DCUSA

DCUSA Change Proposal (DCP)

At what stage is this document in the process?

01 – Change Proposal

02 – Consultation

03 – Change Report

04 – Change Declaration

DCP 409:

Change to Credit cover calculations to include Last Resort Supply Payment

Date Raised: 10 May 2022

Proposer Name: Kevin Woollard

Company Name: British Gas Trading Limited

Party Category: Supplier

Purpose of Change Proposal:

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.

Governance:

The Proposer recommends that this Change Proposal should be:

- Treated as a Part 1 Matter
- Treated as a Standard Change
- Progressed to the definition phase via a Working Group

The Panel will consider the proposer's recommendation and determine the appropriate route.

Impacted Parties:

Suppliers, DNOs, IDNOs and CVA Registrants

Impacted Clauses:

Definitions and DCUSA Schedule 1

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Any questions?

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Indicative Timeline

The Secretariat recommends the following timetable:

Initial Assessment Report	18 May 2022
Consultation Issued to Industry Participants	TBC
Change Report Approved by Panel	17 August 2022
Change Report issued for Voting	19 August 2022
Party Voting Closes	09 September 2022
Change Declaration Issued to Parties	13 September 2022
Change Declaration Issued to Authority	13 September 2022
Authority Decision	October 2022

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 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 significantly reduce the level of credit cover required and reduce costs for these Suppliers and ultimately 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 and Part 2 Matter

Requested Next Steps

2.1 This Change Proposal should:

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

2.2 Ideally this change should be implemented before increased credit cover may be required to cover the higher winter 2022 bills.

3 Why Change?

3.1 Given the current economic circumstances and the exceptional energy prices being incurred by consumers, all parties to the DCUSA should be looking to remove or reduce obligations which increase costs for Suppliers but not realise any real equivalent benefit for consumers.

3.2 The obligation on Suppliers to provide adequate credit cover is there to ultimately protect consumers. Following a supply business failure, any outstanding charges and relevant costs 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 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. Therefore, for SoLR Suppliers, there is an exchange of funds between the parties for the SoLR-related amounts.

3.3 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 required to put in place a higher level of credit cover, at additional cost, for no real benefit to consumers. In the event of a Supplier failure it is likely that any debts owing to the distributors would be netted off against any credits owed to the Supplier in relation to Last Resort payments. It would seem reasonable therefore to take into account Last Resort Supplier Payments when calculating Suppliers' Value at Risk.

3.4 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 Suppliers who had taken on board customers from failed Suppliers through the SoLR process. If the whole of this value was subject to additional credit being put in place, an additional cost of between £9m and £36m would be incurred inefficiently. This is split across both gas and electricity consumers, with the majority falling on electricity as the sector liable for the larger proportion of total SoLR claims.

4 Solution and Legal Text

Legal Text

4.1 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

4.2 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 taken into account when calculating the Supplier's Value at Risk for credit cover purposes.

5 Code Specific Matters

Reference Documents

5.1 None.

6 Relevant Objectives

	DCUSA General Objectives	Identified impact
☐	1. The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	Neutral
☑	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
☐	3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	Neutral
☐	4. The promotion of efficiency in the implementation and administration of the DCUSA	Neutral

☐	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

	DCUSA Charging Objectives	Identified impact
☐	1. That compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	None
☐	2. That compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	None
☐	3. That compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	None
☐	4. That, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	None
☐	5. That compliance by each DNO Party with the Charging Methodologies facilitates 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; and	None
☐	6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	None

6.1 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 reduce costs to consumers which will better facilitate competition in the Supply of electricity.

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 We have not identified any impacts on any current SCR or other significant industry change projects as a result of this Change Proposal.

Does this Change Proposal Impact Other Codes?

7.2 We have not identified any impacts on any of the other industry codes as a result of this Change Proposal.

BSC..................	☐	MRA............	☐
CUSC...............	☐	SEC............	☐
Grid Code..........	☐	REC..........	☐
Distrbution Code..	☐	None..........	☒

Consideration of Wider Industry Impacts

7.3 We have not identified any wider industry impacts as a result of this Change Proposal.

Confidentiality

7.4 This Change Proposal can be treated as non-confidential.

8 Implementation

Proposed Implementation Date

8.1 03 November 2022

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.