DCUSA CHANGE REPORT	
CHANGE PROPOSAL	DCP 034 – Credit Cover Arrangements for Small Suppliers
DATE OF ISSUE	05 January 2008
ISSUED TO	DCUSA Contract Managers
PARTIES ENTITLED TO VOTE	All Supplier, DNO and IDNO Parties
RETURN DEADLINE (Voting End Date)	19 January 2009 – DCUSA@electralink.co.uk

1 PURPOSE

1.1 This document is issued in accordance with Clause 11.20 of the DCUSA. The Change Report details DCP 034 - Credit Cover Arrangements for Small Suppliers. The voting process for the proposed variation and the timetable of the progression of the CP through the DCUSA Change Control Process is set out in this document.

1.2 Parties are invited to consider the proposed Legal Drafting attached as Appendix A and submit votes using the form attached as Appendix C to dcusa@electralink.co.uk by 19 January 2009.

2 BACKGROUND

2.1 The Panel established the LORCAA Project Group in February 2008 in accordance with Schedule 12 of the DCUSA. The Panel asked the Project Group to review and develop the arrangements for obtaining the Credit Assessment Score from an Approved Credit Referencing Agency used to determine the Credit Assessment Factor (CAF) for parties who do not have a minimum credit rating of Ba3/BB–.

2.2 The Project Group submitted its recommendations report to the Panel in July 2008. The Project Group concluded that:

- The process for securing credit references should be formalised in the DCUSA rather than in guidance documentation;
- A default list of agencies and products should be contained in the DCUSA but that Users should have the right to request that an alternative agency or product be used. Members noted that whilst the DCUSA is subject to change control, the level of change is likely to be low and that it would benefit Parties to have a benchmark level maintained in the document to add further clarity for Parties and in particular new entrants; and
- By including the information in the Agreement it would be easily accessible by industry participants.

2.3 The Project Group agreed that the process documented in the DCUSA should add clarity and transparency and maintain all the existing obligations. It considered that the model it recommended would minimise

the level of change required to the DCUSA and minimise the risk associated with the process. Ofgem confirmed that it was satisfied with the proposed solution developed by the Project Group and did not consider that it adversely impacted any of the existing agreed processes.

2.4 The Project Group recommended to the Panel that a Change Proposal should be raised to take forward the work it had developed and submitted proposed drafting with its final report.

2.5 DCP 034 was raised by The Electricity Network Company following the recommendation from the LORCAA Project Group and the Panel considered DCP 034 at its meeting on 20 August 2008. The Panel noted that the CP had been raised to take forward the work of the LORCAA Project Group but that the proposed drafting had been amended from that agreed by the group.

2.6 The Panel requested that a Working Group be convened to assess DCP 034 and confirm that it was satisfied that the drafting reflected the recommendations put forward by the LORCAA Project Group. The Panel noted that the Proposer considered that Change Proposal improved upon the original drafting submitted whilst leaving the intent of the original drafting materially unchanged.

3 DCP 034 WORKING GROUP CONSIDERATIONS

3.1 The DCP 034 Working Group met twice to consider the Change Proposal in accordance with the Panel's direction. The Working Group noted that the objective of the CP was to give greater transparency to the process used in determining the credit limits for suppliers who do not have a Long term investment grade rating and agreed not to broaden the scope of the proposal to consider any other matters relating to Schedule 1.

3.2 The Working Group reviewed DCP 034 to identify the changes made against the LORCAA drafting. Members agreed that they were satisfied with the amendments and that they accurately reflected the intent of the original drafting. The Working Group proposed some additional minor amendments to further clarify the drafting without changing its intent.

3.3 The Working Group considered that Clause 2.14 of the drafting should be amended to allow the User to determine whether the Credit Assessment Score or Payment Record Factor is used. The Working Group asked Ofgem to clarify whether, if a User received a poor credit assessment score but mandated that the Company use its Payment Record Factor and the User subsequently went into administration, the Company would be entitled to pass through the debt.

3.4 Ofgem referred the Working Group to the clarification letter is issued on 24 May 2005 to supplement its *Best Practice Guidelines for gas and electricity network operator credit cover*. The Working Group noted that the clarification stated that *"A scenario has been posed in which a company reliant on its payment record to establish an unsecured credit limit could receive a credit assessment score (as allocated by one of a Panel of three credit rating agencies to be established by NWOs) of greater than 0 during one year, and thus move away from reliance on its payment history, only to see its credit assessment score return to 0 in a subsequent year. It has been questioned whether such a supplier would be able to re-establish an unsecured credit limit based on its payment record. Ofgem considers, in*

light of the fact that an underlying principle of the conclusions document is that counterparties should always be entitled to a minimum level of unsecured credit so long as they pay their bills on time, that it would be appropriate for such a company to re-establish an unsecured credit limit based on its payment record. Ofgem further considers that if a party chooses to undergo the process of credit assessment scoring, that party should be free to decide whether to make use of the credit assessment score arrived at by the relevant rating agency in the assessment of its unsecured credit limit, or to continue relying on its payment history."

3.5 The Working Group therefore agreed that its proposed amendment was inline in line with Ofgem's thinking and agreed to draft DCP 034 in accordance with the principles set out clarification letter.

3.6 The Working Group further agreed that the drafting should also provide clarification on the process to be followed on the expiry of a Credit Assessment Score. Members agreed that where an assessment has not been carried out in the previous 12 months the Company would revert to the Payment Record Factor.

3.7 The Working Group agreed that the drafting should clarify that the Company is obliged to pay for one assessment per annum for the User. Members agreed that if a User requested an additional assessment in a 12 month period the Company would be entitled to re-charge the cost of the assessment to the User.

3.8 The Working Group noted that the LORCAA Project Group had carried out a consultation exercise with all Parties when developing the original drafting. The Working Group unanimously agreed that as the drafting had not been amended significantly from the LORCAA recommended drafting, that the intent remained unchanged, and that the drafting was inline with Ofgem's principles and guidance, no further consultation was required. No alternative Change Proposals were put forward by Working Group members and the proposed drafting was supported by all.

3.9 The Working Group considered that DCP 034 against the DCUSA Objectives and agreed with the view put forward by the Proposer that Objectives 2[1] and 3[2] would be better facilitated by the CP. The Working Group agreed that the CP will aid the promotion of competition because suppliers who do not have a Credit Rating will have transparency as to how credit limits are set and therefore be able to better manage their credit cover arrangements. The Working Group agreed that Objective 3 is better achieved because, by detailing the arrangements in the DCUSA, a single, transparent source for the maintenance of this information is provided for all parties. Members considered that making the information available in the DCUSA is a more efficient way of managing the arrangements, as opposed to each distributor maintaining the information separately.

4 PROPOSED AMENDMENT AND LEGAL DRAFTING

[1] 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.

[2] The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences.

4.1 The proposed legal drafting for DCP 034 has been reviewed by Wragge & Co and is set out in Appendix A. In addition to the changes outlined above the Change Proposal seeks to address DCUSA Housekeeping Amendment 008 as requested by the Panel. This amendment addresses a drafting error in the original definition of RAV which currently defines RAV as being the figure in the latest audited price control information. The price control information is not audited on a year on year basis and the proposed drafting therefore removes the word "audited" from the definition. The drafting for DCP 034 has been drafted to include the amendments that will be introduced as part of DCP 035 'Distribution and Supply Licence Reviews – consequential changes'.

5 PANEL RECOMMENDATION

5.1 The Panel approved the DCP 034 Change Report on 17 December 2008. The Panel agreed with the Working Group conclusion that the implementation of DCP 034 will better facilitate Objectives 2 and 3 of the DCUSA.

5.2 In accordance with Clause 12.4 of the DCUSA the Panel has determined that DCP 034 should be issued to all Parties for voting for a period of 10 Working Days. Subject to approval, DCP 034 will be implemented in the February 2009 Release.

5.3 The timetable for the progression of the Change Proposal is set out below:

Activity	Date
Party Voting	05 January – 19 January
Change Declaration	20 January 2009
Implementation (subject to Approval)	26 February 2009

Appendices:

A. DCP 034 - Legal Drafting

B. LORCAA Project Report

C. DCP 034 - Voting Form