

DCUSA Consultation	At what stage is this document in the process?
<h2 style="color: green;">DCP 314</h2> <h3 style="color: green;">Appropriate treatment of Bad Debt following appointment of Supplier of Last Resort.</h3> <p style="color: green;"><i>Raised on the 02 January 2018 as a Standard Change</i></p>	<div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">01 – Change Proposal</div> <div style="background-color: #0070C0; color: white; padding: 5px; margin-bottom: 5px;">02 – Consultation</div> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;">03 – Change Report</div> <div style="border: 1px solid black; padding: 5px;">04 – Change Declaration</div>
<p>Purpose of Change Proposal:</p> <p>DCP 314 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 document is a Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 314.</p>	
 	<p>The Workgroup recommends that this Change Proposal should:</p> <ul style="list-style-type: none"> • proceed to Consultation <p>Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 1 to dcusa@electralink.co.uk by 21 September 2018.</p> <p>DCP 314 has been designated as a Part 1 Matter and a standard change.</p> <p>The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the Change Proposal (CP).</p>
	<p>Impacted Parties: DNOs and IDNOs</p>
	<p>Impacted Clauses: Schedule 19 (Portfolio Billing)</p>

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Timetable		
The timetable for the progression of the CP is as follows:		
Change Proposal timetable		
Change Proposal timetable:		
Activity	Date	
Initial Assessment Report Approved by Panel	17 January 2018	
First Consultation issued to Parties	31 August 2018	
Change Report issued to Panel	14 November 2018	
Change Report issued for Voting	23 November 2018	
Party Voting Ends	14 December 2018	
Change Declaration Issued to Parties	18 December 2018	
Authority Decision	25 January 2019	
Implementation	First Scheduled DCUSA Release following approval	

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 Operators¹ (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 whereby 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.

¹ LDNOs are Independent Distribution Network Operators and DNOs operating out of their Distribution Services Area.

How?

1.6 The CP proposes to introduce 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 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 Debt² 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 extracted 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, and the credit to be returned to the LDNO. 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).

Q1: Do you understand the intent of DCP 314?

² For the purposes of this CP, Bad Debt is defined as the invoiced amount that is unrecoverable from a supplier that has defaulted.

2 Governance

Justification for Part 1 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.

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 dispute³. 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' shares 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.

Q2: Do you agree with the principles of DCP 314?

³ Covered by Schedule 4 of DCUSA

4 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

5 Working Group Assessment

DCP 314 Working Group Assessment

- 5.1 The DCUSA Panel established a Working Group to assess DCP 314. This Working Group consists of DNO and IDNO representatives and an Ofgem observer. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.
- 5.2 DCP 314 was raised because, when a supplier ceases to trade, there is a level of mutualisation of industry debt outstanding in respect of that supplier. However, there is no mutualisation of risk between DNO and LDNO, irrespective of whether the LDNO has taken payment from the supplier or not. The number of small suppliers in the electricity market has increased significantly, and therefore, there is greater potential for more than one supplier to default at the same time.
- 5.3 Implementation of DCP 314 will mean that a DNO will be required to credit LDNOs for the level of defaulted debt which relates to the defaulting supplier’s use of the DNO’s assets, for periods for which the LDNO has not received payment from the defaulting supplier.
- 5.4 The Working Group reviewed Ofgem’s “*Best Practice Guidelines for gas and electricity network operator credit cover*”, that was published in February 2005 as this provides further guidance in the

event of a SoLR being appointed. The Working Group reviewed section 4 of the document and addressed some concerns:

- It was noted that the document is only a guideline;
- The document was written in 2005 and the market has evolved significantly since that time; and
- The document was written at the time when the first IDNOs were obtaining their licences to operate and as such it was unclear as to whether they were considered as a network operator.

5.5 The Working Group drafted a letter to Ofgem to obtain clarity on the following:

- Whether the 2005 best practice guidelines document is still in force and if not, what alternative arrangements exist for the recovery of Bad Debt;
- Whether an embedded distributor (LDNO) can recover Bad Debt in accordance with the criteria of the guidance document and if not, what process they should follow; and
- How the Bad Debt provision should be considered and processed.

5.6 In response to the questions above Ofgem confirmed that DNOs operating out of area should be able to use the DNO cost recovery mechanism and the 2005 guidance document can be applied to IDNOs. However, paragraph 4.7 of the document states, *'All sums to be recovered will be 'logged-up' and dealt with at the subsequent price control review.'* It then goes on to say that *'where a delay in recovery would have a material adverse effect on the financial position of a network operator, Ofgem may consider earlier licence modifications.'* The Ofgem observer of the Working Group discussed that it was unfortunate that this wording was used as an earlier cost recovery mechanism is not available to IDNOs. There is also no licence condition in the IDNO licence under which a direction could be issued. DCP 314 would provide only a partial recovery method for IDNOs and would allow the recovery of the upstream DNO Use of System charges and not that of the downstream IDNO.

5.7 One option explored by Ofgem was to look at widening the scope of Standard Licence Condition (SLC) 38 of the distribution licence to cover DUoS Bad Debt as well as SoLR costs. It was hypothesised that SLC38 could be modified to enable Ofgem to issue a direction allowing a network operator to recover costs arising from the insolvency of a supplier, including DUoS Bad Debt, as well as SoLR cost claims. However, SLC38 is in Section B *'additional standard conditions for electricity distributors who are distribution services providers'*; therefore, it is not in force in the IDNO licences. Consequently, this route would also require a modification to the IDNO standard conditions.

5.8 A further option discussed by Ofgem was the recovery of DUoS Bad Debt through the SoLR process, which may be more efficient and would allocate the cost across GB customers. However, the SoLR process is subject to the agreement of the SoLR and there is no obligation on the SoLR to make a claim for a Last Resort Supply Payment (LRSP), so there would still be a need for a fall-back process to deal with any cases where DUoS Bad Debt is not recovered by a SoLR making a LRSP claim.

5.9 DCP 314 would provide a mechanism for IDNOs to recover a proportion of their DUoS Bad Debt while the existing process only deals with the recovery of DUoS Bad Debt by DNOs but not IDNOs.

5.10 Due to the fact that there is no process in place for IDNOs to recover their Bad Debt, which may be considered to be discriminatory, the Working Group's preferred option was for Ofgem to undertake a modification to the IDNO licences so that they are able to collect Bad Debt.

5.11 The Ofgem representative confirmed that licence conditions are now being drafted as a consequence of the issues highlighted by this CP for further discussion within Ofgem as IDNOs currently have no recovery method for the recovery of Bad Debt relating to a defaulting supplier. However, the Ofgem

representative also stated that there is a potential for this CP to be investigated alongside the licence modification. There was concern that Ofgem's priorities could be elsewhere, i.e. with the Charging Futures Forum and the Targeted Charging Review and therefore it may be some time before the licence modification could be made. The Working Group agreed to progress with the CP, whilst accepting that this may result in the CP having to be withdrawn or backed out of DCUSA at a later stage.

Q3: Do you agree with the Working Group that the ultimate solution to this issue should be via a licence modification, but that DCP 314 should progress in the meantime? Please provide your rationale.

5.12 Concerns were raised over the 2005 best practice guidelines document and that it may need to be updated to facilitate the recovery of Bad Debt which is transferred from the LDNO to the DNO. A review of this was undertaken:

- The first part of the document details the views of consultation respondents to a consultation which was issued 14 years ago and so is no longer relevant;
- The document recommends 'codifying' the best practice guidelines. With the exception of section four (which relates to the amounts which network operators will be allowed to pass through) this has been achieved with the inclusion of Schedule 1 ('Cover') in the DCUSA; and
- As a consequence of the previous point, the decision tree in section four is out of date in referring to whether the 'claimant has in place procedures to comply with the best practice guidelines', with the actual test now being whether the claimant has in place procedures to comply with Schedule 1 of the DCUSA.

5.13 The Working Group agreed that a simple approach may be for Ofgem to publish a guidance note which deals only with the pass-through criteria (i.e. section four of the existing guidance only) since the remainder has been superseded.

5.14 The Working Group suggest that a separate document is produced specific to the electricity industry that takes section 4 of the 2005 Guidance document and amends it to bring it up to date and caters for this change (Attachment 4).

5.15 The proposed document refers to both Schedule 1 and the proposed changes to Schedule 19 of DCUSA. It allows the DNO to pass-through Bad Debt which has been transferred from the LDNO to the DNO under the mechanism created by DCP 314.

Q4: Do you agree with the Working Group that Ofgem would need to either consider updating the 2005 document or provide a guidance note to allow the DNO to pass-through Bad Debts which have been transferred from the LDNO to the DNO? Please provide your rationale.

Q5: Do you have any comments on the guidance note amendments suggested by the Working Group?

5.16 The Working Group discussed the process that needs to be adopted when a supplier default event occurs. One area of concern was the magnitude of the Bad Debt compared to the amount of administration required. Consideration was given as to whether there should be a de minimis value.

The Working Group considered that it may be more appropriate to provide the LDNO the right to redistribute Bad Debt but not create a requirement for it to do so.

Q6: Do you agree with the Working Group view that to progress with a redistribution of debt should be optional for the LDNO rather than invoking a de minimis value? Please provide your rationale

5.17 The Working Group then discussed the minimum amount of information that was needed from the LDNO to indicate that, once such an occurrence had taken place, they wished to invoke the process and to enable the DNO to validate the amount of Bad Debt to be transferred. The following is a list of information required from the LDNO:

- a self-certification of compliance with Schedule 1;
- the name of the defaulting Supplier Party;
- the amount of financial loss incurred, in the formats specified in Paragraphs 8.2 and 8.3, (of Schedule 19 introduced by this CP) together with the number of days the debt has been outstanding from the due date; and
- the final date on which the defaulting Supplier Party was responsible for the supply to customers (hereafter the 'Final Day of Supply'), i.e. the day before the Supplier Party to which the LRSP applies took responsibility for supply to customers of the defaulting Supplier Party.

Half-hourly Site- specific billing

5.18 The solution developed states that for metering points which are settled on Measurement Classes C, D or E (half-hourly site-specific metering points) the LDNO must give notice that it is seeking credit from the DNO by the resubmission of all half-hourly DUoS reports which relate to periods for which the LDNO has not received payment.

Non-half-hourly and half-hourly aggregate billing

5.19 The Proposer suggested that for non-half-hourly and half-hourly aggregate settled metering points (i.e. those on Measurement Classes A, B, F or G) a new report should be created based on data which the LDNO receives on the D0030 data flow. This report would be sent by the LDNO to the DNO in an Excel workbook in the format specified in Schedule 19 and will allow the DNO to validate the credit to return to the LDNO.

5.20 The Working Group discussed this and consideration was given to:

- the format of the report; and
- when such a report is to be provided.

5.21 The Working Group agreed that the report should be taken from the information within the D0030 data flow and presented in spreadsheet format. It was also agreed that, to ensure consistency, the data required should be specified in the DCUSA and as such the format of this report should be added as an appendix to Schedule 19.

5.22 The timing of the report from the LDNO to the DNO is complicated by the lengthy settlement process for non-half-hourly and half-hourly aggregate settled customers. DNOs and LDNOs receive an initial view of consumption for customers connected to their networks around 20 days after the date of consumption (the 'initial settlement run') with this information subsequently corrected through a series of reconciliations, concluding with the final position 14 months later (the 'final reconciliation

settlement run'). The LDNOs Bad Debt exposure in respect of the failure of a given supplier will therefore not be known until the final reconciliation settlement run has been received for the final day on which the defaulting supplier was responsible for supplying customers.

5.23 The Working Group considered three options for the timing of the report from the LDNO to the DNO. Note that under all three options the LDNO will have an obligation to pass on any income received from the administrator of the defaulting supplier where the LDNO has received a credit back from the DNO. The three options considered are:

- 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.

Option A - Final Settlement Run

5.24 The LDNO would submit its report to the DNO on completion of the settlement process (i.e. 14 months after the supplier has defaulted) with the DNO then making payment to the LDNO. This will cater for all reconciliation runs up to and including the final reconciliation settlement run, but any redistribution of Bad Debt will only take place around 15 months after the majority of the Bad Debt had been incurred.

Option B – Initial Settlement Run

5.25 The LDNO would submit its report to the DNO on receipt of the initial settlement run (received circa 20 days after the consumption date) for days up to and including the date of failure based on the latest reconciliations available at that time, with the DNO then making payment to the LDNO on this basis. Any variation between the initial settlement run, further settlement runs and the final reconciliation settlement run would be left unaltered. This would result in a reasonably small inaccuracy.

Option C - Initial Settlement Run with a true-up after the Final Reconciliation Settlement Run

5.26 The LDNO would submit a report to the DNO on receipt of the initial settlement run for days up to and including the date of failure based on the latest reconciliations available at that time with the DNO then making payment to the LDNO on this basis. A true-up would then take place once the settlement process has concluded 14 months later, i.e. another LDNO to DNO report and then either DNO to LDNO payment or vice versa depending on whether the reconciliations received through settlement in the intervening period were net positive or net negative. Under this option, the majority of the Bad Debt is transferred early in the process, with a final reconciliation being carried out once the Bad Debt position is finalised.

5.27 The Working Group is seeking views on the three options.

Q7: Which of the three options for the timing of the LDNO to DNO report and DNO to LDNO payment do you support? Please explain your rationale.

5.28 The proposed format of the LDNO to DNO report is included as Attachment 5. Two versions are provided for comment – one of these includes a row per settlement combination per reconciliation

per settlement day; the other includes a row per settlement combination per reconciliation with settlement dates grouped by those for which the LDNO has invoiced the same set of settlement reconciliations.

5.29 Under each option, the proposed report includes a summary showing:

- The last date of supply;
- The date of the last non-half-hourly invoice which the defaulting supplier paid;
- The date on which the LDNO received the final information needed to compile the report, being:
 - Under Option A the date on which the final settlement reconciliation run for the final date of supply was invoiced.
 - Under Option B the date on which the initial settlement run for the final date of supply was invoiced.
 - Under Option C both the date on which the initial settlement run (for the initial calculation) and the date on which the final settlement reconciliation run (for the true-up) for the final date of supply was invoiced; and
- the complete date range for reconciliations which remain unpaid by the defaulting supplier.

5.30 A detailed worksheet then shows each settlement reconciliation for each date with a status of 'paid' for settlement reconciliations which were invoiced and paid before the point in time at which the defaulting supplier paid its final invoice; 'not received' for settlement reconciliations which the LDNO has not yet received at the time of sending the report – this is only applicable for options B and the initial report under option C; or 'unpaid' for those settlement reconciliations which the LDNO has invoiced but not received payment from the defaulting supplier.

5.31 The report then includes details of the applicable settlement combination (profile class, standard settlement configuration, line loss factor class and time pattern regime) necessary to determine which tariff should apply, and the number of MPANs and consumption against that settlement combination. For each settlement reconciliation after the initial settlement run, the consumption values shown should be the difference between that settlement reconciliation and the previous settlement reconciliation for that settlement date.

5.32 In order to aid the LDNO and DNO in reaching agreement on the value to be credited, the report also includes the name of the DNO's tariff which the LDNO considers should apply to that settlement code, the tariff itself, and calculations showing the tariff being applied to the usage to reach a total for each line. These should only be populated for lines with a status of 'unpaid'.

Q8: Is the information listed in paragraph 5.17, along with the resubmitted half-hourly invoicing reports and the non-half-hourly and half-hourly aggregate report sufficient to enable DNOs to process the LDNO's claim? If not, what additional information is required?

5.33 An example of each of the LDNO to DNO reports is included as Attachment 5. This is based on a fictitious example of a supplier defaulting in June 2018 having failed to pay its most recent invoice, with each of the scenarios worked through from that point. The usage data included in these workbooks is illustrative only.

Q9: Do you have any comments on the proposed format of the LDNO to DNO report?

Q10: Do you have a preference for the 'By Date' or 'By Period' version of the report to be used?

5.34 The original suggestion by the Proposer for credit disputes was to go through the Authority for resolution. The Working Group noted that there is already a disputes process in place in DCUSA within Schedule 4 and identified as such within Schedule 19 where the legal text is to be amended. The Proposer accepted the fact that the Authority need not be involved in the process as the disputes process in DCUSA was seen as robust enough to be used for this purpose.

Q11: Do you agree that DCUSA already caters for a dispute process and as such there is no need to escalate to the Authority? Please provide your rationale.

6 Legal Text

6.1 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.

6.2 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.

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

Q12: Do you have any comments on the proposed legal text for DCP 314?

7 Relevant Objectives

Assessment Against the DCUSA Objectives

7.1 For a DCUSA CP to be approved it must be demonstrated that it better meets the DCUSA Objectives. The Proposer believes that this CP better facilitates DCUSA General Objectives 1 and 2.

- 7.2 The Proposer believes that 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.
- 7.3 The Proposer believes that 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.
- 7.4 The Working Group are interested in which of the DCUSA General Objectives Parties believe would be better facilitated by this CP and why.

Q13: Which of the DCUSA General Objectives does the CP better facilitate? Please provide supporting comments.

DCUSA General Objectives:
General Objective 1 - the development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
General Objective 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
General Objective 3 – the efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences
General Objective 4 – the promotion of efficiency in the implementation and administration of the DCUSA
General Objective 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.

8 Impacts & Other Considerations

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

- 8.1 The Working Group 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

⁴ https://www.ofgem.gov.uk/system/files/docs/2018/06/consultation_licence_changes_solr.pdf

will issue a statutory consultation as soon as practicable following its review of the consultation responses.

Consumer Impacts

8.2 N/A.

Environmental Impacts

8.3 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP 314 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

Engagement with the Authority

8.4 Ofgem has been fully engaged throughout the development of DCP 314 as an observer on the Working Group.

Q14: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

Q15: Are there any alternative solutions or unintended consequences that should be considered by the Working Group?

9 Implementation

9.1 It is proposed that the change is implemented as soon as practicable following an Authority decision to do so.

Q16: The proposed implementation date for DCP 314 is the first scheduled DCUSA Release following approval. Do you agree with the proposed implementation date?

Q17: Will you be required to make any system changes as a consequence of this change proposal and if so what would be the cost and implementation time frame?

10 Consultation Questions

10.1 The Working Group is seeking industry views on the following consultation questions:

Number	Questions
1	Do you understand the intent of DCP 314?
2	Do you agree with the principles of DCP 314?
3	Do you agree with the Working Group that the ultimate solution to this issue should be via a licence modification, but that DCP 314 should progress in the meantime? Please provide your rationale.
4	Do you agree with the Working Group that Ofgem would need to either consider updating the 2005 document or provide a guidance note to allow the DNO to pass-through Bad Debt which has been transferred from the LDNO to the DNO? Please provide your rationale.
5	Do you have any comments on the guidance note amendments suggested by the Working Group?
6	Do you agree with the Working Group view that to progress with a redistribution of debt should be optional for the LDNO rather than invoking a de minimis value? Please provide your rationale.
7	Which of the three options for the timing of the LDNO to DNO report and DNO to LDNO payment do you support? Please explain your rationale.
8	Is the information listed in paragraph 5.17, along with the resubmitted half-hourly invoicing reports and the non-half-hourly and half-hourly aggregate report sufficient to enable DNOs to process the LDNO's claim? If not, what additional information is required?
9	Do you have any comments on the proposed format of the LDNO to DNO report?
10	Do you have a preference for the 'By Date' or 'By Period' version of the report to be used?
11	Do you agree that DCUSA already caters for a dispute process and as such there is no need to escalate to the Authority? Please provide your rationale.
12	Do you have any comments on the proposed legal text for DCP 314?
13	Which of the DCUSA General Objectives does this change better facilitate? Please provide supporting comments.
14	Are you aware of any wider industry developments that may impact upon or be impacted by

	this CP?
15	Are there any alternative solutions or unintended consequences that should be considered by the Working Group?
16	The proposed implementation date for DCP 314 is the first scheduled DCUSA Release following approval. Do you agree with the proposed implementation date?
17	Will you be required to make any system changes as a consequence of this change proposal and if so what would be the cost and implementation time frame?

10.2 Responses should be submitted using Attachment 1 to dcusa@electralink.co.uk no later than **21 September 2018**.

10.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

Attachments

- Attachment 1 – DCP 314 Consultation Response Form
- Attachment 2 – DCP 314 Draft Legal Text
- Attachment 3 – DCP 314 Change Proposal
- Attachment 4 – Suggested amendment to section 4 of the 2005 Guidance document
- Attachment 5 – Example reporting spreadsheets