




DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1>DCP 413:</h1> <h2>Value of a User's Credit Allowance in Schedule 1</h2> <p>Date Raised: 27 September 2022</p> <p>Proposer Name: Christine Austin</p> <p>Company Name: Electricity North West</p> <p>Party Category: DNO</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p>Purpose of Change Proposal: To ensure the User's Credit Allowance better reflects the risk.</p>		
	<p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Treated as a Part 1 Matter • Treated as a Standard Change • Progressed to the Working Group phase <p>The Panel will consider the proposer's recommendation and determine the appropriate route.</p>	
	<p>Impacted Parties: Suppliers, DNOs and IDNOs</p>	
	<p>Impacted Clauses: Schedule 1 Cover – Clause 2.11</p>	

Contents		 Any questions?
1	Summary	3
2	Governance	3
3	Why Change?	4
4	Solution and Legal Text	4
5	Code Specific Matters	4
6	Relevant Objectives	4
7	Impacts & Other Considerations	5
8	Implementation	6
9	Recommendations	6
Indicative Timeline		
The Secretariat recommends the following timetable:		
Initial Assessment Report	19 October 2022	
Consultation Issued to Industry Participants	November 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 Parties	14 February 2023	
[Change Declaration Issued to Authority]	14 February 2023	
[Authority Decision]	March 2023	
		Contact: Code Administrator
		 DCUSA@electralink.co.uk
		 020 7432 3011
		Proposer: Christine Austin
		 DCUSA@enwl.co.uk
		 07500 083000

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 or Part 2 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.

Requested Next Steps

2.2 This Change Proposal should:

- Be treated as a Part 1 Matter;
- Be treated as a Standard Change; and
- Proceed to the Definition phase.

3 Why Change?

- 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.

4 Solution and Legal Text

4.1 Please find below the proposed amendments to the legal text:

Amend clause 2.11 as follows:

- 2.11 During the 12-month period following completion of an annual Independent Credit Assessment pursuant to Paragraph 2.6, the User may request that the Company procure further Independent Credit Assessments for the purpose of requiring the Company recalculate the User's Credit Allowance. Where the User so requests, Paragraphs 2.7 to 2.10 shall apply (provided that, where the Company so requests, the User shall pay the Company's reasonable costs in procuring such Independent Credit Assessments). In any event, the Company will set the User's Credit Allowance no higher than the lower of the credit value recommended within the Independent Credit Assessment and the credit value calculated by applying the Credit Allowance Factor.

Text Commentary

- 4.2 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.

5 Code Specific Matters

Reference Documents

- 5.1 DCUSA Schedule 1 – Cover

6 Relevant Objectives

	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

- 6.1 Introducing a threshold for allocating 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.

7 Impacts & Other Considerations

- 7.1 This change may interact with DCP 409 'Change to Credit cover calculations to include Last Resort Supply Payment', the purpose of which 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.

Does this Change Proposal Impact Other Codes?

BSC..... ☐ SEC..... ☐

CUSC..... ☐ REC..... ☐

Grid Code..... ☐ None..... ☒

Distribution Code.. ☐

Consideration of Wider Industry Impacts

7.2 Not applicable

Confidentiality

7.3 Not applicable

8 Implementation

Proposed Implementation Date

8.1 The proposed implementation date is 1 April 2023.

9 Recommendations

The Code Administrator will provide a summary of any recommendations/determinations provided by the Panel in considering the initial Change Proposal. This will form part of a Final Change Report.