

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h2>DCP 314A:</h2> <h3>Appropriate treatment of Bad Debt following appointment of Supplier of Last Resort.</h3> <p><i>15/10/2018</i></p> <p><i>Rob Johnson</i></p> <p><i>ESP</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>DCP 314A 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 Licensed Distribution Network Operators (LDNOs) for the amount of DUoS charges attributable to the defaulting supplier where the LDNO has not received payment.</p> <p>This change is an alternate to DCP 314 and seeks to clarify the process in which the LDNO issues a report to the DNO and receives up front settlement with final reconciliation following the conclusion of the settlement process.</p>		
	<p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • A Part 1 Matter • Treated as a Standard • Proceed to Change Report <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p>	
	<p>Impacted Parties: DNOs and LDNOs</p>	



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Indicative Timeline	
<i>Please provide the proposers contacts (to the right). The indicative timeline will be updated by the Code Administrator.</i>	
The Secretariat recommends the following timetable:	
Initial Assessment Report	02 January 2018
Consultation Issued to Industry Participants	21 September 2018
Alternate Change Proposal Raised	15 October 2018
Change Report Approved by Panel	21 November 2018
Change Report issued for Voting	23 November 2018
Party Voting Closes	7 December 2018
Change Declaration Issued to Parties	11 December 2018
Change Declaration Issued to Authority	11 December 2018
Authority Decision	15 January 2018



Any questions?

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1 Summary

What

1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity distributors, electricity suppliers and large generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.

1.2 This CP provides Licensed Distribution Network Operators (LDNOs) a mechanism to request the credit of a portion of portfolio billing payments back from the relevant Distribution Network Operator (DNO) without penalty under the specific circumstance where the LDNO has not received payment due to a supplier default which results in a Last Resort Supply Direction (LRSD) being issued by the Authority.

1.3 Credited payments should be reflective of the amounts paid (or due for payment) to the DNO by the LDNO attributable to metering points supplied by the defaulting supplier for the duration of the defaulted payments.

Why

1.4 Under the portfolio billing Distribution Use of System (DUoS) charging mechanism, a LDNO collects DUoS revenue from suppliers in respect of both its assets and the upstream DNO assets. The LDNO is then billed by the DNO for DUoS charges for the use of the DNO's upstream assets by customers connected to the LDNO's network. Should there be a supplier default event, the LDNO may not receive DUoS revenue from the defaulting supplier but would still be bound (by the DCUSA) 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 a supplier default event occur.

1.5 Recent events highlight the need for this CP, with three suppliers having defaulted in recent years:

- GB Energy Supply Ltd failed in November 2016, with a LRSD issued to Co-operative Energy Limited to act as the Supplier of Last Resort (SoLR) for affected customers;
- Future Energy Supply Limited failed in January 2018, with a LRSD issued to Green Star Energy (a subsidiary of Hudson Energy Supply UK Limited) to act as the SoLR for affected customers; and

- Iresa Limited failed in July 2018, with a LRSD issued to Octopus Energy Limited to act as the SoLR for affected customers.

How

1.6 The CP proposes to introduce provisions that allow LDNOs to request a credit from the host DNO for upstream distribution charges. This is accomplished via the following processes:

- 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 extracts of billing data for the relevant defaulting supplier for the relevant periods.
 - For metering points which are settled on Measurement Classes C, D or E (i.e. half-hourly site-specific settled) the LDNO will give notice to the DNO that it is seeking a credit by re-submission of all half-hourly DUoS reports (as described in Schedule 19 of DCUSA) which relate to periods for which the LDNO has Bad Debt outstanding, detailing the consumption by MPAN.
 - For metering points which are settled on Measurement Classes A, B, F or G (i.e. non-half-hourly and half-hourly aggregate settled), a new report that is compiled from data sent from the Supplier Volume Allocation Agent to the LDNO via the D0030 data flow will be sent to the DNO, detailing all the usage in respect of metering points which have been transferred to the SoLR for periods for which the LDNO has Bad Debt outstanding. The report details the information that the DNO will need to verify the credit to return.
- 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 consumption 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 Proposer suggests that 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 amount determined by the Authority if the appeals process has been carried out).
- Under DCP 314, the working group identified three options for the timing of the report from the LDNO to the DNO,
 - Option A – following the conclusion of the settlement process;
 - Option B – a short period of time after the LDNO receives all initial settlement run data for the entire period for which the defaulting supplier was responsible for the supply of customers; and

- Option C – an initial report a short period of time after the LDNO receives all initial settlement run data for the entire period for which the defaulting supplier was responsible for the supply of customers, with a reconciliation following the conclusion of the settlement process.

Through the consultation process Option B was eliminated as it received no support from respondents, the consultation responses were evenly split between Option A and Option C. this alternate change proposal therefore presents Option C as the preferred solution while the original presents Option A.

2 Governance

Justification for Part 1 and Part 2 Matter

2.1 DCP 314 has been designated as a Part 1 Matter as the proposed CP is likely to have a significant impact on competition in the distribution of electricity; and is likely to discriminate in its effects between one Party (or class of Parties) and another Party (or class of Parties).

Requested Next Steps

2.2 Following a review of the Consultation responses, the Working Group will refine the detail of the solution for DCP 314 if necessary and, subject to feedback in consultation responses, submit a Change Report to the DCUSA Panel. The working group is requested to consider this alternate in parallel.

3 Why Change?

Background of DCP 314

3.1 IDNOs 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 Debt incurred through supplier default previously, but as IDNOs do not have allowed revenue determined by Ofgem, no such option is available to them.

3.2 Under current arrangements there are no mechanisms that allow LDNOs to reconcile payments to the DNO to reflect the Bad Debt created by a defaulting supplier. Furthermore, the only grounds for a LDNO 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 is that LDNOs are obliged 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.

3.3 The threat of supplier default represents significant financial risk for LDNOs. The Proposer believes that the current arrangements place an undue burden on LDNOs in respect of Bad Debt exposure. It is appropriate to consider the element of a LDNO's portfolio bill attributable to the defaulting supplier's metering 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.

4 Solution and Legal Text

Solution

4.1 The Solution presented in this alternate Change proposal does not differ from that developed by the DCP 314 Working Group except in the proposed process in which the LDNO issues a report to the DNO and receives up front settlement with final reconciliation following the conclusion of the settlement process. For the avoidance of doubt, the key proposals of this alternate DCP are:

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

- Defines Bad Debt;

Additional text should be added stipulating 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 data from any HH Site Specific Data report and MPAN report (DCUSA Schedule 19, paragraphs 3 and 4 respectively) from the period of default only, in order to verify the HH mpans that are attributable to the defaulted supplier. In this submission the LDNO shall ensure that actual value of the amount to be credited from the DNO to the LDNO is included; this will not interrupt normal billing processes and is to be considered a separate process.
- The LDNO shall submit a report using the agreed template that is extracted from D0314 report that details the NHH mpans that have been transferred from the defaulted Supplier to the SoLR;
 - the report is populated with an extract from D0314 usage files 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 and SSC for each MPAN; and
- the total consumption against each tariff for the defaulted period (listed in MPAN Days); and
- the value of the DUoS charges to be credited from the DNO to the LDNO (listed in granular forms and as a total).
- 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;
- disputes in this process can be resolved via the DCUSA appeals process;
- all appeals must have written justification with supporting data;
- 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 notes in the next portfolio charging invoice payment to the DNO.

Legal Text

4.2 It is proposed that a section covering the redistribution of Bad Debt associated with a defaulting supplier be added to the text of Schedule 19 of the DCUSA. Schedule 19 uses the term Embedded Distribution Network Operator (EDNO). The definition of which is the same as a LDNO used within this consultation document. As such the summary of the amendments to that schedule shown below uses the term EDNO to align with that schedule.

4.3 The legal text within this section covers:

- The information required when the EDNO invokes their right to re-distribute Bad Debt;
- The timing and format of the report covering non-half-hourly and half-hourly aggregate billing (amended for each option);
- The timing and format of the report covering half-hourly site-specific billing;
- The criteria used by the DNO in assessing the amount of credit based on age of debt (taken from Ofgem's 2005 best practice guidelines document);
- Handling payments received from the Administrator of the defaulting supplier;

- A provision for the DNO to include the EDNO Bad Debt transferred from the EDNO as part of its submission to Ofgem for cost recovery; and
- An obligation on the EDNO to provide any information requested by the Authority that relates to their data.

Text Commentary

A copy of the proposed legal text can be found as Attachment 2.

5 Code Specific Matters

Reference Documents

- Ofgem’s “Best Practice Guidelines for gas and electricity network operator credit cover”:
https://www.ofgem.gov.uk/sites/default/files/docs/2005/02/9791-5805_0.pdf
- GB Energy Supply Ltd supply licence revocation:
https://www.ofgem.gov.uk/system/files/docs/2016/11/electricity_supply_revocation_2.pdf
- Co-operative Energy Limited LRSD:
https://www.ofgem.gov.uk/system/files/docs/2016/11/last_resort_direction_template_electricity.pdf
- Future Energy Supply Limited licence revocation:
https://www.ofgem.gov.uk/system/files/docs/2018/01/fe_elec_revocation_002.pdf
- Green Star Energy LRSD:
https://www.ofgem.gov.uk/system/files/docs/2018/01/electricity_solr_direction.pdf
- Iresa Limited supply licence revocation:
https://www.ofgem.gov.uk/system/files/docs/2018/08/notice_of_revocation_of_electricity_licence_-_iresa.pdf
- Octopus Energy Limited LRSD:
https://www.ofgem.gov.uk/system/files/docs/2018/07/last_resort_supply_direction_-_electricity.pdf

6 Relevant Objectives

DCUSA General Objectives Please tick the relevant boxes. (See Guidance Note 9)	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>General Objective 1 is better facilitated as the 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 their distribution businesses and is a more appropriate allocation of risk between distributor parties.</p> <p>General Objective 2 is better facilitated as it ensures a more reflective allocation of risk between different classes of a distributor party. The reallocation of risk fairly reduces exposure to LDNO parties and may, therefore, encourage competition in distribution.</p>	

7 Impacts & Other Considerations

i.

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

7.1 The Working Group under DCP 314 is aware of a recent consultation undertaken by Ofgem entitled “Proposed modifications to SoLR supply licence conditions”⁴. The consultation closed on 11 July 2018. If, following consideration of respondents’ views, Ofgem decides to proceed to modify the licences, it will issue a statutory consultation as soon as practicable

following its review of the consultation responses. The same will apply for this Alternate change proposal.

8 Implementation

8.1 It is proposed 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 one or more directions in relation to it in accordance with Clause 11.9A.

		<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.