

**DCUSA DCP 178 CHANGE DECLARATION**

VOTING END DATE: 16 JANUARY 2015

DCP 178 - NOTIFICATION PERIOD FOR CHANGE TO USE OF SYSTEM CHARGES	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	DISTRIBUTED GENERATOR	GAS SUPPLIER
CHANGE SOLUTION	Accept	Reject	Accept	n/a	n/a
IMPLEMENTATION DATE	Reject	Reject	Accept	n/a	n/a
RECOMMENDATION	<p><b>Change Solution – Reject.</b> In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the change solution was less than 50% in all Categories.</p> <p><b>Implementation Date – Reject.</b> In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was less than 50% in all Categories.</p>				
PART ONE / PART TWO	Part One – Authority Determination Required				

PARTY	SOLUTION (A / R)	IMPLEMENTATION DATE (A / R)	WHICH DCUSA OBJECTIVE(S) IS BETTER FACILITATED?	COMMENTS
<b>DNO PARTIES</b>				
Electricity North West	n/a	n/a	n/a	We are abstaining from voting on this

				<p>change proposal but offer the following comments:</p> <p>The Working Group suggests that DCUSA General Objective 2<sup>1</sup> and Charging Objective 2<sup>2</sup> are better facilitated by DCP 178. In both cases the Group suggests that DCP178 will ensure <i>“increased stability and transparency within the Charging Methodology. This in turn, should increase market confidence in the tariff setting regime and encourage competition by reducing price shocks for Suppliers (both new entrants and current participants) and consumers.”</i></p> <p>We disagree with this analysis. DCP 178 does nothing to increase stability and transparency of the methodology, and actually serves to increase the potential level of price shocks, albeit with a greater level of notice. Equally, we cannot see how confidence in the tariff setting regime is improved by such a “sticking plaster” approach to resolving the underlying issues.</p> <p>We believe that competition is best supported by a charging methodology that exhibits the principles of cost reflectivity but is also simple and transparent, making it</p>
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<sup>1</sup> General Objective 2 - 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>2</sup> Charging 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)

				<p>easy for industry participants to predict a trajectory of future charges from a limited set of variable inputs and intuitively rational input/output relationships.</p> <p>The comments from supporters of DCP178 indicate that the charging methodology is currently failing to meet the objectives of stability and predictability; however the change proposal addresses the symptoms rather than the problem itself, and actually makes it more difficult to resolve the underlying issues. In particular, future DCUSA change proposals will be delayed by the implementation of DCP178. As all acceptable proposals must by definition better facilitate the DCUSA objectives, then the additional delay in implementing such proposals must be taken into account when considering the acceptability of DCP178.</p> <p>In summary, we do not consider that the Working Group’s arguments in support of the facilitation of General Objective 2 and Charging Objective 2 carry any weight. Furthermore, the imposition of delay onto other DCUSA changes (which in themselves would better facilitate the objectives) could also be argued to be acting counter to the DCUSA objectives. We urge Ofgem to give full consideration to these points when analysing this change proposal.</p>
Eastern Power Networks	Accept	Reject	We believe that General and	Although we are comfortable that this

London Power Networks	Accept	Reject	<p>Charging Objective 2 are both better facilitated by providing increased notification of changes and hence greater stability within the Charging Methodologies and less need for Suppliers to undertake risk provision. This in turn, should encourage more competitive pricing by reducing unexpected price changes and the need for risk provision by Suppliers.</p>	<p>change will better facilitate the objectives identified above, we remain uncomfortable with the implementation date.</p> <p>We believe that the additional workload imposed on DNOs in the first year of implementation (where charges are finalised at the same time for two years i.e. 2016/17 and 2017/18) needs to be recognised through a phased implementation. A reasonable approach could be that the publication deadline dates for the two charging periods are phased by a period of up to two months.</p> <p>This separation of the notice dates would allow valuable additional time for sufficient diligence and scrutiny to take place by DNOs and thereby minimise the risk of erroneous prices being published.</p> <p>The two month phasing could be delivered in one of three ways, namely:</p> <ul style="list-style-type: none"> <li>• 2016/17 charges being communicated on 31 October 2015 and 2017/18 on 31 December 2015, or</li> <li>• 2016/17 charges being communicated on 30 November 2015 and 31 January 2016 for 2017/18, or</li> <li>• 2016/17 charges being</li> </ul>
South Eastern Power Networks	Accept	Reject		

				<p>communicated in December 2015 and 29 February 2016 for 2017/18.</p> <p>Additionally, we also note that in the change report there is a conflict that is unworkable. As currently described new charging models could be issued on the same day that the final notice for a change of prices is required to be published. This issue needs to be considered so that sufficient time exists for the DNO to undertake the necessary work with the new charging models prior to the deadline of when the notice would be given. We suggest that this needs to be a period of one full month.</p>
SP Distribution	Reject	Reject	We don't believe that DCP178 better facilitates either the DCUSA General or Charging objectives.	No comments.
SP Manweb	Reject	Reject		
SEPD	Reject	Reject	We do not believe that DCP 178 better facilitates DCUSA General Objective 2 and Charging Objective 2 because our concerns on the under / over recovery of revenues and our Licence obligation to be cost reflective in setting charges are not addressed. This Change Proposal will potentially increase volatility in tariffs and revenues, which increase risks for DNO parties.	<p>Clause 19.1.2 of the DCP 178 legal text states that the requisite notice periods applicable to IDNO parties will be 2 months (16/17 charges) and 14 months (17/18 charges and onwards).</p> <p>Although SEPD and SHEPD are not IDNO parties, we operate a significant number of distribution networks which are embedded in other DNO areas ('Out of Area Networks').</p> <p>As DUoS charges for this category of</p>
SHEPD	Reject	Reject		

				<p>network are linked to 'host' DNO charges in the same manner as IDNO network charges, the IDNO notice period must also apply to DNO Out of Area Networks.</p> <p>For Out of Area Networks charging to continue to be enabled, the two options appear to be:</p> <p>1) Clause 19.1 to include an additional provision which recognises that DNO Out of Area Networks are subject to the same notice periods as IDNO network charges;</p> <p>or</p> <p>2) any affected DNO party could apply for a derogation to enable the same periods of notice applicable to IDNO parties to be applicable to the DNOs Out of Area Networks.</p> <p>Our belief is that if this Change Proposal is to be approved, approval should be conditional on Option 1 being applied, as derogations are not appropriate to long term situations.</p> <p>-----</p> <p>DCP 178, due to its notice period to effect changes, will delay the implementation of other change proposals currently in progress, and which may bring improvements to the charging methodologies.</p>
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Northern Powergrid Yorkshire	Accept	Accept	<p>We agree with the working group's assessment.</p> <p><b>General Objective 2</b> - 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</p> <p><b>General Objective 2</b> is better facilitated by ensuring increased stability and transparency within the Charging Methodology. This in turn, should increase market confidence in the tariff setting regime and encourage competition by reducing price shocks for Suppliers (both new entrants and current participants) and consumers.</p>	<p>As proposer of this change we recognise that there are some potential issues, however on balance we believe that all of these can be addressed and this change will provide a greater level of predictability for suppliers. All suppliers have said that volatility can be managed if they are predictable and this change will provide that.</p>
Northern Powergrid Northeast	Accept	Accept		
Western Power Distribution (South West)	Accept	Accept	n/a	n/a
Western Power Distribution (South Wales)	Accept	Accept		
Western Power Distribution (West Midlands)	Accept	Accept		

Western Power Distribution (East Midlands)	Accept	Accept		
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IDNO PARTIES				
GTC	Reject	Reject	We do not believe any objectives are better facilitated by the change and it will effect our ability to carry out general objective 3. In addition it may distort charging objective 2 as our ability to operate competitively may be affected.	Our original concerns from the first vote were not addressed or looked into when the working group reconvened. We still believe that this is not an acceptable time frame for IDNO margin squeeze's which have been resolved via the DCUSA change process to take an effect. There is already a considerable wait involved in these changes being enacted and taking an effect; lengthening this time frame only exacerbates this further.
ESP Electricity	Reject	Reject	n/a	We believe that the DCP goes against DCUSA General Objective 2 and Charging Objective 2 as it limits competition in the distribution of electricity, against General Objective 4 as it leads to inefficiency rather than efficiency and against Charging Objective 3 as it moves away from cost reflectivity.

SUPPLIER PARTIES				
GDF SUEZ ENERGY UK	Accept	Accept	No comment	None
EDF Energy	Accept	Accept	We believe that General Objective2	n/a

			and Charging Objective 2 are better facilitated by this change proposal by increasing the stability and transparency of the charging methodology helping both customers and Suppliers.	
E.ON	Accept	Accept	DCUSA general objectives 2 and DCUSA Charging Objectives 2	n/a
Good Energy	Accept	Accept	We consider the proposal better facilitates both the second General Objective and second Charging Objective by reducing the forecasting risk suppliers take into account when setting their prices thereby reducing risk premiums included in prices. This benefits smaller suppliers because risk premiums need to be financed and smaller suppliers tend to have a higher cost of capital.	The reduction in the risk premium suppliers currently include in their prices to account for uncertainty in the level of distribution charges should result in a reduction in the charges customers pay.
Gazprom Marketing & Trading Retail Ltd	Accept	Accept	Objective 2 of both the DCUSA General Objectives and the DCUSA Charging Objectives are better facilitated by this change. They will facilitate greater competition in the supply of electricity as suppliers will have greater certainty of DUoS costs. This will be of benefit to customers who in turn, can have greater certainty of their electricity costs.	n/a

RWE npower ltd	Accept	Accept	<p>RWE npower believe that Charging Objective 2 and General Objective 2 are better facilitated by the implementation of this change proposal and that all other objectives are neutral.</p> <p>This proposal introduces greater certainty to the market of DUoS tariffs leading to more transparency in the marketplace of costs - therefore further facilitating competition by removing a barrier to operate. The change proposal also protects consumers with pass-through contracts who are otherwise exposed to the risk of substantial cost change by providing them with 15 months notice of tariff changes - allowing them more confidence and an ability to understand the likely costs to their business for a longer period.</p>	We have written to Ofgem regarding this subject and would encourage them to use our comments within that letter alongside our opinion presented here.
Scottish Power Energy Retail	Accept	Accept	<p>General objective 2 and charging objective 2</p> <p>We welcome the implementation of measures that serve to introduce increased price certainty by DUoS charges being locked down for a longer period and believe that increased certainty in costs could lead to more accuracy when charging these costs through to customers. We believe that</p>	n/a

			by ensuring greater price stability and transparency within the Charging Methodology facilitates effective competition.	
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<b>DISTRIBUTED GENERATOR PARTIES</b>				
n/a				

<b>GAS SUPPLIER PARTIES</b>				
n/a				