

DCUSA DCP 413 Change Declaration

Voting end date: 5pm, 16 May 2023

DCP 413	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	CVA REGISTRANT	GAS SUPPLIER
CHANGE SOLUTION	Reject	n/a	Reject	n/a	n/a
IMPLEMENTATION DATE	Accept	n/a	Reject	n/a	n/a
RECOMMENDATION	<p>Change Solution – Reject.</p> <p>In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the change solution was more than 50% in all Categories.</p> <p>Implementation Date – Accept.</p> <p>In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was more than 50% in all Categories.</p>				
PART ONE / PART TWO	Part One – Authority Determination Required				

PARTY	SOLUTION (A / R)	IMPLEMENTATION DATE (A / R)	WHICH DCUSA OBJECTIVE(S) IS BETTER FACILITATED?	COMMENTS
DNO PARTIES				
National Grid Electricity Distribution (East Midlands) plc	Reject	Accept	None	We think that this will bring in additional administrative effort for the DNOs and potentially additional costs to suppliers and therefore customers which is unnecessary because the additional measures taken by the Authority to improve the stewardship of suppliers are adequate.
National Grid Electricity Distribution (West Midlands) plc	Reject	Accept		
National Grid Electricity Distribution (South Wales) plc	Reject	Accept		
National Grid Electricity Distribution (South West) plc	Reject	Accept		
Eastern Power Networks	Reject	Reject	None	<p>We are of the view that this change should not proceed in its current form.</p> <p>The original problem statement makes reference to the conversion of an Independent Credit Assessment to a CAF giving a disproportionately high credit allowance. We believe that the outcome of this change could be to increase the credit allowance – making it more “disproportionate”, whereas the original intent appears to have been looking to deliver a reduction in allowances.</p>
London Power Networks	Reject	Reject		

South Eastern Power Networks	Reject	Reject		<p>Our first concern relates to the different credit values that different agencies assign to companies. Whilst we had provided responses to the consultations based on the values given by the rating agency that we currently use, we have now compared those values with another agency with significantly different results. For example, take two unrated companies, which under the current CAF methodology would each have a credit allowance of £10.3m. Under the proposed approach these would have recommended values varying between £3.5m and £100m and between £3.5m and £39.4m respectively, depending on which rating agency is used.</p> <p>Similarly, a rated company, which under the current methodology has a credit allowance of £11.5m has recommended values varying between £3.5m and £99.5m, based on the same two rating agencies. These variations result in this change having unexpected consequences, particularly as the Independent Credit Assessment is now given preference over a credit rating. Rated companies may choose instead to use an Independent Credit Assessment to increase their allowance.</p> <p>Our second concern is with the divergence from the original stated solution, which was to use the lower of the credit value or the CAF based approach, which was stated to be consistent with the UNC.</p> <p>The final legal text has dispensed with this “lower of” approach in favour of the credit value only. This may be because the range of credit values from different rating agencies had not been fully understood and it was perceived the values would generally be lower.</p> <p>As a result of these two concerns, companies that currently provide collateral may no longer be required to do so. This has an impact, not only in the mitigation of supplier failure but also in calling on collateral for bad debts.</p>
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				It is not clear from the Change Report that these impacts have been well understood nor whether they are intended as the outcome of this change.
Southern Electric Power Distribution plc	Accept	Accept	Agree with the Working Group that 3 & 4 will be positively affected; and that 2 may be negatively affected	No comment
Scottish Hydro Electric Power Distribution plc	Accept	Accept		
SP Energy Networks	Accept	Accept	Credit Cover will be more accurately worked out when affording suppliers only what an ICA advise, therefore making cover more secure.	No comment
SP MANWEB PLC	Accept	Accept		
Electricity North West Limited	Accept	Accept	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.	Currently, once the Credit Allowance Factor is applied, the Credit Allowance bears no resemblance to the outcome of an Independent Credit Assessment. This Change Proposal ensures that the User's Credit Allowance better reflects the risks posed.

Northern Powergrid (North East)	Accept	Accept	Objectives 3 & 4. An independent credit assessment will give a more accurate User Credit Allowance in-line with the risk, relative to the business size.	No comment
Northern Powergrid (Yorkshire)	Accept	Accept		

IDNO PARTIES				
None				

SUPPLIER PARTIES				
Drax Energy Solutions Ltd and Opus Energy Ltd	Reject	Reject	<p>None of the DCUSA Objectives are improved by this proposal compared to the baseline. 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, distribution and purchase of electricity” is negatively impacted as implementation of this change proposal will have an adverse impact on competition and customers. The increase in credit requirements may cause several Suppliers to consider exiting the market. This would impact on competition. Even without this detrimental impact the proposal is likely to increase costs for consumers as suppliers recover the cost of increased credit that the networks would apply.</p> <p>We believe that there is no positive impact on the other 4 DCUSA General Objectives and therefore the proposal should be rejected.</p> <p>.</p>	<p>As we stated in our consultation response, 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</p>

				<p>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 and there has been no cost benefit analysis completed across all networks using a consistent methodology. Indeed, the limited analysis by the proposer explicitly states 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 alone could end up losing upwards of £100m or more of Credit allowances each. It is reasonable to assume this would result in increased costs that Consumers would have to pay for.</p> <p>We also note that with the proposed change, for some suppliers, their allowed credit under this new methodology increases (in one case by a factor of 20) simply depending upon which credit agency report is referenced. This will result in Suppliers picking the optimal credit agency report and under these circumstances we see the implementation of this change increasing risks associated with Supplier failure.</p> <p>Whilst we do not support this change proposal, if it were to be approved then a lead time of 12 months would be essential so that Suppliers would be able to plan their finances to accommodate these potentially significant additional collateral requirements.</p>
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Eon Next Limited	Reject	Reject	<p>We do not believe that this change better facilitates any of DCUSA general objectives, we agree that DCUSA general objective 2 is negatively impacted. Therefore, we are of the opinion that this change proposal has a negative overall impact on DCUSA charging objectives.</p>	<p>Whilst we understand the DNO position that has seen large supplier failings because of carrying high credit thresholds for risky suppliers, we do not support this proposal as it stands. The proposal being made will potentially increase our costs to the tune of hundreds of thousands in additional credit cover as the increase that will be needed given that demands on credit have increased even further for both of our businesses.</p> <p>We have 2 of the largest suppliers in the country – E.ON Next and Npower Commercial Gas Limited(NGCL), both of which are relatively new licenced entities to the market which under the new proposal each supplier will get a much-reduced credit allowance, so are badly affected by this potentially more so than any other supplier – e.g. suppliers with more mature credit ratings will be unaffected.</p> <p>We challenge the scoring on the table as this exacerbates the negative impact on us that the proposal will cause, as we use D&B and Experian.</p> <ul style="list-style-type: none"> • D&B gives a much higher credit recommendation for E. ON Next / NCGL than Experian, but the scoring system below uses the Tangible Net Worth. Both Eon Next and NCGL have negative TNW's because they've purchased large customer books from E. ON Energy Solutions / Npower Ltd respectively. • This means they both score zero on the table below meaning we're stuck with using Experian which has much lower credit recommendations on the basis they are seen as new companies with little credit history.
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				<ul style="list-style-type: none"> On Experian, the bronze, silver and gold reports are out of date. Experian hasn't used these in 10 years. The table needs an update. The D&B numbers should be proposed to be based on the D&B Failure Score which is the equivalent of the Experian score – this gives consistency & would enable both our supply businesses be assessed on D&B as part of the large global business ensuring they are and appropriately scored. <p>it is to that end that we would recommend this modification is either sent back for further development or rejected, as the credit table should be revisited to make the D&B score (amongst other things) more reflective of the true position of the supplier by using the failure score.</p>
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						Credit Score Report	Comprehensive Report		Br or
					10	95-100	5A1/	A+	95
					9	90-94	5A2/4A1	A /A-	90
					8	80-89	5A3/4A2/3A1	B+	80
					7	70-79	4A3/3A2/2A1	B/B-	70
					6	60-69	3A3/2A2/1A1	C+	60
					5	50-59	2A3/1A2/A1	C/C-	50
					4	40-49	1A3/A2/B1	D+	40
					3	30-39	A3/B2/C1	D/D-	30
					2	20-29	B3/C2/D1	E+	20
					1	10-19	C3/D2/E1	E/E-	10
					0	Below 10	Below E1	Below E-	Be

Shell Energy Retail Ltd	Reject	Reject	<p>We believe that this change will have a negative impact on General Objectives 2 and 4. We do not see a positive impact in any other objective. There is also no clear indication of any benefits to consumers now or in the future. Any additional and unnecessary credit requirements on suppliers would result in increased costs that consumers would end up paying for. Plus this change would likely discourage competition in energy retail</p>	<p>This modification seems to not only be looking backwards, but is also selecting a narrow set of considerations to fix an issue that is already being addressed by Ofgem. It is not taking into account all the market stabilisation measures Ofgem have and will be implementing for retail market participants. We also believe current Suppliers have a strong record on paying DUoS invoices on time.</p>
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ENGIE	Reject	Reject	We do not believe the DCUSA Objectives are better facilitated by this change.	We do not support this change as we believe that the changes made in DCP349 were sufficient to address concerns around credit assessment of Users, and that this change will unnecessarily create winners and losers in terms of credit allowances which is not in line with the intent of Objective 2.
CVA REGISTRANT PARTIES				
Not Eligible				
GAS SUPPLIER PARTIES				
Not Eligible				