

DCP 409 Working Group Meeting 01

29 June 2022 at 10:00 - Web-Conference

Attendee	Company
Working Group Members	
Derek Fairbairn [DF]	NPg
Kevin Woollard [KW]	Centrica
Peter Waymont [PW]	UKPN
Richard Ellie [RE]	WPD
Simon Vicary [SV]	EDF
Will Pattemore [WP]	RWE
Code Administrator	
Andy Green [AG] (Chair)	ElectraLink
Hannah Proffitt [HP] (Technical Secretariat)	ElectraLink

1. Administration

- 1.1 The Chair welcomed attendees to the first DCP 409 Working Group (WG) meeting.
- 1.2 Members reviewed the Terms of Reference for the Working Group and the “Competition Law Guidance”. All members agreed to be bound by the Competition Law Guidance for the duration of the meeting.

2. Purpose of the Meeting

- 2.1 The Chair highlighted that the purpose of the meeting was for the Proposer to provide an overview of the Change Proposal, and for members to discuss the proposed solution and next steps.

3. Overview of DCP 409 ‘Change to Credit Cover Calculations to Include Last Resort Supply Payment’

- 3.1 The Proposer presented an overview of the Change Proposal to the group, noting that the purpose of the Change is to adjust Suppliers’ Value at Risk calculations to take account of Valid Claims under the

Supplier of Last Resort Process that may be due to the Supplier as Last Resort Supply Payments over the coming months.

- 3.2 KW advised that Suppliers are required to provide security cover as per DCUSA Clause 24 and Schedule 1 'Cover'. The amount of security is based on a User's Value at Risk in excess of its Credit Allowance. The Value at Risk is determined from charges billed to the User but unpaid plus 15 days estimated further charges less Prepayments and Advanced Payments.
- 3.3 KW noted that currently sums of money that may be due to a Supplier from the network companies relating to a Valid Claim under the Supplier of Last Resort (SoLR) process, and scheduled as Last Resort Supply Payments, are not included in the calculation of Value at Risk. This means that these Suppliers are required to place a higher level of credit cover than would otherwise be the case if Last Resort Supply Payments were included.
- 3.4 KW noted that the impact of having to place increased credit cover for these Suppliers is higher, inefficient costs which will ultimately fall on consumers' bills. If Last Resort Supply Payment amounts are included this could significantly reduce the level of credit cover required and reduce costs for these Suppliers and ultimately consumers.
- 3.5 KW advised that the proposed solution is to add a definition of a Valid Claim under the SoLR process, which is due to a Supplier as scheduled Last Resort Supply Payments, to the DCUSA and to place an obligation on network companies to deduct any of these payments owing to a Supplier from the calculation of Value at Risk.

4. Review and Discussion of Change Proposal

- 4.1 The group went on to review and discuss the Change Proposal form.
- 4.2 One member asked whether the proposed solution would offset the monthly payments or the whole figure due. The Proposer clarified that this would offset the whole balance due.
- 4.3 Another member questioned whether larger Suppliers would benefit from the change more than smaller Suppliers, and whether it would incentivise Suppliers to bid to become the SoLR. The Proposer noted that the Change should benefit any Supplier who becomes a SoLR and should aid competition, thus benefiting the industry.
- 4.4 The group discussed and agreed that the below questions should be included in the consultation.

Question 1 - If the SoLR payment came to be taken, what value should be allowed to be offset? e.g. the full balance due to the user, the monthly balance due to the user or another value. Please provide your rationale.

Question 2 - If this change were approved, would it alter your participation in the SoLR process? Please provide your rationale.
- 4.5 One member highlighted that within section 3.4 of the Change Proposal, figures are included for the amounts that could be saved and questioned whether these values can be validated. The member noted that Suppliers with good credit ratings do not need to provide collateral when taking on

customers through the SoLR process. The member noted that it would be beneficial to know what proportion of Suppliers are required to provide collateral currently as there are only costs when collateral is provided.

- 4.6 KW noted that some Parties will benefit from the Change, and some will not necessarily, however that this is the case with many Change Proposals. The group agreed that it will be important to provide accurate figures within the proposal and agreed to include the following questions in the consultation.

Question 3 - Are there any other DCUSA changes that you are aware of (past, current or future) that this Change could impact? If so, please provide the change numbers and your rationale.

Question 4 - What proportion of Suppliers are required to provide collateral under the current credit process within Schedule 1? e.g., cash, letter of credit, parent company guarantees.

- 4.7 The Proposer presented the suggested legal text amendments to the group noting that these fall within Schedule 1 of DCUSA 'Cover'. The Proposer noted that they are suggesting a part (d) is added to 2.2 stating 'Payments due to the User as a result of receipt of a Valid Claim by the Company under Condition 38B of the Electricity Distribution Licence' and that a definition is added for Valid Claim 'as defined in the Electricity Distribution Licence'.

- 4.8 The Proposer noted that the intention of the legal text is to ensure any Valid Claim manifesting as Last Resort Supplier Payments that are owed to the Supplier are taken into account when calculating the Supplier's Value at Risk for credit cover purposes.

- 4.9 One member asked if the credit cover calculation within Schedule 1 would need to be amended. Another member asked if this should be included under a cash deposit or a different form of guarantee. A third member noted that this would be treated as a credit note rather than cash in Schedule 1 as there is no physical cash.

- 4.10 The Proposer presented clauses of the Insolvency Act and the Energy Supply Administration Rules legislation that are relevant to this area. The group agreed to ask the following questions in the consultation.

Question 5 - Should the value of the SoLR payment reduce the Value at Risk or be treated as collateral?

Question 6 - What are your views on the provision of the insolvency act and does this influence your answer to Q5? Please provide your rationale.

Question 7 - If approved, do you believe this should only apply to new SoLR's or would it need to be retrospectively applied? Please provide your rationale.

- 4.11 The Chair agreed to produce a draft consultation document using the agreed questions and to circulate this to the group.

5. Next Steps & Work Plan

- 5.1 The Working Group discussed the next steps, and the following items were captured:

- The Secretariat to produce a draft consultation document based on the above discussions and circulate to members.

- The Secretariat to schedule a second Working Group meeting for members to review the draft consultation.

6. Any Other Business

- 6.1 The Chair asked the group whether there were any other items of business to discuss to which nothing was raised.

7. Date of Next Meeting

- 7.1 The next meeting has been scheduled for 13 July 2022 at 10am.

APPENDIX A

New and Open Actions

There are no open actions.