

DCUSA Change Report	At what stage is this document in the process?
<h1 data-bbox="119 369 933 459">DCP 314 & 314A</h1> <h2 data-bbox="119 504 1141 705">Appropriate treatment of Bad Debt following appointment of Supplier of Last Resort</h2> <p data-bbox="119 728 1149 806"><i>Part 1 change DCP 314 Raised 2 January 2018 DCP 314A Raised 15 October 2018</i></p>	<p data-bbox="1189 358 1348 436">01 – Change Proposal</p> <p data-bbox="1189 481 1412 526">02 – Consultation</p> <p data-bbox="1189 582 1444 638">03 – Change Report</p> <p data-bbox="1189 683 1348 761">04 – Change Declaration</p>
<p data-bbox="119 851 502 884">Purpose of Change Proposal:</p> <p data-bbox="119 907 1444 1064">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 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 data-bbox="119 1086 1356 1153">The alternate DCP 314A is the same as DCP314 but the LDNO receives an up-front settlement with final reconciliation following the conclusion of the settlement process.</p>	
	<p data-bbox="231 1198 1324 1265">This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 314 Appropriate treatment of bad debt following appointment of Supplier of Last Resort.</p> <p data-bbox="231 1288 1460 1400">DCP 314 and DCP314A are considered a Part 1 matter and Parties are invited to consider the proposed amendments (Attachment 1 and 2) and submit their votes using the Voting form (Attachment 6) to dcusa@electralink.co.uk by 08 February 2019.</p> <p data-bbox="231 1422 1412 1500">The voting process for the proposed variations and the timetable of the progression of the Change Proposals (CP) through the DCUSA Change Control Process is set out in this document.</p> <p data-bbox="231 1523 1460 1601">If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3011.</p>
	<p data-bbox="231 1635 702 1668">Impacted Parties: DNOs and IDNOs</p>
	<p data-bbox="231 1747 877 1780">Impacted Clauses: Schedule 19 (Portfolio Billing)</p>

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 Any questions?

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Timetable

The timetable for the progression of the CP is as follows:

Change Proposal timetable

Activity	Date
Initial Assessment Report	02 January 2018
Consultation issued to Parties	21 September 2018
DCP 314A raised	15 October 2018
Change Report Approved by Panel	16 January 2019
Change Report issued for Voting	18 January 2019
Party Voting Closes	08 February 2019
Change Declaration Issued to Parties	12 February 2019
Change Declaration Issued to Authority	12 February 2019
Authority Decision	19 March 2019
Implementation Date	First DCUSA Release following Authority Approval.

1 Executive Summary

What?

- 1.1 The aim of DCP 314 and DCP314A (**Attachment 3 and 4**) is to provide LDNO¹ parties with 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 and that supplier has had its licence revoked.
- 1.2 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?

- 1.3 Under the portfolio billing DUoS charging mechanism, an 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 there be a supplier default event occur.

How?

- 1.4 Both DCP314 and DCP314A propose to introduce a right that allows LDNOs to request, and receive, a credited amount from upstream distribution charges from the host DNO for portfolio billing where there is a defaulting supplier resulting from the Authority revoking their supplier licence. Where such a right is invoked the LDNO shall provide a self-certification of compliance with Schedule 1 – “Cover” of DCUSA together with the amount of unrecovered debt associated with the defaulting supplier.
- 1.5 A process for calculating the unrecovered debt is introduced that caters for any existing credit cover arrangements, any debt recovered from the Administrator together with the age profile of the debt.
- 1.6 A spreadsheet model has been developed and will be retained on the DCUSA website for the production of a report. In addition, a disputes process has been included specifically for this change.
- 1.7 For DCP314 the report is to be provided within two calendar months of receipt of the Final Reconciliation Settlement Run associated with the last day that the defaulting supplier was responsible for the supply.
- 1.8 For DCP314A there will be two reports, the first one is to be provided within two calendar months of the Initial Settlement Run and a second within two calendar months of the Reconciliation

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

Settlement Run, both associated with the last day that the defaulting supplier was responsible for the supply.

2 Governance

Justification for Part 1 Matter

- 2.1 Due to the material nature of DCP 314 and DCP 314A both should be considered as a Part 1 Matters because they are likely to have a significant impact on competition in distribution.

Requested Next Steps

- 2.2 The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendments and to vote on DCP 314 and 314A.
- 2.3 The DCUSA Panel recommends that this CP:
- Be issued to Parties for Voting.

3 Why Change?

Background of DCP 314

- 3.1 Distributors (both DNOs and LDNOs) are, under some circumstances, required to provide suppliers with a level of unsecured credit as detailed in DCUSA Schedule 1 (Cover). The aim of this is to support competition in the supply market by removing a barrier to market entry which would arise if suppliers were required to provide full security to distributors for use of system charges which have not yet been billed or which are not yet due for payment.
- 3.2 As a result of providing unsecured credit to suppliers, distributors are exposed to bad debts should a supplier default. Even if the supplier in question has settled all invoices due at the time of failure, the Settlement process results in the majority of use of system charges being invoiced between 20 and 50 days in arrears, so under almost all circumstances of supplier failure there is likely to be a level of unbilled usage for that supplier's use of the distribution networks.
- 3.3 DNOs currently have a mechanism for recovering bad debt through the distribution licence. Bad debts incurred in each price control are 'logged up' and recovered through an adjustment to revenue allowances in the next price control. This mechanism does not apply to LDNOs, who currently have no mechanism by which to recover bad debts. Hence bad debts which arise for use of system charges in respect of customers connected to DNO networks are socialised, whilst bad debts which arise for use of system charges in respect of users connected to LDNO networks are funded by the LDNO.
- 3.4 Under the existing DCUSA arrangements, an LDNO invoices suppliers for use of system charges in respect of both the LDNO's own assets and the host DNO's assets. The host DNO then invoices the LDNO to recover use of system charges in respect of the DNO's assets. When a supplier defaults, the LDNO is likely to be exposed to bad debt but is still obliged (under the DCUSA) to pay the host DNO's invoices. Hence the LDNO is exposed to bad debts for use of system charges both in respect of its own assets and in respect of the host DNO's assets.
- 3.5 The number of small suppliers in the electricity market has increased significantly, and there have been eight instances of supplier default in recent years as of the 7th of January 2019, all of which have left distributors with bad debt:
- GB Energy Supply Ltd ceased trading in November 2016;

- Future Energy Supply Limited ceased trading in January 2018;
- Iresa Limited ceased trading in July 2018;
- Gen4U ceased trading in September 2018;
- Usio Energy Supply Limited ceased trading in October 2018
- Extra Energy Limited ceased trading November 2018
- Spark Energy Supply Limited ceased trading in November 2018 and;
- One Select Limited ceased trading in December 2018

3.6 The proposer believes that the current arrangement places an undue burden on the IDNO in respect of bad debt exposure, which this change seeks to correct.

4 Solution

DCP 314 and DCP 314A Solution and Working Group Assessment

- 4.1 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.
- 4.2 Implementation of the CP will mean that a DNO will be required to credit LDNOs for the level of bad 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.
- 4.3 The Working Group developed a solution by introducing a new section covering the redistribution of bad debt associated with a defaulting supplier to Schedule 19 of the DCUSA. The amendments include:
- The LDNO to decide whether to claim bad debt from the DNO;
 - The information required if the LDNO invokes their right to re-distribute bad debt;
 - The timing and format of the report covering non-half-hourly and half-hourly aggregate billing;
 - 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 (in line with Ofgem's 2005 best practice guidelines document on credit cover);
 - Handling payments received from the Administrator of the defaulting supplier;
 - A provision for the DNO to include the LDNO bad debt transferred from the EDNO as part of its submission to Ofgem for cost recovery; and
 - An obligation on the LDNO to provide any information requested by the Authority that relates to their data post submission.
- 4.4 The Working Group developed a consultation document to seek industry views on:
- whether the solution should be via a Licence modification;
 - whether the Ofgem best practice document on credit cover should be amended;
 - the process for handling such requests; and
 - the format of the proposed reports sent by the LDNO requesting a credit.

- 4.5 The Working Group considered three options for the timing of the report from the LDNO to the DNO. The three options considered were:
- 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.

Consultation

- 4.6 The consultation received eight responses which are summarised below. The full response to the consultation and Working Group responses can be found in **Attachment 5**.

Question 1: Do you understand the intent of DCP 314?

- 4.7 All parties agreed with the intent of the Change bar one party. The Party that disagreed with the intent of DCP 314 stated that:

“We do not consider it appropriate to allow licensed distribution network operators (LDNOs, being IDNOs and DNOs operating out of area) to recover bad debts associated with defaulting suppliers. Ofgem has allowed LDNOs to operate on an unregulated basis since they win new network competitively. Bad debts associated with defaulting suppliers simply represent one of many business risks LDNOs face in a competitive market.

Conversely DNOs are heavily regulated, and earn a low return on capital employed on long term investments. If costs beyond the control of DNOs were not recoverable, it would add to business risk, raise the cost of capital, and increase costs to energy consumers in the longer term”

Question 2: Do you agree with the principles of DCP 314?

- 4.8 There was overall support for the change, but some responders were more in favour of a licence modification, another seeing this as a short term solution until such time that a licence modification is delivered. One responder disagreed with the CP as indicated within the their response to the first question.
- 4.9 One responder noted an awareness that work is currently taking place with Ofgem to look at the arrangements for DNO recovery of bad debts. In their view it would therefore not be appropriate for a solution on DCP314 to be agreed prior to those wider discussions having concluded.
- 4.10 Another responder agreed with the principle but suggested that consideration be given to the credit cover arrangements the LDNO has in place and also any monies received from the defaulting supplier’s Administrator.

Question 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.

- 4.11 All parties agreed with the potential solution except for two. The first responder stated that it does not seem appropriate to be progressing this change at this time as we do not know the outcome of any licence modifications and that there is no mechanism for DNOs to recover bad debt under the current price control and licence modifications need to be progressed for DNO’s too.

4.12 The second responder reiterating their stance that this is not an issue stating:

“the existing arrangements enable LDNOs to price in the risk of bad debts arising from defaulting suppliers into business decisions made when adopting new developments, and so LDNOs have already had the opportunity to recover costs associated with the risk of future bad debts.”

Question 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.

4.13 There was qualified support for this method as it would allow a quick win for DNOs to recover the additional bad debt costs (beyond their own bad debt) to which they would be exposed if DCP 314 were implemented, although some felt that the document is out of date.

4.14 Another responder stated that if this change were to progress it is important that DNOs are able to recover any bad debts which are passed from LDNOs to DNOs.

Question 5: Do you have any comments on the guidance note amendments suggested by the Working Group?

4.15 The responders had a couple of comments around the updating of the guidance note, the first was that the Working Group should consider whether the term IDNO should be amended to EDNO to match the term used in the legal text for Schedule 19 – Portfolio Billing. The next suggestion was that the note should be updated so it clarifies that DNOs operating out of area should not be allowed to recover bad debts through an increase to the revenue allowances for the relevant licensee.

4.16 Other responders found that the guidance note alone was not sufficient and explained that guidance alone does not give sufficient certainty. As such, they consider that, if a solution to the perceived issue is progressed, it must be done through licence changes which resolve all bad debt issues for all distribution licensees.

Question 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

4.17 Responders agreed that the process to redistribute bad debt should be optional for the LDNO. It was felt the best option would be for the LDNO in question to set their own minimum threshold for which to pursue any recovery of bad debt.

Question 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.

4.18 The Working Group noted that the responses were evenly split between Option A and C and that there was no support for Option B.

Question 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?

4.19 One responder stated that all they would require would be the total value. Another suggested that there should be the ability to note any anomalies associated with the debt. Other areas identified by responders included the need to cater for credit cover arrangements and monies recovered from the Administrators. An issue was raised regarding the difficulty in reconciling the amount of bad debt associated with distributors who have de-linked from the settlement profiles.

Question 9: Do you have any comments on the proposed format of the LDNO to DNO report?

4.20 There was strong support for a standardised format for the report to an extent that consideration be given to including it as an appendix to the legal text although another responder only wished to receive the summary table in preference to the detailed information.

Question 10: Do you have a preference for the 'By Date' or 'By Period' version of the report to be used?

4.21 Overall feedback from the parties are that the majority would prefer 'by date' over 'by period'. 'By Date' clearly shows the individual settlement dates that are being reclaimed and therefore makes it easier for the DNO to check that the correct settlement dates have been included. One responder requested all the half-hourly settlement periods to support validation of delinked or default TPR charging.

Question 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.

4.22 The view of one responder was that although DCUSA does include a fairly robust dispute processes for Use of System charges, they were unsure that these processes are applicable to these circumstances, for example, DNOs making payments to LDNOs does not seem to be covered by Schedule 4. Whereas others considered the DCUSA dispute process to be fit for purpose should a DNO and LDNO disagree on the amount to be credited.

Question 12: Do you have any comments on the proposed legal text for DCP 314?

4.23 One responder believed that the LDNO should invoice the DNO. Other areas for further consideration were the content of the resubmitted half hourly report; a provision for LDNO credit cover; and the appropriate treatment of bad debt for DNOs operating out of area.

Question 13: Which of the DCUSA General Objectives does this change better facilitate? Please provide supporting comments.

4.24 Responders were supportive of Objective 1 and 2 with one responder noting a potential negative impact on General Objective two. They believed this change will distort competition in the distribution of electricity and also noted a negative impact on General Objective four as this change would introduce a significant administrative burden into the DCUSA requirements, with the associated risk of error.

Question 14: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

4.25 Some responders stated that there is currently a separate piece of work looking at the treatment of bad debt following supplier failure which needs to be concluded prior to the approval of this DCP.

Question 15: Are there any alternative solutions or unintended consequences that should be considered by the Working Group?

4.26 One responder mentioned that, if implemented, in their view this change will create a windfall gain for LDNO shareholders, to the detriment of customers who will be required to fund that windfall gain. Another suggested that the change may also impact Schedules 16, 17 and 18 in respect of setting DUoS prices. DNOs would be required to set 'all-the-way tariffs' that would recover the total bad debt, which would normally be mirrored by LDNOs. Changes would be

required to LDNO tariffs to ensure that the margin available to LDNOs is not artificially increased. Others reiterated their earlier points on a dispute process review, a preference for a licence modification and assurances that the bad debt is net of any credit cover arrangements and receipts from Administrators.

Question 16: The proposed implementation date for DCP 314 is the first scheduled DCUSA Release following approval. Do you agree with the proposed implementation date?

4.27 The majority of responses supported the first release following Ofgem approval (anticipated to be the February release of DCUSA) with one responder continuing with the view point of not progressing until the Ofgem work on distributor bad debt issues is concluded.

Question 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?

4.28 The majority of responders stated that with this change there will be significant manual processing involved in the event of a claim, with others mentioning that a further level of detailed analysis would need to be carried out in order establish the cost associated with the proposal as it stands.

Working Group Conclusions

4.29 The Working Group agreed that parties understood the intent and the principles of the change and that sufficient information was available to finalise the change.

4.30 The Working Group also agreed to support option A – ‘following the conclusion of the settlement’ process although this was by a small majority. As a consequence of this a Working Group member raised an alternative change proposal to support 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’.

4.31 The areas for further consideration were to:

- The Ofgem guidance note;
- report timetable;
- Spreadsheet report;
- Disputes process;
- Trigger of the process, and
- Definition of bad debt and how it is redistributed.

Ofgem Guidance note

4.32 The guidance document uses the term network operators collectively as companies. This includes electricity and gas companies. The suggested amendments to section 4 now make it clear that the additional text refers to companies that are electricity network operators using the terms Distribution Network Operator and Independent Distribution Network Operators. The reasoning for using Independent Distribution Network Operator instead of Licenced Distribution Network Operator is because the Use of System recovery for Distribution Network Operators is for Use of System bad debts of the licensee, which would include out of area networks.

4.33 In response to a comment made by a responder to the consultation regarding using ‘EDNO’ to align with Schedule 19 of DCUSA, the Working Group refrained from doing so because the term ‘EDNO’ can have different meanings. In DCUSA Schedule 19 it means Embedded Distribution Network Operator but can also mean Exempt Distribution Network Operator.

- 4.34 The Working Group also acknowledged that this suggested text is being provided to Ofgem for consideration. It is for Ofgem to determine whether the guidance note is amended. As a consequence of this the legal text has been amended to remove any reference to the guidance note and these additional paragraphs to avoid the change being rejected due to the guidance not having been updated. It was acknowledged that this change is a part 1 matter and would be subject to Authority approval. Once approved parties have a licence obligation to comply with DCUSA so there is no need to refer to a guidance document.
- 4.35 The Working Group recommend that the guidance note amendments (**Attachment 11**) are fed into the discussions on distributor bad debt (see section 6 below).

Report Timetable

- 4.36 The Working Group discussed the three options on the timetable and by a small majority the Working Group agreed to progress the change supporting Option A, being where 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 would only take place around 15 months after the majority of the bad debt had been incurred.
- 4.37 A Working Group member, post this decision, has raised an alternative proposal, that is the same as DCP314 but differs only on the reporting timetable. The proposer of DCP 314A prefers Option C in the consultation document, being where 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.

Spreadsheet report

- 4.38 A separate spreadsheet report has been developed for both DCP314 and DCP314A. Each one includes both Half Hourly and Non-Half Hourly worksheets within it. They workbooks build on the feedback from parties and now include a summary table including the total amount outstanding, half hour settlement periods, a comments box and the amount recoverable based on the age of debt since the supplier invoice was raised. The examples in the consultation have now been updated and can be seen in **Attachment 9 and 10**.
- 4.39 The initial thought of the Working Group was that the spreadsheet report form part of an attachment to the legal text. However, with the amount of columns in the spreadsheet the visibility of the titles would be difficult to view and the embedded formulae would be lost so different interpretations of the calculations could ensue when they are being used. The Working Group therefore agreed to create a model and for that model to be placed on the DCUSA website and the legal text amended to refer to the most recent model on the DCUSA website to future proof the legal text for further model releases when they occur. The models are contained within **Attachment 7 and 8**.

Disputes process

- 4.40 The Working Group discussed the concerns over referring to Schedule 4 and decided to include specific paragraphs within Schedule 19 that only apply to paragraph 8 i.e. this change proposal.

Trigger for the process

- 4.41 The Working Group defined a defaulting supplier as a supplier who has had its licence revoked.

- 4.42 This was considered as a change to the intent of the change proposal which only referred to a Supplier of Last Resort being appointed whereas under certain circumstances a supplier could have their licence revoked with no need for a Supplier of Last Resort being appointed if they had no customers. It was reiterated that a DNO would have the ability to reclaim bad debt under both circumstances and as such the working group considered that an LDNO should also be able to claim under both instances.
- 4.43 The Working Group received support from the proposer and the majority of the Working Group to amend the intent by broadening it to cover all supplier licence revocations and not just where a Supplier of Last Resort had been appointed. This was submitted to the DCUSA Panel’s December 2018 meeting. The Panel supported the change of intent.

Definition of bad debt and how it is redistributed

- 4.44 A definition of bad debt has been introduced which covers the Use of System Charges payable (but not yet paid) to the LDNO by the defaulting supplier in respect of Settlement Days prior to and including the Final Day of Supply.
- 4.45 The calculation of bad debt that is to be redistributed to the LDNO is further refined to include how the credit cover arrangements and any other form of collateral are utilised i.e. the credit cover is used against the oldest outstanding invoice first).

5 Relevant Objectives

Assessment Against the DCUSA Objectives

5.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. There are five General DCUSA Objectives. The Working group have highlighted in the table below the positive and negative impacts that this change will have on the DCUSA General Objectives.

Impact of the Change Proposal on the Relevant Objectives:	
DCUSA General Objectives	Identified impact
1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	<p>Positive</p> <p>The majority of the Working Group indicated that this allows LDNOs to partially recover the DUoS bad debts incurred in operating its distribution business as a consequence of a Defaulting Supplier.</p> <p>Negative</p> <p>The majority of the working group indicated this change would introduce a administrative burden into the DCUSA requirements for the DNO and LDNOs Parties.</p>
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	<p>Positive</p> <p>A majority view agreed that by providing a partial DUoS bad debt recovery mechanism for LDNOs it may encourage competition in distribution.</p>

	<p>Negative</p> <p>A minority view indicated that this change will distort competition in the distribution of electricity . LDNOs operate on an unregulated basis since they win new network competitively. Bad debts associated with Defaulting Suppliers simply represent one of many business risks LDNOs face in a competitive market (see Paragraph 4.7 above).</p>
3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	None
4 The promotion of efficiency in the implementation and administration of the DCUSA	<p>The majority of the Working group agreed that this has no impact on this objective</p> <p>Negative</p> <p>The minority of the Working Group indicated that this change would introduce an administrative burden into DCUSA, with the associated risk of manual error (see paragraph 4.24 and 4.28)</p>
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

- 5.2 The Working Group have considered all the above impacts when deciding whether, as a whole, DCP314 and DCP314A better facilitate the DCUSA General Objectives.
- 5.3 The majority of the Working Group considers that the DCUSA General Objective 1 and General Objective 2 are better facilitated by DCP 314 and DCP314A.
- 5.4 A minority of the Working Group considers that the DCUSA General Objective 2 and General Objective 4 are not better facilitated by DCP 314 and DCP314A.

6 Impacts & Other Considerations

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

- 6.1 The Working Group under DCP 314 is aware of a consultation undertaken by Ofgem entitled “Proposed modifications to SoLR supply licence conditions”. The consultation closed on 11 July 2018. If, following consideration of responder’ 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.

- 6.2 The Working Group is also aware that Ofgem have convened a Licence modification review group to look at the Distribution Licence, with Ofgem issuing an informal consultation which can be found [here](#).

Consumer Impacts

- 6.3 There will be a negligible impact on consumer tariffs as a result of this change.

Environmental Impacts

- 6.4 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 or DCP314A were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

7 Implementation

- 7.1 The proposed implementation date for DCP 314 or DCP314A is due within the next DCUSA release following Authority Consent.

8 Legal Text

Common to Both DCP314 and DCP314A

- 8.1 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.
- 8.2 The legal text within this section covers:
- The information required when the EDNO invokes their right to re-distribute unrecovered bad debt;
 - A dispute process specific to this process;
 - 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);
 - The criteria used by the DNO in assessing the amount of credit taking into consideration the credit cover the EDNO had in place;
 - The process for handling the payments received from the Administrator of the defaulting supplier;
 - A provision for the DNO to include the EDNO unrecovered 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.

Specific to DCP314

- 8.3 A spreadsheet report to be produced by the EDNO to the DNO within two calendar months of the completion of the settlement process (i.e. 14 months after the supplier has defaulted). This report will cater for all reconciliation runs up to and including the final reconciliation settlement run. In addition, any half hourly data is to be submitted at the same time using the unrecovered bad debt model from the DCUSA website for such a purpose.

Specific to DCP314A

- 8.4 A spreadsheet report to be produced by the EDNO to the DNO within two calendar months of the completion of the initial settlement process. In addition, any half hourly data is to be submitted at the same time. 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. Both reports would be created using the unrecovered bad debt model from the DCUSA website for such a purpose.
- 8.5 **Attachment 1** DCP 314 provides the redlined amendments to Schedule 19.
- 8.6 **Attachment 2** DCP 314A provides the redlined amendments to Schedule 19.

9 Code Specific Matters

Modelling Specification Documents

- 9.1 Not applicable.

Reference Documents

- 9.2 Not applicable.

10 Recommendations

Panel's Recommendation

- 10.1 The Panel approved this Change Report on 16 January 2019. The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 314 and DCP314A.
- 10.2 The Panel have recommended for this report to be issued for voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal. The Voting Form can be found in **Attachment 6**.

Attachments

- Attachment 1 – DCP 314 Legal Text
- Attachment 2 – DCP 314A Legal Text
- Attachment 3 – DCP 314 Change Proposal
- Attachment 4 – DCP 314A Change Proposal
- Attachment 5 – Consultation DCP 314
- Attachment 6 – DCP 314 Voting form
- Attachment 7 – DCP314 Unrecovered Bad Debt Model
- Attachment 8 – DCP314A Unrecovered Bad Debt Model
- Attachment 9 – DCP314 – example spreadsheet
- Attachment 10 – DCP314A – example spreadsheet
- Attachment 11 – Ofgem Guidance note

