



## **DCUSA Change Report**

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### **DCP 104 - SHARED IMPACT OF MANIFEST ERRORS IN DUOS CHARGING**

## **1 PURPOSE**

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 104 – Shared Impact of Manifest Errors in DUoS Charging.
- 1.2 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.
- 1.3 Parties are invited to consider the proposed amendments (Appendix B) and submit their votes using the form attached as Appendix C to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than 02 March 2012.

## **2 BACKGROUND TO DCP 104**

- 2.1 DCP 104 has been raised by Npower. The proposer notes that when manifest data input errors occur within distribution network operator (DNO) charging methodology models, these errors may result in a mis-statement of published tariffs. Currently, Suppliers and Customers carry the risk resulting from these errors since the DNO's must seek to recover these charges within a short timeframe. These recoveries can therefore result in large price changes for Suppliers and ultimately Customers.
- 2.2 The Proposer notes that this issue has recently happened within the industry. A CDCM manifest data input error resulted in one DNO making a price change in July 2011 in order to correct the resulting under-recovery of revenue. Whilst separately, another DNO has applied to Ofgem to undertake a correction which retrospectively corrects revenues from April to September 2011 per customer base moving forward from October 2011.
- 2.3 While recognising that human errors do happen, both of these examples have resulted in some Suppliers, and Customers, suffering financial impacts/losses as a result of these sudden unexpected price changes and adjustments to a revenue recovery position.
- 2.4 The Proposer feels that if DCP 104 is implemented, it will help to spread the risk of manifest data input errors across Suppliers, Customers and DNOs. DCP 104 proposes that the price impact as a result of the manifest error will be smoothed over a 3 year period.

## **3 INTENT OF DCP 104**

- 3.1 The intent of DCP 104 is that in the case of a manifest error, as defined in the legal drafting, the implementation of the resulting revenue over or under-recovery correction is spread over a 3 year period.
- 3.2 It is important to recognise that the DNOs will still recover the correct allowed revenue position by the end of the 3 year period. The Proposer feels that this change will result in a decrease in price shocks for both Customers and Suppliers.

#### **4 DCP 104 – CONSULTATION**

- 4.1 A consultation on DCP 104 was issued to all DCUSA Parties and interested parties on 24 November 2011 for a period of 11 Working Days.
- 4.2 Ten responses were received by the closing date of 09 December 2011. A summary of the responses received and the DCP 104 Working Group's response to them is set out below. The full responses from each Party are attached as Appendix C.
- 4.3 Do you understand the intent of DCP 104 - Shared impact of manifest errors in DUoS charging? All ten respondents confirmed that they understood the intent of the DCP 104.
- 4.4 Are you supportive of the principles of DCP 104 including the implementation date? If not, do you believe there are alternative ways of meeting intent DCP 104? Provide Supporting comments. Seven respondents were not supportive of either the principles of DCP 104 or its implementation date; while three respondents did support both.
- 4.5 The main issue cited by Parties who were not supportive of DCP 104's principle was concerns that this change proposal will severely limit the opportunity of DNOs to adjust charges in order to maintain compliance with their Licence. It was noted that the purpose of charge restriction condition 14 - "Distribution charges: supplementary restrictions" is to impose financial penalties on DNOs in the case of under and over recoveries that exceed specified percentage thresholds; four respondents noted that this CP would seriously impair the ability to interact with this condition.
- 4.6 One respondent noted that tariff prices should be cost reflective, and that this would not be the case if the costs were spread over three years.

- 4.7 One respondent noted that they agree that the DNOs should recover the full amount of the correct allowed revenue but that in the case of manifest errors this recovery should be phased to spread the risk of the correction across the DNO, Suppliers and Customers.
- 4.8 Do you agree that the Legal Text meets the intent of DCP 104? Provide supporting comments. Four respondents thought that the legal text met the intent of the CP, and the six other respondents did not feel that the legal text met the intent.
- 4.9 It was noted by one respondent that they do support the intent and that DCP 104 will allow the correction of smaller errors to be spread equally over a 3 year period without referral to Ofgem. With larger errors, they are referred to Ofgem to determine the spread over the 3 years.
- 4.10 One respondent noted that notwithstanding their concerns with the intent of DCP 104 they agree that the legal text meets that intent.
- 4.11 Three respondents simply noted that they did not support the intent of the CP; therefore, they did not support the legal text.
- 4.12 One respondent noted that the DCP 104 refers to 'Manifest data input errors' yet the definition of a manifest error within the legal drafting refers to 'inputs or calculations within the model'. Hence the legal drafting does not match the intent of the change proposal. This point was discussed in the Working Group and it was highlighted that this area had been debated in great detail prior to finalizing the legal text. The calculations which are referred to within the definition would refer to any inadvertent error, even to calculation cells.
- 4.13 Within the legal text, there are limits (X and Y) where, if the error is outside these caps, the matter will be referred to Ofgem for determination on the split over the 3 year period. What do you feel are the appropriate levels of X and Y in percentage terms for these caps? There were a range of answers in regard to this question from all respondents. Six respondents reiterated their position that they do not support DCP 104 and restated their position as to the reasoning behind their position. The other four respondents gave a range of answers, between 3 and 5 per cent for the applicable bands.
- 4.14 Three respondents noted that they consider that the caps should be very low, so that a significant error that could have a major impact upon the

recovery position of the DNO is addressed through discussion and involvement of the Authority; and not just automatically addressed through adapting inputs into the CDCM model.

- 4.15 One respondent proposed that where a manifest error is identified the Supplier should be allowed to go to Ofgem to ask for a split over 3 years, and a result caps are not required.
- 4.16 The Working Group decided that the values for X and Y should be set at 4 per cent. This was decided as most of the responses, which were in favour of DCP 104, indicated a value between 3-5 per cent, and 4 per cent would be the compromise value to be taken forward.
- 4.17 Do you agree that DCP104 better meets the DCUSA General Objectives? Please provide supporting comments along with your assessment against the objectives. There were eight Parties which provided a response to this question, and three respondents felt that Objective 2 was better facilitated. The other five respondents felt that none of the DCUSA objectives were better facilitated, and two of those respondents felt that DCP 104 would hinder the existing DCUSA Objectives or place the DNOs in breach of existing License conditions.
- 4.18 One respondent noted that DCP 104 better facilitates DCUSA Objective 2 as it will facilitate competition by spreading the risk resulting from manifest errors between all Parties; DNOs, Suppliers and Customers. It was noted that a fairer spread of risk for corrections to manifest errors will allow Suppliers to set their prices to customers based on more predictable costs.
- 4.19 One respondent stated that in their opinion DCP 104 does not spread the risk between Parties, it spreads the risk over time; and this increases the risk of market distortion and any correction being applied to the wrong customers.
- 4.20 Another respondent felt that given existing Licence conditions and other arrangements applicable to charging by DNOs; this change would not better meet any of the DCUSA General Objectives.
- 4.21 Provide comments on the following points about what should or should not be included within the definition of manifest error:

- Any mistake that is made by entering or deleting information in the “inputs” tab on within the CDCM Model
- Any inadvertent error (formulae, additions or deletion) that is made within any area of the CDCM model with results in an error in any portion of the model
- Provide comments on any of these areas, as well as anything additional that you feel should be included or deleted from this definition.

4.22 Two respondents agreed with the current definition of manifest error, whilst two provided no comments as they do not support the CP. The other six respondents provided responses of what they feel should be included, and not included within the definition of manifest error.

4.23 All points were discussed and noted by the Working Group and reflected in the final version of the definition.

4.24 In terms of the spreading of these manifest errors over a 3 year time period, evaluate the following options as to when you feel it is appropriate for Year 1 begin:

- The following price change (October or April),
- The beginning of the next regulatory year (April)
- Please provide any other alternative method you feel would be appropriate

4.25 The results of Party responses are listed in the table below:

<b>Preferred Option</b>	<b>Number of respondents</b>
Following Price Change	3
Next Regulatory Year	2
Earliest opportunity	3
Not supported	2

- 4.26 What are the current impacts of manifest errors on DNOs, Suppliers and Consumers? Within your supporting comments, please include how the implementation of DCP 104 would affect the impacts that are present for the Party groups. The responses to this question were quite detailed, and echoed what has been stated in earlier in previous questions.
- 4.27 Parties in favour of DCP 104 noted that the corrections associated with a manifest error can lead to sudden and unexpected changes in a Supplier's DUoS liability; which impacts customer's DUoS payments. These respondents note that the implementation of DCP 104 would reduce this impact.
- 4.28 Parties which do not support DCP 104 noted that whilst DNO's endeavor not to introduce manifest errors into the charging models, where they have occurred they have been corrected as quickly as possible so as to not distort competition in the supply market; and generally these happen in consultation with Ofgem and the industry.
- 4.29 It was also noted by these respondents that although the correct charges will be collected over a period of time, this spreading the collection of the correct revenue, although minimises the change in the charges, does extend the impact of the error over a greater period of time which could reduce cost reflectivity of tariffs.
- 4.30 If DCP 104 is accepted and implemented, would there be any System and/or Regulatory Changes that will need to be made? What are the costs and timelines associated with these changes? Four respondents noted that they do not foresee any changes to current systems if DCP 104 is implemented. One respondent noted that they did not respond because they did not support the CP.
- 4.31 The other five respondents noted various system and regulatory issues associated with the implementation of DCP 104. One respondent noted that the main areas of concern are around the regulatory and competition issues of this CP. It was noted that from a regulatory perspective the concern is related to our ability to meet the requirements of the distribution Licence. From a competition perspective, it was noted by this respondent that DCP 104 would distort competition in the supply market. For example, if overcharging had occurred such that their charges were then artificially low over the next few years, a Supplier that had not had significant numbers of

customers in the area when the error (and the overcharging) happened, would then have an unfair advantage in coming into the area.

- 4.32 A further respondent noted that should a DNO be put in the position where it could not manage its recoveries within the constrictions of CRC14 because of a conflicting obligation within the DCUSA, then it should be given relief from CRC14 by Ofgem.
- 4.33 Please provide any other comments or general views on DCP 104. This question received many detailed comments further reiterating points made in previous questions.
- 4.34 One respondent noted that it is important to recognise that under this request, the DNOs will still recover the correct allowed revenue position by the end of the 3 year period. DCP 104 will simply provide a delay mechanism to smooth price shocks for both customers and suppliers.
- 4.35 It was noted by one respondent that it is their opinion that the very small number of manifest errors (2) that have been caused in the last 3 years were due to inexperience in use of the CDCM model on behalf of a very small number of DNO users, and this does not necessitate a special set of circumstances to be codified within the DCUSA.
- 4.36 It was highlighted by one respondent that clause 14.18 of the licence already stipulates that DNOs need to present to Ofgem a charging statement which sets out amended charges, so there is already an existing mechanism that allows complete visibility of price changes to Ofgem.

## **5 DCP 104 – WORKING GROUP CONCLUSIONS**

- 5.1 The DCP 104 Working Group comprised Supplier and Distributor Parties, supported by Ofgem. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – [www.dcusa.co.uk](http://www.dcusa.co.uk).

### Consultation Responses

- 5.2 The Working Group concluded that all respondents to the Consultation understood the intent of the DCP 104, however it was noted that the majority did not agree with its principles and implementation date.

5.3 The Working group agreed that there were no further areas of work needed to address these points as the intent of the CP was understood by all Respondents and the mixed responses from Parties reflect different industry opinions rather than seeking additional clarification.

5.4 The full responses to these questions are detailed within Appendix C.

## **6 PROPOSED LEGAL TEXT**

6.1 The draft legal text has been reviewed by Wragge & Co and is attached as Appendix B.

6.2 The legal text, seeks to amend Schedule 16 of the DCUSA, it will set out the instructions and guidelines for how a DNO Party is to deal with manifest errors, it will also add the term "manifest error" to the glossary.

## **7 EVALUATION AGAINST THE CHARGING METHODOLOGY OBJECTIVES**

7.1 Whilst a majority decision was not reached, members of the Working Group considered that the following Charging Methodology Objective is better facilitated by DCP 104:

Objective 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).

7.2 The implementation of the CP will better facilitate competition by spreading the risk resulting from manifest errors between all Parties: DNO's, Suppliers and Customers. A fairer spread of risk for corrections to manifest errors will allow Suppliers to set their prices to customers based on more predictable costs.

7.3 The Working Group concluded that DCP 104 could potentially make it easier for small suppliers to enter the market as the risks would be spread between Parties; however, this was not agreed by all members of the Working Group.

- 7.4 The majority of the Working Group members, and respondents to the Consultation, did not agree that DCP 104 better facilitates any of the DCUSA objectives. It was noted by some members that this CP could potentially place them in breach of existing License obligations, specifically CRC3 and CRC14.
- 7.5 One member of the Working Group was of the opinion that DCP 104 could hinder, rather than facilitate Objectives 1 and 3. In regard to Objective 1 it was noted that an error would be corrected over a three year period, the efficient and economic messages will not be correctly reflected, being spread over such a long period of time, and should more than a single error occur for a DNO the CDCM model would need to cope with the simultaneous corrections of more than one error. It was highlighted that this would be difficult to manage in conjunction with the annual review of data inputs.
- 7.6 In regard to Objective 3, the Party noted that if the DNO was over-recovered as a result of an error, and if an agreement could not be reached with the Authority for the error to be corrected within the same regulatory year the DNO could be forced to breach its Licence.

## 8 IMPLEMENTATION

- 8.1 Subject to Parties and Ofgem approval, DCP 104 will be implemented in the next DCUSA release following Authority consent.

## 9 PANEL RECOMMENDATION

- 9.1 The Panel approved this Change Report on 15 February 2012.
- 9.2 The timetable for the progression of the Change Proposals is set out below:

<b>Activity</b>	<b>Date</b>
Change Report issued for voting	17 February 2012
Voting Closes	02 March 2012
Change Declaration	06 March 2012
Authority Determination	06 April 2012
CP Implemented	June 2012

## **10 APPENDICES:**

- Appendix A – DCP 104 - Shared Impact of Manifest Errors in DUoS Charging, Change Proposal
- Appendix B – DCP 104 Legal Drafting
- Appendix C – Consultation documents
- Appendix D – Voting Form