

DCP 409 - Change to Credit cover calculations to include Last Resort Supply Payment

COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

Company	Confidential/ Anonymous	1. Do you understand the intent of DCP 409?	Working Group Comments
Electricity North West Ltd	Non-confidential	Yes	
British Gas	Non-confidential	Yes we understand the intent of DCP 409	
Western Power Distribution	Non-confidential	Yes	
UK Power Networks	Non-confidential	Yes	
Northern Powergrid	Non-confidential	Yes	
Utilita Energy Limited	Non-confidential	Yes	
Working Group Conclusions:			

Company	Confidential/ Anonymous	2. Are you supportive of the principles of the CP?	Working Group Comments
Electricity North West Ltd	Non-confidential	No, we are not supportive of the principles of this CP.	

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		We do not believe there is or should be a link between SoLR Payment Claims and the Value at Risk Calculation. Where a supplier becomes a SoLR ie taken on additional customers, we believe that this should lead to an increase in the future Value at Risk.	
British Gas	Non-confidential	<p>Yes we are supportive of the principles of DCP 409.</p> <p>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.</p> <p>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 reduce the level of credit cover required to an efficient level, reducing costs for these Suppliers and ultimately consumers.</p>	
Western Power Distribution	Non-confidential	Yes	
UK Power Networks	Non-confidential	No. As the SoLR payment is outside of DCUSA and is obligated by License, and as the purpose of credit cover is largely to protect the distributor's monthly cash flow under an ongoing relationship, including SoLR payments in VAR means that if there is payment default on DUoS the distributor cannot recover its full income but will still have to pay the SoLR payment.	

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Northern Powergrid	Non-confidential	<p>No. A DNO obligation to pay a SoLR is set out in the distribution licence and is not a contractual obligation under the DCUSA. DNOs are obligated to pay the SoLR linear monthly/quarterly amounts regardless of what the DNO recovers via DUoS revenue; and where the amounts are not recovered for two years after payment is made subject to a materiality test and derogations from the Authority.</p> <p>It is not clear to us that there is any right to set-off amounts owed by a DNO to a supplier in the form of a Last Resort Supply Payment (LRSP) from amounts owed by a supplier to a DNO in the form of DUoS charges.</p> <p>A DNO cannot use a LRSP to set-off where bad debt is incurred by a supplier not paying DUoS, and a supplier should not be allowed to set-off any credit cover amounts where it is owed a LRSP.</p> <p>If a SoLR was allowed to do this, this increases the risk of DNOs incurring bad debt which is borne by all customers.</p>	
Utilita Energy Limited	Non-confidential	<p>Yes, we are supportive of this Change Proposal, as it will remove an unnecessary cost to credit cover which is currently required to be paid by Suppliers when they have participated in the SoLR process and have a valid claim. These additional costs provide no real benefit to consumers and if the funds were made available to Suppliers, they may be used to the benefit of consumers.</p>	
Working Group Conclusions: The responses to this question were mixed with 50% in support and 50% not. Concerns were expressed with SoLR payments not being contracted within DCUSA. It was noted that without this changes there will be no potential savings to the supplier.			

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Company	Confidential/ Anonymous	3. Suppliers Only - If this change were approved, would it alter your participation in the SoLR process? Please provide your rationale	Working Group Comments
Electricity North West Ltd	Non-confidential	Not applicable.	
British Gas	Non-confidential	We strongly believe that 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 should be taken into consideration when calculating a Supplier's Value at Risk. The effect of this will be to reduce the costs of providing credit cover to meet our DCUSA obligations. Should this modification be approved, we would take that into consideration when determining how to participate in the SoLR process.	
Western Power Distribution	Non-confidential	N/a	
UK Power Networks	Non-confidential	N/a	
Northern Powergrid	Non-confidential	N/a	
Utilita Energy Limited	Non-confidential	Other factors would ultimately contribute to a Supplier participating in the SoLR process, but the change would be a positive towards the decision to participate.	
Working Group Conclusions: The Working knowledge this could have a positive benefit on the overall costs associated with being a SoLR.			

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Company	Confidential/ Anonymous	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.	Working Group Comments
Electricity North West Ltd	Non-confidential	<p>The Charging Statement sets out our Use of System Charges only. SoLR Payment Claims are not disclosed separately in the relevant Charging Statement as we are obligated to pay these amounts by our licence independently of any amounts we include within our charges. We do not believe that Authority approved Last Resort Supply Payment claims should be linked to the Value at Risk Calculation. The reason being that this has the potential for suppliers without sufficient collateral to mitigate against the risk of future claims and potentially build up more bad debt leading to even greater costs being socialised through the recovery of Use of System bad debt.</p> <p>Of the two options, however, the monthly balance due would be the preferred option rather than taking the full balance at the start then having to reduce this with a different recalculation to for the remaining due month on month. As this is a monthly snapshot, the full value would leave too much risk and cause more complicated calculations for administration.</p>	
British Gas	Non-confidential	<p>We believe the full balance due to the User should be used when calculating the Value at Risk. This value will reduce month on month as DNO payments are made to the User in accordance with the agreed schedule of payments.</p>	

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		<p>Our rationale for this is that should a User failure occur the DNO would net off the full amount owing and unpaid to the User against any outstanding distribution charges. The valid claim is consented by Ofgem as a total sum per distribution network, not as instalments, and it is this sum that is due to the User at any given time, net of any amounts already paid.</p>	
Western Power Distribution	Non-confidential	<p>We think that the monthly balance due should be used as this is more prudent.</p>	
UK Power Networks	Non-confidential	<p>The monthly value should be the most that should be offset. The argument for using the full value refers to this being able to be offset against a debt claim if a supplier goes into administration.</p> <p>The likelihood of a SoLR supplier going into administration going forward seems remote as we imagine due diligence is undertaken as part of the SoLR process, to ensure ongoing continuity. Credit cover calculations should not be a substitute for this.</p> <p>Credit cover and collateral are also focussed on non-payment of monthly DUoS charges, as part of an on-going relationship, see paragraph 4 of Schedule 1. If the value of the SoLR payments are included, this leaves the Distributor exposed to being unable to recover the full value of monthly charges from cover but he will still have the obligation to make the SoLR payment under his License. Therefore using only the monthly value is more reflective of the ongoing nature of the payments in each direction.</p>	
Northern Powergrid	Non-confidential	<p>Notwithstanding our response to question 2, we consider that Monthly Balance Due would be most appropriate. Full balance would result in suppliers that benefit from the SoLR process – which is typically ‘large’</p>	

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		suppliers – not needing to provide any cover for extended periods of the year. This would increase risk for DNO's and ultimately customers.	
Utilita Energy Limited	Non-confidential	Full balance due to user.	
Working Group Conclusions: The majority of respondents did not support the full balance being taken.			

Company	Confidential/ Anonymous	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.	Working Group Comments
Electricity North West Ltd	Non-confidential	<p>DCP 349 will be effective from 29 June 2023 which will strengthen the criteria around the provision of unsecured credit cover, this CP appears to be weakening the cover provisions by trying to create a link that doesn't exist with between SoLR Payment Claims and the Value at Risk calculation.</p> <p>A draft change proposal entitled 'Value of a User's Credit Allowance in Schedule 1' has recently been submitted. The intent of this change is to ensure the User's Credit Allowance better reflects the risk by limiting the Credit Allowance available from an Independent Credit Assessment.</p>	Andy To speak with issues group chair re the new cp that's been submitted
British Gas	Non-confidential	We are not aware of any DCUSA changes that would impact this change.	
Western Power Distribution	Non-confidential	No	

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UK Power Networks	Non-confidential	No	
Northern Powergrid	Non-confidential	<p>Yes, specifically DCP349 'Effectiveness of the current provision of unsecured cover under Schedule 1'.</p> <p>DCP349 reduced the value of unsecured credit cover based solely on good payment history when used in isolation for a sustained period, together with introducing a time limit (five years) after which a form of secured cover must be used e.g. Letter of Credit / Parent Company Guarantee.</p> <p>As noted in response to question 2, SoLR payments are a licence and not contractual obligation which a DNO cannot set-off against bad debt. However, if a supplier can set-off SoLR payments it is owed from DUoS payments it owes the DNO, the legal text introduced by DCP349 would need to be amended if SoLR payments constitute a secure form of cover.</p>	
Utilita Energy Limited	Non-confidential	No.	
Working Group Conclusions: A minority of respondents were concerned that this DCP could undermine the provisions of DCP 349.			

Company	Confidential/ Anonymous	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.	Working Group Comments
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Electricity North West Ltd	Non-confidential	57% of suppliers provide collateral, but usually, there can be a mixture of collateral and unsecured credit cover, for example, good payment history (GPH). At times, collateral does not provide sufficient cover and unsecured cover is used to supplement it, such as GPH.	
British Gas	Non-confidential	N/A	
Western Power Distribution	Non-confidential	38.7% of suppliers have one or more of these, groups counted as 1 supplier	
UK Power Networks	Non-confidential	2% of suppliers provide LoC, 1% provide PCG, 11% provide cash.	
Northern Powergrid	Non-confidential	Not necessarily required to do so, but 30% currently provide us with Cash, LoC or PCG.	
Utilita Energy Limited	Non-confidential	N/A	
Working Group Conclusions: Mixed response to this question on volumes and type of collateral from respondents.			

Company	Confidential/Anonymous	7. Should the value of the SoLR payment reduce the Value at Risk or be treated as collateral?	Working Group Comments
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Electricity North West Ltd	Non-confidential	<p>Using SoLR to reduce VAR would be an onerous administrative task with a potential for manual errors, due to the number of calculations and updates involved.</p> <p>Collateral, under normal terms can be used to pay late invoices, the same would not apply for SoLR payments so this cannot be a form of collateral.</p> <p>Therefore, it would be our preference that the SoLR payments be used as VAR rather than collateral.</p>	
British Gas	Non-confidential	<p>Our view on this will depend on what is meant by “treated as collateral”</p> <p>If the intention is to withhold SoLR payments as they become due and treat the withheld payment as collateral then we are not supportive. Treating the SoLR payment as collateral in this way would negate the benefits of this modification as this would unnecessarily tie up working capital and increase costs for Suppliers.</p> <p>If the intention is to treat the outstanding SoLR balance as collateral in the same way as a letter of credit, then we are supportive.</p>	
Western Power Distribution	Non-confidential	<p>It should be treated as collateral as financially it most closely resembles a guarantee from the DNO.</p>	
UK Power Networks	Non-confidential	<p>If approved, the allowed SoLR value should reduce the Value At Risk. It is not collateral in the sense that it cannot be used in payment default.</p>	
Northern Powergrid	Non-confidential	<p>Notwithstanding our response to question 2, we consider that Collateral is most appropriate.</p>	

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Utilita Energy Limited	Non-confidential	Value at risk, as the distributor would still have access to the full value of this Levy to offset any debt owed by the supplier, in the event the supplier failed or couldn't pay its bills.	
Working Group Conclusions: 3 responses started they prefer VAR, 2 collateral and 1 didn't state a preference. The Working Group discussed whether the SolR payment could be used to offset DuoS payments and agreed to seek further advice.			

Company	Confidential/ Anonymous	8. What are your views on the provision of the insolvency act and does this influence your answer to Q7? Please provide your rationale.	Working Group Comments
Electricity North West Ltd	Non-confidential	We are concerned about the additional complication this would cause should a supplier go into SolR or administration, especially if they have already taken on board MDID from other suppliers that have failed.	
British Gas	Non-confidential	In the event that a Supplier becomes insolvent we believe that the below rules would apply and any debts owing by the Supplier may be offset by the DNO against any SolR payments owed to the Supplier.	

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		<p>Rule 14.25 “Winding up: mutual dealings and set off” of the Insolvency (England and Wales) Rules 2016 – Rule 14.25</p> <p>The Insolvency (England and Wales) Rules 2016 (legislation.gov.uk)</p> <ul style="list-style-type: none">• Rule 54 “Mutual credits and set off” of the Energy Supply Company Administration Rules 2013 <p>The Energy Supply Company Administration Rules 2013 (legislation.gov.uk)</p> <p>We have not yet taken a view regarding whether this influences Q7.</p>	
Western Power Distribution	Non-confidential	<p>We would need to take legal advice on whether any legislation would prevent the DNO from using the outstanding SoLR payments to offset any unpaid DUoS Invoices in the case where a supplier goes into administration. If this were the case this change would have to be rejected. It would be more cost effective for the secretariat to seek legal advice rather than all parties doing this individually.</p>	
UK Power Networks	Non-confidential	<p>While this may be a factor if the supplier goes into administration, that is not the sole reason for collateral to be provided, which arises from a monthly ongoing relationship.</p>	

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Northern Powergrid	Non-confidential	<p>It is unclear from the consultation what the Proposer's views are in relation to insolvency and energy supply company administration rules and how potential set-off claims support this CP, due to the lack of detail provided i.e. what provisions of the legislation mean what for this CP, in the Proposer's opinion?</p> <p>Therefore, we cannot comment at this stage and as such it does not influence our answer to Q7.</p>	
Utilita Energy Limited	Non-confidential	No, the provision of the insolvency act doesn't make a difference regarding the answer to Q7. The distributors are protected through either choice.	
Working Group Conclusions: It was agreed that gaining further legal advice would be required before being fully able to answer this question.			

Company	Confidential/ Anonymous	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.	Working Group Comments
Electricity North West Ltd	Non-confidential	We believe new SoLR claims only should be considered as this is too complicated to be retrospectively applied.	
British Gas	Non-confidential	The new process of obliging DNOs to deduct any amounts owing to a Supplier under an approved Valid Claim from the Supplier's Value at Risk should be applied when the next calculation of Value at Risk is made following approval of the change.	

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		This would mean that if there are still outstanding amounts owed to a Supplier following a valid SoLR claim these should be taken into consideration when the next calculation of Value at Risk is made following approval of the change. This is not retrospective application, but instead reflects what would happen if there was a Supplier failure after the change has been implemented, in that, the DNO would offset the balance of any existing SoLR claims owed to a Supplier against any outstanding distribution charges.	
Western Power Distribution	Non-confidential	This should only apply to new SoLRs because existing SoLRs have been assessed and bid for without the potential benefit of a reduction of their collateral. Had this benefit been known about at the time of bidding other suppliers may have competed for and won the SoLR contract?	
UK Power Networks	Non-confidential	Its not clear why it shouldn't apply to all SoLR payments.	
Northern Powergrid	Non-confidential	Notwithstanding our response to question 2, we consider that it should apply to a new SoLR only. Suppliers that have been appointed SoLR have already benefited from becoming so by 'winning' the competitive appointment process. Whilst we cannot say for certain, it is possible that, had the solution proposed by this CP been in place at the time, there may have been greater interest from other Suppliers, outside of the small group that have been appointed SoLR to date.	
Utilita Energy Limited	Non-confidential	New SoLRs, retrospectively applying this to SoLRs that have already occurred would be unfair to other market participants that might have considered entering the SoLR process, should this change have been active at the time. The change should reflect the market under which everyone was operating and making decisions at the time.	

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Working Group Conclusions: The majority of respondents were in favour of this only applying to new SoLRs.

Company	Confidential/ Anonymous	10. Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.	Working Group Comments
Electricity North West Ltd	Non-confidential	No, we do not believe the CP facilitates any of the DCUSA objectives, nor do we believe that the change would encourage cost reductions from suppliers, especially in the current market where all suppliers are using the price cap. We suspect it would have the opposite effect as this option is only open to suppliers large enough to take on board failed suppliers customers, this gives an unfair advantage to large suppliers.	
British Gas	Non-confidential	<p>We believe that the proposal better facilitates DCUSA objective 2</p> <p>“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”</p> <p>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.</p>	
Western Power Distribution	Non-confidential	Yes, we agree that this change better facilitates General Objective 2.	

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UK Power Networks	Non-confidential	No. Its not clear how this facilitates competition as suppliers have taken decisions on whether to become SoLR understanding their costs and the benefits.	
Northern Powergrid	Non-confidential	No. It is our view that this change does not promote competition but will instead result in increased socialised costs for all customers. This change will likely favour a small number of large suppliers only who have typically been appointed a SoLR.	
Utilita Energy Limited	Non-confidential	Yes, it better facilitates DCUSA's General Objective : 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. This change would mean that suppliers get to fully utilise all their assets productively, making a more efficient market and encouraging the likelihood that any/all suppliers go for a SoLR, thereby creating the most competitive, diverse field from which Ofgem can choose, to the benefit of those customers.	Intended to read general objective 2 :
Working Group Conclusions: 50/50 split where 50% of respondents view was that it would better facilitate general objective 2 and 50% didn't believe it better facilitated any DCUSA objectives.			

Company	Confidential/ Anonymous	11. Are you aware of any wider industry developments that may impact upon or be impacted by this CP?	Working Group Comments
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Electricity North West Ltd	Non-confidential	No	
British Gas	Non-confidential	We are not aware of any wider industry changes that may impact upon this CP	
Western Power Distribution	Non-confidential	No	
UK Power Networks	Non-confidential	No	
Northern Powergrid	Non-confidential	No	
Utilita Energy Limited	Non-confidential	No	
Working Group Conclusions:			

Company	Confidential/ Anonymous	12. Are you supportive of the proposed implementation date?	Working Group Comments
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Electricity North West Ltd	Non-confidential	No, we would not have time to implement the changes to our internal processes/systems. We may also require additional resources to administer this. DURABILL will require updates and whilst St Clements advise they can work ahead of approval, the changes to allow the user access to view and maintain the SoLR Payment values are being given tight timescales for development, testing, implementation, and training, we do not believe there is sufficient time following approval. February release would be more appropriate.	
British Gas	Non-confidential	We are supportive of the proposed implementation date. This will potentially reduce costs for Suppliers coming into the winter period when higher levels of cover are required following the summer period.	
Western Power Distribution	Non-confidential	Yes	
UK Power Networks	Non-confidential	No. Our credit cover position is calculated by our billing system and that will require updating and thoroughly testing, with a lead time of three-six months post decision. At present the calculation is entirely based on invoice and debt values, which are already in the system, but this would require an additional data item to be added to the database and maintained via a new screen, to offset the invoice values in the calculation of the VAR.	
Northern Powergrid	Non-confidential	Notwithstanding our response to question 2, we are comfortable with implementation being in the first DCUSA release after approval by the Authority.	
Utilita Energy Limited	Non-confidential	Yes	

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Working Group Conclusions: The majority of 4 -2 of respondents were supportive of the proposed release date.

Company	Confidential/ Anonymous	13. Do you have any comments on the draft legal text?	Working Group Comments
Electricity North West Ltd	Non-confidential	None	
British Gas	Non-confidential	We have no further comments at this stage	
Western Power Distribution	Non-confidential	Yes it assumes that the reduction would be to the Value at Risk rather than treating this as collateral.	
UK Power Networks	Non-confidential	No	
Northern Powergrid	Non-confidential	The legal text may need to be amended subject to responses to this consultation e.g. in relation to question 4, it does not cater for payments due in the month only.	
Utilita Energy Limited	Non-confidential	No	
Working Group Conclusions: 4 respondents had no comments. WPD believed as the text refers VAR rather than collateral the text may need to be updated. Northern Powergrids view was that the text does not cater for payments due in the month.			