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MP159 'Credit Cover Review'

Annex B

Refinement Consultation responses

About this document

This document contains the full collated responses received to the MP159 Refinement Consultation.

Question 1: Do you agree that the solution put forward will effectively resolve the identified issue?

Question 1				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	Yes	We agree that the changes detailed in the Modification Report appear sensible; they clarify areas that need clarification and they tighten up areas that could be subject to misinterpretation.	
Western Power Distribution	Networks Party	Yes	No comment.	
British Gas	Large Supplier	Yes	Improved legal clarity, smoother processes (for example calculating credit cover monthly, not weekly), more robust.	
ScottishPower Energy Retail Ltd.	Large Supplier	Yes	These changes should make the Credit Cover arrangements simpler to follow.	

Question 2: Do you agree that the legal text will deliver MP159?

Question 2				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	Yes	We have not identified any issues with the legal text; it seems to deliver the intent detailed in the Modification Report.	
Western Power Distribution	Networks Party	Yes	Whilst we agree with the Legal Text we feel that in Section J3 Credit Cover Requirement should be in lower case letter for consistency.	Credit Cover Requirement is a defined term within the SEC.
British Gas	Large Supplier	Yes	It removes ambiguity, but is still a complicated text to follow. We would recommend some clear flow diagrams to explain the decision process for suppliers, separate to the legal text.	The DCC agree that it would be beneficial to include diagrams to explain the process. These can be included within the SECAS supporting guidance to accompany SEC Section J. The DCC have offered support in creating the diagrams.
ScottishPower Energy Retail Ltd.	Large Supplier	Yes	We have some comments relating to issues with the text itself, rather than whether the text will implement the proposals. They are: • New definition of "Credit Assessment Company" - the definition is circular, and simply refers to J3.13, which does not define the term. It may refer to the credit agencies included in the tables in J3.13 and J3.14, but this is not entirely clear.	The DCC agrees the definition could be updated. Credit assessment company does not cover all of J3.3 as part are Recognised credit ratings. The term credit assessment company is only used in J3.15 a (i) so potentially this could say using a credit assessment

Question 2				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
			This defined term is used at a number of points in the revised drafting, and so should be fixed; and Section J3.8 - an attempt to re-write the text in plain English may have changed the effect of the wording. "(see section J3.16)" should be changed back to "(subject to...)".	agencies in J3.13. SECAS will seek advice from SEC lawyers. The DCC agrees to revert to the original text in J3.8.

Question 3: Do you agree with the proposed implementation approach?

Question 3				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	Yes	No comment.	
Western Power Distribution	Networks Party	Yes	Whilst we agree this needs to be implemented sooner rather than later we seek clarification on the details around how and when SEC parties will be advised of the need to update their Credit Cover Requirements, particularly as invoices are generally produced in arrears.	SECAS will provide guidance within the Modification Report.
British Gas	Large Supplier	Yes	We disagree with the DCC specifying the 1 credit rating firm to be used, in the table in section 3.14. We do not understand why this is considered necessary, and it could have a negative impact on some suppliers (for example if they do not currently have a Dun & Bradstreet / N2 Check rating, but do have reports from other rating companies). We do not understand why this is necessary in order to address the issues. We also are not clear on what the cost is for a Credit Assessment Report, now these are moving to monthly, not annually. Can you confirm? The cost of this report is paid by the Supplier, and so an increase from 1/year to 12/year may be a significant extra cost, especially for a small supplier.	The DCC suggest that only one credit assessment company is used for all SEC Parties for consistency (instead of Parties having the choice of five individual companies). The DCC also add that the cost of using D&B is the most efficient option. DCC advise that it has an annual subscription with unlimited use, so there is no additional cost of changing frequency of review from annual to monthly. This cost is within the current charging statement.

Question 3				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
				Suppliers wanting to use additional credit rating agencies is what will incur a greater cost. The DCC added that all entities have a D&B rating and it allows consistency between Parties. Otherwise, the DCC is allowing Parties to choose an option that may result in less credit cover (and therefore a greater risk of socialisation). This is only relevant to Parties that do not have a recognised credit rating.
ScottishPower Energy Retail Ltd.	Large Supplier	Yes	It should involve minimal change.	

Question 4: Will there be any impact on your organisation to implement MP159?

Question 4				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	Yes	We will need to ensure our credit cover arrangements remain aligned to the revised requirements – however this will be a simple process.	
Western Power Distribution	Networks Party	Yes	As a SEC Party we are obligated to provide credit cover and therefore this Modification will have an impact on us. **We are further impacted as we have a Parent Company Guarantee and therefore in addition to the changes under J3 we are also impacted by J3.15.** Further to our response to question 3 to fully understand the impact we need to understand exactly how and when the new calculation is made and advised to SEC parties.	The DCC have advised that it has researched how many Parties will need to increase their level of credit cover, and as the calculation is not changing, only a small number of Parties (currently three) are impacted. The DCC will advise these Parties of the required changes and give them one months' notice.
British Gas	Large Supplier	No	None identified.	
ScottishPower Energy Retail Ltd.	Large Supplier	No	We anticipate only minimal impacts from MP159.	

Question 5: Will your organisation incur any costs in implementing MP159?

Question 5				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	No costs	We do not expect to incur any costs as a result of implementing MP159 – if we do incur any costs, we would expect these to be minimal administration costs.	
Western Power Distribution	Networks Party	No costs	We will not incur cost as a result of implementing this Modification, however there maybe cost associated as a result in the change of the Credit Cover Requirements.	
British Gas	Large Supplier	No costs	We will not need to change our Letter of Credit. As mentioned above, can you confirm the cost of the Credit Assessment Report – this will be an increase for all suppliers if it is moving to 12/year, from 1/year. I am not sure how significant this increase is.	As previously mentioned, the DCC advises that it has an annual subscription with unlimited use, so there is no additional cost of changing frequency of review from annual to monthly.
ScottishPower Energy Retail Ltd.	Large Supplier	No costs	We would expect to incur only minimal costs from implementing MP159.	

Question 6: How long from the point of approval would your organisation need to implement MP159?

Question 6				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	One month	If possible, we would prefer to have a month between approval and implementation to ensure our credit cover arrangements will be aligned to the revised SEC obligations.	The DCC does not expect these changes to change the credit cover requirement for most customers (those most at risk are the 3 are not using D&B and submit their own Experian report). The DCC will send them all their credit cover requirements and give them one months' notice of the change from approval.
Western Power Distribution	Networks Party	Not applicable	No comment.	
British Gas	Large Supplier	Not applicable	We will not need to change our Letter of Credit.	
ScottishPower Energy Retail Ltd.	Large Supplier	One month	This would offer a sufficient window for internal communication and assimilation of these changes.	

Question 7: Do you believe that MP159 would better facilitate the General SEC Objectives?

Question 7				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	Yes	MP159 will better facilitate SEC Objective (g) and facilitate the efficient and transparent administration and implementation of this Code by clarifying the credit cover arrangements in the Code.	
Western Power Distribution	Networks Party	Yes	No comment.	
British Gas	Large Supplier	Yes	Supports the seventh General SEC Objective - to facilitate the efficient and transparent administration and implementation of the Code.	
ScottishPower Energy Retail Ltd.	Large Supplier	Yes	While we believe that the greatest benefit is to Objective (g) in that it will help to facilitate the efficient and transparent administration and implementation of the Code, we also believe MP159 will better facilitate objectives (b) and (d).	

Question 8: Do you believe there will be any impacts on or benefits to consumers if MP159 is implemented?

Question 8				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	No	This change will not have a direct impact on consumers.	
Western Power Distribution	Networks Party	No	No comment.	
British Gas	Large Supplier	Yes	Misinterpretation of the Credit Cover process can heighten the risk of cost socialisation, and ultimately, these costs will end up being borne by the consumer.	
ScottishPower Energy Retail Ltd.	Large Supplier	Yes	Consumers will benefit from the greater resilience of energy industry mechanisms.	

Question 9: Noting the costs and benefits of this modification, do you believe MP159 should be approved?

Question 9				
Respondent	**Category**	**Response**	**Rationale**	**SECAS Response**
EDF	Large Supplier	Yes	No comment.	
Western Power Distribution	Networks Party	Yes	No comment.	
British Gas	Large Supplier	Yes	Improved clarity, lower default risk, simpler processes (ie monthly assessment, not weekly).	
ScottishPower Energy Retail Ltd.	Large Supplier	Yes	We believe MP159 should be approved as it meets with SEC objectives.	

Question 10: Please provide any further comments you may have

Question 10			
Respondent	**Category**	**Comments**	**SECAS Response**
EDF	Large Supplier	No comment.	
Western Power Distribution	Networks Party	No comment.	
British Gas	Large Supplier	When in the month will the DCC review the credit cover calculation? Is this immediately after invoice? We are not sure that we agree with the amendments to "Increase of Decrease in Credit Cover Requirements". I.e. if a Party's level of Credit Cover is less than calculated for that month (by more than £100), the Party has 2 working days to provided the additional funds. But – in reverse – if the Credit Support is 10% higher than what is required, and the Party requests it, the DCC will only return the excess funds within five working days. This should be reduced to 2 working days.	The DCC reviews the credit cover calculation on a weekly basis and requests are made as and when needed. This could be added to the SECAS guidance document. Generally, the billing is what will change the credit cover requirement (VAR) but this can also be impacted by a credit rating change that can happen at any time. The DCC notes the rationale, however customers get 2 clear Working Days from the notice (after this they'll get a late payment notice) then they get another 3 Working Days to pay before DCC issues an EoD to SECAS, so in total 6 Working Days. Therefore, it is aligned with DCC having 5 Working Days to repay. The DCC also added that there is little benefit in having a £100 cap for

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Question 10			
Respondent	**Category**	**Comments**	**SECAS Response**
			overpayments, as this would create an admin burden for both customers and the DCC – with cash being transferred back forth in the month, within the very short time frames. The DCC is happy to (and did originally suggest the) that it amends the £100 limit for an increase in credit cover to be higher, probably based on 10% of the Credit Cover Requirement, with a maximum value of £1,000.
ScottishPower Energy Retail Ltd.	Large Supplier	No comment.	
DCC	N/A	J3.6 says ‘excluding any and all annual Explicit charges’ propose to remove the word annual, as explicit charges could be more than annual. J3.16 (e) states ‘where a Party's Value at Risk is equal to or less than the Credit Cover Minimum Threshold, then the DCC ***shall not obtain a Maximum Credit Value or Credit Assessment Score*** in respect of that Party (and Sections **Error! Reference source not found.** and **Error! Reference source not found.** shall not apply). The part in bold italics is not strictly true as the way D&B works is that we tag all customers and do the download weekly for our working file. If	

Question 10			
Respondent	**Category**	**Comments**	**SECAS Response**
		the VAR is below threshold the result would not be looked at but the scores are technically still obtained. There is no cost from doing this and changing this would make the process a lot more labour intensive as we would need to tag and un-tag customers monthly- suggest this paragraph is removed.	