DCP 349 ‘Effectiveness of the current provision of unsecured cover under Schedule 1’ COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

Company	Confidential/ Anonymous	1. Do you agree with the Working Groups view that option 3 detailed in Paragraph 4.23 above regarding Good Payment History is the preferred solution? If not, which solution is your preferred choice?	Working Group Comments
Western Power Distribution	Non-confidential	Yes	Noted
EDF Energy Customers Limited	Non-confidential	Yes, we believe option 3 is the most appropriate solution. As per our response to the first consultation, we believe significantly reducing the good payment history (GPH) element of credit cover is appropriate because GPH is not a positive indicator of creditworthiness, and this is the category where losses are most likely to continue to be incurred. However, we believe option 3 avoids a ‘cliff edge’ where impacted suppliers would lose all of their GPH allowance on a single day; instead, there will be a gradual transition, and that would address concerns raised by some parties in responses to the first consultation.	Noted
Good Energy	Non-confidential	We have no strong preference for options 1, 2 or 3. All achieve the proposers aim in reducing the amount of unsecured credit available to suppliers on the basis of their Payment History. Please see answer to question 7 for further comments.	Noted
BUUK Infrastructure	Non-confidential	Yes. Good Payment History is meant as a measure of a company’s ability to pay, but as with the intent for the change proposal in the first instance this is not always an accurate measure. By maintaining the current five-year timeframe, but with reductions in the cover allowance over time, it provides for a more gradual transition to other secured cover arrangements which options 1 and 2 don’t allow for.	Noted

Electricity North West	Non-confidential	We believe there is merit in all three options but appreciate the views concerning the timeframes involved for options 1&2 as they present a 'cliff edge' for the Good Payment History element of Cover, which might have a detrimental effect on a new supply business. As Option 3 provides for a gradual reduction in the value of Cover from Good Payment History it could be more acceptable, and we understand St Clements will provide the implementation costs of the solution in response to this consultation.	Noted – It has been stated by St Clements that the costs to implement the changes are in the region of £10k-£20k split across the DURABILL credit module users.
UK Power Networks	Non-confidential	Option 3 is the better of the three as it allows more mature suppliers to put alternative arrangements in place in a progressive way.	Noted
SSE Energy Supply Limited	Non-confidential	Yes. We agree that option 3, a 60 month supplier payment history and a common payment matrix that gradually diminishes the value of cover, with either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement in place at 5 years, is an appropriate solution.	Noted
Northern Powergrid	Non-confidential	Yes we agree to option 3 being the preferred option as when lined up against the other two options it allows for a transition period whilst also creating a graduated reduction of credit allowance which the others don't.	Noted

Orbit Energy	Non-confidential	No. Further to our previous consultation response, we continue to hold the view that any reduction in credit available to suppliers will have a significant negative impact on the market, with the resultant loss of competition harming customers. 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. We note with disappointment that there has still not been any attempt to quantify the likely costs of these changes in the modification, which is surprising as we consider the information to be freely available to network operators. As we referenced in our previous consultation, the costs of these proposals is likely to be much higher than the bad debt that the additional cover would address.	Noted -
Scottish Hydro Electric Distribution plc and Southern Electric Power Distribution plc	Non-confidential	Yes – it still allows a generous unsecured maximum credit allowance and 24 months and gives Suppliers time to make alternative arrangements with the DNOs as the Credit Allowance reduces.	Noted

DCP 349 'Effectiveness of the current provision of unsecured cover under Schedule 1' COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

Working Group Conclusions: A majority of the respondents are supportive of option 3. One respondent believes that this change will have a negative impact on smaller Suppliers. 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 Working Group 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.

Company	Confidential/ Anonymous	2. Do you agree with the Working Group decision to not pursue a change in the way a User's Credit Allowance is calculated at this stage?	Working Group Comments
Western Power Distribution	Non-confidential	Yes	Noted
EDF Energy Customers Limited	Non-confidential	Yes, we agree with the decision not to pursue a change in the way a User's Credit Allowance is calculated based on an Independent Credit Assessment (ICA) at this time. We remain supportive of the original proposal related to ICA, which we note has already been implemented in the UNC, but we also recognise that suppliers defaulting to date have been relying more on GPH than ICA and so, at this stage, it seems appropriate to just focus on implementing the GPH proposal (which is consistent with the approach taken for the revised CUSC CMP311 Mod proposal). We believe that it would be sensible to review the original ICA proposal again, should losses be incurred in the future due to suppliers defaulting where they rely on ICA for cover.	Noted
Good Energy	Non-confidential	Yes. If the proposed solution is deemed sufficient to rectify the issue at hand, then further alterations to the calculations of User's Credit Allowance are unnecessary.	Noted

BUUK Infrastructure	Non-confidential	Yes. While the initial proposed changes to the calculation of the User's Credit Allowance did have benefits, it is acknowledged that they may not be the most efficient means of indicating a Suppliers financial stability.	Noted
Electricity North West	Non-confidential	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. This was also identified by the CUSC Workgroup for CMP 311 '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'. Therefore, we agree with the decision not to pursue a change to the way a User's Credit Allowance is calculated at this stage.	Noted
UK Power Networks	Non-confidential	Yes	Noted
SSE Energy Supply Limited	Non-confidential	Yes. The solution as proposed in option 3 should be sufficient to mitigate the financial risk that DNOs have identified in relation to supplier business failures.	Noted
Northern Powergrid	Non-confidential	Yes, the current arrangement via Good Payment History mitigates the main financial risk currently imposed on DNOs. We also believed that either a secured cover arrangement (preferred) or an acceptable, alternative, unsecured cover arrangement is a better indicator of the financial stability of the Supplier	Noted
Orbit Energy	Non-confidential	We do not agree with any change to the current credit arrangements and so agree that no changes should be made to how a User's Credit Allowance is calculated.	Noted

Scottish Hydro Electric Distribution plc and Southern Electric Power Distribution plc	Non-confidential	Yes – implementing Option 3 creates a sensible cap on unsecured credit.	Noted
Working Group Conclusions: 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 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.			

Company	Confidential/ Anonymous	3. Do you agree with the Working Groups proposal to implement this change retrospectively?	Working Group Comments
Western Power Distribution	Non-confidential	Yes	Noted
EDF Energy Customers Limited	Non-confidential	Yes, we believe that would be the fairest way of implementing the change such that all suppliers are subject to the same rules.	Noted
Good Energy	Non-confidential	Yes, it is simpler to apply this change to the whole market, rather than new entrants only. Indeed, while recent entrants seem more likely than long running suppliers to exit the market and present DNOs with financial risk, this is not the case universally.	Noted

BUUK Infrastructure	Non-confidential	Agree with the working groups assessments, whereby if the change is implemented retrospectively then a suitable transition time should be in place to support the process.	Noted
Electricity North West	Non-confidential	We agree that this change should be applied retrospectively as it provides for a transitional period of 12 months following implementation for supply businesses that have already built up five years Good Payment History. The transitional period was originally 6 months but some of the feedback from the 1st consultation stated 6 months wasn’t long enough to transition to new cover arrangements.	Noted
UK Power Networks	Non-confidential	No. However a transitional arrangement could be considered for suppliers with more than 24 months GPR e.g reduce their cover to be applied to 60% one year after the implementation. This treats all suppliers equally without a step change for existing suppliers.	Noted
SSE Energy Supply Limited	Non-confidential	No. We do not agree that it is necessary to implement this change retrospectively. Retrospective application will leave the most impacted suppliers with the least amount of time to find collateral. Suppliers may in future be providing Ofgem with business plans, a more appropriate forward-looking arrangement which will integrate well with this modification in all other respects, whereas retrospective application of this modification will unequally impact the market. Consider also that Ofgem has asked suppliers to be more lenient to non-paying customers due to the impacts of COVID-19. Suppliers are being asked not to insist on immediate payment from their customers, but simultaneously with this modification suppliers are agreeing to DCUSA penalties if they make late payments to networks. Requiring suppliers to arrange credit in addition to this, but only if they have successfully survived for 5 years, is an unnecessary extra burden.	Noted – it has been noted that there has been limited smaller Suppliers reply to this consultation and the Working Group will endeavour to seek more views on this.

Northern Powergrid	Non-confidential	We agree that this change should be applied retrospectively so that all Suppliers, existing and new will be treated the same.	Noted
Orbit Energy	Non-confidential	No. There is an established principle in industry that retrospective changes should be avoided where possible on the sound basis that it penalises companies who take decisions in good faith based on the rules at the time. This change will go against that principle by invalidating financial decisions made by suppliers based on the credit framework that has applied for the last 15 years.	Noted
Scottish Hydro Electric Distribution plc and Southern Electric Power Distribution plc	Non-confidential	Yes – running with two sets of rules is neither desirable or acceptable, and shouldn't be for all Parties.	Noted
Working Group Conclusions: A majority of the respondents agree that this change should be applied retrospectively. However, a couple of respondents have 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. It has been noted that there has been limited smaller Suppliers reply to this consultation and the Working Group will endeavour to seek more views on this			

Company	Confidential/ Anonymous	4. Do you have any comments on the proposed legal text?	Working Group Comments
Western Power Distribution	Non-confidential	No	Noted

EDF Energy Customers Limited	Non-confidential	Yes, as follows: Users will need to transition to an alternative form of cover within 12 months of 48 months being reached, irrespective of whether they have achieved 48 months of consecutive <u>good</u> payment history or not. We therefore propose the wording should refer to the date 48 months after the (earliest) Good Payment Performance Start Date. Also, the terms "credit rating" and "independent credit assessment" can be capitalised as they are defined later in Schedule 1. We therefore recommend that the second sentence of 2.13 is reworded to something along the lines of: "On the date that is 48 months after the User's earliest Good Payment Performance Start Date, the User will be required to put in place an alternative form of cover, such as a Credit Rating from an Approved Credit Referencing Agency, an Independent Credit Assessment from a Recognised Credit Assessment Agency, Collateral, or a permitted combination thereof, within 12 months." In the final sentence of 2.13, we recommend replacing the words "as Cover" with the words "to determine its Credit Allowance Factor", because Cover is a defined term meaning collateral, whereas good payment performance is not collateral.	The Working Group has reviewed the recommended changes and agree with the amended text. This legal text for this change has subsequently been updated.
Good Energy	Non-confidential	The legal text reflects the aims of the proposed changes. There is one typographical error: '*The cover that can be earned from building up a good payment record would remain over a period of five years, however after 36 months the credit built up*'	Noted

BUUK Infrastructure	Non-confidential	No	Noted
Electricity North West	Non-confidential	We believe the legal text will deliver the intent of this change proposal including that after five years a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place. • A close bracket is missing from the draft legal text within clause 2.13: (ie credit rating or independent credit assessment within 12 months) • Within the first column of the table at clause 2.14 replace 'Age of debt (days)' with 'Age of debt (Working Days)' • Within the footnote under the table at clause 2.14 'MAP' could be replaced with 'Other' to reflect clause 19.2 of Section 2A: *Total UoS charges and ~~MAP~~ Other ~~c~~Charges (if applicable) billed in the previous month	The Working Group has reviewed the recommended changes and agree with the amended text. This legal text for this change has subsequently been updated.
UK Power Networks	Non-confidential	No	Noted
SSE Energy Supply Limited	Non-confidential	No	Noted
Northern Powergrid	Non-confidential	No	Noted

Orbit Energy	Non-confidential	We have not reviewed the legal text.	Noted
Scottish Hydro Electric Distribution plc and Southern Electric Power Distribution plc	Non-confidential	No	Noted
Working Group Conclusions: There were a few suggested amendments to the legal text, which the Working Group agreed provided more clarity and therefore the legal text for this change has subsequently been updated.			

Company	Confidential/ Anonymous	5. Do you believe that the DCUSA General objectives are better facilitated by this CP? Please provide your rationale?	Working Group Comments
Western Power Distribution	Non-confidential	I agree with the Working Group that General Objectives 3 & 4 are better facilitated by this change.	Noted
EDF Energy Customers Limited	Non-confidential	Yes – see below: Objective 1: no impact. Objective 2: on balance, we feel the impact is positive because we believe reducing the use of GPH - and the potentially resulting increased use of ICAs and Credit Ratings - should mean that the form of cover provided is more indicative of a supplier's 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	Noted

		run, and that could help improve consumer engagement and ultimately therefore lead to more effective competition. Objective 3: we feel the impact is positive because reducing the GPH allowance should reduce losses, losses that would otherwise be claimed back from non-defaulting suppliers and ultimately consumers later down the line (i.e. which would mean an extended process to reclaim those losses, as well as increased costs associated with working capital). Objective 4: we believe the impact here is neutral. On the one hand, option 3 on GPH, and also the introduction of a common payment matrix, may introduce additional elements to the administration of DCUSA. However, we feel that having a consistent approach across all DNOs set out in the common payment matrix should make that element clearer and consistent, and reduce the likelihood of disputes. Objective 5: no impact	
Good Energy	Non-confidential	No. It is not clear that the DCUSA General Objectives are better facilitated, or, for that matter, negatively impacted. We deem this a neutral change which will deliver negligible benefit.	Noted
BUUK Infrastructure	Non-confidential	Yes. Distributors have licence obligations to ensure a financially secure network to protect the market. Enhancements of the code credit arrangements in the DCUSA will better facilitate and achieve these requirements.	Noted
Electricity North West	Non-confidential	By strengthening 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 being reduced by this	Noted

		change. This increases the efficient discharge of obligations and efficiency in the implementation of the DCUSA. Consequently, we believe DCUSA General Objectives 3 and 4 will be better facilitated by this change proposal.	
UK Power Networks	Non-confidential	Yes Objective 3 as it will reduce the distributor's risk profile.	Noted
SSE Energy Supply Limited	Non-confidential	Yes, we agree that DCUSA general objectives 3 and 4 are (very slightly) better facilitated by this CP. The clearer rules proposed for supplier credit using Good Payment History, the common payment matrix and establishment of secured/ alternative unsecured cover by 5 years may improve efficient discharge of DNO/IDNO obligations (objective 3) and efficiency administration of DCUSA (objective 4).	Noted
Northern Powergrid	Non-confidential	Yes. This aligns with the efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences and the promotion of efficiency in the implementation and administration of the DCUSA	Noted
Orbit Energy	Non-confidential	No. This modification, if implemented will have a significant negative impact on electricity suppliers and will damage retail competition for no appreciable market benefit. It will therefore have a negative impact on general objective 2, which will substantially outweigh any marginal positive impacts on general objective 3 & 4.	Noted
Scottish Hydro Electric	Non-confidential	I'm in agreement with the WG assertions that Objectives 3 & 4 are better served by this proposed change.	Noted

Distribution plc and Southern Electric Power Distribution plc			
The Working Group Conclusions: A majority of the respondents agree 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.			

Company	Confidential/ Anonymous	6. Do you agree with the proposed implementation date?	Working Group Comments
Western Power Distribution	Non-confidential	Yes	Noted
EDF Energy Customers Limited	Non-confidential	Yes, a 1st April 2021 implementation date seems appropriate to us.	Noted
Good Energy	Non-confidential	The proposed implementation date gives enough time for suppliers to manage the transition to other methods of secured or unsecured credit.	Noted
BUUK Infrastructure	Non-confidential	Yes	Noted

Electricity North West	Non-confidential	We agree with the implementation date of 1 April 2021 together with the provision of a 12 months transitional arrangement for those supply businesses that have already built up 5 years Good Payment History.	Noted
UK Power Networks	Non-confidential	Yes	Noted
SSE Energy Supply Limited	Non-confidential	Yes, we agree with the proposed April 2021 implementation date, with 12 months transition arrangement allowing suppliers to plan.	Noted
Northern Powergrid	Non-confidential	Yes	Noted
Orbit Energy	Non-confidential	No. We anticipate that the negative effects of the COVID19 pandemic on the economy will continue for a considerable period of time. Suppliers will, in the current negative economic climate, find it very difficult to source appropriate levels of credit cover with 12 months' notice (April 2021 delivery for April 2022) and so a longer notice period for any finalised solution must be given.	Noted
Scottish Hydro Electric Distribution plc and Southern Electric Power Distribution plc	Non-confidential	Yes – 1 April 2021 allows Parties sufficient time to make necessary amendments by March 2022.	Noted

Working Group Conclusions: A majority of the respondents agree with the proposed implementation date of 01 April 2021, with a 12-month transitional period. One respondent believed that this change should be implemented a year later as they believe that the impacts on the economy from the Covid-19 pandemic will be considerable.

Company	Confidential/ Anonymous	7. Do you have any other comments?	Working Group Comments
Western Power Distribution	Non-confidential	No	Noted
EDF Energy Customers Limited	Non-confidential	On reviewing the other unsecured forms of credit cover – Independent Credit Assessment and Credit Rating, we are aware that 5 credit agencies are allowed for ICA but only 2 credit agencies are allowed for Credit Rating. Particularly as this proposal is likely to increase the use of the other forms of unsecured credit cover by suppliers, we believe Fitch should be allowed – alongside Standard & Poor's and Moody's – as a credit agency for Credit Rating purposes. Additionally, we believe that Fitch should be allowed as a credit agency whose ratings can be accepted when evaluating the credit ratings of a guarantor pursuant to a Qualifying Guarantee, as well as a Letter of Credit issuer. Fitch is a widely recognised international credit agency and its ratings are used in other industry codes where credit ratings are allowed as a form of unsecured credit cover. We are not suggesting the inclusion of Fitch be worked into this proposal, however, we believe it should be taken forward in a separate proposal.	Noted – the Working Group agrees that this is something that should be considered further out of scope of this change.
Good Energy	Non-confidential	Little evidence was presented at the beginning of this modification process with regard to the need for this change, which has absorbed a significant amount of industry time over more than a year. Secondly, it is not clear to	Noted - where a supply business has failed the unsecured cover in place was Good Payment History in most cases,

		us that this change will significantly mitigate the levels of financial risk that unpaid DUoS charges of failed suppliers pose to network companies, and the wider market. Non-payment of more infrequent charges of greater magnitude, such as the Renewables Obligation, are greater sources of detriment via mutualised costs and are therefore more appropriate targets for regulatory change.	which the Working Group believes highlights that the risk is predominately with that form of Cover. The Working Group will provide further details of this analysis within the final change report.
BUUK Infrastructure	Non-confidential	No	Noted
Electricity North West	Non-confidential	As vulnerable customers may not change supplier often there is the potential for these customers to be most affected in facing socialised costs when a supply business fails. This change proposal and indeed the Ofgem led Supplier Licensing Review provide mitigation to prevent customers from appointing an unviable supply business. This change proposal takes a reasonable approach to reduce and time limit the value of Good Payment History as an element of Cover. Additionally, the introduction of a Common Good Payment Performance Matrix provides greater clarity than the current arrangements.	Noted
UK Power Networks	Non-confidential	This consultation focusses mainly on just one type of unsecured credit – using good payment record. But there are other methods of unsecured credit. Consideration should be given to similar arrangements for credit ratings from an approved credit reference agency. For example should their credit worthiness also be adjusted for non-payments in some way? Similarly is more consideration needed for independent credit ratings?	Based on the fact that in most cases where a supply business has failed the unsecured cover in place was Good Payment History, the Working Group believes that this change will address the issue.
SSE Energy Supply Limited	Non-confidential	(Blank)	N/A

Northern Powergrid	Non-confidential	No	Noted
Orbit Energy	Non-confidential	We note that this modification has not fully evaluated either the impact of Ofgem's supplier licensing review, which is likely to reduce the risk from uncontrolled supplier exits from the market, or the cumulative impact of changes in other areas, such as similar proposals in the CMP311 consultation. We also note there is still no reference as to how these additional costs can be recovered in the supplier default tariff cap.	It is the Working Groups view that this change complements the Ofgem Suppliers Licence review. The Working Group will provide additional analysis regarding these area in the final change report.
Scottish Hydro Electric Distribution plc and Southern Electric Power Distribution plc	Non-confidential	No	Noted
Working Group Conclusions: The Working Group notes the comments above.			