

DCUSA Panel Chair,  
DCUSA Panel.

Direct Dial: 0207 901 7299  
Email: RegFinance@ofgem.gov.uk

Date: 10 September 2020

Dear Panel Chair,

**Authority decision to 'send back' DCUSA Change Proposal 314 'Appropriate treatment of Bad Debt following appointment of Supplier of Last Resort' (DCP314)**

On 12 February 2019 the DCUSA Panel submitted DCUSA Change Declaration DCP314 'Appropriate treatment of Bad Debt following appointment of Supplier of Last Resort'<sup>1</sup> to the Authority for decision.

We are not able to form an opinion on whether or not DCP314 should be approved based on the Change Declaration submitted to us as we consider there might be a defect with the legal drafting and we are therefore sending the proposal back to industry for further work.

As part of our consideration of this proposed modification we noted two issues with the legal text raised within the 'Consolidated Party Votes' document submitted as attachment 1 of the DCP314 Change Declaration.

**Summary of the issues raised with the legal text**

Two issues have been identified with the legal text of the proposed modification:

1. The legal text does not require the Distribution Network Operator (DNO) to take any action.  
An affected party commented that the legal text introduces a set of requirements for Licenced Distribution Network Operators (LDNOs) to provide data and calculations to the DNO but does not appear to change the process for the DNO

---

<sup>1</sup> <https://www.dcusa.co.uk/change/appropriate-treatment-of-bad-debt-following-appointment-of-supplier-of-last-resort/>

in calculating Distribution Use of System (DUoS) invoices, nor introduce any new requirement for DNOs to credit LDNO DUoS invoices.

2. The process might raise a risk of double recovery by the DNO.

An affected party commented that a credit would reduce billed revenue and so create a revenue under-recovery. Any under-recovery of Allowed Revenue is carried forward through the K-factor to be recovered from DUoS charges in the subsequent years.

This raises the concern that the process might raise the risk of double recovery; once through the K-factor and a second time through the DNO's bad debt claim. We would expect the proposed legal text drafting to require DNOs to review bad debt claims before submission to avoid claiming twice.

These issues suggest that the current legal text might not achieve the stated purpose of DCP314. In view of the issues raised we cannot properly form an opinion on whether to accept or reject this Change Proposal.

**Direction and next steps**

Further to DCUSA paragraph 13.11A the Authority directs the Panel to revise and resubmit the Change Report. In particular, the Authority directs the Panel to consider and resolve the issues identified above.

After addressing the issues discussed above and revising the DCP314 Change Report accordingly the DCUSA Panel should re-submit DCP314 to us for decision as soon as practicable.

Yours faithfully,

**Steve McMahon**

Deputy Director, Systems and Networks

Signed on behalf of the Authority and authorised for that purpose