

DCUSA Consultation		At what stage is this document in the process?
<h2>DGP 409</h2> <h3>Change to Credit cover calculations to include Last Resort Supply Payment</h3> <p>20 July 2022</p> <p>Standard Change</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p>Purpose of Change Proposal:</p> <p>DGP 409 seeks 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.</p>		
	<p>This document is a Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on DGP 409 'Change to Credit cover calculations to include Last Resort Supply Payment'</p> <p>The Working Group recommends that this Change Proposal should proceed to Consultation</p> <p>Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 1 to dcusa@electralink.co.uk by 10-August-2022</p> <p>The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the Change Proposal (CP).</p>	
	<p>Impacted Parties: DNOs, IDNOs, Suppliers and CVA Registrants</p>	
	<p>Impacted Clauses: Definitions and DCUSA Schedule 1</p>	

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Any questions?

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Timetable

The timetable for the progression of the CP is as follows:

Change Proposal timetable

Activity	Date
Initial Assessment Report Approved by Panel	18 May 2022
Consultation issued to Parties	20 July 2022
Change Report issued to Panel	21 September 2022
Change Report issued for Voting	23 September 2022
Party Voting Ends	14 October 2022
Change Declaration Issued to Parties	18 October 2022
Change Declaration issued to Authority	18 October 2022
Authority Decision	November 2022
Implementation date	Next release date post Authority Decision.

1 Summary

What?

- 1.1 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.
- 1.2 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.

Why?

- 1.3 If Last Resort Supply Payment amounts are included this could significantly reduce the level of credit cover required and reduce costs for these Suppliers which in a competitive market could flow through to consumers.

How?

- 1.4 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.

2 Governance

Justification for Part 1 Or Part 2 Matter

- 2.1 DCP 409 is classified as a Part 1 matter and therefore will go to the Authority for determination after the voting process has completed.

Requested Next Steps

- 2.2 Following a review of the Consultation responses, the Working Group will work to agree the detail of the solution for DCP 409.

3 Why Change?

Background of DCP 409

- 3.1 The obligation on Suppliers to provide adequate credit cover is there to ultimately protect distributors, if a supplier defaulted the cost of their bad debts may be picked up by consumers. Following a supply business failure, any outstanding charges consented by the Authority are spread across all the other suppliers, which may then be passed on to consumers through customer tariff charges. Consented claims for a suppliers SoLR costs are notified to DNOs for inclusion and recovery through network charges. The DNOs make payments to Suppliers for notified amounts of their consented SoLR claims.
- 3.2 Currently when calculating the Value at Risk for Suppliers any payments which may be due to Suppliers in the coming months are not included in the calculation. This means Suppliers may be unable to reduce the collateral required based on the SoLR payments, which may cause them to incur higher costs than otherwise would be the case. This may impact consumers. In the event of a Supplier failure it is possible that any debts owing to the distributors could be netted off against any credits owed to the Supplier in relation to Last Resort payments. This change proposal therefore intends to take into account Last Resort Supplier Payments when calculating Suppliers' Value at Risk.
- 3.3 With regard to the materiality of this issue, as a rule of thumb we estimate the costs of putting credit cover in place via Letters of Credit to be between 0.5% and 2% of the value of additional credit. Between September and November 2021 Ofgem approved £1.8 billion of claims from Gas and Electricity Suppliers who had taken on board customers from failed Suppliers through the SoLR process. This consultation is only concerning Electricity customers.

Question 1 - Do you understand the intent of the CP?

Question 2 - Are you supportive of the principles of the CP?

4 Code Specific Matters

Reference Documents

4.1 N/A

5 Working Group Assessment

DCP 409 Working Group Assessment

- 5.1 The DCUSA Panel established a Working Group to assess DCP 409. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.
- 5.2 The Proposer walked the Working Group through the change and noted the potential benefit to the change in that it could release some funds which could potentially reduce customers' bills.
- 5.3 It was noted that there were only a few suppliers actively engaged in the SoLR process so the change may only have a positive impact on a handful of suppliers. A challenge to this was raised that as the change proposal is suggesting a better process for suppliers, this could encourage more suppliers to engage in the SoLR process leading to more competition and potentially better customer outcomes. The Working Group agreed a consultation question would be useful for suppliers only to see if this change would lead to suppliers becoming more engaged in the SoLR process.

Question 3 – Suppliers- If this change were approved, would it alter your participation in the SoLR process? Please provide your rationale.

- 5.4 It was also noted that as SoLR payments are made piecemeal, if the proposal were accepted how would these payments be taken into consideration when calculating the value at risk? Two options were discussed, full future value, or monthly value. The Working Group didn't have a consensus as to how the SoLR payment be taken so it was agreed a consultation question would be raised to see if industry had a preference.

Question 4 - 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.

5.5 It was queried if there were any other DCUSA changes, past or current, that this change could impact. The consensus was that there were not any DCUSA changes that would be impacted as a result of this DCP being accepted but a consultation question should be raised to confirm this.

Question 5 - 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.

5.6 The Working Group also agreed it would be useful to know the proportion of Suppliers who are required to provide collateral under the current credit process and what that type of collateral was. A consultation question to Distributors only was agreed to find out these figures.

Question 6 – Distributors- 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.

5.7 It was also queried, if the change was approved then should the SoLR payment be treated as collateral or should it reduce the value at risk?

Question 7 – If this change is approved should the value of the SoLR payment reduce the Value at Risk or be treated as collateral? Please provide your rationale.

5.8 The proposer has suggested that in the event of a supplier failure, under the insolvency rules and energy supply company administration rules, there would be some set off of claims and that this supports the credit cover change. Future information on these rules can be found using the below links or in **Appendix_4**

- Rule 14.25 “Winding up: mutual dealings and set off” of the Insolvency (England and Wales) Rules 2016 – Rule 14.25
[The Insolvency \(England and Wales\) Rules 2016 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukdsi/2016/01/01/ukdsi20160101_1_10)
- Rule 54 “Mutual credits and set off” of the Energy Supply Company Administration Rules 2013
[The Energy Supply Company Administration Rules 2013 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukdsi/2013/01/01/ukdsi20130101_1_10)

Question 8 - What are your views on the provision of the insolvency act and does this influence your answer to Q7? Please provide your rationale.

- 5.9 The Working Group concluded that there were no further changes required to any of legal text other than the changes suggested by the proposer in the Change Proposal document. The changes agreed were in schedule 1, cover, and the draft legal text can be found in section 9 of this consultation document.
- 5.10 It was also noted that the Consultation would need to take comments on whether the change would be retrospectively applied or only applied to new approved SoLR claims. The Working Group noted that the changes would need to be in for November if suppliers wished to use this when calculating for their winter cover provisions.

Question 9 - If approved, do you believe this should only apply to new SoLRs or would it need to be retrospectively applied? Please provide your rationale.

- 5.11 The consultation questions to answer the specific points raised above can found in the table within section 10 of this consultation document.

6 Relevant Objectives

Assessment Against the DCUSA Objectives

- 6.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. There are five General Objectives and six Charging Objectives. The full list of objectives is documented in the CP form provided as Attachment 2.
- 6.2 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 409.

	DCUSA General Objectives	Identified impact
<input type="checkbox"/>	1. The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	Neutral
<input checked="" type="checkbox"/>	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	Positive
<input type="checkbox"/>	3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	Neutral
<input type="checkbox"/>	4. The promotion of efficiency in the implementation and administration of the DCUSA	Neutral

<input type="checkbox"/>	5. Compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Neutral
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6.3 This change will better facilitate DCUSA General Objective 2 in that by including Last Resort Supplier Payments in the calculation of Value at Risk, Suppliers can reduce their costs of providing credit cover and thereby could reduce costs to consumers which will better facilitate competition in the Supply of electricity.

Question 10 - Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.

7 Impacts & Other Considerations

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

7.1 No impact.

Does this Change Proposal Impact Other Codes?

- | | | | |
|---------------------|--------------------------|-----------|-------------------------------------|
| BSC..... | <input type="checkbox"/> | MRA..... | <input type="checkbox"/> |
| CUSC..... | <input type="checkbox"/> | SEC..... | <input type="checkbox"/> |
| Grid Code..... | <input type="checkbox"/> | REC..... | <input type="checkbox"/> |
| Distribution Code.. | <input type="checkbox"/> | None..... | <input checked="" type="checkbox"/> |

Consideration of Wider Industry Impacts

7.2 None

Confidentiality

7.3 This Change Proposal can be treated as non-confidential

Question 11 - Are you aware of any wider industry developments that may impact upon or be impacted by this DCP?

8 Implementation

8.1 The proposed implementation date for DCP 409 is 03 November 2022.

Question 12 - Are you supportive of the proposed implementation date?

9 Legal Text

Legal Text

9.1 The proposed legal text amendments to Schedule 1 'Cover' have been included below.

The User's Value at Risk

2.2 At any time, the User's Value at Risk shall be the aggregate of:

- (a) billed but unpaid Charges which are not currently subject to a Designated Dispute (as defined in Schedule 4) and which have been billed to the User according to an established billing cycle operated by the Company pursuant to this Agreement;

plus

- (b) the Fifteen Days' Value, which shall be the estimated value of the Charges that would be incurred by the User for a further 15 days from that time, based on the average daily Charges billed to the User (whether under this Agreement or any use of system agreement applying between the User and the Company immediately before this Agreement became effective) using the latest available bill raised in respect of a full calendar month (or a number of days that approximates to a full calendar month), according to the established billing cycle operated by the Company;

less

- (c) any credit notes and any amounts paid to the Company by the User in the form of a Prepayment or an Advance Payment,

- (d) 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

Add to definitions

Valid Claim – as defined in the Electricity Distribution Licence

Text Commentary

9.2 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 considered when calculating the Supplier's Value at Risk for credit cover purposes.

Question 13 - Do you have any comments on the draft legal text?

10 Consultation Questions

10.1 The Working Group is seeking industry views on the following consultation questions:

No.	Questions
1	Do you understand the intent of the CP?
2	Are you supportive of the principles of the CP?
3	– Suppliers Only - If this change were approved, would it alter your participation in the SoLR process? Please provide your rationale
4	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.
5	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.
6	- Distributors Only - 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.
7	Should the value of the SoLR payment reduce the Value at Risk or be treated as collateral?
8	What are your views on the provision of the insolvency act and does this influence your answer to Q7? Please provide your rationale.
9	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.
10	Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.
11	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
12	Are you supportive of the proposed implementation date?

13	Do you have any comments on the draft legal text?
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10.2 Responses should be submitted using Attachment 1 to dcusa@electralink.co.uk no later than, 10 August 2022

10.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

11 Attachments

- Attachment 1 – DCP 409 Consultation Response Form
- Attachment 2 – DCP 409 Change Proposal Form
- Attachment 3 – DCP 409 Legal Text
- Attachment 4- Insolvency rules and energy supply company administration rules