



## **DCUSA Change Report**

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DCP 150 - Implementation of Notice in  
DCUSA for Changes to certain CDCM Inputs

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 150 - Implementation of Notice in DCUSA for Changes to certain CDCM Inputs.
- 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](mailto:dcusa@electralink.co.uk) no later than **8 March 2013**.

## 2 BACKGROUND

- 2.1 DCP 150 has been raised by Npower and seeks to fix the following inputs into the Common Distribution Charging Methodology (CDCM) model by providing an obligation in DCUSA for DNOs to provide a 15 month notice period to amend them:
  - 1017 - Diversity Allowance between top and bottom of network level
  - 1018 - Proportion of relevant load going through 132kV/HV direct transformation
  - 1019 - Network model GSP peak demand (MWh)
  - 1025 - Matrix of applicability of LV service models to tariffs with fixed charges
  - 1026 - matrix of applicability of LV service models to unmetered tariffs
  - 1028 - Matrix of applicability of HV service models to tariffs with fixed charges
  - 1092 - Average kVAr by kVA, by network level
- 2.2 The Change Proposal is provided as Attachment C to this document.

## 3 DCP 150 – WORKING GROUP CONSIDERATIONS

- 3.1 The DCUSA Panel established a Working Group to assess DCP 150. The group comprised of 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](http://www.dcusa.co.uk).
- 3.2 The proposer of DCP 150 highlighted to the Working Group that currently

there are inputs in the CDCM model which tend to change year on year. Changes to these model inputs can cause unexpected volatility within charges. Suppliers price consumers on 1, 2 and 3 year contracts – either with Distribution Use of System (DUoS) charges built into the overall rate that the customer receives on the bill, or where DUoS charges are passed through directly onto the customer's bill. Changes to CDCM model inputs can lead to sudden price movements, perhaps resulting in windfall gains or losses for Suppliers. This can lead to consumers being charged on a different basis depending on the type of contract they have with their Supplier.

- 3.3 The Working Group discussed the proposal and agreed that the introduction of a 15 month notice period for changes to the majority of CDCM inputs listed in the CP form would give market participants a better view of future tariffs and would reduce price shocks for both new entrants and current market participants. However, the Working Group and the proposer of DCP 150 agreed that a 15 month notice period requirement is not necessary for CDCM input 1019 'Network model GSP peak demand' as this input is set at 500MW in DCUSA Schedule 16 and, therefore, can only be amended through a DCUSA Change Proposal.
- 3.4 The Working Group noted its concerns that to publish CDCM input information 15 months in advance would require publication towards the end of December. It is recognised that this will be the same time as indicative DUoS charges are being prepared and published to Parties for the following April. This is already a busy time of year for DNOs and may significantly increase the risk of errors occurring in either the future inputs or the indicative charges.
- 3.5 The Working Group discussed where notification of changes to the inputs could be published and agreed that the Annual Review Pack (ARP) would be the most appropriate vehicle for notification.

#### 4 DCP 150 – CONSULTATION

- 4.1 The Working Group issued a consultation seeking industry views on DCP 150. Nine DCUSA Parties responded to the consultation. The Working Group reviewed each of the responses and concluded that all of the respondents understood the intent of DCP 150.
- 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 Working Group noted that eight respondents were supportive of the principles of the CP. One respondent was not supportive and suggested that to lock down these inputs would prevent/stifle development of the methodology.

*Do you consider that the proposal better facilitates the DCUSA Objectives?*

- 4.4 Six of the respondents agreed that DCP 150 better facilitates the DCUSA Objectives, one disagreed and two felt that it was questionable. 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	6
Objective #3	0
Objective #4	0
Objective #5	0

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

- 4.5 One respondent noted that in their view there has already been significant change implemented, or is currently being developed, through recent Change Proposals relating to smoothing or locking down inputs into the charging models and providing more transparency of the inputs to the

model which should provide more stability and understanding of future charges. The respondent suggested that consideration also needs to be taken of Ofgem's recent decision in relation to measures to mitigate network charging volatility arising from the price control settlement which will introduce a number of measures to reduce tariff volatility (for instance, a lagging incentive mechanism and restricting the frequency of intra-year change). The Working Group noted that the respondent may feel that the cumulative effect of these changes may be delaying implementation of innovations.

- 4.6 Two respondents noted that whilst they agree that the CP better promotes facilitation of effective competition in their view the CP will reduce cost reflectivity. This would work against Charging Objectives 3 and 4.
- 4.7 The Working Group noted that a balance needs to be struck between cost reflectivity and volatility. It was suggested by a Working Group member that as customer's contracts are locked down over a long period the cost reflective prices may not be seen by the end customer. Therefore, by reducing volatility it is more likely that the cost signals will be priced into customers contracts.

*Do you have any comments on the proposed legal text?*

- 4.8 Two respondents suggested that the CDCM table numbers should not be included in the DCP 150 legal text as they do not appear elsewhere in Schedule 16. The Working Group agreed that this was a reasonable suggestion and updated the legal text accordingly.
- 4.9 One of these respondents also noted that it needs to be clear where notification of the changes to the inputs should be published. The Working Group noted that this was covered in a later consultation question.
- 4.10 Another respondent stated that in their view DCP 150 would stifle development of the CDCM. The respondent suggested that in particular it would introduce a time lag to implement the current work to develop a common 500MW model. The Working Group discussed this comment and noted that it did not believe that the DCP 150 inputs affect the 500MW model. The Working Group contacted the respondent who agreed that the 500MW model is not impacted. The respondent noted that their comment

was more a general comment with regard to stifling the development of the methodology over time.

4.11 The Working Group noted that DCP 134<sup>1</sup> included a clause in the legal text that allowed the distribution timebands to be changed without a 15 month notice period where the change was related to a change in the Common Distribution Charging Methodology. A similar clause was not included in DCP 136<sup>2</sup> which introduced a 15 month notice period for Asset Cost Changes in the CDCM. The group noted that there is therefore an inconsistency in the notice period requirements introduced by DCP 134 and DCP 136. It was agreed that addressing this inconsistency was outside the scope of DCP 150 and would require a separate Change Proposal.

4.12 The Working Group discussed whether the DCP 150 legal text should be amended to include a clause similar to that in DCP 134. The majority view of the group was that a similar clause should be included; therefore, the legal text was updated to state that the requirement to provide a minimum of 15 months notice will not apply where the change is the result of a methodology change.

*The Working Group is concerned that the 15 month time period may be excessive and will prevent new data that becomes available from being used, which will reduce cost reflectivity. Do you agree with the Working Group's assessment? Please provide supporting comments.*

4.13 Five respondents agreed with the Working Group's assessment that the 15 month notice period may be excessive and reduce cost reflectivity. Three respondents disagreed with this view.

4.14 One respondent suggested that a materiality threshold could be included above which changes can be made without the 15 month notice period. The Working Group agreed that this suggestion would work against the intent of the CP, as the larger the change the greater the notice period preferred.

*The Working Group is concerned that to publish asset cost information 15 months in advance will require publication towards the end of December. It is recognised that this will be the same time as indicative DUoS charges are being prepared and published to Parties for the following April. This is already a busy time of year for DNOs and may significantly increase the risk of errors occurring in either the*

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<sup>1</sup> DCP 134 - Implementation of notice in DCUSA for changes to distribution time-bands

<sup>2</sup> DCP 136 - Notice period for Asset Cost Changes in the CDCM

*future asset costs or the indicative charges. Other options that could be considered are either a minimum of 12 or 18 months notice which are both away from any other pricing publications.*

- *Do you agree with either of these proposed alternatives?*
- *If yes, would this cause any foreseeable problems for fulfilment of the DCUSA objectives, or wider repercussions for the industry and consumers, that would be mitigated by having a 15 month period?*

*If you believe that 12 or 18 months are not suitable is there an alternative that you would suggest?*

4.15 Five of the respondents expressed a preference for the notice period to be set at 15 months, whilst two respondents suggested that 12 months would be preferable. One respondent had no preference and another noted that in their view a notice period should not be introduced.

4.16 The Working Group noted that the majority of respondents agreed with the proposed 15 month notice period. It was highlighted that this value had been chosen to align with the notice period introduced by DCP 136<sup>3</sup>. The Working Group agreed that aligning these notice periods would be preferable as it will reduce workloads by maintaining consistency. The group, therefore, agreed that the notice period should be set at 15 months.

*How do you think DNOs should provide notice of a change to the data identified within this consultation? Should it be consistent with DCP 136, and place the notification in the Annual Review Pack?*

4.17 The Working Group noted that the majority of respondents to this question agree with publishing notice in the Annual Review Pack (ARP). The group agreed that this approach would be preferable as it would be consistent with DCP 134<sup>4</sup> and DCP 136<sup>5</sup> which also introduce notice periods for CDCM inputs.

4.18 One respondent suggested that it would also be helpful to Suppliers if the LC14 statement included a section listing any changes resulting from DCP 134, DCP 136 and DCP 150. The group noted that the LC14 statement sits outside the DCUSA governance process and therefore cannot be amended as part DCP150. The Working Group agreed to recommend to DNOs that a line be added to the LC14 statement stating that these particular inputs are

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<sup>3</sup> DCP 136 - Notice period for Asset Cost Changes in the CDCM

published in the ARP; this would be a static line that would not include the actual values.

*Do you agree with the proposed implementation date?*

4.19 The DCP 150 consultation document noted that proposed implementation date for DCP 150 is as soon as reasonably practicable following Authority consent, but not before 1 April 2013. This will ensure that the methodology will be in place prior to the calculation of indicative charges for April 2014.

4.20 The Working Group noted that all respondents agreed with the proposed implementation date of 1 April 2014. The group noted when this question was asked it was considered that DCP 150 should be in place for the 1 April 2014 and this is the view may have been taken by respondents. The Working Group agreed that the CP should be implemented as soon as reasonably practicable following Authority consent, but not before 1 April 2013. This will ensure that the first set of tariffs impacted by the CP would be those that take effect from 1 April 2014.

*Do you have any other comments on DCP 150 that you feel the Working Group should consider?*

4.21 No respondents had any other comments on DCP 150.

## **5 PROPOSED LEGAL TEXT**

5.1 DCP 150 was raised seeking to place a 15 month notice period on changes to the following CDCM inputs:

- 1017 - Diversity Allowance between top and bottom of network level
- 1018 - Proportion of relevant load going through 132kV/HV direct transformation
- 1019 - Network model GSP peak demand (MWh)
- 1025 - Matrix of applicability of LV service models to tariffs with fixed charges
- 1026 - matrix of applicability of LV service models to unmetered tariffs
- 1028 - Matrix of applicability of HV service models to tariffs with fixed charges
- 1092 - Average kVAr by kVA, by network level

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<sup>4</sup> DCP 134 - Implementation of notice in DCUSA for changes to distribution time-bands

<sup>5</sup> DCP 136 - Notice period for Asset Cost Changes in the CDCM



- 5.2 The legal drafting places the 15 month notice period on the input tables specifically referenced in Schedule 16 paragraph 25A (Proportion of relevant load going through 132kV/HV direct transformation), paragraph 28A (diversity allowance), paragraph 35A (applicability of the service models) and paragraph 51A (Average KVAR by KVA by network level).
- 5.3 A 15 month notice period requirement has not been included in relation to CDCM input 1019 'Network model GSP peak demand' as this input is set at 500MW in DCUSA Schedule 16 and, therefore, this value can only be amended through a DCUSA Change Proposal.
- 5.4 The legal drafting also includes text that states that where the change is caused by the implementation of a change to the Common Distribution Charging Methodology, the requirement to provide a minimum of 15 months prior notice will not apply.
- 5.5 The draft legal text has been reviewed by Wragge & Co and is attached as Appendix B.

## 6 EVALUATION AGAINST THE DCUSA OBJECTIVES

- 6.1 Those Working Group consider that the following DCUSA Objectives are better facilitated by DCP 150:
- **DCUSA General Objective two<sup>6</sup>** - Better facilitated - the Working Group agrees that enhanced transparency of changes to the methodology inputs will allow market participants a better view of the potential changes to tariffs. This will allow transparency to the end customer and therefore promote competition.
  - **DCUSA Charging Objective Two<sup>7</sup>** - Better facilitated – it is the view of the Working Group that the CP ensures increased stability and transparency within the Charging Methodology. This increases market confidence in the tariff setting regime and encourages

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<sup>6</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.

<sup>7</sup> 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).

competition by reducing price shocks for both new entrants and current participants.

- 6.2 The group notes that two respondents to the consultation highlighted that whilst they agree that the CP better promotes facilitation of effective competition in their view the CP will reduce cost reflectivity. This would work against Charging Objectives 3 and 4. The Working Group noted that a balance needs to be struck between cost reflectivity and volatility. It was also noted that the delay in implementing changes to the CDCM inputs will enable Suppliers to incorporate these changes into customer contracts.

## **7 IMPLEMENTATION**

- 7.1 Subject to Authority consent, DCP 150 will be implemented as soon as reasonably practicable following Authority consent, but not before 1 April 2013, so that the first set of tariffs impacted by the CP would be those that take effect from 1 April 2014.

## **8 PANEL RECOMMENDATION**

- 8.1 The DCUSA Panel approved the DCP 150 Change Report at its meeting on 20 February 2013.
- 8.2 The timetable for the progression of the Change Proposals is set out below:

<b>Activity</b>	<b>Date</b>
Change Report issued for voting	22 February 2013
Voting closes	8 March 2013
Change Declaration	12 March 2013
Authority Consent	18 April 2013
CP Implemented	As soon as reasonably practicable after approval but not before 1 April 2013

## **9 APPENDICES:**

- Appendix A – DCP 150 Change Proposal
- Appendix B - Proposed Legal Drafting
- Appendix C – DCP 150 Consultation Documents
- Appendix D - DCP 150 Voting Form