




| DCUSA Consultation  |  | At what stage is this document in the process? |
|---|--|--|
| <h2>DCP 413:</h2> <h3>Value of a User's Credit Allowance in Schedule 1</h3> <p><i>Date raised: 27 September 2022</i></p> <p><i>Proposer Name: Christine Austin</i></p> <p><i>Company Name: Electricity North West</i></p> <p><i>Company Category: DNO</i></p> |  | 01 – Change Proposal                           |
|   |  | 02 – Consultation                              |
|   |  | 03 – Change Report                             |
|   |  | 04 – Change Declaration                        |
| <p><b>Purpose of Change Proposal (CP):</b></p> <p>To ensure the User's Credit Allowance better reflects the risk.</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 DCP 413 'Value of a User's Credit Allowance in Schedule 1'.</p> <p>Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 1 to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>20 January 2023</b>.</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><b>Impacted Parties:</b></p> <p>Suppliers, DNOs, IDNOs and CVA Registrants</p>  |  |
|    | <p><b>Impacted Clauses:</b></p> <p>Schedule 1 Cover</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                    | 19 October 2022                    |
| Consultation Issued to Industry Participants | 09 December 2022                   |
| Change Report Approved by Panel              | 18 January 2023                    |
| Change Report issued for Voting              | 20 January 2023                    |
| Party Voting Closes                          | 10 February 2023                   |
| Change Declaration Issued to the Authority   | 14 February 2023                   |
| Authority Decision                           | March 2023                         |
| Implementation                               | 6 months after Authority decision. |

# 1 Summary

## What?

- 1.1 The outcome of an Independent Credit Assessment is converted into a Credit Allowance Factor, but this conversion results in disproportionately high Credit Allowances being provided.
- 1.2 An Independent Credit Assessment can result in a supplier being afforded £m's worth of credit when the Credit Assessment Factor is applied. This credit is also available for each distribution services area that a particular supplier trades in, consequently this risk needs to be reduced.
- 1.3 Once the Credit Allowance Factor is applied the Credit Allowance bears no resemblance to the outcome of an Independent Credit Assessment carried out by a Recognised Credit Assessment Agency.

## Why?

- 1.4 This change was in the original draft of DCP 349 'Effectiveness of the current provision of unsecured cover under Schedule 1', but the working group agreed to remove this element as the risk at the time was predominantly associated with Good Payment History.
- 1.5 The industry has again seen many supply businesses fail resulting in customers paying the socialised costs.
- 1.6 One failed supply business was deemed to be so large that a Special Administration Regime had to be invoked essentially 'nationalising' the business until a buyer can be found, which again increases the burden on customers.
- 1.7 These failures are more to do with how the businesses have been managed with some suppliers having to appear before a Select Committee of MPs to explain the failures.
- 1.8 Additionally, taking into consideration the rising energy costs together with inflation supports the need to protect customers and err on the side of caution when allocating the Credit Allowance.

## How?

- 1.9 Limit the Credit Allowance available from an Independent Credit Assessment, by adopting one of the principles of the Uniform Network Code, which states. *"The Transporter will set the Users Unsecured Credit Limit no higher than the lower of the credit value recommended within the Independent Assessment and the value calculated by applying the Independent Assessment Score to the Transporter's Maximum Unsecured Credit Limit."*

## 2 Governance

### Justification for Part 1 Matter

- 2.1 This change proposal should be treated as a Part 1 Matter as it is likely to have a significant impact on the interests of electricity consumers and on competition in the supply of electricity.

### Next Steps

- 2.2 Following a review of the Consultation responses, the Working Group will work to agree the final detail of the solution for this CP and progress to the Change Report phase.

## 3 Why Change?

### Background of DCP 413

- 3.1 An Independent Credit Assessment can result in a supplier being afforded £m's worth of credit when the Credit Assessment Factor is applied. This credit is also available for each distribution services area that a particular supplier trades in.
- 3.2 The amount of credit should be more in line with the outcome of an Independent Credit Assessment.
- 3.3 It was noted that this change was initially discussed as part of DCP 349 but deemed out of scope of that DCP and within that change it was agreed that this proposal would be raised at a later stage.

Question 1: Do you understand the intent of DCP 413?

Question 2: Are you supportive of the principles of DCP 413?

## 4 DCP 413 Working Group Assessment

- 4.1 The DCUSA Panel established a Working Group to assess this CP. This Working Group consists of Supplier, DNO and IDNO representatives. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – [www.dcusa.co.uk](http://www.dcusa.co.uk).
- 4.2 The proposer explained the purpose of this CP is to ensure the User's Credit Allowance better reflects the risk. It was also explained that the change was in the original draft of DCP 349

'Effectiveness of the current provision of unsecured cover under Schedule 1', but the working group agreed to remove this element as the risk at the time was predominantly associated with Good Payment History.

- 4.3 The proposer also advised that the current process for calculating the credit risk assessment for gas supplies uses the independent credit assessment and, as such by implementing this change, it would make the processes for both gas and electricity supplies consistent.
- 4.4 It was raised that this CP, along with DCP 349, could result in some suppliers benefiting from the change whereas others would be adversely impacted. The proposer shared a table (found in para 4.9) illustrating the potential impact to some anonymised suppliers.
- 4.5 A concern was raised regarding the lack of Supplier representation within the Working Group – it was suggested that it may be worth drawing the attention of Suppliers to this change either within an RFI, Consultation or separate comms as this change could have a significant impact on them.
- 4.6 The Working Group agreed a consultation would engage the appropriate parties and gain the feedback needed to progress this change.

## **Consultation**

- 4.7 It was believed that some suppliers who have failed recently may have used an independent credit risk assessment. To help the Working Group understand the volume of these suppliers, it was agreed to ask a consultation question to established how many, if any, of the failed suppliers since January 2021 had been using an independent credit assessment at the time, they went into the SoLR process. A list of failed suppliers can be found in Appendix 1.

**Question 3: For DNOs only - of all Suppliers who have failed within your area since 01 January 2021 how many would have used an independent credit assessment for cover?**

- 4.8 To help the Working Group understand the impact of using the independent credit assessment on the allowance, it was agreed to ask a consultation question requesting DNO's and IDNO's to provide anonymised data to reflect the current credit assessment verses using the independent credit assessment.
- 4.9 The proposer shared a table with the working group to illustrate the potential impact to some supplier's value at risk calculation if the independent credit assessment was used. This table is below.

|            | Current Credit Allowance | Allowance under DCP 413 | Change post-DCP 413 |
|------------|--------------------------|-------------------------|---------------------|
| Supplier 1 | £8,312,400.00            | £390,000.00             | -£7,922,400.00      |
| Supplier 2 | £7,065,540.00            | £270,000.00             | -£6,795,540.00      |
| Supplier 3 | £7,481,160.00            | £2,000,000.00           | -£5,481,160.00      |
| Supplier 4 | £1,384,014.60            | £0.00                   | -£1,384,014.60      |
| Supplier 5 | £7,065,540.00            | £4,700,000.00           | -£2,365,540.00      |
| Supplier 6 | £8,312,400.00            | £10,000,000.00          | £1,687,600.00       |
| Supplier 7 | £7,896,780.00            | £10,000,000.00          | £2,103,220.00       |

**Question 4: For DNOs only- Can you please populate the below table for anonymised suppliers showing the credit assessment based on the rating provided compared with the recommended allowance to determine the impact on suppliers. The recommended Allowance for some agencies would be described as the credit rating.**

|            | Credit Allowance based on current methodology | Recommended Allowance based on credit assessment | Change post-DCP 413 | Value at Risk |
|------------|---|--|---------------------|---------------|
| Supplier 1 |   |  |                     |               |
| Supplier 2 |   |  |                     |               |
| Supplier 3 |   |  |                     |               |

- 4.10 The secretariat will collate the responses and anonymise the DNOs and IDNOs data.
- 4.11 One member raised an additional concern stating that alongside the implementation of DCP 349 'Effectiveness of the current provision of unsecured cover under Schedule 1', there may be several smaller Suppliers that can no longer continue.
- 4.12 Due to this concern, it was agreed to raise an additional consultation question, to suppliers only, to ask what the impact of DCP 349 and DCP 413 would be on their credit to risk calculation and any other potential subsequent risks to suppliers.

**Question 5: For suppliers only - Given the forth coming implementation of DCP 349, more suppliers will potentially be using independent credit assessments. What would be the impact of these two changes working together?**

## 5 Assessment Against the DCUSA Objectives

5.1 For a DCUSA CP to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. There are five General Objectives and six Charging Objectives. DCP 413 will be measured against the DCUSA General Objectives, which are set out in the table below:

|                                     | 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   | None              |
| <input 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 | None              |
| <input checked="" type="checkbox"/> | 3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences   | Positive          |
| <input checked="" type="checkbox"/> | 4. The promotion of efficiency in the implementation and administration of the DCUSA   | Positive          |
| <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.                                  | None              |

5.2 Introducing the use of an independent credit assessment for a User's Credit Allowance will ensure the credit afforded is more reflective of the risk a particular business poses. This change will better facilitate the efficient discharge of the DNO and IDNO Licence obligations and promote efficiency in the implementation and administration of the DCUSA.

**Question 6: Do you consider that the proposal better facilitates the DCUSA General Objectives?**

If so, please detail which of the General Objectives you believe are better facilitated and provide supporting reasons.

If not, please provide supporting reasons.

## 6 Impacts & Other Considerations

### *Significant Code Review (SCR) or other significant industry change projects*

6.1 As previously mentioned in this consultation, this change may interact with DCP 349.

### Cross Code Impacts

BSC..... ☐ REC..... ☐ Distribution Code.. ☐  
 CUSC..... ☐ SEC..... ☐ Grid Code..... ☐

None.....



6.2 There are no cross-code impacts of this CP.

## Consideration of Wider Industry Impacts

6.3 Not applicable.

**Question 7: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?**

## 7 Implementation

7.1 The proposed implementation date is 6 months post authority approval.

**Question 8: Are you supportive of the implementation date?**

## 8 Legal Text

### Legal Text

8.1 Please find the proposed legal text amendments within **attachment 2**

### Text Commentary

8.2 The intent of the legal text is to ensure the Credit Allowance is set at such a level that it reflects a more reasonable view of the credit that should be afforded to a particular supply business.

**Question 9: Do you have any comments on the proposed legal text?**  
**Question 10: Do you have any other comments on DCP 413?**

## 9 Code Specific Matters

### Reference Documents

9.1 DCUSA Schedule 1 – Cover

## 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 DCP 413?  |
| 2   | Are you supportive of the principles of DCP 413?  |
| 3   | <b>For DNOs only</b> - of all Suppliers who have failed within your area since 01 January 2021 how many would have used an independent credit assessment for cover?   |
| 4   | <b>For DNOs only</b> - Can you please populate the below table for anonymised suppliers showing the credit assessment based on the rating provided compared with the recommended allowance to determine the impact on suppliers. The recommended Allowance for some agencies would be described as the credit rating. |
| 5   | <b>For suppliers only</b> - Given the forth coming implementation of DCP 349, more suppliers will potentially be using independent credit assessments. What would be the impact of these two changes working together?  |
| 6   | Do you consider that the proposal better facilitates the DCUSA General Objectives?<br>If so, please detail which of the General Objectives you believe are better facilitated and provide supporting reasons.<br>If not, please provide supporting reasons.   |
| 7   | Are you aware of any wider industry developments that may impact upon or be impacted by this CP?  |
| 8   | Are you supportive of the implementation date?  |
| 9   | Do you have any comments on the proposed legal text?  |
| 10  | Do you have any other comments on DCP 413?  |

10.2 Responses should be submitted using Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than, **20 January 2023**

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 413 Consultation Response Form
- Attachment 2: DCP 413 Draft Legal Text
- Attachment 3: DCP 413 Change Proposal Form

## Appendix 1: List of Failed Suppliers Post January 2021

### 2016

1. GB Energy – November 2016: 160,000 domestic customers. Taken on by Co-operative Energy.

### 2018

2. Future Energy – January 2018: 10,000 domestic customers. SoLR: Green Star Energy.
3. National Gas and Power – July 2018: 80 non-domestic customers. SoLR: Hudson Energy.
4. Iresa– July 2018: 100,000 domestic customers. SoLR: Octopus Energy.
5. Gen4u – September 2018: 500 domestic. SoLR: Octopus Energy.
6. Usio Energy – October 2018: 7,000 domestic. SoLR: First Utility.
7. Extra Energy – November 2018: 108,000 domestic and 21,000 business customers. SoLR: Scottish Power.
8. Spark Energy Supply Limited – November 2018: 290,000 domestic customers. SoLR: Ovo Energy.
9. OneSelect – December 2018: 36,000 domestic customers. SoLR: Together Energy.

### 2019

10. Economy Energy – January 2019: 235,000 domestic customers. SoLR: Ovo Energy.
11. Our Power – 2019 38,000 domestic customers. SoLR: Utilita.
12. Brilliant Energy – March 2019: 17,000 domestic customers. SoLR: SSE.
13. Cardiff Energy Supply – August 2019: 800 domestic customers. SoLR: SSE.
14. Solarplicity – August 2019: 7,500 domestic customers, c. 400 non-domestic. SoLR: EDF Energy.
15. Eversmart – September 2019: 29,000 domestic customers & 10 non-domestic. SoLR: Utilita.
16. Rutherford Energy – October 2019: 280 non-domestic customers. SoLR: Total Gas and Power.
17. Toto Energy – October 2019: 134,000 domestic customers. SoLR: EDF Energy.
18. Breeze Energy – December 2019: 18,000 domestic customers. SoLR: British Gas.

### 2020

19. Nenergy – March 2020: 9,000 domestic customers. SoLR: Bulb.
20. Effortless – September 2020: 2,500 domestic customers plus a small number of non-domestic customers. SoLR: Octopus Energy.
21. Tonik Energy – October 2020: 130,000 domestic customers. SoLR: Scottish Power.
22. Yorkshire Energy – December 2020: 74,000 domestic customers. SoLR: Scottish Power.

### 2021

23. Simplicity Energy – January 2021: 50,000 domestic customers. SoLR: British Gas Evolve.
24. Green Network Energy – January 2021: 360,000 domestic customers, plus a smaller number of non-domestic customers. SoLR: EDF Energy.
25. Hub Energy – August 2021: 6,000 domestic customers and 9,000 non-domestic customers. SoLR: Eon Next.
26. PfP Energy – September 2021: 80,000 domestic and 5,000 non-domestic customers. SoLR: British Gas.
27. MoneyPlus Energy – September 2021: 9,000 domestic customers. SoLR: British Gas.
28. Utility Point – September 2021: 220,000 domestic customers. SoLR: EDF Energy.
29. People's Energy – September 2021: 350,000 domestic customers and 1,000 non-domestic customers. SoLR: British Gas.
30. Avro – September 2021: 580,000 customers. SoLR: Octopus Energy.
31. Green – September 2021: 255,000 customers (small number of non-domestic). SoLR: Shell Energy Retail.
32. Igloo Energy – September 2021: 179,000 domestic customers. SoLR: E.ON Next.
33. Symbio Energy - September 2021: 48,000 domestic customers. SoLR: E.ON Next.
34. Enstroga - September 2021: 6,000 domestic customers. SoLR: E.ON Next.
35. Pure Planet - October 2021: 235,000 domestic customers. SoLR: Shell Energy.
36. Colorado Energy - October 2021: 15,000 domestic customers. SoLR: Shell Energy.
37. Daligas - October 2021: 9,000 domestic & non-domestic customers: SoLR: Shell Energy.
38. GOTO Energy - October 2021: 22,000 domestic customers. SoLR: Shell Energy.
39. Bluegreen Energy Services - November 2021: 5,900 domestic customers. SoLR: British Gas.

- 40. Ampoweruk - November 2021: 600 domestic customers. SoLR: Yu Energy.
- 41. Zebra Power - November 2021: 14,800 domestic customers. SoLR: British Gas.
- 42. MA Energy - November 2021: 300 non-domestic customers. SoLR: Smartest Energy.
- 43. Omni Energy - November 2021: 6,000 domestic customers. SoLR: Utilita.
- 44. CNG Energy - November 2021: 41,000 non-domestic customers. SoLR: Pozitive Energy.
- 45. Social Energy Supply - November 2021: 5,500 domestic customers. SoLR: British Gas.
- 46. Neon Reef - November 2021: 30,000 domestic customers. SoLR: British Gas.
- 47. Bulb Energy - November 2021: in Administration 1,600,000 domestic customers and 12,000 non-domestic customers.
- 48. Orbit Energy - November 2021: 65,000 domestic customers. SoLR: Scottish Power.
- 49. Entice Energy - November 2021: 5,400 domestic customers. SoLR: Scottish Power.
- 50. Zog Energy - December 2021: 11,700 domestic customers. SoLR: EDF Energy.

## **2022**

- 51. Together Energy - January 2022: 176,000 domestic customers. SoLR: British Gas.
- 52. Whoop Energy - February 2022: 50 domestic and 212 non-domestic customers. SoLR: Yu Energy.
- 53. Xcel Power - February 2022: 274 non-domestic customers. SoLR: Yu Energy.
- 54. UK Energy Incubator Hub – July 2022: 3,000 domestic customers. SoLR: Octopus Energy