

| DCUSA CHANGE REPORT                          |   |
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| <b>CHANGE PROPOSAL</b>                       | Provision of Cost Information   |
| <b>DATE OF ISSUE</b>                         | 20 October 2008   |
| <b>ISSUED TO</b>                             | DCUSA Contract Managers<br>Ofgem  |
| <b>PARTIES ENTITLED TO VOTE</b>              | All Supplier and Distributor parties  |
| <b>RETURN DEADLINE<br/>(Voting End Date)</b> | 03 November 2008 – <a href="mailto:DCUSA@electralink.co.uk">DCUSA@electralink.co.uk</a> |

## **1 PURPOSE**

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA. The Change Report details DCP 030 – Provision of Cost Information. The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.2 Parties are invited to consider the proposed amendments attached as Appendices A and B and submit votes using the form attached as Appendix D to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by 03 November 2008.

## **2 BACKGROUND**

- 2.1 DCP 030 was raised by British Gas on 11 June 2008 and was considered by the DCUSA Panel at its meeting on 18 June 2008. The Panel determined that the CP was a non-urgent Part One change that should be progressed through the Definition Procedure and established the DCP 030 Working Group to assess and develop the proposal. The minutes of the Working Group meetings are available on the [DCUSA Website](#).

## **3 SUMMARY OF DCP 030**

- 3.1 DCP 030 has been raised to require DNOs to provide such information to enable Suppliers to forecast more accurately the likely direction and magnitude of changes in distribution revenue over a rolling five year basis. The proposer considers that distribution costs are a significant element of each Suppliers cost base but because the current regime is not transparent cost forecasting is extremely difficult. The proposer considers that this creates uncertainty for Suppliers and limits their ability to forecast their distribution charges and so provide the best possible value to their customers. DCP 030 seeks to increase the level of information published to assist Suppliers in improving their forecasting.
- 3.2 On 01 May 2008 Ofgem approved a code change (UNC 186) in the gas industry requiring gas distributors to publish allowed revenue and the expected changes to charges over a five year period. In approving the modification Ofgem recognised that DNOs attempts to forecast costs can provide invaluable signals to Suppliers. DCP 030 is seeking to adopt the broad principles of UNC 186 for the electricity market.

## **4 DCP 030 WORKING GROUP**

- 4.1 The DCUSA Panel established a Working Group to consider the Change Proposal. The DCP 030 Working Group comprised the following members:
  - Andy Manning – RWE Npower
  - Bernard Kellas – Scottish & Southern Energy
  - Ceri Hughes – British Gas Trading

- Chris Allanson – CE Electric UK
- Glenn Sheern – E.ON UK
- Jonathan Purdy – EDF Energy Networks
- Julia Haughey – EDF Energy Customers
- Lee Wells – CE Electric UK
- Nigel Lloyd – Western Power Distribution
- Paul McGimpsey – Scottish Power Energy Networks
- Paul Sherley – British Gas Trading

4.2 The Working Group met 5 times to consider the CP and assess it against the DCUSA Objectives. The Working Group considered the following matters as part of its review of the CP:

4.3 Principles – The majority of Working Group members indicated their support for the principle of the CP but noted that some parties had raised significant concerns and not all were supportive of its progression. Members recognised that Suppliers can spend a considerable amount of time, effort and money trying to predict costs and want to eliminate some of the risk associated with that activity.

4.4 The Working Group noted that whilst there may be some value in the change to Suppliers there will be issues to address regarding the levels of uncertainty surrounding the accuracy and completeness of the data that Distributors could provide. Some Distributor members expressed concern that the volatility of the data that was being requested may negate the value that it could provide. Supplier members recognised the difficulty for Distributors in forecasting and providing accurate data but maintained that any indications from the DNOs regarding their costs and spending would be beneficial to Suppliers. They considered that the requirement for Distributors to provide assumptions and commentary would help to address the areas of uncertainty and mitigate any risk associated with the data provided.

4.5 The Working Group concluded that in order to make a robust case for the Proposal parties would need to demonstrate that the information requested from Distributors would be of benefit and of use to Suppliers.

4.6 DCUSA Objectives - All members of the group considered that Objective 2<sup>1</sup> was applicable to DCP 030 and the majority considered that this was the only relevant objective. Some members considered that Objective 2 is better facilitated by leading to increased competition as a result of the regular provision of relevant information on revenues and charges, enabling suppliers to improve accuracy of their forecasts and assessments. They considered that greater certainty of future charges will enable Suppliers to

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<sup>1</sup> 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

compete more effectively due to increased information provision. Other members considered that although greater transparency was desirable, and that the provision of data may reduce the level of risk to Suppliers, it was not clear than the change would lead to increased competition.

- 4.7 Provision of Data - The Working Group considered the mechanism for the publication of the data. Some Parties considered that the data was commercially sensitive and should not be open to disclosure. The Working Group considered that data could either be published via the DCUSA website or directly to Supplier Contract Managers on a party to party basis. The Working Group also considered that the distribution market is a competitive environment and that any provision of information to Suppliers should not be used by other DNOs to gain a competitive advantage.
- 4.8 Impact on IDNO Parties - The Working Group considered the potential impact of DCP030 on IDNO businesses. The Working Group believed that IDNO parties would not be impacted by the CP as they match their tariffs to that of the host DNO, however, members agreed to seek to clarify the IDNO position, and that of other smaller parties, as part of the consultation exercise.
- 4.9 The Working Group considered that DCP 030 should be issued for consultation to determine parties' views on the principle of the proposal and the proposed drafting.

## **5 DCP 030 CONSULTATION**

- 5.1 The DCP 030 Consultation was issued to all DCUSA Contract Managers for a period of 15 Working Days and 11 responses were received. The consultation responses are attached as Appendix C.

### Does the proposed CP better facilitate the DCUSA Objectives?

- 5.2 The majority of responses considered that Objective 2 was the only objective relevant to DCP 030. Of the respondents only Supplier parties believed that DCP 030 would better facilitate objective 2 noting that increased transparency and the provision of information would result in increased competition amongst Suppliers. Although some Distributor respondents considered that objective 2 was relevant to the CP, they did not consider that it would be better facilitated largely due to the volatility and uncertainty within the data DNOs would be obliged to provide.
- 5.3 1 respondent also considered that Objectives 3 and 4 were negatively impacted by the CP. The group noted that the party considered that any change should be driven by a licence modification rather than a DCUSA change and that the introduction of a new obligation would reduce the efficiency of DNO parties. The Working Group concluded that the change process was a prerequisite for DCUSA and that it must be accepted that any party has the right to raise a CP for which the process may result in a level of work for other parties. Members accepted that the introduction of the CP would introduce more work for DNOs but that parties must carry out a cost benefit analysis of the CP to determine whether on balance the benefit to Suppliers was greater than the detriment to DNOs.

- 5.4 The Working Group noted the recommendation that the change be taken forward as a licence modification rather than under the DCUSA. The Working Group considered that the CP was a valid proposal under the vires of the DCUSA and that it considered that, if supportive of the principle, Ofgem was likely to favour a DCUSA CP over a licence modification. The Working Group agreed that the DCUSA is a dynamic developing document and that as the CP had been raised under DCUSA and accepted by the Panel as within scope it should be progressed under the DCUSA Change Process.
- 5.5 The Working Group considered other comments raised by parties including the perceived positive impact of the CP on Distributor-Generators and the potential reduction of costs to end users both of which were noted but determined to be outside the scope of the DCUSA objectives although of relevance to Ofgem and its wider considerations.

Do you consider there to be any legal impediment or reason why the data could not be published on the DCUSA website? If you consider that there to be a legal impediment to publishing the information on the DCUSA website, do you consider that the provision of information on a party by party basis would meet the requirements of the modification?

- 5.6 Respondents provided mixed views regarding the appropriateness of website publication given the commercial nature of the data but that there were no respondent cited legal impediments to prevent the publication. Advice from 1 respondents legal advisors set out that as the data was material it must be disclosed everywhere at the same time. The Working Group concluded that as such 1:1 distribution of data between parties was not acceptable and that the data must be published on the public area of the DCUSA website.

Do you consider the frequency of provision of information i.e. 4 times a year to be appropriate?

- 5.7 3 respondents considered that the proposed frequency was appropriate and that 8 considered that a reduced frequency could result in more accurate forecasting and would be less onerous for DNOs. Of the 8 respondents who considered that the provision of information 4 times a year was too frequent 7 were Distributors and 1 was a Supplier. Those suggesting alternatives proposed frequencies ranging from an annual publication to the current requirement under Condition 47 of the Distribution Licence for updates 3 times a year.
- 5.8 The Working Group considered the framework established in the gas market for the provision of data 4 times a year but noted that Distributors are not required to produce a new forecast each time but to update and make revisions to the previous one where changes are known.
- 5.9 The Working Group noted that those proposing a reduced frequency considered that twice a year would be appropriate as price changes are limited to 2 times a year. Another respondent suggested that the obligation should be annual unless a DNO became aware of a material change. Supporters of DCP 030 considered that the more frequent the update the greater opportunity for accuracy and a true reflection of the latest picture. They considered that the information should be dynamic and that annual updates were too infrequent. The Working Group agreed that assumptions would be needed to be discussed and published and that each DNO would be required to provide its own set of assumptions.

Do you consider the level of information to be provided within Schedule 14 to be appropriate?

- 5.10 6 respondents (4 Suppliers and 2 Distributors) considered that the level of information was appropriate and that 5 (all Distributors) did not. Of those 5, all the respondents indicated that the level of information was excessive. A number of respondents provided alternative solutions including the existing requirements under the licence provision, only the overall percentage price change required to achieve a neutral over / under recovery, and a removal of commercial and price sensitive information.
- 5.11 The Working Group considered that as DNOs will have to know all the component parts to produce their forecasts it may be pragmatic to provide them up front to Suppliers to reduce the likelihood of further questions being asked by Suppliers in response. Some members considered that the greater the level of information published by DNOs the less likely it would be for Suppliers to reach incorrect conclusions.

Do you consider that the information requested should only refer to the current Price Control Period or extend into the next Price Control Period (recognising that such data within the next Price Control Period would be estimated)?

- 5.12 Of the 11 respondents, all 7 Distributor parties considered that the information requested should relate only to the current Price Control Period. Respondents cited the uncertainty of the data and questioned the usefulness to Suppliers. Those who supported the extended data set proposed that the data would be of value to allow Suppliers to understand the drivers in the market and position of DNOs but accepted the need for the data to be provided with assumptions relevant to each DNO.

Are there any alternative solutions you would like to be considered by the Working Group?

- 5.13 3 respondents proposed alternatives for consideration. 1 recommended that the current "voluntary" requirements be formalised. Members noted that the current requirements have already been formalised under condition 47 of the Distribution Licence and that this alternative was redundant.
- 5.14 2 respondents set out a reduction in the frequency of the provision of data a reduction in the level of data requested and a limitation to the current Price Control Period but had not formally submitted an alternative proposal. The Working Group considered that the consultation responses had indicated that there was a reasonable level of support amongst parties for an alternative variation such as that set out by the 2 parties and that there may be merit in further debate.
- 5.15 As a consequence, Scottish Power Energy Networks submitted a formal alternative proposal, DCP 030A, which was duly considered by the Working Group – see Section 6 below.

Please indicate if you expect to incur any costs to support the CP.

- 5.16 6 respondents indicated that they would incur administrative and personnel costs as a result of DCP 030 and of those who provided figures they estimated between £10k and £25k per annum. 1 party indicated that it may incur system costs if a common set of assumptions were agreed although the Working Group agreed that common assumptions were out of scope of the CP.

Do you support the proposed implementation date?

- 5.17 The Working Group noted that the implementation date proposed in the original CP was no longer achievable under the Change Process timetable. The majority of respondents indicated that they would be able to provide data from 01 April 2009 and therefore the Working Group agreed to amend the proposal for implementation in the February 2009 Release.

Please state any other comments or views on the Change Proposal.

- 5.18 A number of respondents provided comments in support of points made elsewhere in the consultation and minor comments in relation to the drafting which it was agreed would be picked up under legal review. 1 party

recommended that the CP should not be progressed until the parallel modification in the gas market had bedded in so that electricity parties could benefit from 'lessons learnt'. The Working Group concluded that the principle of the CP should be adopted and implemented and then would evolve over time.

## **6 ALTERNATIVE PROPOSAL – DCP 030A**

- 6.1 Scottish Power Energy Networks (SPEN) raised an alternative proposal having noted that a number of Parties indicated in their consultation responses that they had similar issues with the drafting of DCP 030. DCP 030A seeks to provide Suppliers with information but without requiring Distributors to provide what the Proposer considers to be the unnecessary level of detail required under DCP 030.
- 6.2 DCP 030A was originally drafted on the basis that data would be provided from Distributors to Suppliers on a 1:1 basis between Contract Managers as preferred by a number of Parties in the consultation. However, subsequent legal advice obtained by SPEN supported the advice received by EDF Energy Networks regarding the disclosure of information. The legal drafting for DCP 030A therefore mirrors that of DCP 030, placing the obligation on the Distributor to provide the data to DCUSA and for DCUSA to publish it on the DCUSA website.
- 6.3 DCP 030A differs from DCP 030 by removing the requirement to provide data beyond the current Price Control period. SPEN considers that Distributors would be unable to forecast or provide accurate information for the subsequent price control period until it had been approved by Ofgem and that the propensity for the data to change was too great for it to be of value to Suppliers.
- 6.4 Having given consideration to the consultation responses, DCP 030A had been drafted with a requirement for Distributors to provide data two times a year. However in order to seek to achieve alignment between the proposals and to reduce areas where there was not a consensus as far as possible SPEN subsequently amended DCP 030A to bring it in line with DCP 030 with the requirement to submit quarterly updates. The implementation technique and timescales for DCP 030A have been aligned with DCP 030 – a big bang implementation in the February 2009 Release.

## **7 WORKING GROUP CONCLUSIONS**

- 7.1 The Working Group noted that the key differences between DCP 030 and DCP 030A are the level of detail to be provided by Distributors and the requirement to provide data across price control periods. In the main Suppliers considered that the provision of any data was of value but that Distributors broadly expressed discomfort in providing data they had little confidence in.
- 7.2 DCP 030A does not require Distributors to provide a breakdown of their base costs. The proposer of DCP 030A considers there is no value to Suppliers in the provision of the additional data, that it may be



commercially sensitive and will lead to further questions from Suppliers. Supplier representatives argued that Suppliers would benefit from seeing the cost drivers for Distributors and from seeing the overall impact of each component and in turn ask less questions of Distributors.

- 7.3 DCP 030A is limited to the current price control period. The Proposer believes that because future allowed revenues and their components beyond the current period will be unknown and as a result the DNOs ability to provide meaningful estimations of data beyond the current price control period are limited. The Proposer of DCP 030 acknowledged that there were risks and uncertainties with the data but considered that the issue could be overcome through the use of assumptions and disclaimers to be provided by the Distributors as set out in DCP 030.
- 7.4 Some Working Group members considered that there was still merit in taking a long term view whilst accepting the limitation and uncertainties across price control periods. It was suggested that DCP 030 provided greater flexibility than DCP 030A allowing Distributors to use assumptions but still providing information to Suppliers.
- 7.5 The Working Group noted that neither CP proposes a mechanism for agreeing a common set of assumptions but places an obligation on Distributors to provide their own assumptions and disclaimers. The Working Group noted the position but considered it valid to introduce the CP on such a basis with a view to developing a common set of assumptions at a later date.
- 7.6 In order to make its final recommendation to the Panel the Working Group considered the following:

| <b>Does DCP 030 better facilitate the DCUSA Objectives than the existing DCUSA?</b> |                 |
|---|-----------------|
| <b>YES – 60%</b>  | <b>NO – 40%</b> |

- 7.7 By a 6 – 4 majority the Working Group considered that DCP 030 better facilitated the DCUSA objectives than the existing DCUSA. Those members who considered that the CP did better facilitate the DCUSA objectives stated that Objective 2<sup>2</sup> was better facilitated, considering that the increased transparency of data could increase competition amongst Suppliers. Those who voted against noted that Objective 2 was the only relevant Objective but considered that greater transparency did not necessarily correlate with increased competition.

| <b>Does DCP 030A better facilitate the DCUSA Objectives than the existing DCUSA?</b> |                 |
|--|-----------------|
| <b>YES – 50%</b>   | <b>NO – 50%</b> |

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<sup>2</sup> 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

- 7.8 The Working Group was evenly split as to whether DCP 030A better facilitated the DCUSA objectives than the existing DCUSA. Those members who considered that the CP did better facilitate the objectives again cited Objective 2 for the reasons set out above and those against made the same comments.

| <b>Of the 2 variations which better facilitates the DCUSA Objectives?<sup>3</sup></b> |                      |
|---|----------------------|
| <b>DCP 030 – 100%</b>   | <b>DCP 030A – 0%</b> |

- 7.9 Of the members who considered that both DCP 030 and DCP 030A better facilitated the DCUSA Objectives 100% considered that DCP 030 better facilitated Objective 2 than DCP 030A. Those members expressed the view that because DCP 030A seeks to provide a greater level of transparency it could result in greater competition.
- 7.10 Although members acted as industry experts the Working Group agreed that it was of value to note that Supplier representatives favour DCP 030 and Distributors favour DCP 030A. The Working Group concluded that given the group view that both CP's could be demonstrated to better facilitate the DCUSA Objectives they should both be recommended to the Panel with DCP 030 as the preferred variation by majority. The Working Group agreed that all Parties should be invited to vote on the CP for a period of 10 Working Days.

## **8 PROPOSED AMENDMENT AND LEGAL DRAFTING**

- 8.1 The proposed amendment to the DCUSA in support of DCP 030 and DCP 030A has been approved by Wragge and Co. The Legal Drafting is attached as Appendix A and Appendix B.

## **9 DCUSA WEBSITE AMENDMENTS**

- 9.1 The Working Group has recommended that the DCUSA website be developed to allow the publication of the DNO data on the public area of the site.
- 9.2 The cost for the website development and the ongoing publication of data is as follows:
- Website development costs – one off cost of £3,675
  - Secretarial and Administration costs – annual cost of £3,000

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<sup>3</sup> Only members who considered that both CPs better facilitated the DCUSA Objectives were asked question 3

- 9.3 The development cost and ongoing cost will be funded from the DCUSA Budget.

## 10 PANEL RECOMMENDATION

- 10.1 The content of this Change Report was approved by the Panel on 15 October 2008.

- 10.2 In accordance with Clause 12.4 of the DCUSA the Panel has determined that the CP should be issued to all parties for a period of 10 Working Days. The Panel has directed that Parties may vote to accept one variation and reject the other, or to reject both variations. The voting form is attached as Appendix D.

- 10.3 The timetable for the progression of the Change Proposal is set out below:

| Date        | Activity                | Purpose   | Responsibility |
|-------------|-------------------------|---|----------------|
| 20 October  | Change Report Issued    | Change Report issued to all parties for 10 WD                         | Secretariat    |
| 03 November | Voting End Date         | Last date for submission of votes                                     | parties        |
| 04 November | Change Declaration      | Outcome of voting published to parties and Authority                  | Secretariat    |
| 17 December | Authority Determination | Authority to accept / reject CP following recommendation from parties | Ofgem          |
| 26 February | DCUSA Release           | DCUSA updated to reflect CP drafting (if approved by Authority)       | Secretariat    |

### Appendices:

- A. DCP 030 Legal Drafting
- B. DCP 030A Legal Drafting
- C. Consultation Responses
- D. DCP 030 - Voting Form