

Part A: Generic

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1>DCP 349:</h1> <h2>Effectiveness of the current provision of unsecured cover under Schedule 1</h2> <p><i>Insert date raised:</i> 10 June 2019</p> <p><i>Proposer Name:</i> Andrew Sherry</p> <p><i>Company Name:</i> Electricity North West</p> <p><i>Company Category:</i> Distribution Network Operator</p>		<p>01 – Change Proposal</p> <p>02 – Consultation</p> <p>03 – Change Report</p> <p>04 – Change Declaration</p>
<p>Purpose of Change Proposal:</p> <p>The intent of this change proposal is to mitigate the financial risk associated with supply business failures by strengthening the criteria around the provision of unsecured cover and protect customers from increased socialised failure costs.</p>		
	<p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Part 1 Matter • Treated as a Standard Change • Proceed to a Working Group <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p>	
	<p>Impacted Parties: Suppliers and Distribution Network Operators</p>	
	<p>Impacted Clauses: Schedule 1 - Cover</p>	

Contents		 Any questions?
1	Summary	2
2	Governance	3
3	Why Change?	3
4	Solution and Legal Text	4
5	Code Specific Matters	5
6	Relevant Objectives	5
7	Impacts & Other Considerations	7
8	Implementation	8
9	Recommendations	8
Indicative Timeline		 DCUSA@electralink.co.uk  0207 432 3000 Proposer: Andrew Sherry  Andrew.Sherry@enwl.co.uk  0843 311 4328
<p><i>Please provide the proposers contacts (to the right). The indicative timeline will be updated by the Code Administrator.</i></p>		
<p>The Secretariat recommends the following timetable:</p>		
Initial Assessment Report	17 July 2019	
Consultation Issued to Industry Participants	16 October 2019	
Change Report Approved by Panel	18 December 2019	
Change Report issued for Voting	20 December 2019	
Party Voting Closes	10 January 2020	
Change Declaration Issued to Parties	14 January 2020	
Change Declaration Issued to Authority]	14 January 2020	
Authority Decision	18 February 2020	

1 Summary

What.

1.1 The current arrangements for the provision of unsecured cover need to be reviewed as it has been seen that if, for example, DUoS invoices are being paid on time there isn't a trigger to highlight when a Supplier may be in financial difficulty (or failing to comply with obligations which may result in future failure) until they fail to pay the latest invoice(s) when it is too late. Coinciding with Ofgem's Supplier Licensing Review and its recent work on Market Entry and Ongoing Requirements for Suppliers we should complement this work by strengthening the criteria around unsecured cover.

Why

1.2 There have been a significant number of Supply businesses failing which demonstrates increased instability risk amongst Suppliers which imposes costs on other customers. There may be merit in Parties themselves providing increased cover and at present both secured (cash deposit) and unsecured cover options are available, including:

- Credit rating
- Payment record

Unsecured cover is extended to Supplier parties and the provision allows in some instances £m's worth of credit.

How

1.3 Reduce the maximum amount of qualifying months of good payment history together with a time limit after which a form of secured cover must be used e.g. Letter of Credit / Parent Company Guarantee.

1.4 Introduce a common good payment performance matrix to demonstrate the impact late payment could have on the maximum amount of qualifying months of good payment history.

1.5 By adopting 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."*

2 Governance

Justification for Part 1 and Part 2 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

This Change Proposal should:

- Be treated as a Part 1 Matter
- Be treated as a Standard Change
- Proceed to a Working Group

2.2 A sub-group of the Standing Issues Group (SIG) was set up to investigate DIF 57 'Effectiveness of the current provision of unsecured cover'. All parties received an invitation to join the group and the group met four times resulting in this change proposal. The group consisted of DNOs, IDNOs and Suppliers.

3 Why Change?

3.1 Recent Supply business failures have highlighted the need to mitigate against this risk and the sub-group was not in favour of just simply removing the option of unsecured cover, it took a more pragmatic approach ensuring different parties views were considered.

3.2 The sub-group looked at the benefit of a Supplier building up a good payment history by paying monthly invoices on time. It was recognised that while the amount of cover that can be earned would differ between Distribution Services Areas (DSA) this could currently amount to a maximum of 60 months worth of cover.

- 3.3 Taking an example of a Supplier being able to earn £15k of cover each month, there is the potential to earn up to £900k worth of credit. It is possible that a reduction in the number of months earned could be appropriate and 24 months would still provide for £360k in this example:

Timeframe (Months)	Cover Earned
1	£15,000
6	£90,000
12	£180,000
18	£270,000
24	£360,000
30	£450,000
36	£540,000
48	£720,000
60	£900,000

- 3.4 It follows that where late payment of an invoice occurs an element of good payment history would be lost e.g. a percentage of the accrued months depending on the age/value of the debt.
- 3.5 When 24 months good payment history has been achieved the Supplier should then move to an independently assessed secured cover arrangement.
- 3.6 An independent credit assessment can result in a Supplier being afforded significant amounts of credit when the Credit Assessment Factor is applied. This credit is also available for each DSA that a particular Supplier trades in, consequently this risk needs to be reduced.

Part B: Code Specific Details

4 Solution and Legal Text

- 4.1 The cover that can be earned from building up a good payment history would be reduced from 60 months to 24 months after which time an independently assessed secured cover arrangement is to be put in place.
- 4.2 Where late payment occurs a common good payment performance matrix shall be applied.
- 4.3 Introduction of using the lower limit to a User's Credit Allowance.

Legal Text

Schedule 1 – Cover

Amend clause 2.13 as follows:

- 2.13 The Payment Record Factor shall equal the number of months since the Good Payment Performance Start Date (as specified in Paragraph 2.14) multiplied by 0.033% (that is to say, by 0.4% per annum) up to a maximum value of 0.8% after 24 consecutive months of good payment history. The Company shall give the User notice of any adverse change in the calculation of the Payment Record Factor pursuant to Paragraph 2.14.

Amend clause 2.14(c) as follows:

2.14 The Good Payment Performance Start Date shall:

- (c) for all User’s, where the User fails, or has failed, on any occasion to pay any relevant account relating to undisputed Charges in full on the applicable payment date, be the date on which a relevant account is submitted in a month subsequent to the month in which such payment failure is remedied (unless having regard to all the circumstances, including in particular the value, duration, and frequency of failure, the Company reasonably determines an earlier date). In respect of the impact on the User’s good payment history, the Company shall apply the following matrix:

Age of debt (days)	Value of debt as a percentage of previous month's charges *	Effect on Good Payment Performance
1 to 3	<25%	Loss of 25% of previously accrued Good Payment Performance
	>25% and <74%	Loss of 50% of previously accrued Good Payment Performance
	>75%	Loss of 100% of previously accrued Good Payment Performance
>4	Any	Loss of 100% of previously accrued Good Payment Performance

*Total UoS charges and MAP charges (if applicable) billed in the previous month

Amend clause 2.11 as follows:

2.11 During the 12-month period following completion of an annual Independent Credit Assessment pursuant to Paragraph 2.6, the User may request that the Company procure further Independent Credit Assessments for the purpose of requiring the Company recalculate the User’s Credit Allowance. Where the User so requests, Paragraphs 2.7 to 2.10 shall apply (provided that, where the Company so requests, the User shall pay the Company’s reasonable costs in procuring such Independent Credit Assessments. In any event, the Company will set the User’s Credit Allowance no higher than the lower of the credit value recommended within the Independent Credit Assessment and the credit value calculated by applying the Credit Allowance Factor.

5 Code Specific Matters

Reference Documents

5.1 Schedule 1 – Cover, Uniform Network Code – Transportation Principle Document.

6 Relevant Objectives

DCUSA Charging Objectives	Identified impact
Please tick the relevant boxes. [See Guidance Note 10]	
<input type="checkbox"/> 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
<input type="checkbox"/> 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
<input type="checkbox"/> 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	
<input type="checkbox"/> 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
<input type="checkbox"/> 5 that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
<p><i>Please explain how this change will better facilitate the relevant DCUSA Charging Objectives and concisely explain the rationale</i></p> <p>[See Guidance Note 11]</p>	
DCUSA General Objectives	Identified impact
Please tick the relevant boxes. (See Guidance Note 9)	
<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 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	None
<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 Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
<p>In strengthening and streamlining the obligations around the provision of unsecured cover the risk associated with supply business failures is reduced, together with the risk of increased socialised costs for customers. This increases the efficient discharge of obligations and indeed efficiency in the implementation of the DCUSA. The effect of this proposal on Suppliers of different sizes will need to be assessed during the Working Group and consultation phase.</p>	

7 Impacts & Other Considerations

7.1 This change proposal coincides with an Ofgem review into their Supplier Licensing regime, which includes the likelihood of increased disclosure from Suppliers with regard to their financial health. This could be used by Distribution Businesses to ascertain the likely level of risk involved in extending Supplier credit.

Does this Change Proposal Impact Other Codes?

Please tick the relevant boxes and provide any supporting information. [\[See Guidance Note 6\]](#)

- BSC
- CUSC
- Grid Code
- MRA
- SEC
- Other
- None

Consideration of Wider Industry Impacts

Has this issue been discussed at any other industry forums? If so, please specify and provide supporting documentation

- 7.2 This issue has been discussed by the DIF 57 Sub-Group set up by the Standing Issues Group (SIG) and details of this Sub-Group can be found [here](#).
- 7.3 CUSC and SEC are also reviewing the credit cover arrangements within their codes. Consideration of the outputs of these reviews is needed to ensure that any cross-code impacts are understood.

Confidentiality

7.4 Not applicable.

8 Implementation

8.1 The proposed implementation date is the first release following Authority approval.

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.