



DCUSA Change Report

DCP 234 – ‘Merging the PCDM and extended PCDM’

Executive Summary

DCP 234 seeks to replace the PCDM and extended PCDM models with one model and to create a new schedule in DCUSA which contains the legal text that relates to the calculation of discounts used in IDNO charging that is currently contained in Schedules 16, 17 and 18.

This document presents the Change Report for DCP 234 and invites all Parties to vote on the following:

- whether to accept or reject DCP 234, noting whether or not DCP 234 better facilitates the DCUSA Objectives; and
- the implementation date for DCP 234.

The voting deadline for DCP 234 is **08 July 2016**.

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 234 – ‘Merging the PCDM and extended PCDM’.
- 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 (Attachment 2) and submit their votes using the form attached as Attachment 1 to dcusa@electralink.co.uk no later than **08 July 2016**.

2 INTENT OF DCP 234 CHANGE PROPOSAL

- 2.1 DCP 234 has been raised by ENWL to replace the Price Control Disaggregation Model (PCDM) and extended PCDM models with one model and to create a new schedule in DCUSA which contains the legal text that relates to IDNO charging that is currently contained in Schedules 16, 17 and 18.
- 2.2 This CP has been designated as a Part 1 Matter as the proposed change modifies DCUSA Charging Methodology Schedules 16, 17 and 18.

3 WORKING GROUP ANALYSIS

- 3.1 The DCUSA Panel established a Working Group to assess DCP 234. The Working Group met on eight occasions and were comprised of Supplier, DNO, IDNO 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.
- 3.2 All Working Group members are supportive of the general principle of DCP 234.
- 3.3 Currently Distribution Network Operators (DNOs) need to update 2 models to calculate the discounts that are applied to LDNO tariffs. The models are very similar and contain the same inputs, so it would be more efficient to replace the two models with one.
- 3.4 The Working Group in conjunction with the DCUSA modelling consultant specified a new PCDM that incorporates the extended PCDM. The Working Group intended for there to be

no impact on prices as a result of this new model. The new model would be simplified to improve the transparency as the current model is overly complex.

- 3.5 All DNOs relinked their existing 2016/17 version of the PCDM and E-PCDM models to the updated DCUSA modelling consultant's model for the 14 distribution areas. This combined model provided less than 1% variance either way for discounts under the CDCM and EDCM.
- 3.6 The Working Group identified that the LDNO discounts are contained in 3 separate places within DCUSA and there is a large amount of duplication. A new schedule was created in conjunction with the DCUSA modelling consultant by extracting all the legal text that relates to the determination of LDNO discounts in Schedules 16, 17 and 18.
- 3.7 The Working Group agreed to consult upon the new schedule, proposed combined model with impact assessment and a model population guide.

4 DCP 234 CONSULTATION ONE

- 4.1 The Working Group carried out a consultation (Attachment 4) to give DCUSA Parties and other interested organisations an opportunity to review and comment on the proposed DCP 234 solution. There were seven responses received to the consultation. Six DNO respondents and one IDNO respondent. The Working Group discussed each response and its comments are summarised alongside the collated consultation responses in Attachment 4.
- 4.2 A summary of the responses received, and the Working Group's conclusions are set out below:

Question 1: Do you understand the intent of the DCP 234 change?

- 4.3 All respondents understood the intent of the CP.

Question 2: Are you supportive of the principles of the DCP 234 change?

- 4.4 All respondents were supportive of the principles of the CP.

Question 3: Are you supportive of the approach taken in the redraft the legal text (i.e. creating a new schedule dedicated to the calculation of LDNO discounts) and removing this information from Schedules 16, 17 and 18)?

4.5 All respondents were supportive of the approach taken in the redrafted legal text. Some of the comments provided are highlighted below:

- *“The creation of a new schedule dedicated to the calculation of LDNO discounts rather than the current arrangement is more practical”.*
- *“It is our view that this is both a clearer presentation, and better reflects the approach taken in the new combined model”.*
- *“Consolidating the legal text relating to LDNO charging will improve the efficiency and accuracy in the application of the charging methodologies”.*
- *“An easier understanding of the process behind the calculation of IDNO discounts”.*
- *“It should also make the legal text easier to change if there needs to be any adjustments to the calculation in future”.*

Question 4: Do you have any comments on the proposed legal text?

4.6 All respondents had no comments on the proposed legal text.

**Question 5: Do you have any comments on the updated model or associated documentation?
Please provide supporting comments.**

4.7 Three respondents had no comments on the model and its associated documentation. One DNO advised that they had tested the model and the outputs were in line with their expectation. The remaining respondents provided the following comments:

- *“The updated model appears to be much more user friendly, mainly due to the consolidation of numerous worksheets into the five simple sheets. We believe that this approach will improve the understanding of the model and promote a much more efficient administration of the methodology. The associated documentation is thorough and well structured, aiding in the understanding of the model and CP”.*
- *“We believe that the ‘look and feel’ of the new model is an improvement on the previous versions, but agree with the Working Group that further documentation is required to ensure all DNOs populate the model on a consistent basis”.*
- *“We believe that as this would be a new model, it is vital that a complete set of user guidance for the population of the model by DNOs is published alongside the updated model and legal text. This would ensure that all parties who populate the model or look at the output have the same understanding”.*

4.8 The Working Group considered the responses and agreed to ask the DCUSA modelling consultant to provide further documentation on the population of the models. A document

containing where each input table should be populated from and the notes should be removed from the template to make it clearer.

Question 6: For DNOs: Can you populate the model easily? Does the model provide identical results to the existing 2016/17 version of the PCDM and E-PCDMs? Provide supporting comments.

4.9 All six DNO respondents confirmed that they were able to populate the combined model. Respondents noted that there were no material differences between the calculated charges and the published 2016/17 charges. Respondents commented on small discrepancies in the calculated charges as set out below:

- *“The CDCM discounts have slight differences in the second decimal point of the discount percentages”;*
- *“We have tested the data input from SEPD and SHEPD 2016/17 PCDM and E-PCDM in the new combined model and have replicated the LDNO discounts to within $\pm 0.1\%$ of the published discount percentages”; and*
- *“We did observe some small differences which we understand and on a ‘like for like’ basis the results are identical”.*

4.10 The Working Group noted that the discrepancies were within the range of acceptability.

Question 7: Do you feel that the new version is an improvement upon the existing version? Do you think that there are any additional improvements that could be made that would further enhance the usability of the new PCDM?

4.11 All respondents considered that the new version is an improvement upon the existing version. The majority of respondents did not foresee any additional improvements that would enhance the usability of the new PCDM.

4.12 Two respondents provided the following comments:

- *“Although the instructions provided by the DCUSA modelling consultant in the input sheet for the source of the data are clear, we agree with the Working Group that user documentation would further enhance the usability of the new PCDM”;* and
- *“We believe that the new combined PCDM model is a significant improvement over the current models, and as noted in the response to Q5 we believe that user guidance notes*

are an essential requirement to be provided alongside the legal text, although this would not be part of DCUSA (similar to the CDCM and EDCM User Guides)”.

- 4.13 The Working Group agreed to ask the DCUSA modelling consultant to provide further documentation on the population of the models.

Question 8: The Working Group feel that DCUSA General Objectives 2 and 3 would be better facilitated by the implementation of DCP 234; please provide your comments on this and any other DCUSA General Objective you feel will be impacted by DCP 234.

- 4.14 The following table provides a summary of the responses to this question.

Respondent Party Type	Objective 1	Objective 2	Objective 3	Objective 4	Objective 5
DNOs	0	6	6	0	0
IDNO	0	1	1	0	0
Total	0	7	7	0	0

- 4.15 All respondents to this question considered that DCUSA Charging Objectives two and three were better facilitated by this change. Four respondents provided the rationale for their decision as set out below:

General Objective Two

- *“As the consolidation of the legal text will aid transparency and make it easier for Parties to understand LDNO discount calculation. In particular, the consolidation of information will make it easier for a new market entrant to understand the calculation of discounts”;*
and
- *“It is easier for suppliers and/or new IDNO market entrants to follow and understand the process of PCDM discounts”.*

General Objective Three

- *“DNOs will only need to populate one PDCM model to remain compliant with the DCUSA”.*
- *“It supports Licence condition 13.3b of the distribution licence, which states that ‘compliance with the methodology facilitates competition in the generation and supply*

of electric, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity'. DCUSA general objective 2 is also satisfied by this Licence Condition".

4.16 Some respondents provided one rationale for why both DCUSA Charging Objective two and three are better facilitated as set out below:

- *"This change would encourage competition by making it easier for LDNOs to understand charges and enter markets. This change would also improve the efficiency of the discharge of Licence obligations by eliminating the duplication of entry of data into charging models".*
- *"It would significantly improve the efficiency of the arrangements for the calculation of the LDNO discounts by creating a single model, alongside a single schedule of legal text".*

4.17 The Working Group noted the responses. Please refer to Section 8 of this report for the Working Groups rationale on which Objectives are best facilitated by this CP.

Question 9: The Working Group feel that DCUSA Charging Objectives 1, and 2 would be better facilitated by the implementation of DCP 234; please provide your comments on this and any other DCUSA Charging Objective you feel will be impacted by DCP 234.

4.18 The following table provides a summary of the responses to this question.

Respondent Party Type	Objective 1	Objective 2	Objective 3	Objective 4	Objective 5
DNOs	6	6	0	0	0
IDNO	1	1	0	0	0
Total	7	7	0	0	0

4.19 All respondents to this question considered that DCUSA Charging Objectives one and two were better facilitated by this change. Two respondents provided the rationale for their decision as set out below:

- *"DNOs will only need to populate one PDCM model to remain compliant with the DCUSA";*

- *“The consolidation of the legal text will aid transparency and make it easier for Parties to understand LDNO discount calculation. In particular, the consolidation of information will make it easier for a new market entrant to understand the calculation of discounts”;*
- *“It would significantly improve the efficiency of the arrangements for the calculation of the LDNO discounts by creating a single model, alongside a single schedule of legal text”;*
AND
- *“In the long-run we believe this change also has the potential to enable changes to be brought forward to better facilitate Charging Objective 3 (cost reflectivity) as the input data could more easily be brought up to date and calculation methods updated as required”.*

4.20 The Working Group noted the responses. Please refer to Section 8 of this report for the Working Groups rationale on which Objectives are best facilitated by this CP.

Question 10: DCP 234 is due to be implemented on the 01 April 2018. Do you have a preference on the date that DCP 234 is implemented in to the DCUSA?

4.21 Six respondents agreed with the proposed implementation date for DCP 234 of the 01 April 2018. One DNO respondent had no preference on the implementation date of this CP.

4.22 The Working Group noted the responses.

Question 11: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

4.23 All respondents were not aware of any wider industry developments that would impact upon this CP.

Question 12: Are there any alternative solutions or matters that should be considered by the Working Group?

4.24 All respondents did not have any alternative solutions or matters to be considered by the Working Group. One respondent advised that they did *“not believe that there are any better or alternative solutions that should be considered by the Working Group”*.

4.25 The Working Group noted the responses.

5 ACTIONS TAKEN FOLLOWING FEEDBACK FROM THE CONSULTATION

- 5.1 The Working Group noted that this change simply amalgamates the Model M and extended Model M in to one model without changing the tariffs and all respondents to the consultation were supportive of the change.
- 5.2 The Working Group considered that prior to the consultation when the DNOs populated the combined PCDM model, it was identified that there were some inconsistencies with some of the DNO populated PCDM models. These were all worked through by the DNOs and determined to be of low materiality. However, this highlighted the fact that sufficient user documentation to support user's population of the new combined model was needed to be provided as part of this change.
- 5.3 Following the feedback received from the consultation, the Working Group requested the removal of the notes from the templates cells and that the DCUSA modelling consultant provide a model population guidance document containing where each input table should be populated from. The updated combined PCDM model and its associated documentation act as Attachment 5.

6 PROPOSED LEGAL TEXT

- 6.1 The Working Group identified the legal text within Schedules 16, 17 and 18 that relates to the calculation of LDNO discounts and the extent to which it was sensible to extract it into a new schedule. The legal text has been consolidated to remove duplicated clauses and a new schedule created. The proposed legal text has been reviewed by the DCUSA Legal Advisor and acts as Attachment 2.

7 DCP 234 - WORKING GROUP CONCLUSIONS

- 7.1 The Working Group reviewed each of the responses received to consultation one and concluded that all of the respondents understood the intent of DCP 234.
- 7.2 The Working Group agreed that all respondents were supportive of the principle of the CP.
- 7.3 All consultation respondents considered that the new combined PCDM model is an improvement upon the existing version.
- 7.4 The Working Group noted that the all respondents considered that specifically DCUSA Charging Objectives 1 and 2 were better facilitated by this change.

7.5 The Working Group concluded that the CP will provide the following benefits:

Model

- The single combined model provides a clearer presentation than existing versions and with only one model for parties to populate it improves the efficiency of the arrangements for the calculation of the LDNO discounts.
- The simplified model has the potential to aid users understanding of the process behind the calculation of IDNO discounts.

Legal Text

- The consolidation of the legal text aids transparency and makes it easier for new market entrants to understand the calculation of discounts.
- The consolidation of the legal text will make it easier to make changes if there needs to be any adjustments to the calculations in future.

8 EVALUATION AGAINST THE DCUSA OBJECTIVES

8.1 Since the DCP 234 consultation was issued, Ofgem has directed that DCUSA Working Groups on charging methodology CPs should only consider which DCUSA Charging Objectives are best facilitated by the change. The Working Group considers that DCUSA Charging Objectives 1 and 2 are better facilitated by DCP 234. The reasoning against the objectives is set out in the table below:

DCUSA Charging Objective One
<p>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.</p>
<p>The Working Group consider that this DCP will better facilitate DCUSA Charging Objective one by improving efficiency in the application of the charging methodologies as it will remove the need for DNOs to populate and publish two separate models for the calculation of LDNO discounts for the CDCM and EDCM respectively. It will also provide greater efficiency for Parties wishing to find information on LDNO discounts for each DNO as all information will be held within one model.</p>

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).

The Working Group consider that this DCP will better facilitate Charging Objective two as the change will make the process by which DNOs calculate LDNO discounts more transparent and easier for stakeholders to understand. This will make it easier for new market entrants (particularly LDNOs) to understand the industry charging arrangements, and will make it easier for all parties to bring forward changes under open governance. It will therefore promote competition in generation and supply.

9 IMPACT ON GREENHOUSE GAS OMISSIONS

- 9.1 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP 234 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

10 IMPLEMENTATION

- 10.1 Subject to Party approval and Authority consent, DCP 234 will be implemented on the 01 April 2018.

11 PANEL RECOMMENDATION

- 11.1 The DCUSA Panel approved the DCP 234 Change Report on 15 June 2016. The timetable for the progression of the CP is set out below:

Activity	Date
Change Report approved by DCUSA Panel	15 June 2016
Change Report Issued for Voting	17 June 2016

Party Voting Closes	08 July 2016
Change Declaration Issued	12 July 2016
Authority Decision	16 August 2016
Implementation	01 April 2018

12 ATTACHMENTS:

- Attachment 1 - DCP 234 Voting Form
- Attachment 2 - DCP 234 Proposed Legal Text
- Attachment 3 - DCP 234 Change Proposal
- Attachment 4 - DCP 234 Consultation Documents
- Attachment 5 – DCP 234 Modelling Documentation