

DCUSA DCP 228 Consultation responses – collated comments

Company	1. Do you understand the intent of the CP?	Working Group Comments
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Yes	Noted
Northern Powergrid	Yes we understand the intent of DCP 228 to change the revenue matching in the CDCM so all unit rates face the same absolute p/kWh adjustment except where any unit rates are subject to a floor price.	Noted
SmartestEnergy	Yes	Noted
UK Power Networks	Yes.	Noted
British Gas	Yes	Noted
SP	Yes we understand the intent of the CP.	Noted

Distribution and SP Manweb		
Electricity North West	Yes	Noted
WPD	Yes	Noted
RWEnpower	Yes	Noted

Company	2. Are you supportive of the principles of DCP 228?	Working Group Comments
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Yes – however, we have concerns that a number of customer groups would experience significant tariff disturbance (+ve) as shown in the RFI impact analysis.	The group noted that they were aware of this impact. The group considered that the proposed solution is still more cost reflective than the current approach.
Northern Powergrid	We are supportive of the principles of DCP 228.	Noted

Smartest Energy	<p>No – we are supportive of reviewing the scaling approach if it can be demonstrated that a perverse outcome is being achieved, possibly changing it to a % increase or additional £/MPAN charges. We do not view a p/kWh uplift as being an improvement and it disproportionately increases the cost burden to base-load industrial and commercial consumers to the benefit of peaky profiles. By solely charging the scaling to the red rate, all customers that have consumption in the red-rate pay the scaled costs to the same £/MWh rate. The current method, whilst producing high red-rates, is fair.</p>	<p>The group noted the respondent's concerns that the CP will disproportionality impact base-load industrial and commercial consumers. The group members noted that cost allocation should be done before scaling and DCP 228 is not about cost allocation. Scaling is about maintaining the pre-scaled cost profiles.</p> <p>It was noted that the spreadsheet prepared by the Proposer of DCP 228 and submitted along-side the CP when it was raised shows that the amount of revenue being recovered from peak related charges is significantly greater than the expected peak related reinforcement costs of the network.</p>
UK Power Networks	Yes.	Noted
British Gas	<p>Yes, it is important that scaling is applied in a way which does not distort the cost reflectivity of the calculated pre-scaled tariffs. This is best achieved using a fixed adder approach to scaling. The current method, by applying all of the scaling to primarily the red/day timeband can significantly distort the cost signals provided by the pre-scaled tariffs.</p> <p>Since Time of Use signals are now used more widely in the CDCM, it is vital the economic signals from the incremental models are not distorted by scaling as this could lead to inefficient actions being taken by users.</p>	Noted
SP Distribution and SP	Yes we are supportive of the principles of DCP 228.	Noted

Manweb		
Electricity North West	Yes, we support the principles of DCP 228 and believe that they offer an improvement on the current method of scaling	Noted
WPD	Yes with reservations see answer to question 7.	Noted
RWEnpower	RWEnpower are supportive of fairer cost allocation within the CDCM model and consider that DCP228 does go some way to addressing some of the issues contained within the model currently. Scaling in particular is currently a large distribution of cost in a non-reflective manner.	Noted
It was noted that there is general support for the principles of the change, with the exception of one respondent.		

Company	3. Do you agree with the proposal to not allow negative demand tariffs, by setting a floor price of zero p/KWh? Please provide your rationale.	Working Group Comments
Southern Electric Power Distribution plc and Scottish Hydro Electric Power	Yes - instinctively, a negative unit rate for demand customers is counter intuitive: it implies (a) the customer is providing a benefit to the network and no costs; and (b) if one customer group has benefits from negative tariffs, others may be subsidising these payments.	Noted

Distribution plc		
Northern Powergrid	No. Where a floor price of zero is imposed, the absolute differential between unit rates of pre-scaled and scaled tariffs is not maintained; hence the guiding principle of the change is lost. By imposing the floor price of zero to (for example) the green unit rate only, the amber and red unit rates would be moved closer to the green rate, and hence the price signal generated by the pre-scaled tariffs would be reduced – a scenario which should be avoided. At present, both Northern Powergrid Licences have significant positive scaling applied, hence negative unit rates would not be an issue for us. We would be happy with some negative unit rates in the future, but would not be comfortable with a scenario in which the average p/kWh for a demand user became negative. We would welcome the removal of the floor price of 0 p/kWh on each unit rate, to instead be replaced by a floor of an average p/kWh of 0.	Noted
Smartest Energy	No. If the scaling is to lower the tariffs and a flat-rate adjustment would cause a negative rate in one of the tariffs, then the tariff should be negative. Setting a floor price to tariffs would mean that scaling is being applied selectively. Clearly, the fully delivered costs of supplying energy at off peak times will remain positive inclusive of wholesale energy costs and the wider industry charges.	Noted
UK Power Networks	We do, we would agree with the view of the working group that having negative charges (or credits) for demand units would send the wrong cost signal to Suppliers and Customers.	Noted
British Gas	We agree with the proposal to maintain the current floor price as this captures the learning from DCP 123 in delivering this	Noted

	<p>improvement on the current methodology.</p> <p>However we also consider that allowing negative demand tariffs would be an improvement on the current methodology and we would suggest that the industry keep the floor price under review should negative scaling become more prevalent or material in the future.</p>	
SP Distributi on and SP Manweb	<p>Yes we agree with the original change proposal (DCP123) of setting the floor price to zero p/kWh. For the same reason as we provided in our response to DCP123:</p> <p>The pre-scaled tariffs resulted in a charge not a credit for the affected tariffs. Allowing scaling to change a charge to a credit rate conflicts with the intent of the model (had scaling not been required a credit would never have been calculated for the tariffs affected.)</p>	Noted
Electricit y North West	<p>Yes, we agree that negative demand tariffs should be capped at zero. To allow tariffs to become negative would potentially incentivise consumers to increase consumption rather than move consumption away from peak. This would conflict with the move to a low carbon economy.</p>	Noted
WPD	Yes	Noted
RWEnpo wer	<p>There is a principle of network assistance that we believe needs to be clarified. It does demand at certain times assist the network. If so there is a case for negative demand tariffs – especially if this defers investment. Under original CDCM proposals this may not have been the case, however, growth in embedded generation will clearly present challenges for network owners. The most cost reflective response to this may be encouraging demand at certain times. We would</p>	Noted

	encourage the working group to consider this further.	
<p>It was observed that responses are mixed but that the majority of respondents are comfortable with the decision made during the progression of DCP 123 that the floor price should be maintained. It was suggested that there would be merit in keeping this area under review. It is noted that negative scaling is not a common occurrence at the moment.</p>		

Company	4. Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.	Working Group Comments
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Yes - for the reasons specified in the change proposal document.	Noted
Northern Powergrid	Yes we feel the proposal better facilitates DCUSA charging objective three by removing the current distortion of pre-scaled unit rates generated by applying scaling primarily to unit rate 1, and instead scaling all unit rates in a manner which maintains the pre-scaled differential between unit rates. As per our response to question three, we believe that charging objective three is better facilitated by the removal of	Noted

	the floor price.	
Smartest Energy	<p>No. We view that this has a negative impact on security of supply as it reduces the incentive to manage peak demand, and by introducing a floor price of zero (which would in practical terms only ever apply to the off-peak prices) the change proposal unfairly discriminates between customers – positive scaling applying to all-hours consumption, negative scaling weighted towards peak consumption.</p> <p>Further, this change would change the balance of cost burden in the supply market by placing additional costs onto industrial and commercial focused businesses (i.e.. at the expense of suppliers who are predominantly Half-hourly Industrial and Commercial'), whilst lowering costs for those with more residential and SME focus.</p> <p>This is supported by the impact assessment – HH HV connections rise in cost by c10%+ in most regions whilst domestic tariffs fall.</p>	Noted
UK Power Networks	<p>We agree with the view of the Working Group that Charging Objective Three is improved as a result of this change. Under the current approach to scaling the cost signals produced by the pre-scaled tariffs in the CDCM are distorted by largely applying scaling into one time band. Under this proposal the unallocated allowed revenue is applied across each of the unit rates on a fixed adder basis, which maintains the incremental cost differential between unit rates across all tariffs and all time bands.</p>	Noted
British Gas	<p>Charging Objective 3 is better facilitated. The incremental cost signals produced by the pre-scaled tariffs in the CDCM are currently distorted by applying scaling primarily into one</p>	Noted

	timeband. By allocating unallocated allowed revenue across each of the unit rates on a fixed adder basis, this change improves cost reflectivity by maintaining the incremental cost differential between unit rates across all tariffs and all timebands. The change also ensures that the unit costs in peak time bands (day or Red unit rates) will better reflect the underlying cost message by virtue of being distorted less than the current method of scaling.	
SP Distributi on and SP Manweb	We agree with the working group assessment that Charging Objective Three is better facilitated by DCP 228 and the reasons as listed in the consultation.	Noted
Electricit y North West	Yes, we agree that it better meets the DCUSA objectives by making prices more cost reflective. Over DPCR5, we have observed that some tariffs have increased substantially due to the profiling of our allowed revenue and the consequential increase in scaling. The application of scaling has a much larger impact on some customers, and has distorted the pricing signals created by the charging methodology. It would be more equitable if this was spread across all customers and this change proposal would offer an improvement on the current methodology.	Noted
WPD	Yes as it makes the tariffs more cost reflective than applying scaling on the unit rate only.	Noted
RWEnpo wer	We consider that the proposal better facilitates charging objective 3 as it can be considered to more cost reflectively allocate costs. Provided there is sufficient notice of the change to charges we consider that it will then be neutral to	The Working Group noted the respondents comments regarding providing sufficient notice.

	all other objectives. However, if not there may be impacts to competition as unpredictable costs will cause market distortions.	
It was noted that all respondents with the exception of one, agreed that the CP will better facilitate the DCUSA Objectives. The Working Group noted that Smartest Energy's concerns were considered under question 3.		

Company	5. Do you have any comments on the proposed legal text?	Working Group Comments
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	No	Noted
Northern Powergrid	No.	Noted
Smartest Energy	No	Noted
UK Power	We have identified some small changes which we feel should be considered by the working group. At the start of the	The group noted that there are different ways in which revenues are described (e.g. "target revenue", "allowed

Networks	second bullet on clause 92, it should be a lower case 't'. In clause 94 should 'tariff component' be replaced by 'unit rate' as they are the only parts being revised under this DCP? At the end of clause 94 should 'target revenues' be changed to 'relevant revenues' as used in clause 91?	revenue" and "relevant revenue"). It was agreed that these descriptions should not be amended in the DCP 228 legal text as they have been in place since 2010 without issue. It was agreed that clause 92 should be amended as suggested by the respondent.
British Gas	No	Noted
SP Distribution and SP Manweb	We have no comments on the proposed legal text.	Noted
Electricity North West	No comments	Noted
WPD	No	Noted
RWEnpower	No	Noted

Company	6. Are you supportive of the proposed implementation date of April 2016?	Working Group Comments
Southern Electric Power Distribution plc and	No, as we think there is a strong likelihood that P322 would be approved phasing the implementation of DCP 179 for up to two years. This makes volume forecasting for the affected PC 5-8 customers challenging and may result in non cost reflective charges in all time bands. April 2018 looks like a more viable implementation date for DCP 228.	The Working Group noted that there is a challenge in volume forecasting, however, this is unaffected by DCP 228. The CP seeks to change the approach to scaling and does not impact upon volume forecasts.

Scottish Hydro Electric Power Distribution plc		
Northern Powergrid	Yes.	Noted
Smartest Energy	No	Noted
UK Power Networks	Yes, we believe that the current approach has a negative effect on the cost reflectivity of the charges calculated, and as such this change should be implemented at the first opportunity.	Noted
British Gas	<p>Following the approval of DCP 179, this is now quite an urgent issue – since Time of Use signals are now used more widely in the CDCM, it is vital the economic signals from the incremental models are not distorted by scaling as this could lead to inefficient actions being taken by users. The change would become even more critical should DCP 169 (Seasonal time of day charging) be implemented.</p> <p>However, we are also mindful that the impact analysis suggests some reasonably large movements in tariffs for which more notice to customers may be appropriate.</p> <p>On balance, we consider that a delay in implementation to April 2017 may be appropriate in this instance and as Proposer we would not object to such a delay. Once approved, customers will be aware that any actions they take in response to the current (distorted) time of day signals</p>	The Working Group noted that Ofgem had previously advised in its rejection letter for DCP 123 that DCP 169 and a change to scaling should be progressed in conjunction with each other. DCP 169 does require scaling to first be addressed.

	<p>should be of a temporary nature – this should reduce the potential for any long term inefficient actions.</p> <p>As mentioned above, this change is even more important for any move to seasonal time of day charging. We would therefore expect that any delay to DCP 228 would be taken account of by the DCP 169 working group.</p>	
SP Distributi on and SP Manweb	Yes we are supportive of the proposed implementation date of April 2016.	Noted
Electricit y North West	Yes, we support the implementation date of April 2016 as long as a decision is made prior to mid November.	Noted
WPD	We believe as this is such a big change then a delayed implementation would be more practical for suppliers.	Noted
RWEnpo wer	No - the scale of the change is material so as such we consider an implementation date of April 2017 to be more appropriate. This will also assist those customers who have pass-through arrangements with their Supplier. In addition, if negative tariffs are considered to be sensible then a further delay may be necessary to give sufficient time to fully investigate and understand this issue.	Noted
<p>The group noted that there was support for an April 2016 implementation date, however, some respondents were concerned that this would not allow for sufficient notice for impacted customers.</p> <p>The group agreed that whilst 2016 was possible, it may be preferable to implement the change in 2017 or 2018 to allow for a longer notice period. It was observed that if April 2016 or April 2017 were progressed as the implementation date, charges for either approach</p>		

would need to be calculated in December 2015 due to the introduction of DCP 178.

It was suggested that there was not the rationale to delay the CP implementation date to April 2018. The group agreed that the proposed implementation date for DCP 228 should be April 2017 to give customers sufficient notice. ElectraLink took an action to capture this in the Change Report.

Company	7. Are there any alternative solutions or matters that should be considered by the Working Group?	Working Group Comments
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Not that we are aware of.	Noted
Northern Powergrid	No.	Noted
Smartest Energy	We would not mind the application of a scaling factor – shifting all the costs up/down proportionally. But the change as it stands shifts the balance around customer groups without any justification.	Noted

UK Power Networks	Where negative scaling occurs, we have seen the amber / green and unit 2 charges for a number of tariffs become zero. As a result we would question whether the intent of the DCP to ' <i>accurately reflect the price differentials produced by the cost-reflective incremental 500MW model.....such that all unit rates face the same absolute p/kWh adjustment</i> ' has in fact been maintained. It might be that where negative scaling occurs it might be appropriate to adopt an alternative approach to revenue matching, such as scaling the gross asset cost values in the 500MW model so that the price differentials in the charges produced by the CDCM are maintained.	<p>It was noted that the intent of DCP 228 expressly says "except where subject to a floor price".</p> <p>The proposer of DCP 228 noted that negative scaling has a small impact in one network area. It was noted that in the future there may be more instances of negative scaling and suggested that this area be kept under review. The proposer suggested that once costs have been allocated, scaling is purely about revenue matching and should not be done with a view of allocating costs.</p>
British Gas	No	Noted
SP Distribution and SP Manweb	There are no alternative solutions or matters what we believe should be considered by the Working Group.	Noted
Electricity North West	No comments	Noted
WPD	The CDCM uses the 500mw model to apportion cost to the different tariffs. The 500 mw models is only a proportion of the required revenue needed to run a network. WPD believe that this change proposal approach to scaling which although maintains the absolute differences between the pre scaled prices means that when scaling is high the original cost signal is lost in the ether. The even more cost reflective way to apply scaling is to increase the pre scaled tariffs by a percentage of the pre scaled tariffs. In most other instances, for example, the application of inflation you do not maintain	Noted

	the absolute differences but increase all by the same rate.	
RWEnpower	None that we have identified.	Noted