



DCUSA Change Report		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><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 this Change Proposal:</b></p> <p>To ensure the User's Credit Allowance better reflects the risk.</p>			
	<p><b>Governance:</b></p> <p>This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 413 – 'Value of a User's Credit Allowance in Schedule 1'.</p> <p>DCP 413 is considered to be a Part 1 Matter and therefore requires Authority approval prior to being implemented and thus, the result of the Party vote on this Change Report will act as a recommendation to the Authority.</p> <p>Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the voting form (Attachment 2) to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> or via the online voting form which can be found via the following link: <a href="#">DCP 413 – Value of a User's Credit Allowance in Schedule 1</a>.</p> <p>Responses are requested by 07 <b>April 2023</b>.</p> <p>The timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.</p>		
		<p><b>Impacted Parties:</b> Suppliers / DNOs / IDNOs / CVA Registrants</p>	
		<p><b>Impacted Clauses:</b> 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 Approved by Panel	19 October 2022
Consultation issued to Parties	09 December 2022
Change Report approved by Panel	18 January 2023
Change Report issued for Voting	17 March 2023
Party Voting Ends	07 April 2023
Change Declaration issued to Authority	11 April 2023
Authority Decision	TBC
Implementation	6 months after Authority decision

## 1 Executive 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?

- 1.1 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.
- 1.2 The industry has again seen many supply businesses fail resulting in customers paying the socialised costs.
- 1.3 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.
- 1.4 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.
- 1.5 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?

- 1.1 Limit the Credit Allowance available from an Independent Credit Assessment, by adapting 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."*
- 1.2 The change will seek to utilise the value of an independent credit assessment for credit cover.

## 2 Governance

### Justification 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.

## Requested Next Steps

- 2.1 The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 413.
- 2.2 The DCUSA Panel recommends that this CP, be issued to Parties for Voting.

## 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.

## 4 Solution

- 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 more 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 4.7) 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.

- 4.7 The proposer shared the below table with the Working Group as an illustration of the value of credit s some of the independent credit asses could offer based on a supplier's value at risk.

Credit Assessment Score	Equivalence of the Credit Assessment Score to credit scores provided by Recognised Credit Assessment Agencies in their Independent Credit Assessments.				
	Check It (ICC)	Dunn & Bradstreet / N2 Check	Equifax	Experian	Graydons
	Credit Score Report	Comprehensive Report		Bronze, Silver or Gold Report	Level 1, Level 2, or Level 3 Report
10	95-100	5A1/	A+	95-100	1A
9	90-94	5A2/4A1	A /A-	90-94	1B/2A
8	80-89	5A3/4A2/3A1	B+	80-89	1C/2B/3A
7	70-79	4A3/3A2/2A1	B/B-	70-79	2C/3B/4A
6	60-69	3A3/2A2/1A1	C+	60-69	3C/4B/5A
5	50-59	2A3/1A2/A1	C/C-	50-59	4C/5B/6A
4	40-49	1A3/A2/B1	D+	40-49	5C/6B/7A
3	30-39	A3/B2/C1	D/D-	30-39	6C/7B/8A
2	20-29	B3/C2/D1	E+	20-29	8B
1	10-19	C3/D2/E1	E/E-	10-19	8C
0	Below 10	Below E1	Below E-	Below 10	Below 8C

## DCP 413 Consultation

- 4.8 In order to develop the proposed solution further the DCP 413 Working Group issued a consultation to industry.
- 4.9 The consultation received six responses to the consultation comprising of one Supplier and five DNOs.
- 4.10 It was agreed after an initial three-week consultation period, as only one supplier had responded and as this change could cause significant impact to supplier's credit cover, an additional two weeks was granted for the consultation to close and a specific callout to supplier to respond was made. No additional suppliers responded after the extension was given.
- 4.11 The full response to the consultation and Working Group feedback can be found in Attachment 3. The responses are summarised below:

### Q1: Do you understand the intent of DCP 413?

- 4.12 All responders confirmed that they understood the intent of the CP.

## Q2: Are you supportive of the principles of DCP413?

- 4.13 The majority of respondents (five) stated that they supported the principles this CP.
- 4.14 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).
- 4.15 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.
- 4.16 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).
- 4.17 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.

## Q3: 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?

- 4.18 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.
- 4.19 One respondent stated that they'd had 6 suppliers fail since 01 January 2021 who'd used an independent credit assessment.
- 4.20 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.

## Q4: 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.

- 4.21 The Working Group noted how post approval, this CP could alter the amount of collateral significantly for some suppliers.
- 4.22 It was also noted that the impact appeared to have a wider effect on smaller to medium suppliers.
- 4.23 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.
- 4.24 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.

**Q5: 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?**

- 4.25 There were no views on this question within the consultation.
- 4.26 The Working Group did note that at some point in the DCP349 (June 2023) process suppliers will have to cease using good payment history resulting in having to provide different forms of credit.
- 4.27 It was noted this change could significantly alter what the available credit allowances could be.

**Q6: 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.**

- 4.28 Five respondents believed that DCUSA objective 3 would be better facilitated by this change proposal.
- 4.29 One responder also believed that objective 4 was better facilitated.
- 4.30 The only supplier to respond to the consultation did not believe any of the DCUSA objectives were better facilitated by the change.
- 4.31 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.

**Q7: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?**

- 4.32 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.
- 4.33 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.

**Q8: Are you supportive of the implementation date?**

- 4.34 The majority of respondents (five), were supportive of a 6-month lead time post authority approval as per the change proposal.
- 4.35 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.

**Q9: Do you have any comments on the proposed legal text?**



4.36 There were no additional comments on the legal text offered saved for some typographical errors.

#### Q10: Do you have any other comments on DCP 413?

4.37 No additional comments were raised that hadn't been noted earlier within the consultation.

### Working Group Conclusions and next steps

4.38 The Working Group identified a number of areas of further work having discussed the parties' responses to the Consultation:

- Implementation dates
- Supplier engagement
- Impacts to suppliers' credit cover
- Objectives

#### Implementation dates

4.39 As per paragraph 4.33, five of the six respondents stated that they agreed with the proposers view that a lead time of six months post authority approval would be acceptable. This would allow enough time for system changes to be developed, tested and made and also allow enough time for suppliers to make preparations for the change.

#### Supplier Engagement

4.40 It was noted that there was only one supplier involved within the Working Group and only one supplier had responded to the consultation. In order to improve engagement within the consultation the Working Group agreed to extend the closing date by two weeks.

4.41 As part of the message to extend the closing date for the consultation by two weeks the Working Group also agreed to include a specific call to action to suppliers stating that this change could have an impact on their calculated value at risk and encouraged suppliers to respond.

4.42 As well as the call to action the change was also raised in a number of industry forums to encourage suppliers to engage in the consultation.

4.43 No additional responses were received during the extension although the chair for the change had noted that a number of suppliers had contacted them and members representing distributors on the Working Group also stated that they'd had queries from suppliers on the topic of credit cover.

4.44 The Working Group concluded that although one supplier had responded to the consultation and engaged in the Working Group, as a number had contacted the chair and other distributors it was likely that the supplier community would be waiting to see what the solution offered and wait until voting to air their views.

#### Impacts to suppliers' credit cover

4.45 The Working Group considered the potential impacts to the amount of credit that suppliers could be offered if this change is approved (the impacts can be found in the answers to question 4 within **Attachment 3: DCP 413 Consultation and Responses**)



- 4.46 The Working Group acknowledge the concerns raised by the supplier who responded to the consultation noted in paragraphs 4.20-4.22 however the Working Group concluded that as suppliers would be able to utilities an independent credit assessment to gain cover, this would allow suppliers more choice when seeking credit cover.

### **Objectives**

- 4.47 The Working reviewed feedback from the consultation and concluded that objectives 3&4 would be better facilitated if this change was approved.
- 4.48 The Working Group considered the feedback provided stating that objective 2 could be negatively impacted. The conclusion was that whilst there may be an impact to some suppliers credit cover allowances, an independent credit assessment would more accurately reflect a suppliers value at risk.
- 4.49 The conclusion of the Working Group was that whilst objective 2 could see a potential negative impact, the positive benefits to objectives 3 & 4 would counter this.

## **5 Code Specific Matters**

### **Reference Documents**

- 5.1 None

## **6 Relevant Objectives**

### **Assessment Against the DCUSA Objectives**

- 6.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. There are five General Objectives and six Charging Objectives. The full list of objectives is documented in the DCUSA.
- 6.2 A majority of the Working Group considers that the following DCUSA Objectives are better facilitated by DCP 413.

	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 checked="" 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	Negative
<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

6.3 As stated in the answers to question six of the consultation, five respondents believed objective 3 was better facilitated, one also believed objective 4 was better facilitated.

6.4 The only supplier to respond stated that none of the general objectives were better facilitated and went on to note that they also believed general objective 2 was negatively impacted.

## 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 N/A

### Does this Change Proposal Impact Other Codes?

BSC..... ☐ REC..... ☐ Distribution Code.. ☐

CUSC..... ☐ SEC..... ☐ Grid Code..... ☐

None..... ☒

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

### Consideration of Wider Industry Impacts

7.1 Not applicable.

### Confidentiality

7.2 This Change is not confidential.

## 8 Implementation

### Proposed Implementation Date

- 8.1 The proposed implementation date is 6 months post authority approval.

## 9 Legal Text

### Legal Text

- 9.1 Please find the proposed legal text amendments within **attachment 2**

### Text Commentary

- 9.2 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.
- 9.3 The change will look to delete the table within schedule 1 where the independent credit assessment is assigned a CAF value and replace it with reference to the level of credit described within the independent credit assessment.

## 10 Recommendations

### Panel's Recommendation

- 10.1 The Panel approved this Change Report on 15 March 2023. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 413.
- 10.2 The Panel have recommended that this report is issued for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

## 11 Attachments

- Attachment 1: DCP 413 Legal Text
- Attachment 2: DCP 413 Voting Response Form
- Attachment 3: DCP 413 Consultation and Responses
- Attachment 4: DCP 413 Change Proposal Form

