DCUSA DCP 349 Change declaration
Voting end date: 12 March 2021

DCP 349	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	DISTRIBUTED GENERATOR	GAS SUPPLIER
CHANGE SOLUTION	Accept	Accept	Accept	n/a	n/a
IMPLEMENTATION DATE	Accept	Accept	Accept	n/a	n/a
RECOMMENDATION	**Change Solution – Accept.** For the majority of the Party Categories that were eligible to vote, the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the change solution was more than 50%. **Implementation Date – Accept.** For the majority of the Party Categories that were eligible to vote, the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the implementation date was more than 50%				
PART ONE / PART TWO	**Part One** – Authority Determination Required				

PARTY	SOLUTION (A / R)	IMPLEMENTATION DATE (A / R)	WHICH DCUSA OBJECTIVE(S) IS BETTER FACILITATED?	COMMENTS
DNO PARTIES				
Electricity North West	Accept	Accept	We believe this change proposal will better facilitate General Objectives 3 and 4 by strengthening the obligations around the provision of the good payment performance element of Cover, leading to additional Independent Credit Assessments being carried out by supply businesses. Additionally, it provides mitigation against the risk associated with supply business failures together with the risk of increased socialised costs for customers.	A supply business can currently build up five years' worth of cover through good payment performance which is then applied indefinitely. In most of the supply business failures the industry has seen this element of cover was used, but this change proposal will ensure the use of the element of good payment performance will be limited to the five years, introducing additional independent credit assessments being carried out by supply businesses. It does tend to be the most vulnerable customers that do not change supplier, so it is likely these customers who are most affected when a supply business fails. The current process following late payment of an invoice is that the total value of cover earned from good payment performance is lost, this change proposal takes a more pragmatic approach by taking into consideration the value/age of the debt, but only up to a point. Ofgem's work on the Supplier Licensing Review and this change proposal are trying to mitigate the circumstances where customers find they have appointed an unviable supply business.
Northern Powergrid (Northeast) Plc	Accept	Accept	This CP aligns to DCUSA Objective No3 - The efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences. The reason why this DCUSA Objective better	None.
Northern Powergrid (Yorkshire) Plc	Accept	Accept		

			facilitates is because it provides both DNO's and IDNO's with mitigation to the financial risk associated with Supply business failures by strengthening the criteria around the provision of unsecured cover whilst protecting customers from increased socialised failure costs.	
Scottish Hydro Electric Power Distribution plc (SHEPD)	Accept	Accept	Agree with the Proposer/Working Group, that DCUSA objectives 3 & 4 would be better met by the implementation of DCP 349.	
Southern Electric Power Distribution plc (SEPD)	Accept	Accept		
Western Power Distribution (East Midlands) plc	Accept	Accept	We agree that this change has a positive effect on General Objective 3 and 4.	
Western Power Distribution (West Midlands) plc	Accept	Accept		
Western Power Distribution (South Wales) plc	Accept	Accept		
Eastern Power Networks	Accept	Accept	While it is not clear from the Change Report which License obligations the Working Group had in mind as being more efficiently discharged, we agree that this better facilitates Objective 3 by reducing the costs bourne generally by customers in the event of supplier failure and SoLR. We do not agree with the working group's assessment that this better facilitates Objective 4 as it complicates the arrangements for GPR and so is not administratively less burdensome.	While we are supportive of any change that reduces our exposure to failing suppliers, the outcome of this proposal seems more restrictive than its title suggests, being focussed on smaller new entrant suppliers and excluding larger suppliers who have unsecured credit, where the risk is much lower but the potential impact much greater.
London Power Networks	Accept	Accept		
South Eastern Power Networks	Accept	Accept		

IDNO PARTIES				
BUUK Infrastructure	Accept	Accept	This change improves the efficiency of the code credit rules arrangements as an extension to legislation and licence obligations for networks to financially secure their activities. Therefore, general objectives 3 and 4 are better facilitated by this change.	N/A
Leep Electricity Networks Limited	Accept	Accept	The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licenses and the promotion of efficiency in the implementation and administration of the DCUSA.	N/A
SUPPLIER PARTIES				
E (Gas and electricity) Ltd	Reject	Reject	It's unclear from the documentation provided how this proposed change is being reflected within the Prepayment price cap. We are 99% prepayment and any change of this nature will further impact us financially. These additional costs need to be recoverable in any price cap restrictions.	-
EDF Energy Customers Limited	Accept	Accept	We feel General Objective 3 is better facilitated because reducing the Good Payment History (GPH) allowance should reduce losses; losses that would otherwise be claimed back (via an extended process) from non-defaulting suppliers & ultimately consumers. We feel General Objective 2 is, on balance, better facilitated because we believe reducing the use of GPH - and the potentially resulting increased use of Independent Credit Assessments (ICAs), and possibly Credit Ratings - should mean that the form of cover provided is more indicative of a supplier's	We feel the proposed solution is reasonable

			creditworthiness. This is more likely to ensure suppliers bear their appropriate share of the risks, it may also improve the sustainability and quality of the supplier pool in the longer run, and that could help improve consumer engagement and ultimately therefore lead to more effective competition.	
Goto energy UK Ltd	Reject	Reject		We do not agree with implementation of this change and do not believe the solution resolves the problem as stated in the proposal. Supplier's concerns raised during the consultations have not been answered in full. Cost effectiveness of the change has not been demonstrated. The implementation timetable for existing suppliers is not sufficient. We do however agree that the introduce a common good payment performance matrix would provide consistency across all DSAs and give clarity on the impacts of late payment.
Haven Power	Accept	Accept	We believe this proposal better facilitates General Objectives 3 and 4. In strengthening and streamlining the obligations around the provision of the good payment performance element of Cover 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.	We agree with the workgroup conclusion not to progress the proposed solution regarding changing how the User's Credit Allowance is calculated. In most cases where a Supplier business has failed, the unsecured cover in place has been good payment history and therefore the proposed solution for Good Payment History mitigates the main financial risk currently imposed on DNOs. We also believe that either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement is a better indicator of the financial stability of a

				Supplier.
Octopus Energy	Reject	Reject	None.	Octopus Energy disagrees with the concept of this proposal which takes a narrow view of credit cover in the energy sector. The premise of the proposal is that approved credit ratings are a better reflection of energy suppliers credit worthiness than the existing contractual framework where (up to) 60 months of perfect payment history is afforded equivalent standing. It is our view that ongoing payments on time every time is a proven factor in illustrating credit worthiness. Whilst we recognise that there is a spectrum of risk across energy suppliers, and there have been many failures over the last two years, we also believe there are some very clear risk indicators, which should provide a sensible basis for differentiating credit terms rather than simply requiring formal 'investment grade status'. For example, considerations might include whether: ● a supplier hedges their wholesale exposure (perhaps measured by degree of imbalance) ● Supplier has wholesale agreements in place to provide market access on favourable credit terms - as well as the benefit of the agreement in itself for supplier liquidity, the supplier performance will be rigorously monitored. ● Supplier has sufficient cash management processes in place that they are able to consistently pay

				networks on time - history matters. Good payment history demonstrates the suppliers have (a) cash control processes, (b) adequate forecasting and (b) are capitalised to match their growth. These are critical components for any business. ● Supplier is able to demonstrate consistent customer satisfaction - we often observe degradation of performance as suppliers become financially distressed (for example, failure to return credit balances quickly upon request or as a result of meaningful price increases etc). All of the above points can be measured and/or provided so as to create a more mature set of credit terms that capture a fuller, more accurate picture of suppliers ‘real’ risk to the market. **This change would have a negative impact on retail competition.** The principle underpinning this complete shift of historic payment performance reducing credit cover, provides a *massive bias* towards those businesses with formal investment grade credit ratings, which the former incumbent energy suppliers have, because they were 'gifted' assets at deregulation. This is a vital and unconsidered aspect of the working groups discussion, and provides a systematic unfair advantage

				which challenger suppliers of whichever age or size, will be unable to compete with on anything like a level playing field. For the many suppliers who would need to 'put up' more cash should this proposal be implemented, our initial assessment suggests a £6-£8 per customer per year additional funding requirement would need to be provided to Network Operators in the absence of formal investment grade ratings. We believe the consideration and management of risk starts from the wrong perspective. Network operators have historically operated a very prescriptive rule set, when it comes to securing against debt exposure, which (currently) prevents them from taking a more nuanced view of counterparty credit risk and ways of securing against it. This proposal increases the discrepancy between credit extended to legacy, former nationalised businesses that were gifted highly inelastic customer-books that have been managed for value extraction rather than growth or innovation and new, well managed growth businesses that don't yet have credit ratings. Other market participants are able to be more innovative in how they assess and manage credit exposures without just resorting to cash collatoralisation but this proposal just serves to further limit the

				ways networks interact with their customers. Our recommendation is that the proposal is not implemented but is instead rejected, or at the very least put on ice until the two areas **below** come into play and the consequences of either/both can be considered prior to any fundamental overhaul of these existing credit terms. **i)** impact of Covid on potentially distressed suppliers. The Network costs deferral scheme(s) will finish in 2021 and the ability of suppliers to settle these deferred costs will quickly provide visibility on the amount of distress in the industry and the financial protection network operators enjoy from any bad debt (and its subsequent relief which of course will be a pass through cost). **ii)** introduction of Supplier Licensing review conducted by Ofgem to mitigate against supplier failure. We believe both of these significant benchmarks should 'play out' before proposals such as 0349 are considered for any implementation.

				As previously mentioned we do not believe this proposal affords greater ultimate protection for consumers, since it serves to shift costs and risks across the industry which are unproven and untested as to the value in such an approach.
Opus Energy Ltd	Accept	Accept	We believe that this proposal better facilitates General Objectives 3 “The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences” and 4 “The promotion of efficiency in the implementation and administration of the DCUSA”. We agree with the proposer that in strengthening and streamlining the obligations around the provision of unsecured cover the risk associated with supply business failures is reduced, together with the risk of increased socialised costs for customers. This increases the efficient discharge of obligations and indeed efficiency in the implementation of the DCUSA.	
Orbit Energy Limited	Reject	Reject	No DCUSA objectives are furthered by this proposal and it is detrimental to objective 2, in that it harms competition between suppliers.	The ability for suppliers to access unsecured credit under DCUSA, as well as other industry codes, was introduced by Ofgem in 2005 as a way of ensuring that growth in retail competition and entrance into the market of new and innovative suppliers was not prevented by excessive credit requirements. This has been a key factor in the increase of competition in the market and the consequential reduction in the market share of the big six. Customer have therefore benefited under the current arrangements.

				Smaller suppliers rely on the existing unsecured credit provisions because they will not be able to rely on a credit Rating to obtain zero-cost credit like large suppliers; Independent Credit Assessment or Approved Credit Rating are not viable alternatives as they are either expensive or provide uncertain levels of unsecured credit. The only viable alternative for smaller suppliers is therefore either a Letter of Credit or cash on account. The costs to the market are prohibitive if these alternatives are relied upon. It is notable that in the similar CUSC change the estimated cost to the industry if the unsecured credit in that code (£186.8m) is required to be covered by Letters of Credit would be £8.8m a year (if funded at 4% pa, which is not an unreasonable rate for smaller suppliers). This is near six times the cost exposure of £1.5m of the total bad debt incurred by NGESO from the collapse of suppliers in 2018/19. We also note there is no mechanism for these additional costs to be recovered in the supplier default tariff cap and so this increase in capital requirements may be sufficient to push some suppliers into administration. In summary these proposals represent significant and unwarranted costs to the market, far outweighing the cost to suppliers of covering bad debts that have arisen and will disproportionately penalise smaller suppliers who will be less able to bear the costs of the additional credit requirements compared to larger suppliers.

Utilita Energy Limited	Accept	Accept	General Objective 1. The development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System. Charging Objective 3. That compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business The change will facilitate the above objectives by creating a securer process surrounding unsecured credit.	None.
CVA REGISTRANTS				
N/A				
GAS SUPPLIER PARTIES				
N/A				