



## **DCUSA Change Report**

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### **DCP 102 - CREDIT COVER CALCULATION OF 15 DAY VALUE**

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 102 – Credit Cover Calculation of 15 Day Value.
- 1.2 The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.3 Parties are invited to consider the proposed amendments attached as Appendix B and submit votes using the form attached as Appendix D to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **08 March 2013**.

## 2 BACKGROUND

- 2.1 DCP 102 was raised by Npower and intends to ensure that a standard approach is adopted regarding the method of calculating the Fifteen Day Value used for credit cover. This monitoring process currently varies from Distributor to Distributor and this CP would align the process across the industry.
- 2.2 DCP 102 is intended to better enable Suppliers to forecast their indebtedness ratio and to better manage their credit cover position; this will help to ensure that the indebtedness ratio limits of Suppliers are not inadvertently breached.

## 3 DCP 102 – WORKING GROUP CONSIDERATIONS

- 3.1 The DCUSA Panel established a Working Group to assess DCP 102. The group was comprised of Supplier and Distributor Parties. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – [www.dcusa.co.uk](http://www.dcusa.co.uk).
- 3.2 The Working Group identified that DNOs use “supercustomer billing” on different bases and the billing period associated with this fluctuates from calendar month to calendar month. The Working Group concluded that the calculation of the Fifteen Day Value could be improved if the calculation is standardised by using the latest available bill raised in respect of a full calendar month (or a number of days that approximates to a full calendar month, according to the established billing cycle operated by the Company).
- 3.3 DCP 102 therefore seeks to ensure that DNOs calculate the Fifteen Day

Value used for credit cover monitoring based on the monthly billed totals.

- 3.4 The DCP 102 Working Group agreed to issue a consultation to all DCUSA Parties seeking views on the CP.

#### 4 DCP 102 – CONSULTATION

- 4.1 The Working Group issued a consultation. At that time it was considering standardising the 15 Day Value calculation by using the value billed in the previous calendar month. The Working Group reviewed each of the seven responses received to the consultation and concluded that all of the respondents understood the intent of DCP 102.

*Are you supportive of DCP 102 principles? Provide supporting comments.*

- 4.2 The majority of respondents were supportive of the principle of the CPs. However Scottish Power, Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc were not supportive of the CP, because they felt that the current DCUSA drafting was already sufficient.

*Does the proposal better facilitate the DCUSA general Objectives?*

- 4.3 The majority of consultation respondents agreed with the Working Group that DCUSA Objective 2 is better facilitated by the CP. The following table outlined the respondents' views on which Objectives are facilitated by the CP:

DCUSA General Objective	Number of Respondents who indicated it was facilitated
Objective #1	2
Objective #2	4
Objective #3	2
Objective #4	3
Objective #5	0

- 4.4 The Working Group noted that while two respondents did not consider the CP met the DCUSA General Objectives, the majority of respondents agreed that the CP would provide clarity as to the calculation of credit cover and assist new entrants.

*Is there appetite for calculating the Fifteen Day Value used for credit cover monitoring based on the previous calendar month's billing?*

- 4.5 The group noted that a majority of respondents agreed that there was appetite for calculating the fifteen day value used for credit cover monitoring based on the previous calendar month's billing.
- 4.6 One respondent noted that they were not supportive of the CP and stated that the proposed solution takes no account of the potential for substantial movement in the values attributable to Suppliers in terms of seasonal or business fluctuation; nor does it recognise that from the Supercustomer perspective, daily values are available to both Suppliers and DNOs via the Daily D0242 flows and these would be substantially more up to date.
- 4.7 The respondent stated that they do not understand why the most recent full month's charges can't be used to calculate the 15 day average and that the current wording in the DCUSA was sufficient. The Working Group felt that the CP although a minor change does add clarity and is of merit.
- 4.8 A summary of the collated consultation responses and the Working Group's comments to these responses is attached as Appendix C.

## **5 DCP 102 – WORKING GROUP CONCLUSIONS**

- 5.1 The Working Group concluded that the majority of respondents to the consultation understood the intent of DCP 102 and were supportive of its principles.
- 5.2 The Working Group concluded, following discussions with the respondents who were not supportive of the change, that standardisation of the calculation would be optimised by updating the legal drafting to state that the DNOs use the latest available billed totals. The group also agreed that the reference to 'previous calendar month', which was consulted upon, could still lead to confusion around interpretation.

- 5.3 The Working Group concluded that DCP 102 should require Parties to calculate the full 15 day average charges by using the latest available billing data.
- 5.4 One member of the Working Group was not supportive of this method of calculation, and as a result there were discussions of raising an alternative solution.
- 5.5 The Working Group then discussed the practicalities of raising an alternate CP, and it was agreed that the Working Group agree to one version of legal text. This text was developed by the Working Group and agreed by the Proposer that it meets the intent of the CP, and was progressed as the sole version for this CP.

## **6 PROPOSED LEGAL TEXT**

- 6.1 The legal text for DCP 102 has been reviewed by the DCUSA legal advisors and is attached as Appendix B.
- 6.2 The legal texts seek to update clause 2.2 (B) of Schedule 1 of the DCUSA, to state which method the DNOs should use.

## **7 EVALUATION AGAINST THE DCUSA OBJECTIVES**

- 7.1 The Working Group considers that DCUSA Objectives 2 and 4 are better facilitated by DCP 102:
  - Objective 1 – ‘The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks’. No Impact.
  - 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’. The CP will better define the method of calculating the Fifteen Day Value used for credit cover. The CP will therefore assist new entrants by giving them transparency and provide effective competition.

- Objective 3 – ‘The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences’. No Impact.
- Objective 4 – ‘The promotion of efficiency in the implementation and administration of this Agreement’. The majority of the Working Group considered that the CP will lead to greater efficiency because it will enable Suppliers to better manage their credit cover position and will reduce the risks they currently face in forecasting their indebtedness ratios. This will lead to fewer breaches under the credit cover schedule of the DCUSA, which should in turn lead to reduced costs on suppliers and reduced risk exposure for Distributors.
- 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.’ No impact.

## 8 IMPLEMENTATION

8.1 The proposed implementation date for DCP 102 is the next DCUSA release following Party consent.

## 9 ENGAGEMENT WITH THE AUTHORITY

9.1 DCP 102 has been raised as a Part 2 matter and will therefore not require Authority consent.

## 10 PANEL RECOMMENDATION

10.1 The DCUSA Panel approved the DCP 102 Change Report at its meeting on 20 February 2013.

10.2 The timetable for the progression of the Change Proposals is set out below:

<b>Activity</b>	<b>Date</b>
Change Report issued for voting	22 February 2013
Voting closes	8 March 2013
Change Declaration	12 March 2013
CP Implemented	First Release following Party Consent

## **11 APPENDICES:**

- Appendix A – DCP 102
- Appendix B – DCP 102 Proposed Legal Drafting
- Appendix C – DCP 102 Consultation Documents
- Appendix D - DCP 102 Voting Form