





DCUSA Change Declaration		At what stage is this document in the process?
<h2>DCP 413</h2> <h3>Value of a User's Credit Allowance in Schedule 1</h3> <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>Purpose of this Change Proposal:</p> <p>To ensure the User's Credit Allowance better reflects the risk.</p>		
	<p>DCUSA Parties have voted on DCUSA Change Proposals (DCP) 413 with the outcome being a recommendation to the Authority as to whether or not the Change Proposal (CP) should be accepted. As DCP 413 is considered to be a Part 1 Matters, the recommendation will be issued to the Authority for their final decision.</p> <p>The DCUSA Parties consolidated votes are provided as Attachment 1.</p>	
	<p>For DCP 413, DCUSA Parties have been deemed to recommend to the Authority to:</p> <ul style="list-style-type: none"> • Reject the proposed solution; and • Accept the implementation date for DCP 413. 	
	<p>Impacted Parties: Suppliers / DNOs / IDNOs / CVA Registrants</p>	
	<p>Impacted Clauses: 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	19 April 2023
Change Report issued for Voting	21 April 2023
Party Voting Ends	16 May 2023
Change Declaration issued to Authority	19 May 2023
Authority Decision	TBC
Implementation	6 months after Authority decision

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 their 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 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.*"
- 1.10 The change will seek to utilise the value of an independent credit assessment for credit cover.

2 Governance

Justification for 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.

Next Steps

- 2.2 DCUSA Parties have voted and the outcome of the Party vote acts as a recommendation to the Authority as to whether this CP should be accepted or not. The outcome of the Party voting will now be issued to the Authority for their final decision.

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 same 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 Working Group Assessment

*** The below Section details the Working Group analysis as issued in the DCP 413 consultation. References to any attachments are as per the consultation document and not this Change Declaration. To access these attachments, please refer to the DCP 413 consultation which can be found [here](#).**

DCP 413 Working Group Initial Assessment

- 4.1 The DCUSA Panel established a Working Group to assess this CP. This Working Group consisted 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.
- 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 involves the use of an 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 credits some of the independent credit assessments 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

- 4.8 The Working Group developed a consultation document to help develop further a solution.

5 Summary of Consultation and Responses

Summary of response to the DCP 413 Consultation

- 5.1 In order to develop the proposed solution further the DCP 413 Working Group issued a consultation to industry.
- 5.2 The consultation received six responses to the consultation comprising of one Supplier and five DNOs.
- 5.3 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.

- 5.4 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?

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

Q2: Are you supportive of the principles of DCP413?

- 5.6 The majority of respondents (five) stated that they supported the principles of this CP.
- 5.7 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).
- 5.8 They also noted the extensive work that Ofgem has undertaken to make the process more rigorous for new market entrants to ensure that they have sufficient collateral to enter the market.
- 5.9 They also noted other measures Ofgem has 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).
- 5.10 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?

- 5.11 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.
- 5.12 One respondent stated that they'd had 6 suppliers fail since 01 January 2021 who'd used an independent credit assessment.
- 5.13 It was noted by the responder who had 6 failed suppliers that they do proactively advise an independent credit 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.

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

- 5.16 One respondent noted verbally within the Working 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.
- 5.17 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 of 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?

- 5.18 There were no views on this question within the consultation.
- 5.19 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 cover.
- 5.20 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.

- 5.21 Five respondents believed that DCUSA objective 3 would be better facilitated by this change proposal.
- 5.22 One responder also believed that objective 4 was better facilitated.
- 5.23 The only supplier to respond to the consultation did not believe any of the DCUSA objectives were better facilitated by the change.
- 5.24 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?

- 5.25 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.
- 5.26 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?

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

- 5.28 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?

- 5.29 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?

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

6 Working Group Conclusions & Final Solution

- 6.1 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

- 6.2 As per paragraph 4.34, 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 implemented and also allow enough time for suppliers to make preparations for the change.

Supplier Engagement

- 6.3 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.
- 6.4 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.
- 6.5 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.
- 6.6 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.
- 6.7 The Working Group concluded that although only 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

- 6.8 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**).
- 6.9 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 utilise an independent credit assessment to gain cover, this would allow suppliers more choice when seeking credit cover.

Objectives

- 6.10 The Working Group reviewed feedback from the consultation and concluded that objectives 3&4 would be better facilitated if this change was approved.
- 6.11 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.
- 6.12 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.

7 Legal Text

- 7.1 Following the Working Group's review of the responses to the consultation, the amendments being made by DCP 413 include:

Legal Text

- 7.2 Please find the proposed legal text amendments within **Attachment 2: DCP 413 Legal Text Solution**

Text Commentary

- 7.3 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.
- 7.4 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.
- 7.5 The Working Group has considered the legal text and is satisfied that it meets the intent of the solution.

8 Relevant Objectives

Assessment Against the DCSUA Objectives

- 8.1 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.
- 8.2 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

- 8.3 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.
- 8.4 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.

9 Code Specific Matters

Modelling Specification Documents

9.1 N/A

Reference Documents

9.2 N/A

10 Impacts & Other Considerations

Who (i.e., which Industry roles) are impacted?

10.1 N/a.

Does this Change Proposal impact Other Codes?

BSC ☐

- CUSC ☐
- Grid Code ☐
- REC ☐
- SEC ☐
- Other ☐
- None ☒

Consideration of Wider Industry Impacts?

10.2 The Working Group did not identify any additional wider industry impacts other than those already highlighted in other areas of the Change Declaration.

11 Implementation Date

11.1 The proposed implementation date for DCP 413 is Six months following the Authority's decision.

12 Voting

12.1 The DCP 413 Change Report was issued to DCUSA Parties for Voting on 21 April 2023.

DCP 413 Solution – Recommendation

Part 1 Matter: Authority Decision Required

DCP 413 Proposed Solution-Reject

- 12.2 In accordance with Clause 13.5, for Parties to have been deemed to recommend to the Authority that the change solution be Accepted there needs to be a majority of Party Categories whose votes to accept, when summed together, equate to more than 50% of the total votes of Parties or Groups within in each category.
- 12.3 In the case where only two-Party Categories vote on a Change Proposal, and one Category votes to accept and the other votes to reject, there can be no such majority and therefore, in accordance with Clause 13.5, the Parties have been deemed to recommend to the Authority that the change solution be Rejected.

Implementation

DCP 413 Implementation Date – Accept

- 12.4 For the majority of the Party Categories that were eligible to vote, the sum of the Weighted Votes of the Groups in each Party Category which voted to reject the Implementation date was equal to 50% and in accordance with Clause 13.5, the Parties have been deemed to recommend to the Authority that the Implementation date be Rejected.
- 12.5 The table below sets out the outcome of the votes that were received in respect of the DCP 413 Change Report that was issued on 21 April 2023 for a period of 15 working days.

WEIGHTED VOTING					
DCP 413	DNO	IDNO	SUPPLIER	CVA REGISTRANT	GAS SUPPLIER
DCP 413 PROPOSED SOLUTION	Reject	No votes received	Reject	No votes received	n/a
IMPLEMENTATION DATE	Accept	No votes received	Reject	No votes received	n/a

13 Recommendations

DCUSA Parties Recommendation

13.1 DCUSA Parties have voted on DCP 413 and in accordance with Clause 13.5, the Parties have been deemed to recommend to the Authority that the Change Proposal be rejected.

14 Attachments

- Attachment 1: DCP 413 Consolidated Party Votes
- Attachment 2: DCP 413 Legal Text Solution
- Attachment 3: DCP 413 Consultation Responses and Working Group Comments
- Attachment 4: DCP 413 Change Proposal Form