DCUSA Change Report

At what stage is this document in the process?

01 – Change Proposal
02 – Consultation
03 – Change Report
04 – Change Declaration

DCP 349

Effectiveness of the current provision of unsecured cover under Schedule 1

Raised on 10 June 2019 as a Standard Change

Purpose of Change Proposal:

The intent of this change proposal is to mitigate the financial risk associated with supply business failures by strengthening the criteria around the provision of unsecured cover and protect customers from increased socialised failure costs.

This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 349 – 'Effectiveness of the current provision of unsecured cover under Schedule 1'.

Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by **12 March 2021.**

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.

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.

Parties Impacted*:* Suppliers, DNOs and IDNOs

Impacted Clauses: Schedule 1 – Cover

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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 Approved by Panel	17 July 2019
First Consultation issued to Parties	10 December 2019
Second Consultation issued to Parties	02 November 2020
Change Report issued to Panel	10 February 2021
Change Report issued for Voting	19 February 2021
Party Voting Ends	12 March 2021
Change Declaration Issued to the Authority	16 March 2021
Authority Decision	20 April 2021
Implementation	24 June 2021

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1 Summary

What?

1.1. The current arrangements for the provision of unsecured cover need to be reviewed as it has been seen that if, for example, DUoS invoices are being paid on time there isn't a trigger to highlight when a Supplier may be in financial difficulty (or failing to comply with obligations which may result in future failure) until they fail to pay the latest invoice(s) when it is too late. Following a supply business failure outstanding charges are spread across all the other supply businesses impacting customers tariff charges. Coinciding with Ofgem's Supplier Licensing Review and its recent work on Market Entry and Ongoing Requirements for Suppliers we should complement this work by strengthening the criteria around unsecured cover.

Why?

1.2. There have been a significant number of Supply businesses failing which demonstrates increased instability risk amongst Suppliers which imposes costs on other customers. There may be merit in Parties themselves providing increased cover and at present both secured (eg letter of credit or equivalent bank guarantee or a cash deposit) and unsecured cover options are available, including:

- Credit rating from an approved credit referencing agency
- Building up a good payment record

How?

1.3. The proposed solutions contained in the first consultation were as follows:

- Reduce the maximum number of qualifying months of good payment history from 60 to 24 months, together with a time limit after which a form of secured cover must be used e.g. Letter of Credit / Parent Company Guarantee.
- Introduce a common good payment performance matrix to demonstrate the impact late payment could have on the maximum number of qualifying months of good payment history.
- By adopting one of the principles of the Uniform Network Code, which states. "*The Transporter will set the Users Unsecured Credit Limit no higher than the lower of the credit value recommended within the Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transporter's Maximum Unsecured Credit Limit.*"

1.4. Within the consultation responses, some Parties raised concerns that reducing the Good Payment History to 24 months was too much and that perhaps, for example, reducing to 36 months would be more appropriate. There was also concerns raised regarding the new proposal for calculating the Users Unsecured Credit Limit and whether this specific change was required. A majority of respondents were supportive of introducing a common good payment matrix.

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1.5. After consideration, the Working Groups preferred solution is as follows:

- 60 months Good Payment History remains the timeframe, but the value of Cover earned diminishes over the 5 years. At 36 months the value would decrease to 60% of the value earned and after 48 months it would decrease to 30% of the value earned. By the 5-year point either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place.
- Introduce a common good payment performance matrix to demonstrate the impact late payment could have on the maximum number of qualifying months of good payment history.
- After discussions, the Working Group concluded not to progress the proposed solution regarding changing how the User's Credit Allowance is calculated. The basis of this conclusion was in the majority of cases where a Supplier business had failed the unsecured cover in place was Good Payment History. Consequently, it was deemed that reducing the Good Payment History and in particular mandating that by the 5-year period either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement is in place would be sufficient to mitigate the financial risk associated with supply business failures..

2 Governance

Justification for Part 1 Matter

2.1 DCP 349 has been designated as a Part 1 Matter as the proposed change potentially impacts on both 9.4.1, 9.4.2 and 9.4.4 of DCUSA.

- 9.4.2 - it is likely to have a significant impact on competition in distribution.

2.2 DCP 349 has been designated as a standard change.

Requested Next Steps

2.3 The Panel considered that the Working Group have carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 349.

2.4 The DCUSA Panel recommends that this CP:

- Be issued to Parties for Voting.

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3 Why Change?

Background of DCP 349

3.1. The above issue was originally raised in DIF 57 'Effectiveness of the current provision of unsecured cover' (Attachment 7). A sub-group of the Standing Issues Group (SIG) was set up to investigate DIF 57. All parties received an invitation to join the group and the group met four times resulting in this change proposal. The group consisted of DNOs, IDNOs and Suppliers.

3.2. The main concern raised was that recent supply business failures have highlighted the need to mitigate this risk as these failures may impose costs on other customers. DIF 57 offered two solutions as below:

- Remove the option for unsecured cover
- Limit the amount of unsecured cover

3.3. The sub-group was not in favour of just simply removing the option of unsecured cover, it took a more pragmatic approach ensuring different parties views were considered. This Sub-Group led to DCP 349 being raised and the subsequent proposed solutions stated in Section 1 above and in more detail in Section 4 below.

3.4. The main reason for this change is to mitigate the financial risk associated with supply business failures by strengthening the criteria around the provision of unsecured cover and protect customers from increased socialised failure costs.

4 Solution

DCP 349 Assessment

4.1. The DCUSA Panel established a Working Group to assess DCP 349. This Working Group consists of DNOs, Suppliers and an Ofgem representative. 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. The Working Group agree that the current arrangements for the provision of unsecured cover need to be reviewed as it has been seen that if, for example, DUoS invoices are being paid on time there isn't a trigger to highlight when a Supplier may be in financial difficulty (or failing to comply with obligations which may result in future failure) until they fail to pay the latest invoice(s) when it is too late.

4.3. The initial concern was that the failure of Suppliers had significantly increased, which demonstrated increased instability risk amongst Suppliers which imposes costs on other customers. Ofgem has been reviewing supplier licensing, which the Working Group believe this CP will complement.

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DCP 349 Consultation One

Original Proposed Solution

4.4. The Working Group originally consulted on the following solutions:

- The cover that can be earned from building up a good payment history would be reduced from 60 months to 24 months after which time either a secured cover arrangement *or an acceptable, alternative, unsecured cover arrangement* (i.e. credit rating or independent credit assessment) to be put in place;
- Introduction of a common good payment performance matrix to demonstrate the impact late payment could have on the maximum number of qualifying months of good payment history; and
- Implementing one of the principles of the Uniform Network Code, which states. "The Transporter will set the Users Unsecured Credit Limit no higher than the lower of the credit value recommended within the Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transporter's Maximum Unsecured Credit Limit."

4.5. To aid the further development of the solution for this CP, the Working Group issued a consultation to parties on 12 December 2019. The aim of the first consultation was to ask the industry for views on the principles of the change and the solution proposed. There were 13 respondents to the first consultation comprising of six distributors, seven suppliers. A copy of the first consultation and the Working Group conclusions can be found as Attachment 3.

4.6. All respondents understood the intent of DCP 349, which was drafted as "to mitigate the financial risk associated with supply business failures by strengthening the criteria around the provision of unsecured cover and protect customers from increased socialised failure costs".

Reduction in Good Payment History

4.7. Regarding the proposed reduction to the cover that can be earned form building up a good payment history approximately half the respondents were supportive, whilst some respondents felt that reducing it to 24 months was too much and there were also concerns that this could make it difficult for new Suppliers to enter the market.

4.8. It was proposed that within six months of earning 24 months' worth of Cover a secured cover arrangement *or an acceptable, alternative, unsecured cover arrangement* (i.e. credit rating or independent credit assessment) would need to be in place. More than half the respondents believed that if this solution was implemented a six-month transitional period would be appropriate, whilst others believed that this was too short and that a minimum of 12 months would be more appropriate.

Common Good Payment Performance Matrix

4.9. The following Good Payment Performance Matrix was proposed in the first consultation:

Age of debt (working days)	Value of debt as a percentage of previous month's charges *	Effect on Good Payment Performance

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1 to 3	<25%	Loss of 25% of previously accrued Good Payment Performance
	>25% and <75%	Loss of 50% of previously accrued Good Payment Performance
	>75%	Loss of 100% of previously accrued Good Payment Performance
4 and above	Any	Loss of 100% of previously accrued Good Payment Performance

4.10. The above would mean that if the debt was between one and three days old, the loss of previously accrued Good Payment Performance would depend on the value of the debt as a percentage of the previous months charge. If the debt reached four days, then all previously accrued Good Payment Performance would be lost.

4.11. A majority of the respondents to the first consultation agreed that the above Good Payment Performance Matrix was a sensible approach and would provide consistency across all Licence Areas.

Change to User's Credit Allowance Calculation

4.12. The current process for calculating a User's Credit Allowance provides for a Credit Allowance Factor to be applied to the Credit Rating from an Independent Credit Referencing Agency which results in a significant increase to the overall credit provision.

4.13. To address the issue in paragraph 4.9, the Working Group proposed that, once a User has received an Independent Credit Assessment, it will adopt the following when setting the User's Credit Allowance:

"the Company will set the User's Credit Allowance no higher than the lower of the credit value recommended within the Independent Credit Assessment and the credit value calculated by applying the Credit Allowance Factor"

4.14. Approximately half of the respondents agreed with the proposed approach to set the User's Credit Allowance no higher than the lower of the credit value recommended within the Independent Credit Assessment and the credit value calculated by applying the Credit Allowance Factor. However, some respondents believed that the current arrangements within DCUSA were fit for purpose and that this proposed solution may limit the ability of smaller Suppliers to operate in the market.

4.15. Some respondents were keen to have further information provided to them as to why it is believed the current process for calculating a User's Credit Allowance needs to be amended. It was noted that a similar change has been raised with CUSC (CMP 311 - Reassessment of CUSC credit requirements for Suppliers, specifically for "User Allowed Credit" as defined in Section 3, Part III

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section 3.27 of the CUSC) and within this Working Group it was identified that the predominant risk is associated with Good Payment History and not the Independent Credit Assessment.

Should this change be implemented retrospectively?

4.16. Within the first consultation respondents were asked whether they believed that this change should be applied retrospectively. The views regarding this were mixed, with some stating that it should be applied retrospectively so that all Suppliers, existing and new will be treated the same and others stated that it would be simpler to apply this to new Suppliers only.

Working Group Conclusions and next steps

4.17. The Working Group identified a number of areas of further work having discussed the parties' responses to the first consultation:

- Review the solution for reduction of Good Payment History based on the consultation feedback
- Review the solution for calculating a User's Credit Allowance and provide justification as to whether this is needed or not.
- Decide on whether any solution should be applied retrospectively or not.

Revised Options for Good Payment History

4.18. Users can build up Good Payment History by paying monthly invoices on time. The amount of cover that can be earned will differ between distribution services areas but can build up to 60 months' worth. Where Late Payment of an invoice occurs all Good Payment History is lost.

4.19. In the examples below £15,000 has been used as the monthly amount of Cover earned:

Timeframe (months)	Cover Earned
1	£15,000
12	£180,000
24	£360,000
36	£540,000
48	£720,000
60	£900,000

4.20. Considering the feedback from the consultation, the Working Group have considered two variations to the original proposed solution for the amount of cover that can be built up using Good Payment History. These are detailed below:

4.21. Option 1 (current proposal)

- The Good Payment History earned could be reduced to a maximum of 24 months
- Within 6 months of earning 24 months' worth of Cover either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place.

4.22. Option 2

- The Good Payment History earned could be reduced to a maximum of 36 months
- Within 6 months of earning 36 months' worth of Cover either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place.

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4.23. Option 3

- 60 months remains the timeframe, but the value of Cover earned diminishes over the 5 years as per the below table:

Timeframe (months)	Cover Potential	Cover to be Applied (%)	Cover Earned
1	£15,000	100%	£15,000
12	£180,000	100%	£180,000
24	£360,000	100%	£360,000
36	£540,000	60%	£324,000
48	£720,000	30%	£216,000
60	£900,000	0%	£0

- Therefore, following three years the Good Payment History earned to that point will reduce to 60% of the value and following four years will reduce to 30% of the value.
- By the 5-year point either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place.

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4.24. After review of the above options, the preferred solution of the Working Group is option 3. It is believed that this addresses some of the concerns raised in the first consultation that reducing to 24 months was too much but also mitigates the financial risk associated with supply business failures by strengthening the criteria around the provision of unsecured cover. At present, once a Supplier has built up five years of Good Payment History they can use this cover indefinitely, whereas this change will ensure that after five years a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place. This alternative cover will provide a more accurate reflection of the financial position of the Supplier. This solution also reduces the percentage of cover built up at the end of the third and fourth year.

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Common Good Payment Performance Matrix

4.25. The Working Group has concluded that the introduction of a common Good Payment Performance Matrix will be of benefit and this will complement the proposed solution above.

Change to User's Credit Allowance Calculation

4.26. After discussions, the Working Group concluded not to progress the proposed solution regarding changing how the User's Credit Allowance is calculated. The basis of this conclusion was in the majority of cases where a Supplier business had failed the unsecured cover in place was good payment history. Consequently, it is believed that the proposed solution for Good Payment History mitigates the main financial risk currently imposed on DNOs. It is also believed that either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement is a better indicator of the financial stability of a Supplier.

4.27. If the Good Payment History solution is implemented, DNOs will monitor the impact of this and decide post this CP whether a change to how the User's Credit Allowance is calculated would still be required.

Should this change be applied retrospectively?

4.28. It is the Working Groups view that this change should be applied retrospectively so that all Suppliers, existing and new will be treated the same. For existing Suppliers, it is proposed that they are given a 12-month transitional period to adjust to the new requirements. For example, if a Supplier has already built up five years Good Payment History and they utilise this as part of their cover, they will need to move to either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement within 12 months of the implementation of this change. Equally this would apply to any Supplier within the final year of building Good Payment History. All other Suppliers that are currently building Good Payment History would have 12 months to transition to the appropriate stage as detailed in 4.23.

DCP 349 Second Consultation

4.29. The Working Group issued its second consultation to industry on 03 November 2020. A copy of the second consultation and the Working Group conclusion can be found as Attachment 4. The consultation received 10 responses (five DNOs, 1 IDNO, four Suppliers).

4.30. The working Group reviewed the responses received from this second consultation and a summary of this review is detailed in the following paragraphs.

4.31. Respondents were asked if they agreed with option 3 detailed in 4.23 above. A majority of the respondents were supportive of option 3. One respondent believed that this change will have a negative impact on smaller Suppliers. The Working Group concluded that in a majority of cases where there has been a Supplier of last resort, Good Payment History has been the main form of cover and therefore it is the view that option 3 will mitigate the financial risk associated with supply business failures by strengthening the criteria around the provision of unsecured cover and protect customers from increased socialised failure costs.

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4.32. Respondents were asked whether they agreed with the Working Group decision to not pursue a change in the way a User's Credit Allowance is calculated at this stage. All respondents agreed with the Working Groups view not to pursue a change in the way a User's Credit Allowance is calculated at this stage. It has also been noted that where a supply business has failed the unsecured cover in place was Good Payment History in most cases, which highlights that the risk is predominately with that form of Cover and not the Credit Allowance. Whilst one respondent agreed with this decision, they noted that they do not agree with the proposed solution within DCP 349.

4.33. Respondents were asked whether they agreed with the Working Groups proposal to implement this change retrospectively. A majority of the respondents agreed that this change should be applied retrospectively. However, a couple of respondents raised concerns that applying this change retrospectively could unequally impact the market as Suppliers will be at different stages within the current Good Payment History structure and that their current financial plans will be based on the existing arrangements.

4.34. There were a few recommended changes to the legal text and these were considered in the final drafting.

4.35. Respondents were asked whether they believe that the DCUSA General objectives are better facilitated by this CP. A majority of the respondents agreed that this change will better facilitate the DCUSA General Objectives, A couple of respondents do not believe the objectives are better facilitated, with one stating that this change is neutral and the other stating that they believe it will damage retail competition.

Further consultation issued to Suppliers

4.36. Upon reviewing the responses to the second consultation, the Working Group were concerned that there was a lack of smaller Supplier feedback and therefore issued a more tailored consultation on 14 December. Six more Supplier responses were received, and these can be found in Attachment 5.

4.37. The key points that came out of the six responses received are below:

- Concerns that credit ratings are not available to smaller Suppliers in the same way they are to larger, more established businesses.
- Concerns that any change to the arrangements will affect retail market competition and disproportionately impact smaller Suppliers and new entrants.
- View that Ofgem has already put in satisfactory governance controls and monitoring in place via the Supplier Licensing Review and monthly financial RFI requirements to monitor Suppliers financial stability.
- Regarding retrospective implementation, there were concerns that Suppliers with the largest impact will have the shortest period of time to find alternative arrangements. There were concerns raised that a 12-month transitional period was not enough.
- Quantification of the financial impact Supplier failure has had on the DNOs should be provided.

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- A majority of respondents were supportive of the introduction of a good payment performance matrix.
- Concerns regarding timing given the pandemic.

Approved Credit Referencing Agency, and Independent Credit Assessment from a Recognised Credit Assessment Agency

4.38. To alleviate any concerns small Suppliers had in having to obtain a Credit Rating from one of the Approved Credit Referencing Agency's, for example Moody's, the Working Group noted that an Independent Credit Assessment, for example by Experian, was also acceptable as an alternative form of Cover.

Retail Market Competition

4.39. The proposer acknowledges that the use of good payment history as a form of Cover is of benefit to smaller suppliers and highlighted that this element of Cover is not being removed but the criteria of how it is used is being strengthened. At a high-level the impacts of implementing this change proposal are as follows, which would not have a material impact on retail competition:

Pros	Cons
60 months of Good Payment History can still be earned by supply businesses	The use of Good Payment History will be limited to the 60 months' timeframe
Credit assessments will be carried out on supply businesses, providing them with valuable information and alleviating DNO concerns where previously a Good Payment History has been applied as an enduring element of Cover	A fee may be payable to obtain an Independent Credit Assessment
Minimum 12 months transitional period will be provided which gives an early warning of when changes to the form of Cover need to be made	DNOs would still need to monitor Good Payment History to a point

Ofgem's Supplier Licensing Review

4.40. Ofgem's Supplier Licensing Review will strengthen its regulatory regime, drive up standards among poor performing energy suppliers to ensure they act in a more financially responsible manner taking steps to bear an appropriate share of their risk, without imposing undue burden on suppliers that are already operating in a responsible manner, and to minimise competitors' and consumers' exposure to financial risks and poor customer service. The review covers the application process together with milestone assessments as a supply business grows through to a Supplier exiting the market.

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4.41. DCP 349 was raised as a direct consequence of Supplier business failures which demonstrated that allowing businesses to rely heavily on unsecured cover results in a significant risk of customers picking up socialised costs. This Change Proposal was a step back to review the unsecured cover provisions, in particular the element of good payment history, because in the majority of supply business failures seen by the industry this element was used as the credit cover arrangement. This was also identified by the CUSC Workgroup for CMP 311 [1]'Reassessment of CUSC credit requirements for Suppliers, specifically for "User Allowed Credit" as defined in Section 3, Part III section 3.27 of the CUSC'.

4.42. It is the proposers view that reviewing and subsequently limiting the use of good payment history under DCP 349 complements Ofgem's Supplier Licensing Review in ensuring supply businesses focus more on their cover arrangements within the over-arching principle of 'Financial Responsibility', with the aim of retaining a viable business and mitigating any detrimental effects on customers.

Retrospective implementation

4.43. By applying this change retrospectively, it ensures all Supplier businesses are treated the same. It was originally proposed that the transition period should be six months but following feedback during the consultation stages this was increased to a minimum of 12 months as that was seen as a more reasonable and appropriate timeframe for arrangements to be made to move to an alternative from of Cover.

DNO financial impact due to Supplier failures

4.44. A request for information was issued to DNOs to understand the combined financial impacts on DNOs due to recent Supplier failures. This information was provided in a confidential manner for the purposes of providing an aggregated figure. Between March 2018 and March 2020, the total financial impact across 11 DNO Licence Areas based on Supplier failures that were using good payment history as cover was £9,019,334. For confidential reasons, an aggregated figure is all that can be shared within this Change Report, however more detail will be provided to the Authority regarding the calculation of this figure when the Change Declaration is issued for their decision on whether to approve this change or not.

4.45. This request for information illustrated that for a majority of cases where a supply business had failed the unsecured cover in place was good payment history.

Current climate regarding pandemic

4.46. DIF 57 'Effectiveness of the current provision of unsecured cover' was originally raised in January 2019 and following the meetings of the DIF 57 sub-group, DCP 349 was raised in June 2019 and approval received from the DCUSA Panel that this change progressed to the Working Group stage with meeting commencing in September 2019. As a consequence of the Covid-19 pandemic the Working Group agreed at its meeting on 25 March 2020 that it would be appropriate to delay any

[1] The CUSA Panel will be provided with an update at its February meeting to review any impacts the recent RIIO draft determinations may have on the proposed solution within CMP 311.

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further work on this change. Additionally, the Network Deferral Scheme was launched and administered by the Energy Networks Association to support Supplier businesses. The Working Group re-convened on the 30 September 2020 to move this change forward to the Change Report Stage. The Working Group believe the Change Report stage has now been reached and taking into consideration the proposed implementation date of 24 June 2021 with a 12-month transitional period it is appropriate to seek DCUSA Party votes and then move to final determination by the Authority.

DURABILL Impact

4.47. DURABILL has functionality to calculate each customer group / Supplier's credit cover and indebtedness ratio. This is typically run nightly at a time decided by each customer. As part of this process, the CAF is calculated based upon the difference between the manually entered effective date of any good payment record and the current date.

4.48. This process will need to be amended to support the proposal for the CAF decreasing after 36 months. DNOs may also wish some changes to the Maintain Customer Credit Assessment Factors screen to demonstrate this, however this is not essential for the indebtedness ratio to be calculated correctly.

4.49. Costs to implement the changes described above are in the region of £10k-£20k split across the DURABILL credit module users. DNOs will also have internal costs for installing and testing these changes.

4.50. St Clements would require approximately 2 months from the point of Ofgem approval to deliver this change to DNOs for user acceptance testing.

Working Group Conclusions

4.51. When this issue was originally raised in DIF 57 'Effectiveness of the current provision of unsecured cover', the proposed options were to either remove the option of good payment history completely or to reduce the amount that could be earned to 24 months, after which time there would be a six-month transitional period to put in place either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place.

4.52. DIF 57 also proposed a change in the current process for calculating a User's Credit Allowance as there were concerns that the current process provides for a Credit Allowance Factor to be applied to the Credit Rating from an Independent Credit Referencing Agency which results in a significant increase to the overall credit provision. To address the issue, the Sub-Group proposed that, once a User has received an Independent Credit Assessment, DCUSA should adopt one of the principles of the Uniform Network Code when setting the User's Credit Allowance by stating that the Company will set the User's Credit Allowance no higher than the lower of the credit value recommended within the Independent Credit Assessment and the credit value calculated by applying the Credit Allowance Factor.

4.53. DIF 57 also proposed the introduction of a common good payment performance matrix to demonstrate the impact late payment could have on the maximum number of qualifying months of good payment history.

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4.54. As previously stated, the DIF 57 sub-group was not in favour of just simply removing the option of unsecured cover and preferred the option of reducing the number of months of good payment history that could be earned form 60 months to 24 months. This Sub-Group led to DCP 349 being raised to review the proposed solutions further.

4.55. The DCP 349 Working Group were keen to seek industry feedback on the proposed solutions that came out of the DIF 57 Sub-Group and issued a consultation on 10 December 2019. Key feedback that came out of the first consultation was that Suppliers were concerned that the reduction of the number of months of good payment history that could be earned was too much and that the six-month transitional period would not be sufficient time to transition to an alternative form of cover. There were also concerns raised as to whether the change to the Users Credit Allowance calculation was needed and a request for DNOs to review the details of recent Supplier failures to establish whether a change to this calculation would be of benefit was made. A majority of the respondents supported the introduction of a common good payment performance matrix.

4.56. The Working Group considered the Supplier feedback from the first consultation regarding the reduction of good payment history and offered two alternatives as detailed in 4.22 and 4.23 above. The Working Groups preferred solution being to keep the current 60-month timeframe, but the value of cover earned diminishes over the 5 years. Therefore, following three years the good payment history earned to that point will reduce to 60% of the value and following four years will reduce to 30% of the value. By the 5-year point either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place. For existing Suppliers, there will be a minimum of a 12-month transitional period to move to the proposed changes.

4.57. After review, DNOs determined that in the majority of cases where a Supplier business had failed the unsecured cover in place was good payment history and therefore the Working Group concluded not to progress with the proposed solution regarding changing how the User's Credit Allowance is calculated.

4.58. The Working Group issued two further consultations on 3 November 2020 for a period of three weeks and on 14 December 2020, with a deadline of 11 January 2021 providing details of the revised solution. The key aspects of these consultations are detailed in 4.29 to 4.45 above.

Final Proposed Solution

4.59. In summary the Working Groups proposed solution for DCP 349 is as follows:

- 60 months Good Payment History remains the timeframe, but the value of Cover earned diminishes over the 5 years. At 36 months the value would decrease to 60% of the value earned and after 48 months it would decrease to 30% of the value earned. By the 5-year point either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place.
- For existing Suppliers, there will be a minimum period of 12-months to transition to the new requirements.

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- Introduce a common good payment performance matrix to demonstrate the impact late payment could have on the maximum number of qualifying months of good payment history.

4.60. The proposer acknowledges the concerns raised by Suppliers but believes that the above solution is a reasonable compromise compared to the original solutions that were proposed within DIF 57. Suppliers will still have an opportunity for unsecured cover arrangements after the fiver year period of good payment history finishes by obtaining a Credit Rating from either an Approved Credit Referencing Agency or an Independent Credit Referencing Agency to determine the Credit Allowance Factor.

4.61. It is believed that a Credit Rating from either an Approved Credit Referencing Agency or an Independent Credit Referencing Agency to determine the Credit Allowance Factor is a better indicator of the financial stability of a Supplier than good payment history.

4.62. The proposed changes to DCUSA to facilitate the above solution can be found in Attachment 1.

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 and six Charging Objectives. This change proposal impacts the general objectives.

5.2 The Working Group considers that when reviewing the DCUSA General Objectives as a whole, they would be better facilitated by the implementation of DCP 349. Rationale for their decisions can be found below.

	Impact of the Change Proposal on the Relevant Objectives:	Identified impact
☒	1. The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	None
☒	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	None
☒	3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	Positive
☒	4. The promotion of efficiency in the implementation and administration of the DCUSA	Positive

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☒	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

General Objective One

5.3 This objective is not impacted by this change. .

General Objective Two

5.4 This objective is not impacted by this change.

General Objectives Three and Four

5.5 In strengthening and streamlining the obligations around the provision of the good payment performance element of Cover, resulting in additional Independent Credit Assessments being carried out, the risk associated with Supplier business failures is reduced, together with the risk of increased socialised costs for customers. This change will better facilitate the efficient discharge of the DNO and IDNO Licence obligations and promote efficiency in the implementation and administration of the DCUSA.

General Objective Five

5.6 This objective is not impacted by this change.

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 This change proposal coincides with an Ofgem review into its Supplier Licensing regime, which includes the likelihood of increased disclosure from Suppliers with regard to their financial health. As stated above in paragraphs 4.X40-4.42it is the proposers view that reviewing and subsequently limiting the use of good payment history under DCP 349 complements Ofgem's Supplier Licensing Review

7 Implementation

7.1 If approved, it is proposed that this change should be implemented into DCUSA on 24 June2021. This would mean that all existing Suppliers would need to transition to the new rules by 24 June 2022 at the latest.

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8 Legal Text

8.1 The amended DCP 349 legal text incorporates the following solutions and can be found in Attachment 1:

- The cover that can be earned from building up a good payment record would remain over a period of five years, however after 36 month the credit built up would reduce to 60% of the value and after 48 months it would reduce to 30% of the value. After five years a secured cover arrangement *or an acceptable, alternative, unsecured cover arrangement* (i.e. credit rating or independent credit assessment) is to be put in place;
- Introduction of a common good payment performance matrix, to demonstrate the impact late payment could have on the maximum number of qualifying months of good payment history, which will complement the proposed solution.

8.1 The DCP 349 legal text acts as Attachment 1 to this Change Report.

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 19 February 2021. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 349.

10.2 The Panel have recommended that this report is issued for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

Attachments

- Attachment 1: DCP 349 Legal Text
- Attachment 2: DCP 349 Voting Form
- Attachment 3: DCP 349 Consultation One and Collated Responses
- Attachment 4: DCP 349 Consultation Two and Collated Responses
- Attachment 5: DCP 349 Additional Consultation to Suppliers
- Attachment 6: DCP 349 Change Proposal

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- Attachment 7: DIF 57 ‘Effectiveness of the current provision of unsecured cover’

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