

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
DRAX & OPUS		Yes.	
ENWL		Yes.	
NATIONAL GRID		Yes.	
NPg		Yes.	
SPEN		Yes.	
UKPN		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
DRAX & OPUS		No.	No, highlights that extensive work has already been undertaken to mitigate risk for credit cover by DCP 349 and

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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>	<p>Ofgem for existing and new market entrants.</p> <p>Also raises risk that small and medium sized suppliers could see their cover changed by significant amounts resulting in large financial risk and possibly more suppliers failing.</p>
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ENWL		Yes.	Noted
NATIONAL GRID		Yes.	Noted
NPg		Yes.	Noted
SPEN		Yes I support the principles of DCP413, it may become more relevant once the Good Payment Factor method changes in June 2023.	Noted
UKPN		Yes.	Noted
<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 Good Payment History (GPH).</p> <p>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.</p> <p>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).</p> <p>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>			

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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
DRAX & OPUS		N/A	Noted
ENWL		None.	Noted
NATIONAL GRID		6.	This responder noted they do proactively advise that an ICA can be used whilst others do not which may explain why they have some examples.
NPg		None.	Noted
SPEN		0.	Noted
UKPN		None.	Noted
<p>Working Group Conclusions: Five of the six responses stated that they'd either had no failed suppliers who used an independent credit assessment (ICA) or this question was not applicable to them.</p> <p>One respondent stated that they'd had 6 suppliers fail since 01 January 2021 who'd used an independent credit assessment.</p> <p>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.</p>			

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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																																																							
DRAX & OPUS		N/A																																																								
Anon		<table><tr><th></th><th>Credit allowance based on current methodology</th><th>Recommended allowance based on credit assessment</th><th>Change Post-DCP 413</th><th>Value at risk</th></tr><tr><td>Supplier 1</td><td>£7,065,540.00</td><td>£270,000.00</td><td>-£6,795,540.00</td><td>£66,542.06</td></tr><tr><td>Supplier 2</td><td>£8,312,400.00</td><td>£10,000,000.00</td><td>£1,687,600.00</td><td>£7,004,258.00</td></tr><tr><td>Supplier 3</td><td>£7,481,160.00</td><td>£2,000,000.00</td><td>-£5,481,160.00</td><td>£1,344,416.47</td></tr><tr><td>Supplier 4</td><td>£7,065,540.00</td><td>£4,700,000.00</td><td>-£2,365,540.00</td><td>£2,617,010.02</td></tr><tr><td>Supplier 5</td><td>£7,896,780.00</td><td>£10,000,000.00</td><td>£2,103,220.00</td><td>£9,390,218.01</td></tr><tr><td>Supplier 6</td><td>£8,312,400.00</td><td>£390,000.00</td><td>-£7,922,400.00</td><td>£38,734.34</td></tr><tr><td>Supplier 7</td><td>£5,540,214.60</td><td>£1,500,000.00</td><td>-£4,040,214.60</td><td>£1,170,458.03</td></tr><tr><td>Supplier 8</td><td>£6,924,229.20</td><td>£1,500,000.00</td><td>-£5,424,229.20</td><td>£129,916.68</td></tr><tr><td>Supplier 9</td><td>£5,540,214.60</td><td>£1,500,000.00</td><td>-£4,040,214.60</td><td>£1,712,870.13</td></tr><tr><td>Supplier 10</td><td>£7,065,540.00</td><td>£10,000,000.00</td><td>£2,934,460.00</td><td>£278,928.82</td></tr></table>		Credit allowance based on current methodology	Recommended allowance based on credit assessment	Change Post-DCP 413	Value at risk	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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Anon							
		Supplier (* = group)	Credit Allowance based on current methodology	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.																																																																										
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Anon		<table><tr><th></th><th>Credit Allowance based on current methodology</th><th>Recommended Allowance based on credit assessment</th><th>Change post-DCP 413</th><th>Value at Risk</th></tr><tr><td>Supplier 1</td><td>£10,316,185.58</td><td>£3,500,000.00</td><td>-£6,816,185.58</td><td>£7,265,440.25</td></tr><tr><td>Supplier 2</td><td>£10,316,185.58</td><td>£3,500,000.00</td><td>-£6,816,185.58</td><td>£4,515,458.19</td></tr><tr><td>Supplier 3</td><td>£10,923,020.02</td><td>£1,400,000.00</td><td>-£9,523,020.02</td><td>£3,527,808.39</td></tr><tr><td>Supplier 4</td><td>£11,529,854.47</td><td>£1,000.00</td><td>-£11,528,854.47</td><td>£1,420,564.49</td></tr><tr><td>Supplier 5</td><td>£12,136,688.91</td><td>£3,500,000.00</td><td>-£8,636,688.91</td><td>£7,597,140.49</td></tr><tr><td>Supplier 6</td><td>£10,923,020.02</td><td>£1,875,000.00</td><td>-£9,048,020.02</td><td>£3,644,957.13</td></tr><tr><td>Supplier 7</td><td>£12,136,688.91</td><td>£10,000.00</td><td>-£12,126,688.91</td><td>£1,220,503.33</td></tr><tr><td>Supplier 8</td><td>£11,529,854.47</td><td>£1,000.00</td><td>-£11,528,854.47</td><td>£1,293,406.75</td></tr><tr><td>Supplier 9</td><td>£10,316,185.58</td><td>£0.00</td><td>-£10,316,185.58</td><td>£304,988.81</td></tr><tr><td>Supplier 10</td><td>£10,923,020.02</td><td>£1,000.00</td><td>-£10,922,020.02</td><td>£817,197.94</td></tr><tr><td>Supplier 11</td><td>£10,923,020.02</td><td>£350,000.00</td><td>-£10,573,020.02</td><td>£182,927.83</td></tr><tr><td>Supplier 12</td><td>£12,136,688.91</td><td>£1,400,000.00</td><td>-£10,736,688.91</td><td>£161,943.40</td></tr><tr><td>Supplier 13</td><td>£10,923,020.02</td><td>£1,400,000.00</td><td>-£9,523,020.02</td><td>£434,372.72</td></tr></table>		Credit Allowance based on current methodology	Recommended Allowance based on credit assessment	Change post-DCP 413	Value at Risk	Supplier 1	£10,316,185.58	£3,500,000.00	-£6,816,185.58	£7,265,440.25	Supplier 2	£10,316,185.58	£3,500,000.00	-£6,816,185.58	£4,515,458.19	Supplier 3	£10,923,020.02	£1,400,000.00	-£9,523,020.02	£3,527,808.39	Supplier 4	£11,529,854.47	£1,000.00	-£11,528,854.47	£1,420,564.49	Supplier 5	£12,136,688.91	£3,500,000.00	-£8,636,688.91	£7,597,140.49	Supplier 6	£10,923,020.02	£1,875,000.00	-£9,048,020.02	£3,644,957.13	Supplier 7	£12,136,688.91	£10,000.00	-£12,126,688.91	£1,220,503.33	Supplier 8	£11,529,854.47	£1,000.00	-£11,528,854.47	£1,293,406.75	Supplier 9	£10,316,185.58	£0.00	-£10,316,185.58	£304,988.81	Supplier 10	£10,923,020.02	£1,000.00	-£10,922,020.02	£817,197.94	Supplier 11	£10,923,020.02	£350,000.00	-£10,573,020.02	£182,927.83	Supplier 12	£12,136,688.91	£1,400,000.00	-£10,736,688.91	£161,943.40	Supplier 13	£10,923,020.02	£1,400,000.00	-£9,523,020.02	£434,372.72	
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<p>Working Group Conclusions: The Working Group noted how post approval, this CP could alter the amount of collateral significantly for some suppliers.</p> <p>It was also noted that the impact appeared to have a wider effect on smaller to medium suppliers.</p> <p>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.</p> <p>The same supply business can see variances in value across the various different credit reference agencies when requesting an ICA. This can be explained by some credit reference agencies applying a cap on the amount credit offered.</p>																																																																									

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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COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

DRAX & OPUS		N/A	
ENWL		N/A	
NATIONAL GRID		N/A	
NPg		No comment.	
SPEN		No comment.	
UKPN		No comment.	
Working Group Conclusions: There were no views on this question within the consultation.			

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
DRAX & OPUS		<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</p>	No objectives positively impacted and believes that objective 2 is negatively impacted.

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COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

		<p>consistent therewith) the promotion of such competition in the sale, 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>	
ENWL		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.	3&4
NATIONAL GRID		We think that this change better facilitates General Objective 3.	Objective 3
NPg		Yes, this proposal better facilitates the DCUSA General Objectives, specifically 3 & 4.	3&4
SPEN		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.	
UKPN		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.	3&4

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COLLATED CONSULTATION RESPONSES WITH WORKING GROUP COMMENTS

Working Group Conclusions: Five respondents believed that DCUSA objective 3 would be better facilitated by this change proposal.

One responder also believed that objective 4 was better facilitated.

The only supplier to respond to the consultation did not believe any of the DCUSA objectives were better facilitated by the change.

This responder also stated that DCUSA objective 2 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.

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
DRAX & OPUS		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.	Wider impacts to suppliers causing financial risk in meeting the new collateral requirement.
ENWL		No.	Noted
NATIONAL GRID		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
NPg		No.	Noted
SPEN		The revised Good Payment Factor method, starting in June 2023.	DCP 349

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UKPN		Other than DCP349 as noted in the consultation we are not aware of anything further.	DCP 349
<p>Working Group Conclusions: Three out of the six respondents believed that DCP 349 'Effectiveness of the current provision of unsecured cover under Schedule 1' could be impacted as a result of this change being implemented.</p> <p>One respondent also noted again that the implementation of this proposal would cause some Suppliers significant financial problems as they will be unable to meet the significantly increased collateral requirements.</p>			

Company	Confidential/ Anonymous	8. Are you supportive of the implementation date?	Working Group Comments
DRAX & OPUS		<p>No.</p> <p>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.</p>	Doesn't support the proposal but if approved then 24 months implementation time to allow for suppliers to prepare for the change.
ENWL		Where the implementation of a change results in system changes we are supportive of a lead time of 6 months following Authority approval.	6 months post approval as per proposers view
NATIONAL GRID		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	6 months post DCP 349 approval as per

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		(29th June 2023) and given that this falls over the Christmas break no earlier than 31st January 2024.	
NPg		Yes.	6 months post approval as per proposers view
SPEN		Yes.	6 months post approval as per proposers view
UKPN		Yes.	6 months post approval as per proposers view
<p>Working Group Conclusions: The majority of respondents (five), were supportive of a 6-month lead time post authority approval as per the change proposal.</p> <p>One respondent stated that whilst they were not supportive of the change, if it was approved, they believed a 24-month implementation window was needed to allow suppliers as much time as possible to prepare for any changes to their credit allowance.</p>			

Company	Confidential/ Anonymous	9. Do you have any comments on the proposed legal text?	Working Group Comments
DRAX & OPUS		No.	Noted
ENWL		We believe the legal text as drafted delivers the intent of this change.	Noted

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NATIONAL GRID		No.	Noted
NPg		No – this looks to be satisfactory.	Noted
SPEN		No.	Noted
UKPN		Clause 2.8 should have capitalised Company and User and an apostrophe on User's.	Highlighted some typographical errors
Working Group Conclusions: There were no additional comments on the legal text offered saved for some typographical errors.			

Company	Confidential/ Anonymous	10. Do you have any other comments on DCP 413?	Working Group Comments
DRAX & OPUS		No.	Noted
ENWL		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
NATIONAL GRID		No.	Noted

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NPg		No.	Noted
SPEN		No.	Noted
UKPN		No.	Noted
Working Group Conclusions: No additional comments were raised that hadn't been noted earlier within the consultation.			