

DCP 349 Working Group Meeting 04

30 September 2020 at 10:00

Teleconference

Attendee	Company
Andrew Sherry [AS]	ENWL
Chris Barker [CB]	BU-UK
Donna Townsend [DT]	Energy Assets
Karl Maryon [KM]	Haven Power
Kit Dixon [KD]	Good Energy
Megan Coventry [MC]	SSE
Richard Ellis [RE]	WPD
Richard Jerreat [RJ]	EDF
Rob Johnston [RJ]	Waters Wye Associates
Code Administrator	
Richard Colwill [RC] (Chair)	ElectraLink Ltd
Mel Kendal [MK] (Secretariat)	ElectraLink Ltd

Apologies	Company
Donald Preston [DP]	SSEN
Richard Adams [RA]	Ofgem

1. Administration

- 1.1 The Chair welcomed the members to the meeting.
- 1.2 The Working Group reviewed the “Competition Law Guidance”. All Working Group members agreed to be bound by the Competition Law Guidance for the duration of the meeting.
- 1.3 The group approved the minutes of the previous meeting, held on 25 March 2020, as an accurate record.

2. Purpose of the Meeting

- 2.1 The Chair set out that the purpose of the meeting was to review and discuss the proposed solutions and agree the next steps in relation to a second consultation.

3. Review of Proposed Solutions

- 3.1 The Chair presented the previous proposed solutions along with alternate solutions to the group for further discussion.
 - 3.2 Currently, Users can build up Good Payment History by paying monthly invoices on time. The amount of cover that can be earned will differ between distribution services areas but can build up to 60 months’ worth. Where Late Payment of an invoice occurs all Good Payment History is lost.
 - 3.3 Previously the Working Group consulted on the below proposed solutions:
 - 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 either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement (i.e. credit rating or independent credit assessment) is to be put in place;
 - Introduction of a common good payment performance matrix to demonstrate the impact late payment could have on the maximum number of qualifying months of Good Payment History; and
 - Implementing 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.” To address the issue it was proposed, once a User has received an Independent Credit Assessment, it will adopt the following when setting the User’s Credit Allowance: “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”.
 - 3.4 Prior to the Working Group being placed on hold due to the Covid-19 pandemic the Working Group concluded, based on the results of the consultation, that the reduction in Good Payment History was appropriate. However, it noted some concerns raised from Suppliers that maybe a smaller reduction could be considered such as 36 months.
 - 3.5 The Working Group also agreed that the introduction of a common good payment performance matrix would be sensible to apply consistency across DNOs and demonstrate the impact late payment could have.
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3.6 Regarding the proposed solution for the User’s Credit Allowance, there were concerns raised in the consultation as to whether this was needed if the reduction in Good Payment History addressed a majority of the concerns raised in the CP. Following these discussions, an RFI was sent out to DNOs requesting details on the number of Supplier failures they had dealt with in the last 24 months and what form of credit they were using at the time of their failure.

3.7 Prior to this meeting a document was circulated providing some alternative solutions for the Good Payment History reduction, taking into account some of the concerns raised in the first consultation. The document detailed the current proposal and two alternatives as detailed below:

3.8 Option 1 (current proposal)

- The Good Payment History earned could be reduced to a maximum of 24 months
- Within 6 months of earning 24 months’ worth of Cover either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place.

3.9 Option 2

- The Good Payment History earned could be reduced to a maximum of 36 months
- Within 6 months of earning 36 months’ worth of Cover a form of Secured Cover must be used.

3.10 Option 3

- 60 months remains the timeframe, but the value of Cover earned diminishes over the 5 years as per the below table:

Timeframe (months)	Cover Potential	Cover to be Applied (%)	Cover Earned
1	£15,000	100%	£15,000
12	£180,000	100%	£180,000
24	£360,000	100%	£360,000
36	£540,000	60%	£324,000
48	£720,000	30%	£216,000
60	£900,000	0%	£0

- By the 5 year point either a secured cover arrangement or an acceptable, alternative, unsecured cover arrangement would need to be in place.
- This may require changes to systems.

3.11 After discussions, the Working Group agreed that Option 3 seemed to be the most acceptable solution as it still reduced the Good Payment History but also addresses some of the concerns raised by Suppliers that a reduction to 24 months was too much.

3.12 In the initial Consultation, it was suggested that a six-month transitional period for Suppliers to put in place their secured cover arrangements or acceptable, alternative, unsecured cover arrangement (i.e. credit rating or independent credit assessment) seemed acceptable for this change. When asked whether this change should be applied retrospectively, Parties provided mixed reviews; Distributor responses were more in favour of applying this change retrospectively than Suppliers.

3.13 One member stated that the recent Supplier Licence decision showed that Parties believe a 6-month transitional period was too ambitious and that a 12-month transitional period would be more

reasonable for the requirements of such a change. After consideration, the Working Group agreed that a 12-month transitional period would be more appropriate for Suppliers. This 12-month transitional period will also apply if this change is to be applied retrospectively.

- 3.14 It was also agreed that Suppliers may find it useful to receive notifications (i.e. a 6-month update) when they are reaching various stages. This would be an obligation on the Distributor to provide a report every 6 months which will keep Suppliers informed of which stages they are at. Andrew Sherry took an action to consider this further.
- 3.15 Members stated that Suppliers create their financial plans during certain months of the year which may influence the decision on when best to implement this change. It was agreed that this will be included as a question to Suppliers (i.e. preferable month for implementation) within the second consultation.
- 3.16 After discussions, the Working Group concluded not to progress the proposed solution regarding changing how the User's Credit Allowance is calculated. If the Good Payment History solution is implemented, DNOs will monitor the impact of this and decide post this change whether a change to how the User's Credit Allowance is required or not.
- 3.17 The Chair asked the group to make a decision as to whether CVA Registrants should be included within this change as it was previously stated that if a CVA Registrant has directly been billed by a DNO then there would be no Supplier interface.
- 3.18 After further discussion, members stated that they are unaware of any CVA Registrants that have defaulted and therefore they do not need to be considered for inclusion within this change at this current time.

ACTION 04/01: Andrew Sherry to consider what information would be beneficial to include in an on-going report to Suppliers who are using Good Payment History.

4. Second Consultation

- 4.1 It was agreed that a second consultation would be appropriate based on the proposed changes to the solution. The consultation will incorporate the responses from the first consultation and explain how the Working Group has reached the proposed solution.
- 4.2 The Secretariat took an action to produce a draft of the second consultation and circulate to the Working Group for review and comments.

ACTION 04/02: The Secretariat to draft a second consultation and circulate to the Working Group for review and comments.

5. Agree Next Steps

- 5.1 Finalise second consultation and release to industry for a period of three weeks.

6. Any Other Business

- 6.1 The Chair asked the group if there were any other items of business to discuss.
- 6.2 There were no further items of AOB, and the Chair closed the meeting.

7. Date of Next Meeting – TBC

- 7.1 The date of the next Working Group will be confirmed shortly.

Appendix 1 – Actions Log

New and Open Actions – (Open/Closed Session) or (Board)

Ref.	Action	Owner	Update
04/01	Andrew Sherry to consider what information would be beneficial to include in an on-going report to Suppliers who are using Good Payment History.	Andrew Sherry	
04/02	The Secretariat to draft a second consultation and circulate to the Working Group for review and comments.	ElectraLink	

Closed Actions

Ref.	Action	Owner	Update
03/01	ElectraLink to take the viewing of the Working Group (to put the change DCP349 on hold for 6 months to the April DCUSA Panel for approval.	ElectraLink	Completed