



DCUSA Change Report

DCP 130 - Remove the discrepancy between non-half hourly (NHH) and half hourly (HH) Un-metered Supplies (UMS) tariffs

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 130 – Remove the discrepancy between non-half hourly (NHH) and half hourly (HH) Un-metered Supplies (UMS) tariffs.
- 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 D to dcusa@electralink.co.uk no later than **31 October 2012**.

2 BACKGROUND

- 2.1 DCUSA Change Proposal (DCP) 130 has been raised seeking to amend the calculation of UMS charges within the CDCM to remove a discrepancy in the Distribution Use of System Charges for HH UMS and NHH UMS customers.
- 2.2 The current discrepancy between the tariffs can sometimes incentivise HH UMS customers to elect to be settled on a NHH basis or vice versa. HH data is more accurate and should be used for settlement purposes where available. This proposed change aims to remove the differential between the tariffs and encourage customers and suppliers to choose the appropriate settlement approach rather than one determined by the DUoS charges. The intent of this proposal covers:
 - Changing the method of calculating UMS charges so that the calculation is based on seasonal time of day time bands
 - Increasing the number of tariffs for NHH UMS to match the categories of NHH UMS detailed in BSCP520¹:

A = Continuous

B = Dusk to Dawn

C = Half-night and Pre-dawn

D = Dawn to Dusk

¹ Balancing and Settlement Code Procedure (BSCP) 520 – Unmetered Supplies in SMRS

- Changing the application of charges for HH UMS to seasonal time of day.
- To remove the discrepancy in Use of System charges between HH UMS & NHH UMS.

2.3 The BSC enables all unmetered customer to trade HH or NHH. Over recent years the proportion of UMS customers trading NHH has reduced.

Settlements are more accurate where UMS customers trade HH as the consumption profile is more reflective that the NHH settlement profiles. UMS accounts for about 1.25% of settlement consumption, of which about two thirds is traded HH.

2.4 There is a wide range of customer groups with UMS equipment. The bulk of the consumption is street lighting load which is predominately dusk-dawn consumption. This profile dominates the CDCM model calculations, and an 'average customer' with this load profile may be charged appropriately. However, there are other significant customer groups with different load profiles which are adversely impacted by the HH derived Red, Amber, Green (RAG) pricing structure.

2.5 The current CDCM model recovers a large amount of revenue from the HH UMS 'red' units. As the typical consumption in distribution areas for UMS is only during the four winter months then the total proportion of red units is low. This has the effect of calculating a high average p/kWh for the red units. Any customer who has a pattern of usage which has a higher than 'average' red unit consumption (such as continuous equipment), incurs a disproportionately higher DUoS bill.

2.6 Further information on the proposal can be found in the Change Proposal form (Appendix A).

2.7 It should be noted that DCP 130 seeks only to address the Distribution Use of System charges and cannot impact on other factors that could encourage customers to choose to move between HH and NHH settlement.

3 DCP 130 – WORKING GROUP CONSIDERATIONS

3.1 The DCUSA Panel established a Working Group to assess DCP 130. The group included Supplier, Distributor and Ofgem representatives. Meetings

were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

Changes to the CDCM Model

3.2 The Working Group discussed the CP and worked with a consultant to update the CDCM model to meet the intent of DCP 130. The changes made to this updated version of the CDCM model include:

- Changes to the tariff list:
 - The existing NHH UMS tariff has been replaced with four new NHH UMS tariffs (A, B, C and D) in line with BSCP 520.
 - The unit rates for LV UMS pseudo HH are no longer applied to the red, amber and green time-bands. The published rates within the model apply to the black, yellow and green time-bands. The black time-band is the seasonal time-band. A description of the time-bands is provided in Appendix F. The green time-band is the same as used for the other half hourly customers. The yellow time-band is all time periods not covered by black or green.
- Additional tables
 - Input worksheet: tables 1064, 1065, 1066
 - Multi worksheet: 26 new tables 2418–2443
- Minor cosmetics (not affecting tariffs)
 - Table 2410 split
 - Adjust worksheet reordered

3.3 Further detail on the changes that have been made to the model can be found in Appendix G.

Impact of DCP 130 on Tariffs

- 3.4 Populated versions of the DCP 130 updated CDCM model are available on the following webpage for all DNO areas:
<http://www.reckon.co.uk/adhoc20120910/>
- 3.5 These populated models demonstrate the impact on tariffs of the DCP 130 proposal.
- 3.6 Following the DCP 130 consultation SSE Power Distribution further reviewed its SHEPD timebands. The proposed SHEPD black/yellow time-bands set in Appendix F are now different to those included in the DCP130 consultation. The CDCM methodology adjusts charges on the basis of coloured time-bands in order to ensure that, overall, they will approximately reflect the different contributions of different tariffs to the time of system peak. The previous black time-band included significant daylight time, which meant that unmetered supplies consumed about 50 per cent more power at the time of system peak than they do on average during the black time-band. The proposed black time-band now is predominately at night and therefore similar (in terms of unmetered supply load) to conditions at the time of system peak and results in more cost reflective charges.
- 3.7 The impact analysis provided as Appendix E provides a percentage change in each tariff component between the published prices for each DNO in April 2012 and the amended CDCM model. The input data has been held constant wherever possible to enable a like for like comparison. However, when comparing the percentage change in tariffs, the following should be taken into account:
- The new LV UMS pseudo HH tariff is based on the black, yellow and green time-bands and this is compared to the red, amber and green time-bands which cover different time periods.
 - The four new NHH UMS tariffs are compared to the existing NHH tariff. The existing NHH tariff is effectively an average rate which covers all the NHH UMS tariffs, so this is not a like for like comparison.
- 3.8 Given the difficulty of comparing the impact for UMS tariffs, an additional table below has been provided. This table shows the amount of revenue

that is currently recovered by DNOs from the UMS tariffs before and after the change proposal:

DNO	Revenue from UMS tariffs in April 2012 Model (£)	Revenue from UMS tariffs under change proposal (£)	Percentage Change
ENW	11,286,863	10,162,582	- 10.0%
NP Northeast	5,653,613	4,106,695	- 27.4%
NP Yorkshire	5,666,209	4,305,908	- 24.0%
SPEN SPD	8,292,667	6,470,779	- 22.0%
SPEN SPM	4,988,263	4,280,091	- 14.2%
SSEPD SEPD	7,041,262	6,256,959	- 11.1%
SSEPD SHEPD	6,225,673	3,986,447	- 36.0%
UKPN EPN	7,359,777	6,637,505	- 9.8%
UKPN LPN	4,865,827	4,379,282	- 10.0%
UKPN SPN	5,051,055	4,577,660	- 9.4%
WPD EastM	9,419,036	7,814,866	- 17.0%
WPD SWales	5,563,590	4,792,750	- 13.9%
WPD SWest	5,660,110	5,199,986	- 8.1%
WPD WestM	8,470,142	7,205,373	- 14.9%

3.9 This Change Proposal introduces a seasonal time-band for HH UMS tariffs and four new NHH UMS tariffs across all DNOs. However, the impact on the revenue recovered by DNOs from UMS is different and varies from a decrease of 8.1% to a decrease of 36%. This is due to the following:

- The primary driver is the mix of UMS tariffs for each DNO. The impact of the proposed change will be bigger where a large proportion of a DNO's NHH UMS tariffs are category A or D.
- The proportion of the UMS customers for each DNO that are settled either NHH or HH. This will have an impact under option 2 outlined in 3.9 below. Under this scenario the impact of the change in the calculation of the coincidence factors will have a bigger impact where a DNO has more NHH customers.

3.10 The Working Group notes that any changes to the methodology will re-distribute the revenue recovery between customer groups. The DNOs have reviewed the impact that DCP130 has on the non-UMS tariffs and concluded that these are not significant and has not produced any anomalous or unexpected results. Appendix E contains three spreadsheets which demonstrated the impact of this change proposal on the UMS customers and the consequential impact on other customers. The three spreadsheets contain the following:

- “DCP 130 illustrative impact 9-Oct-12” – This spreadsheet shows the tariffs published in April 2012 for each DNO and compares them with the tariffs that would have been published if DCP130 had been implemented.
- “DCP130 revenue and units compilation 09-Oct-12” – This spreadsheet contains the volume forecast and revenue recovered from each customer group based on the tariffs published in April 2012 and the equivalent volumes and revenues under DCP130 for each DNO. The Summary sheet compares the change in the average UMS tariff and the total revenue from UMS customers.
- “Revenue Summary 9 Oct 12” – This spreadsheet contains the revenue recovered from each customer group based on the tariffs published in April 2012 for each DNO and compares them with the revenues that would have been generated if DCP130 had been implemented.

Coincidence Factors

3.11 The Working Group discussed how to determine the co-incidence factors for the new UMS tariffs. After consulting industry parties the Working Group determined that coincidence factors should be calculated as follows:

- The coincidence factors for the four new NHH UMS tariffs are derived from the standard industry profile for that GSP Group for each Category. These values may change year on year, if the system peak occurs in some years after dusk, and some year prior to dusk. The coincidence factor value used for the production of the NHH UMS tariffs will be the average of the last three years of data for the new profiles.

- The coincidence factors for the HH UMS tariff will continue to be derived on the same basis as specified within the current methodology. This is an amendment to the consultation which proposed using the standard industry profiles for NHH UMS to derive the coincidence factor for the HH UMS tariff.

- 3.12 Following this amendment to the way in which coincidence factors are calculated, DNOs have reviewed the impact analysis to determine whether there have been any material change to tariffs. A revised impact analysis is attached to reflect the changes detailed in paragraph 3.6 above. The Working Group agreed that this amendment was not sufficiently material to require a further consultation.

Consequential Changes

- 3.13 The replacement of the existing NHH UMS tariffs with four new NHH UMS tariffs will result in consequential changes to the EDCM and Annual Review Pack (ARP).
- 3.14 The EDCM model uses the CDCM tariffs and applies EHV connected IDNO discounts to these. As new tariffs have been created for DCP130 the EDCM model will need to be updated.
- 3.15 The ARP has a macro that uses the CDCM model to forecast future prices. Therefore a change to the CDCM model would require a change to the ARP.
- 3.16 The Working Group notes that there are other Change Proposals seeking to amend the ARP (DCP 131² and DCP 132³) and the EDCM (DCP 152⁴) and therefore any changes made for DCP 130 may not be to the latest version, depending on the Ofgem decision for DCP 131, DCP 132 and DCP 152. As the changes for DCP 130 are minor the group has decided that the changes will be applied after an Ofgem decision on DCP 130 and the other DCPs has been received.
- 3.17 The User Manual⁵ for CDCM will require updating following approval of DCP 130. This will provide guidance to ensure that the changes are applied in a consistent manner. The CDCM User Manual sits outside of the remit of the DCUSA. Updating the User Manual is a standard process for any Change Proposal and is managed by the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG).

² DCP 131 - Improving the predictability and transparency of CDCM Inputs

³ DCP 132 - Improving the transparency of CDCM target revenue

⁴ DCP 152 - Implementation of the combined EDCM for import and export charges

⁵

www.energynetworks.org/modx/assets/files/electricity/regulation/CDCM/CDCM%20User%20Manual%20-%20May%202012%20v2.pdf

4 DCP 130 – CONSULTATION

- 4.1 The DCP 130 Working Group issued a consultation to all DCUSA Parties seeking views on the CP. The Working Group reviewed each of the twelve responses received to the consultation and concluded that all of the respondents understood the intent of DCP 130.
- 4.2 The remainder of this section summarises the responses to the consultation questions.

Are you supportive of the principles of the CP?

- 4.3 The majority of the respondents were supportive of the principles of the CP.
- 4.4 One respondent noted that they are unsure whether the proposed change will remove the incentive for HH customers to elect to settle on a NHH basis as intended. The Working Group noted that DCP 130 seeks only to look at the Distribution Use of System charges and cannot impact on other factors that could encourage customers to choose to move between HH and NHH settlement.
- 4.5 A further respondent noted that whilst he has sympathy for the changes proposed, he does not support the intent as drafted. The Working Group noted that the intent of the Change Proposal could not be amended.

Do you consider that the proposal better facilitates the DCUSA Objectives? Please provide supporting information.

- 4.6 The majority of consultation respondents agreed with the Working Group that the CP better facilitates DCUSA General Objective 2, Charging Objective 1, Charging Objective 2, Charging Objective 3 and Charging Objective 4. The following tables outline the respondents' views on which Objectives are facilitated by the CP:

DCUSA General Objective	Number of Respondents who indicated it was facilitated
Objective #1	0
Objective #2	8
Objective #3	0
Objective #4	0
Objective #5	0

DCUSA Charging Objective	Number of Respondents who indicated it was facilitated
Objective #1	7
Objective #2	8
Objective #3	10
Objective #4	6
Objective #5	0

- 4.7 It was the view of one respondent that the DCUSA objectives are not better facilitated due to the option used for determining the UMS coincidence factors. This respondent noted that should an alternative option be used then they would agree that the CP better meets Charging Objective one and potentially Charging Objective two. The Working Group subsequently amended the way in which coincidence factors are derived which overcame this issue.

Do you have any comments on the proposed legal text?

- 4.8 Four of the twelve consultation respondents commented on the proposed legal text. The Working Group reviewed the legal text in light of these comments and made some minor changes.

Are there any alternative solutions or matters that should be considered by the Working Group?

- 4.9 One respondent noted that DCP 130 seeks to address the inconsistency in cost allocation between single rate tariffs and multi-rate tariffs for UMS customers. The respondent suggested that the Working Group should address the inconsistency for all customers or provide an explanation as to why only the UMS subset of customers are considered under DCP 130. The Working Group discussed this comment and noted that all customers will be addressed through the work of the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG) HH/NHH subgroup but to date DCP130 is the only change that has been submitted by the group. It was felt by the group that the issue around unmetered supplies should be progressed independently as the impact in some DNO areas is significant and the knock on impact on other tariffs is small in comparison.
- 4.10 Another respondent suggested that the Working Group should mandate a set of criteria that DNOs should use to define their black time bands, to avoid a situation in which the average load of street lighting during the

black time band is a lot less than the load of street lighting at relevant times of system peak. The Working Group discussed this comment and noted that the black time-band is defined based on the system peaks of each network and UMS may or may not be contributing to this peak.

- 4.11 A further respondent queried why the black rate in some DNO areas was extremely high relative to other units. The Working Group noted that this may be due to scaling, as scaling is based on the red and super red periods.
- 4.12 It was suggested by one respondent that the Working Group may like to consider raising a change to the BSC to mandate HH for all UMS. It was noted that this sat outside of the scope of the Working Group.

Are you aware of any wider industry developments that may impact upon or be impacted by this CP? If so, please give details, and comment on whether the benefit of the change may outweigh the potential impact and whether the duration of the change is likely to be limited.

- 4.13 One respondent highlighted that if DCP 134 'notice period for changes to distribution time bands' is approved then this is likely to impact the DCP 130 legal text. The Working Group noted this comment but agreed that it could not build DCP 134 into the legal text for DCP 130.
- 4.14 Two of the respondents noted that there are a number of changes to the CDCM being progressed at present and that the impact assessment for DCP 130 does not consider the combined impact of these CPs on tariffs. The Working Group agreed that it could only look at the impact of DCP 130 in isolation.

Are you supportive of the proposed implementation date of 1 April 2013?

- 4.15 Nine of the respondents supported the proposed implementation date.
- 4.16 One respondent noted that it was ambitious. Another proposed an implementation date of 1 April 2014 so that a greater notice period can be provided and additional impact analysis produced. The Working Group reviewed the impact analysis provided and agreed that it was fit for purpose and enabled individuals to respond to the consultation. The group noted that for the Scottish DNOs there is political pressure to ensure the change goes through sooner rather than later.

- 4.17 Another respondent suggested consideration should be given to the practicalities of the proposed implementation date, such when Market Domain Data (MDD) will be updated. The Working Group discussed this point and noted that should DCP 130 be approved from the point when indicative tariffs are produced in December 2012 there would be a period of three to four months to update MDD.

DNOs, do you agree with the Working Group's assessment that if an Ofgem decision was received by 5 December 2012, this would permit use for the April 2013 indicative tariffs?

- 4.18 The majority of respondents to this question agreed that if an Ofgem decision was received by 5 December 2012 then this would permit use in the April 2013 indicative tariffs
- 4.19 Several of the respondents noted that they would welcome an early decision from Ofgem.

The input data for table 1064 (Average Split of Rate 1 Units by Special Distribution Time Band) has been determined based on estimated switching times for each category. It is the intention of the Working Group to re-calculate values for this table for each DNO area based on approved switching regimes. These values would then only be re-calculated where there is a change of time band. Do you agree with this approach? Please give your rationale.

- 4.20 Seven of the respondents agreed with the approach proposed by the Working Group.
- 4.21 One respondent stated that it is not clear when the yellow time-band would be utilised. Appendix F sets out the black, yellow and green time bands for each DNO.
- 4.22 A couple of the respondents noted that the methodology used should be defined, potentially in the CDCM user manual. The Working Group agreed that the CDCM User Manual should be updated for DCP 130. This is a standard process for any change proposal and is managed by the Methodologies Issues Group.
- 4.23 Some of the respondents that did not agree with the proposal suggested that there should be more frequent review of the input data for table 1064, rather than just when there is a change to the time bands. The

Working Group noted that approved switching regimes are unlikely to change and therefore the input for 'Average Split of Rate 1 Units by Special Distribution Time Band' is also unlikely to change much year on year. The working group noted however that factors such as the number of weekdays occurring during the different timebands could change annually and will affect the proportion of units recorded in them and therefore they agreed that updates to this input item should not be limited to when the timebands are changed. This data input will now be updated annually in line with all other tariffs. .

The Working Group noted that there are three potential options for determining the co-incidence factors for the new UMS tariffs.

1. *Big bang for NHH and HH – this option will create a step change for all UMS tariffs*
2. *Change NHH immediately and leave HH as a gradual change*
3. *Do a gradual change for all*

It was the view of the Working Group that option 2 is the preferable option. Do you agree? Please provide your rationale.

4.24 The Working Group noted that the majority of respondents were supportive of option 2. However, following a review of the calculation of coincidence factors, the group agreed to calculate them as described in 3.11. This amendment to the calculation of the UMS coincidence factors removes the difference between option 1 and option 2 described above as the coincidence factor for HH UMS tariff will continue to be calculated on the same basis as the existing methodology. Consequently, there will be no step change associated with the re-calculation of the HH UMS coincidence factor.

Do you have any further comments?

4.25 One respondent noted that in his view the process of piecemeal modification of the charging methodologies on the basis of change proposals targeting specific problems is likely to lead to good charging methodologies. It was agreed that this sits outside of the scope of the DCP 130 Working Group.

- 4.26 Another respondent queried how load factors will be treated/calculated under DCP 130. The Working Group agreed that the load factor will be calculated on the same data that is used to derive the coincidence factors. Again this will need to be detailed in the CDCM user manual.

5 DCP 130 – WORKING GROUP CONCLUSIONS

- 5.1 The DCP 130 Working Group unanimously supports the intent and principles of the CP.
- 5.2 It is the view of the Working Group that, based on analysis carried out, the DCP 130 updated CDCM model meets the intent of DCP 130. The model addresses the treatment of HH and NHH tariffs and removes the inconsistency for unmetered tariffs by deriving the NHH tariffs and HH tariff on the same basis. To enable this it has been necessary to introduce a new seasonal time band for the pseudo half hourly UMS tariff to ensure that the four new NHH tariffs that are derived from this rate are cost reflective.
- 5.3 The group notes that the proposed implementation date of 1 April 2013 provides a limited notice period given that an Ofgem decision on DCP 130 is expected around 5 December 2012. Should this change be approved it is expected that the changes will be included in DNOs indicative charges for April 2013.

6 PROPOSED LEGAL TEXT

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

7 EVALUATION AGAINST THE DCUSA OBJECTIVES

- 7.1 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 130:

DCUSA Charging Objective One - 'that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence'. DCP 130 reduces the differential between HH and NHH UMS tariffs and encouraging customers and suppliers to choose the appropriate

settlement approach.

DCUSA Charging Objective Two - '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)'. DCP 130 reduces the differential in use of system charges between the tariff groups and improves the cost reflectivity of prices. For instance, at the moment we have a single tariff for NHH UMS customers covering all UMS regimes, so a customer using consumption dawn-dusk and dusk-dawn pay identical rates, this is similar to an economy 7 customer paying the same rates for day & night consumption. Introducing new tariffs to separate out these regimes allows more cost reflective prices.

DCUSA General Objective Two - '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' - DCP 130 reduces the differential in use of system charges between the tariff groups and improves the cost reflectivity of prices. For instance, at the moment we have a single tariff for NHH UMS customers covering all UMS regimes. By introducing new tariffs to separate out these regimes more cost reflective prices are possible.

DCUSA Charging Objective Three - 'that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business'. DCP 130 removes the differential between HH and NHH DUoS tariffs.

DCUSA Charging Objective Four - 'that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business'. DCP 130 facilitates the industry requirement to remove the price barrier for customers to trade on a HH or NHH basis.

8 IMPLEMENTATION

8.1 Subject to Authority consent, DCP 130 will be implemented on 1 April 2013.

9 PANEL RECOMMENDATION

9.1 The DCUSA Panel approved the DCP 130 Change Report at its meeting on 17 October 2012.

9.2 The timetable for the progression of the Change Proposals is set out below:

Activity	Date
Change Report issued for voting	17 October 2012
Voting closes	31 October 2012
Change Declaration	1 November 2012
Authority Consent	5 December 2012
CP Implemented	1 April 2013

10 APPENDICES:

- Appendix A – DCP 130 Change Proposal
- Appendix B - Proposed Legal Drafting
- Appendix C – DCP 130 Consultation Documents
- Appendix D - DCP 130 Voting Form
- Appendix E – DCP 130 Impact Analysis
- Appendix F - Description of Time-bands
- Appendix G – Changes to the CDCM Model
- Appendix H – CDCM Model Updated for DCP 130