

DCUSA Panel Chair,
DCUSA Panel.

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Date: 21 April 2021

Dear Panel Chair,

Authority Decision to 'send back' DCUSA Change Proposal 349 'Effectiveness of the current provision of unsecured cover under Schedule 1' (DCP349)

On 17 March 2021 the DCUSA Panel submitted DCUSA Change Declaration DCP349 'Effectiveness of the current provision of unsecured cover under Schedule 1'¹ (DCP349) to the Authority for decision.

We are not able to form an opinion on whether or not DCP349 should be approved based on the Change Declaration submitted to us as we consider that the analysis that has been provided to us is insufficient and we are therefore sending the proposal back to industry for further work.

Summary of the Issues

Insufficient analysis of cost to suppliers and impact on retail competition

We consider that the Change Declaration does not provide sufficient evidence and analysis as to whether the modification proposed better facilitates Applicable DCUSA Objective (b), as set out in the Standard Conditions of the Electricity Distribution Licence (SLC22.2b).²

¹ <https://www.dcusa.co.uk/change/effectiveness-of-the-current-provision-of-unsecured-cover-under-schedule-1/>

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.

Concerns were raised by some affected parties that the proposed changes to the arrangements will negatively affect retail market competition and disproportionately impact smaller suppliers and new entrants. They suggested that smaller suppliers will be less able to bear the costs of the additional credit requirements compared to larger suppliers, and that larger suppliers may not necessarily have more viable business models but will be able to subsidise or fund retail operations for longer. The Change Declaration does not sufficiently evidence that these concerns have been addressed.

The Change Declaration states that to alleviate any concerns small suppliers have in obtaining a Credit Rating from one of the Approved Credit Referencing Agencies, an Independent Credit Assessment would also be acceptable as an alternative form of cover. It is not clear that analysis has been done to determine the costs of alternative forms of cover for suppliers, or how easily obtainable these alternative forms of cover would be. The analysis also does not include an assessment of the cost per customer per year of additional funding required by suppliers.³

Insufficient analysis of DNO financial impact due to supplier failures

The Change Declaration states that the total financial impact across 11 Distribution Network Operator (DNO) Licence Areas based on supplier failures that were using good payment history as cover was £9,019,334. The Authority has not been provided with sufficient information to understand how this figure was calculated.

It is not clear how the costs that were socialised from failed suppliers (as a result of bad debt from suppliers who were using good payment history as cover) compares to the increased costs that suppliers will incur as a result of this change, which may also be passed on to customers, or the impact this will have on retail competition. It is therefore not possible for the Authority to determine whether this change will benefit consumers or make an assessment as to whether the modification better facilitates the applicable DCUSA objectives.

Directions and Next Steps

Further to DCUSA paragraph 13.11A the Authority directs the Panel to revise and resubmit the Change Report by addressing the issues identified above. In addition, it may be useful to consider the approaches on credit cover taken by other industry codes.

³ One affected party stated that their 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.

After addressing the issues discussed above and revising the DCP349 Change Declaration accordingly the DCUSA Panel should re-submit DCP349 to us for decision as soon as practicable.

Yours faithfully,

Barry Coughlan

Head of Licensing Frameworks

Signed on behalf of the Authority and authorised for that purpose