

## DCP 413 'Value of a User's Credit in Schedule 1'

### COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

Company	Confidential/ Anonymous	1. Do you understand the intent of DCP 413?	Working Group Comments
<b>DRAX &amp; OPUS</b>		Yes.	
<b>ENWL</b>		Yes.	
<b>NATIONAL GRID</b>		Yes.	
<b>NPg</b>		Yes.	
<b>SPEN</b>		Yes.	
<b>UKPN</b>		Yes.	
Working Group Conclusions: All responders confirmed that they understood the intent of the CP.			

Company	Confidential/ Anonymous	2. Are you supportive of the principles of DCP 413?	Working Group Comments
<b>DRAX &amp; OPUS</b>		No.	

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	<p>We do not support the principles of DCP413. DCP349 was raised to look at this issue and after a thorough evaluation, the Work Group concluded that the risk at the time was predominantly associated with Suppliers using Good Payment History to secure Credit Cover. DCP 349 went on to make sensible changes to the Good payment History rules and strengthen other security criteria.</p> <p>Since DCP349 was approved, Ofgem have undertaken extensive work to improve Supplier resilience which included the SLC4B requirement on Suppliers to have 'sufficient control of their material economic and operational assets' (particularly focusing on hedging and billing). Additionally, Ofgem have introduced Enhanced monitoring of Suppliers which since March 2022 has required Suppliers to undertake quarterly Financial Stress Tests.</p> <p>Given the recent implementation of DCP349 along with this Ofgem work, we see no justification to challenge the opinion of the Work Group for DCP349 stated above. We also note that National Grid ESO raised CMP311 to investigate the same issue as DCP413 and that following thorough evaluation within the Work Group, the proposer eventually withdrew the modification.</p> <p>We also note that the proposer has given no indication of any benefits to Consumers from this change whereas they explicitly state that 3 Suppliers alone in their area will lose between £5.5m and £8m of Credit allowance. Assuming a consistent geographic spread of consumers across England, Scotland and Wales these Suppliers could end up losing upwards of £100m or more of Credit allowances each which would result in increased costs that Consumers would have to pay for.</p>	
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<b>ENWL</b>		Yes.	
<b>NATIONAL GRID</b>		Yes.	
<b>NPg</b>		Yes.	
<b>SPEN</b>		Yes I support the principles of DCP413, it may become more relevant once the Good Payment Factor method changes in June 2023.	
<b>UKPN</b>		Yes.	
<p>Working Group Conclusions: The majority of respondents (five) stated that they supported the principles this CP.</p> <p>The one respondent who didn't support the change stated that the issue was raised as part of DCP 349 and that as this change will be delivered June 2023 this change mitigated the risks around GPH. They also noted the extensive work that Ofgem have undertaken to make the process more rigorous for new market entrants to ensure that they have sufficient collateral to enter the market. They also noted other measures Ofgem have taken like quarterly financial stress tests and new licence conditions obligating suppliers to have 'sufficient control of their material economic and operational assets' (particularly focusing on hedging and billing). It was also noted that the change could put some suppliers under significant financial pressures potentially resulting in more suppliers failing causing additional costs within the industry.</p>			

Company	Confidential/ Anonymous	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?	Working Group Comments
<b>DRAX &amp; OPUS</b>		N/A	Noted
<b>ENWL</b>		None.	Noted

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<b>NATIONAL GRID</b>		6.	Noted
<b>NPg</b>		None.	Noted
<b>SPEN</b>		0.	Noted
<b>UKPN</b>		None.	Noted
Working Group Conclusions: It was noted by the responder who had 6 failed suppliers that they do proactively advise an independent assessment can be used which could explain why they had seen examples of suppliers with an ICA failing and the other respondents hadn't.			

Company	Confidential/ Anonymous	4. For DNOs only - Can you please populate the table provided in paragraph 4.9 of the Consultation Document 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	Working Group Comments
<b>DRAX &amp; OPUS</b>		N/A	

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Anon			Credit allowance based on current methodology	Recommended allowance based on credit assessment	Change Post-DCP 413	Value at risk	Noted
			Supplier 1	£7,065,540.00	£270,000.00	-£6,795,540.00	£66,542.06
			Supplier 2	£8,312,400.00	£10,000,000.00	£1,687,600.00	£7,004,258.00
			Supplier 3	£7,481,160.00	£2,000,000.00	-£5,481,160.00	£1,344,416.47
			Supplier 4	£7,065,540.00	£4,700,000.00	-£2,365,540.00	£2,617,010.02
			Supplier 5	£7,896,780.00	£10,000,000.00	£2,103,220.00	£9,390,218.01
			Supplier 6	£8,312,400.00	£390,000.00	-£7,922,400.00	£38,734.34
			Supplier 7	£5,540,214.60	£1,500,000.00	-£4,040,214.60	£1,170,458.03
			Supplier 8	£6,924,229.20	£1,500,000.00	-£5,424,229.20	£129,916.68
			Supplier 9	£5,540,214.60	£1,500,000.00	-£4,040,214.60	£1,712,870.13
			Supplier 10	£7,065,540.00	£10,000,000.00	£2,934,460.00	£278,928.82







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### COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

Anon								Noted
		Supplier (* = group)	Credit Allowance based on current method	Recommended Allowance based on credit assessment	Change point DCP 413	Value at Risk	Other Security (Loc & Cash)	
		Supplier 1	5,900,289.48	440,000.00	-5,460,289.48	-363.00	1,221.17	
		Supplier 2	6,553,254.85	48,000.00	-6,505,254.85	0.00	0.00	
		Supplier 3	7,867,052.64	2,400,000.00	-5,467,052.64	26,065.00	2,548.59	
		Supplier 4	6,553,254.85	2,200,000.00	-4,353,254.85	1,105,876.00	0.00	
		Supplier 5	5,900,289.48	3,500.00	-5,896,789.48	2,281.00	0.00	
		Supplier 6	2,753,468.42	140,000.00	-2,613,468.42	-12,234.00	0.00	
		Supplier 7	7,867,052.64	2,600,000.00	-5,267,052.64	126,026.00	0.00	
		Supplier 8	7,080,347.38	87,000.00	-6,993,347.38	27,071.00	2,027.03	
		Supplier 9	7,867,052.64	1,300,000.00	-6,567,052.64	71,716.00	0.00	
		Supplier 10	6,553,254.85	1,400,000.00	-5,153,254.85	316,570.00	0.00	
		Supplier 11	6,686,994.74	1,200.00	-6,685,794.74	0.00	0.00	
		Supplier 12	7,867,052.64	650,000.00	-7,217,052.64	11,877.00	0.00	
		Supplier 13	7,080,347.38	690,000.00	-6,390,347.38	719.00	0.00	
		Supplier 14	5,900,289.48	15,000.00	-5,885,289.48	0.00	0.00	
		Supplier 15	1,309,864.26	0.00	-1,309,864.26	158.00	150.75	
		Supplier 16	3,933,526.32	53,000.00	-3,880,526.32	3,129.00	13,800.26	
		Supplier 17*	7,080,347.38	9,600,000.00	2,519,652.62	1,775,608.00	0.00	
		Supplier 18	7,867,052.64	610,000.00	-7,257,052.64	2,789.00	0.00	
		Supplier 19*	5,243,390.58	330,000.00	-4,913,390.58	167,388.00	0.00	
		Supplier 20*	2,753,468.42	1,400,000.00	-1,353,468.42	694,669.00	0.00	
		Supplier 21	7,867,052.64	10,000,000.00	2,132,947.36	803.00	0.00	
		Supplier 22	7,867,052.64	670,000.00	-7,197,052.64	36,881.00	0.00	
		Supplier 23*	7,080,347.38	1,100,000.00	-5,980,347.38	91,153.00	0.00	
		Supplier 24	6,553,254.85	34,000.00	-6,519,254.85	10,102.00	252.60	
		Supplier 25*	7,867,052.64	10,000,000.00	2,132,947.36	874,798.00	0.00	
		Supplier 26*	7,867,052.64	2,700,000.00	-5,167,052.64	85,384.00	0.00	
		Supplier 27	7,867,052.64	1,900,000.00	-5,967,052.64	74,218.00	0.00	
		Supplier 28	5,900,289.48	35,000.00	-5,865,289.48	8,767.00	1,515.24	
		Supplier 29*	5,243,390.58	480,000.00	-4,763,390.58	0.00	2,043.20	
		Supplier 30	5,900,289.48	2,700,000.00	-3,200,289.48	2,790.00	0.00	
		Supplier 31	3,933,526.32	150,000.00	-3,783,526.32	9,889.00	0.00	
		Supplier 32	5,243,390.58	12,000.00	-5,231,390.58	42,531.00	130.97	
		Supplier 33*	6,686,994.74	5,000,000.00	-1,686,994.74	4,639,764.00	0.00	
		Supplier 34*	7,473,700.01	9,100,000.00	1,626,299.99	3,617,675.00	0.00	
		Supplier 35	6,686,994.74	2,500,000.00	-4,186,994.74	375,038.00	0.00	
		Supplier 36	7,867,052.64	280,000.00	-7,587,052.64	-4,125.00	0.00	
		Supplier 37	5,243,390.58	1,500,000.00	-3,743,390.58	755,752.00	30.31	
		Supplier 38	7,080,347.38	400,000.00	-6,680,347.38	798.00	0.00	
		Supplier 39	6,686,994.74	1,400,000.00	-5,286,994.74	298,980.00	0.00	
		Supplier 40	7,867,052.64	10,000,000.00	2,132,947.36	857,110.00	0.00	
		Supplier 41	7,867,052.64	10,000,000.00	2,132,947.36	136,215.00	5,114.36	
		Supplier 42	5,900,289.48	720,000.00	-5,180,289.48	295,900.00	0.00	

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Anon		There were no suppliers who provided their own independent assessment in 2021. All suppliers were given a credit allowance based our recommended allowance.	Noted																																																																						
Anon		<table><tr><td></td><td>Credit Allowance based on current methodology</td><td>Recommended Allowance based on credit assessment</td><td>Change post-DCP 413</td><td>Value at Risk</td></tr><tr><td>Supplier 1</td><td>£5,621,846.46</td><td>£1,300,000.00</td><td>-£4,321,846.46</td><td>£983,988.15</td></tr><tr><td>Supplier 2</td><td>£1,404,407.25</td><td>£76,000.00</td><td>-£1,328,407.25</td><td>£184.92</td></tr><tr><td>Supplier 3</td><td>£7,169,646.64</td><td>£4,600,000.00</td><td>-£2,569,646.64</td><td>£1,664,476.19</td></tr><tr><td>Supplier 4</td><td>£7,591,390.56</td><td>£4,000,000.00</td><td>-£3,591,390.56</td><td>£1,616,217.09</td></tr><tr><td>Supplier 5</td><td>£7,591,390.56</td><td>£4,000,000.00</td><td>-£3,591,390.56</td><td>£4,631,639.07</td></tr><tr><td>Supplier 6</td><td>£8,434,878.40</td><td>£3,800,000.00</td><td>-£4,634,878.40</td><td>£152,024.07</td></tr></table> <table><tr><td></td><td>Credit Allowance based on current methodology</td><td>Recommended Allowance based on credit assessment</td><td>Change post-DCP 413</td><td>Value at Risk</td></tr><tr><td>Supplier 1</td><td>£6,133,450.00</td><td>£1,300,000.00</td><td>-£4,833,450.00</td><td>£974,258.56</td></tr><tr><td>Supplier 2</td><td>£1,532,212.27</td><td>£76,000.00</td><td>-£1,456,212.27</td><td>£303.89</td></tr><tr><td>Supplier 3</td><td>£7,822,104.70</td><td>£4,600,000.00</td><td>-£3,222,104.70</td><td>£1,385,340.84</td></tr><tr><td>Supplier 4</td><td>£8,282,228.50</td><td>£4,000,000.00</td><td>-£4,282,228.50</td><td>£1,742,159.69</td></tr><tr><td>Supplier 5</td><td>£8,282,228.50</td><td>£4,000,000.00</td><td>-£4,282,228.50</td><td>£4,818,154.58</td></tr><tr><td>Supplier 6</td><td>£9,202,476.12</td><td>£3,800,000.00</td><td>-£5,402,476.12</td><td>£172,992.12</td></tr></table>		Credit Allowance based on current methodology	Recommended Allowance based on credit assessment	Change post-DCP 413	Value at Risk	Supplier 1	£5,621,846.46	£1,300,000.00	-£4,321,846.46	£983,988.15	Supplier 2	£1,404,407.25	£76,000.00	-£1,328,407.25	£184.92	Supplier 3	£7,169,646.64	£4,600,000.00	-£2,569,646.64	£1,664,476.19	Supplier 4	£7,591,390.56	£4,000,000.00	-£3,591,390.56	£1,616,217.09	Supplier 5	£7,591,390.56	£4,000,000.00	-£3,591,390.56	£4,631,639.07	Supplier 6	£8,434,878.40	£3,800,000.00	-£4,634,878.40	£152,024.07		Credit Allowance based on current methodology	Recommended Allowance based on credit assessment	Change post-DCP 413	Value at Risk	Supplier 1	£6,133,450.00	£1,300,000.00	-£4,833,450.00	£974,258.56	Supplier 2	£1,532,212.27	£76,000.00	-£1,456,212.27	£303.89	Supplier 3	£7,822,104.70	£4,600,000.00	-£3,222,104.70	£1,385,340.84	Supplier 4	£8,282,228.50	£4,000,000.00	-£4,282,228.50	£1,742,159.69	Supplier 5	£8,282,228.50	£4,000,000.00	-£4,282,228.50	£4,818,154.58	Supplier 6	£9,202,476.12	£3,800,000.00	-£5,402,476.12	£172,992.12	Noted
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Working Group Conclusions: The Working Group noted how post approval this CP could alter the amount of collateral significantly for some suppliers. It was also noted that the impact appeared to have a wider impact on smaller to medium suppliers.																																																																									
One respondent noted verbally within the Work Group that they had experienced some significant variations between distributors on the amount of credit that would be offered. In two distributors cases the variation was as high as a difference of 20* between the amount of credit offered between the two.																																																																									

Company	Confidential/ Anonymous	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?	Working Group Comments
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## DCP 413 'Value of a User's Credit in Schedule 1'

### COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

<b>DRAX &amp; OPUS</b>		N/A	No comment
<b>ENWL</b>		N/A	No comment
<b>NATIONAL GRID</b>		N/A	No comment
<b>NPg</b>		No comment.	No comment
<b>SPEN</b>		No comment.	No comment
<b>UKPN</b>		No comment.	No comment
Working Group Conclusions: It was noted that at some point in the DCP349 (June 2023) process suppliers will have to cease using GPH meaning that they will have to put up different forms of credit and this change could significantly alter what the allowances could be.			

Company	Confidential/ Anonymous	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.	Working Group Comments
<b>DRAX &amp; OPUS</b>		<p>Absolutely not.</p> <p>We believe DCUSA General Objective 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,</p>	Believes that no objectives are positively impacted by the changed and states that objective 2 is negatively

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		<p>distribution and purchase of electricity" is negatively impacted as implementation of this change proposal will likely cause several Suppliers to exit the market resulting in increased costs for consumers and ultimately less competition.</p> <p>We believe the other 4 DCUSA General Objectives are not impacted.</p>	impacted which the Work Group acknowledged.
<b>ENWL</b>		As this change will ensure the credit afforded is more reflective of the risk a business poses, we believe DCUSA General Objectives 3 and 4 will be better facilitated by this change.	Objectives 3&4
<b>NATIONAL GRID</b>		We think that this change better facilitates General Objective 3.	Objective 3
<b>NPg</b>		Yes, this proposal better facilitates the DCUSA General Objectives, specifically 3 & 4.	Objectives 3&4
<b>SPEN</b>		I think this proposal better facilitates the DCUSA General objectives as it makes sense to only allow suppliers credit cover to their affordability based on ICA.	Agrees with the proposers view.
<b>UKPN</b>		DCUSA General Objectives 3 & 4 are better facilitated by this change as allowing the use of an independent credit assessment for a User's Credit Allowance will ensure the credit afforded is more reflective of the risk for each specific business. 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.	Objectives 3&4
Working Group Conclusions: The majority of respondents noted objectives 3&4 were positively impacted by this CP.			

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### COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

The Working Group acknowledged the risks to some suppliers that this could pose a financial risk and therefore may not meet DCUSA general objective 2.

Company	Confidential/ Anonymous	7. Are you aware of any wider industry developments that may impact upon or be impacted by this CP?	Working Group Comments
<b>DRAX &amp; OPUS</b>		We believe that as proposed, the implementation of this proposal would cause some Suppliers significant financial problems as they will be unable to meet the significantly increased collateral requirements.	Significant financial risks to some suppliers as they may not be able to meet the new collateral requirements.
<b>ENWL</b>		No.	Noted
<b>NATIONAL GRID</b>		This is combination with DCP349 may force some suppliers to move from effectively free credit cover provided by credit rating or good payment to providing either a letter of credit or a cash deposit both of which would have a cost.	DCP 349
<b>NPg</b>		No.	Noted
<b>SPEN</b>		The revised Good Payment Factor method, starting in June 2023.	DCP 349
<b>UKPN</b>		Other than DCP349 as noted in the consultation we are not aware of anything further.	DCP 349

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### COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

Working Group Conclusions: It was noted that DCP 349 will have some impact on this CP. Also noted by one respondent that there may be significant impacts to some suppliers as this change could increase their financial costs. It was also noted by a Work Group member that the change could encourage some suppliers to effectively 'shopping around' for optimal credit assessment.

Company	Confidential/ Anonymous	8. Are you supportive of the implementation date?	Working Group Comments
<b>DRAX &amp; OPUS</b>		No.  As stated earlier, we do not support this change proposal but if it were to be approved then a lead time of 24 months would be essential so that Suppliers would be able to plan their finances to accommodate potentially significant collateral requirements.	Not supportive of the change however if this CP is approved 24 months lead time to allow suppliers time to prepare for the financial impacts
<b>ENWL</b>		Where the implementation of a change results in system changes we are supportive of a lead time of 6 months following Authority approval.	6 month lead time after authority approval in line with the prospers view
<b>NATIONAL GRID</b>		In order for this change to be smoothly implemented and the suppliers to have sufficient notice of any impact on them we think that this change should be a minimum of 6 months after the implementation of DCP 349 (29th June 2023) and given that this falls over the Christmas break no earlier than 31st January 2024.	No less than 6 months after the implementation of DCP 349. Due to the timelines for voting and gaining any authority approval this could potentially fall in line with the proposers view
<b>NPg</b>		Yes.	6-month lead time after authority approval in line with the prospers view

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### COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

<b>SPEN</b>		Yes.	6-month lead time after authority approval in line with the prospers view
<b>UKPN</b>		Yes.	6 month lead time after authority approval in line with the proposers view
<p>Working Group Conclusions: The majority of respondents, were supportive of a 6-month lead time post authority approval as per the change proposal. One respondent suggested 24 months to allow suppliers as much time as possible to prepare for any changes.</p> <p>It was also noted due to the impending DCP 349 change other suppliers will rely on independent credit assessments with effect from June and so will also be impacted if this change goes ahead as demonstrated in the tables in Q4.</p>			

Company	Confidential/ Anonymous	9. Do you have any comments on the proposed legal text?	Working Group Comments
<b>DRAX &amp; OPUS</b>		No.	Noted
<b>ENWL</b>		We believe the legal text as drafted delivers the intent of this change.	Noted
<b>NATIONAL GRID</b>		No.	Noted
<b>NPg</b>		No – this looks to be satisfactory.	Noted
<b>SPEN</b>		No.	Noted

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### COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

<b>UKPN</b>		Clause 2.8 should have capitalised Company and User and an apostrophe on User's.	This clause was updated to correct the grammatical errors.
Working Group Conclusions: There were a few grammatical errors highlighted with the text but no other comments raised.			

Company	Confidential/ Anonymous	10. Do you have any other comments on DCP 413?	Working Group Comments
<b>DRAX &amp; OPUS</b>		No.	Noted
<b>ENWL</b>		This change is required as an Independent Credit Assessment can result in a supply business being afforded £m's worth of credit when the Credit Assessment Factor is applied. The amount of credit should be more in line with the outcome of the Independent Credit Assessment.	Noted
<b>NATIONAL GRID</b>		No.	Noted
<b>NPg</b>		No.	Noted
<b>SPEN</b>		No.	Noted
<b>UKPN</b>		No.	Noted
Working Group Conclusions: There were no additional comments that had not been raised previously within the consultation responses			

## DCP 413 'Value of a User's Credit in Schedule 1'

### COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

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