

DCUSA Issues Form (DIF)

This form should be used by parties to submit matters for consideration to DCUSA Standing Issues Group (SIG). The completed form should be issued to DCUSA@electralink.co.uk

Document Control	
Date Submitted:	11 January 2019
Issue Title:	Effectiveness of the current provision of unsecured cover
Attachments:	
Issue Number*:	057
Meeting Reference*:	SIG_2019_0125

**Assigned by DCUSA Secretariat*

Originator Details	
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Nature of Issue
<p>In the past twelve months, a significant number of smaller supply businesses have been failing. ENWL identifies increased instability risk amongst suppliers and considers these may impose costs on other customers. We note that Ofgem is currently consulting upon measures to increase their assurance of the suitability of supply licence holders. There may be merit in Parties themselves providing increased cover. At present there are both secured (cash deposit) and unsecured cover options available, including:</p> <ul style="list-style-type: none"> • Credit rating • Payment Record • Any other form of collateral as agreed <p>The recent supplier failures have demonstrated that allowing businesses to be able to rely on unsecured cover places significant risk in the current climate as it doesn't actually provide DNOs with</p>

anything tangible should problems occur meaning failure costs will be socialised. A reasonable credit rating can provide unsecured cover in the £m's and enabling businesses to earn unsecured cover by applying a good payment record can go into £000's. If 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's too late. This results in little or no equity cover for current invoices and results in socialised losses for customers.

Solution Overview – If Known

Solution Description

Work is already underway for elements of the Supplier of Last Resort processes at the end of the process ie a supplier has already gone out of business:

- Ofgem's 'Informal consultation on modification to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort' which is looking to resolve the issues faced by DNOs with regards to recovery of the costs associated with the appointment of a Supplier of Last Resort (SoLR) in cases where an existing supplier goes out of business. The proposed changes also seek to ensure IDNOs are treated on an equivalent basis to DNOs
- DCP 332 'Appropriate treatment and allocation of Last Resort Supply Payment claim costs', which seeks to ensure that associated costs are recovered fairly and equitably from customers where a DNO Party receives a claim from a Supplier of Last Resort for a Last Resort Supply Payment Claim
- DCP 333 'Appropriate treatment and allocation of eligible use of system bad debt costs, which seeks to ensure that associated costs are recovered fairly and equitably from customers where a DNO or IDNO Party incurs eligible use of system bad debt due to insolvency of electricity supplier whose supply licence has subsequently been revoked

Work is underway at the start of the supply licence application process:

- Ofgem's consultation on its 'Supplier Licensing Review' which sets out proposals to strengthen the criteria used when assessing supply licence applications together with amending the application processes itself
- Additionally, strengthen arrangements for dealing with supplier exit, to ensure that the failing supplier bears their share of the costs and minimise the implications for remaining suppliers and consumers.

In an effort to mitigate the risk to the industry and customers, we would suggest two potential options:

Remove the option for unsecured cover

The facility for the provision of unsecured cover should be removed ensuring supply businesses provide a suitable form of secured cover, for example:

	<ul style="list-style-type: none"> • Cash deposit • Letter of credit or equivalent bank guarantee <p>Limit the amount of unsecured cover</p> <p>To ensure that parties have appropriate levels of cover available, unsecured cover could be balanced with secured cover. For example, parties could be limited to 50% of unsecured cover with the remaining balance secured with deposits.</p>
Lead Time For Implementation	Three months