

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP256 – Change To DCUSA to Mitigate Risks of Non-Payment of DCUSA Invoices		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	21 September 2016	Implementation date:	Next DCUSA Release following Authority Consent ⁴

Background

The introduction of the Theft Risk Assessment Service (TRAS) in April 2016⁵ has increased the value of invoices raised to meet DCUSA costs and therefore the potential impacts associated with non-payment.⁶ This has highlighted a number of issues around the transparency and effectiveness of the current arrangements for managing and recovering late payments.

The modification proposal

DCP256 was raised by British Gas on 10 November 2015. The proposal is intended to encourage the timely payment of DCUSA invoices in two ways: (i) by providing Parties with earlier information on the likely charges they will face, and (ii) by introducing a transparent mechanism to address Payment Default.⁷

The proposal sets out that Parties have 30 calendar days from receipt of an invoice to make payment. If a Party fails to pay within that timescale a Late Payment Notice will be issued. The Party would then have five working days from the receipt of the Late Payment Notice to make payment, failing which, in the case of a Supplier Party, the Panel could write to all Distributors instructing them to suspend the Supplier's registration rights.

In order to reduce the likely occurrence of late payment, the proposal also sets out a requirement to consult on the draft DCUSA annual budget for the financial year to which it relates. The draft budget would be accompanied by the Panel's latest estimate of costs for the outcome of the annual review for the current financial year. The draft budget would be required to identify separately the costs and the expected value of the charges to be invoiced each quarter, split between each Party category, as well as the Panel's best view of the dates on which invoices will be raised during the Financial Year.

The proposal aims to assist in facilitating the timely payment of invoices and to enable a Party to better plan and budget for DCUSA invoices by providing greater visibility of likely DCUSA costs. The proposer considers that the proposal will further General Objective

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ The next DCUSA release is scheduled for 3 October 2016.

⁵ The TRAS is a data analytics service for GB energy Suppliers to assess the risk of energy theft at consumer premises to help target theft investigations.

⁶ An increase in the value of invoices, primarily through TRAS, increases the risk that a payment default by a Party may cause DCUSA Ltd to be unable to meet its contractual payments.

⁷ Failure by a Party to pay (in cleared funds) an amount.

3.1.4⁸ by improving the transparency of the DCUSA invoicing process and the effectiveness of the associated non-payment arrangements.

DCUSA Parties' recommendation

The Change Declaration for DCP256 indicates that all parties were eligible to vote on DCP256. In each party category where votes were cast (no votes were cast in the DG or IDNO party category)⁹ there was unanimous support for the proposal and for its proposed implementation date.

In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP256 is accepted. The outcome of the weighted vote is set out in the table below:

DCP256	WEIGHTED VOTING (%)							
	DNO ¹⁰		IDNO/OTSO ¹¹		SUPPLIER		DG ¹²	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	n/a	n/a	100%	0%	n/a	n/a
IMPLEMENTATION DATE	100%	0%	n/a	n/a	100%	0%	n/a	n/a

Voting Parties considered that General Objective 3.1.4 would be better facilitated by increased clarity in the arrangements and improved management of late payments.

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 12 August 2016. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the DCUSA General objectives;¹³ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.¹⁴

Reasons for our decision

We consider this modification proposal will better facilitate DCUSA General Objective 3.1.4 and is neutral in respect of the other relevant objectives.

DCUSA General Objective 3.1.4 – the promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it

⁸ DCUSA General Objective 3.1.4 – the promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it.

⁹ There are currently no gas supplier parties.

¹⁰ Distribution Network Operator

¹¹ Independent Distribution Network Operator/Offshore Transmission System Operator

¹² Distributed Generation

¹³ The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

¹⁴ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

The unanimous view of respondents to the consultation and all Parties that voted was that the proposal better facilitates Objective 3.1.4, for reasons including that it would improve the transparency and effectiveness of the process for managing non-payment. Some respondents commented on the seriousness of sanctions such as suspension of registration rights, and therefore the importance of ensuring parties are adequately alerted to Late Payment Notices and that there is certainty on the position before any such action was taken. We agree it is important that the process is managed robustly and that Parties are well informed at each stage and understand the potential impacts.

One respondent considered that there should be a longer period (than five working days) following receipt of a Late Payment Notice before the Panel are able to suspend a Supplier's registration rights. We note that Parties have 30 calendar days to pay an invoice, prior to the issue of any Late Payment Notice. We anticipate this should be an adequate period in which to make payment, and note the broad support for the proposed changes. We consider the issue of suspension of registration rights following a five working day period could be kept under review by the industry if appropriate, and further change proposed if evidence came to light that this not an appropriate time period.

Overall, we consider that the proposal better promotes efficiency in the implementation and administration of DCUSA by improving how late payments are managed. It does this by providing a clear and transparent process for the recovery of late payments. The proposal will also provide greater clarity and advance notice to Parties on what they have to pay and when they have to pay it.

Additional comments

We note that a reading of the Change Report could imply that this modification introduces certain processes which are not reflected in the associated legal text. While potential procedural principles were discussed at the work group, it is the final legal text that reflects the actual processes/procedures to be followed. Nonetheless, for consistency with other Code arrangements, we anticipate that the DCUSA Panel would notify Ofgem prior to any decision to suspend a Supplier's registration rights being made.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal *DGP256: Change To DCUSA to Mitigate Risks of Non-Payment of DCUSA Invoices* be made.

Lesley Nugent

Head of Industry Codes and Licensing

Signed on behalf of the Authority and authorised for that purpose