad debts where previously no such mechanism has been in place following a defaulting Supplier.	N/A

				<p>Likewise by enabling this change will also improve General Objective 2 by making the distribution system fairer and thus more competitive. We do not however agree with the negative point raised of, 'LDNOs operate on an unregulated basis since they win new network competitively.' DNOs operate in the same market and are equally able to win new networks, however they have an existing mechanism in place to recover bad debt where LDNOs do not.</p> <p>While we agree, in part, to the negative points raised for General Objectives 1 and 4, and that there will be an increase in administrative burden, this is however seen as a necessary side effect and by no means justification for not enabling LDNOs the same ability to recover DUoS bad debt.</p>	
ESP Electricity Ltd	A	A	A	<p>Obj 1 - Positive. The CP allows IDNOs to recover the bad debt incurred due to licence-revoked suppliers being unable to settle DUoS invoices. Allowing IDNOs to recover that</p>	<p>ESP Electricity would like to thank the working group for the work involved and the timely progression of this change proposal.</p>

				<p>bad debt improves the economical maintenance and operation of IDNO distribution networks.</p> <p>Obj 2 - Postive. DNOs can recover bad debt through their distribution licence and price control mechanisms. Allowing the IDNO to also recover bad debt facilitates competition.</p>	
<b>SUPPLIER PARTIES</b>					
N/A					
<b>DISTRIBUTED GENERATOR PARTIES</b>					
N/A					
<b>GAS SUPPLIER PARTIES</b>					
N/A					