DCUSA

DCUSA Change Declaration	At what stage is this document in the process?
# DCP 333 ## Appropriate Treatment and Allocation of Eligible Use of System Bad Debt Costs *Raised on 12 November 2018 as a Standard Change*	**01 – Change Proposal** **02 – Consultation** **03 – Change Report** **04 – Change Declaration**

Purpose of Change Proposal:

DCP 333 seeks to ensure that associated costs are recovered fairly and equitably from customers where a DNO or IDNO Party incurs eligible use of system bad debt due to the insolvency of electricity suppliers whose supply licence has subsequently been revoked.

✓	DCUSA Parties have voted on DCUSA Change Proposal (DCP) 333 with the outcome being a recommendation to the Authority on whether the Change Proposal (CP) should be accepted or rejected. The DCUSA Parties consolidated votes are provided as Attachment 1.
✓	**For DCP 333, DCUSA Parties have voted and recommended to the Authority to determine that:** • **the proposed variation (solution) should be accepted; and** • **the implementation date should be accepted**
!	**Impacted Parties:** Distribution Network Operators (DNOs), Independent Distribution Network Operators (IDNOs) and Suppliers
!	**Impacted Clauses:** Schedule 16, multiple paragraphs; and Schedule 17 and Schedule 18, paragraph 13, 16, 24 and 25.

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Any questions?

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Timeline

The timetable for the progression of the CP is as follows:

Change Proposal timetable

Activity	Date
Initial Assessment Report Approved by Panel	20 February 2019
Consultation issued to Parties	29 April 2019
Change Report issued to Panel	10 July 2019
Change Report issued for Voting	19 July 2019
Party Voting Ends	09 August 2019
Change Declaration issued to Authority	13 August 2019
Authority Decision	18 September 2019
Implementation Date	01 April 2021

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1 Summary

What?

1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.

1.2 From time-to-time, an electricity supplier operating in the competitive retail market may have its supply licence revoked by the Authority.

1.3 Prior to having its supply licence revoked, the electricity supplier is likely to have failed to pay outstanding invoices levied (or invoices yet to be levied) by the distributor, leaving the distributor with bad debt.

1.4 In May 2019, Ofgem confirmed its decision to make changes to the distribution licence to allow DNOs to recover use of system bad debt[1]. Once those changes have taken effect on 28 June 2019 each DNO will be required to add the costs associated with any bad debt to its revenue allowances using new pass-through terms.

1.5 DCP 333 is concerned with the way in which those additional pass-through costs are recovered, i.e. through which tariff element(s) and from which customer group(s). It has been progressed in parallel to the review of the licence and is consistent with the approved licence changes.

Why?

1.6 The costs of distributor bad debe claims do not relate to customers' future use of the distribution system. Bad debt costs are incurred by distributors as a result of an electricity suppliers' failure to pay use of system invoices prior to having its supply licence revoked, or which are due to be invoiced and become eligible for payment after a licence has been revoked, or which are due to be invoiced and become eligible for payment after a licence has been revoked, but which relate to the period before that licence was revoked.

1.7 Without changes to Schedule 16, 17 and 18, all customers would contribute to the recovery of bad debt costs, with unit charges increasing via revenue matching (i.e. 'scaling' or the 'residual'). This does not present an appropriate means of apportioning such costs to customers.

[1] https://www.ofgem.gov.uk/publications-and-updates/decision-modifications-electricity-distribution-licence-recover-costs-associated-appointing-supplier-last-resort

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How?

1.8 The proposed solution is to exclude revenue relating to bad debt costs when carrying out the 'revenue matching' step in the Common Distribution Charging Methodology (CDCM) and when calculating charges in the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM). Licenced Distribution Network Operator (LDNO) discounts would be applied to CDCM tariffs calculated at this stage, with subsequent adjustment made to all tariffs (including those for LDNOs).

2 Governance

Justification for Part 1 Matter

2.1 DCP 333 is classified as a Part 1 Matter and therefore it will be necessary for the changes to be progressed to the Authority for determination following the voting process. This is due to there being an impact on competition in the distribution of electricity, by removing the potential for a distortion caused by the recovery of the bad debt incurred by distributors.

2.2 DCP 332 has been designated as a standard change.

3 Why Change?

Background of DCP 333

3.1 DNOs currently recover eligible bad debt by 'logging up' the debt in the current price control period which is subsequently reflected in base allowed revenue in the following price control period; in line with the 2006 best practice guidelines and necessary credit cover arrangements (Schedule 1 'Cover' of the DCUSA). Based on the current arrangements, to recover eligible bad debt incurred in RIIO-ED1, Ofgem will adjust the RIIO-ED2 price control settlement accordingly as part of the RIIO-ED1 close-out process.

3.2 Over the past three years, there have been 11 instances of supply licences being revoked (nine being in the last 12 months) and the subsequent appointment of a SoLR;

- GB Energy Supply Ltd ceased trading in November 2016;
- Future Energy Supply Limited ceased trading in January 2018;
- Iresa Limited ceased trading in July 2018;
- Gen4U ceased trading in September 2018;
- Usio Energy Supply Limited ceased trading in October 2018;
- Extra Energy Limited ceased trading in November 2018;
- Spark Energy Supply Limited ceased trading in November 2018;
- One Select Limited ceased trading in December 2018;
- Economy Energy Limited ceased trading in January 2019;

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- Our Power ceased trading in January 2019; and
- Brilliant Energy Supply Ltd ceased trading in March 2019.

Distribution licence issues

3.3 In respect of the instances above, the associated bad debt is material and current arrangements require DNOs to carry the debt throughout RIIO-ED1. Due to the profiling of allowances in the next price control settlement, DNOs will recover the costs throughout the entirety of the next price control, so will not fully recover until the end of RIIO-ED2.

3.4 The significant delay in DNOs recovering eligible bade debt has been under review for some time, and the intervening period DNOs have been required to commence in the short-term recovery of third-party costs also incurred by energy suppliers as a result of the revocation of a supply licence; namely the recovery of Co-operative Energy Limited and Octopus Energy Limited's Last Resort Supply Payment (LRSP) claims. IDNOs currently have no mechanism to recover bad debts.

3.5 Under the updated electricity distribution licence, which comes into force on 28 June 2019, each DNO will be required to add eligible bad debt costs to its revenue allowances as a pass-through item. The licence changes include a process for IDNOs to make a claim for their bad debts from each DNO, with DNOs including IDNO bad debt claims in their eligible bad debt pass-through costs.

Treatment of costs

3.6 The costs which will be included in the new pass-through term do not relate to customers' future use of the distribution system. Bad debt costs are incurred by distributors as a result of an electricity suppliers' failure to pay use of system invoices prior to having its supply licence revoked, but which are due to be invoices and become eligible for payment after a licence has been revoked, but which relate to the period before that licence was revoked. Without changes to Schedules 16, 17 and 18, the proposed changes to the electricity distribution licence would result in all customers contributing to these costs, with unit charges increasing via revenue matching. This does not present an appropriate means of apportioning such costs to customers.

3.7 Consideration is needed as to which customer groups should contribute to the recovery of bad debt pass-through costs, and through which tariff element. This should be considered in the context of the ongoing Ofgem-led Targeted Charging Review (TCR), launched via a Significant Code Review (SCR). The current methodologies would result in the recovery of these costs manifesting as a stronger price signal for reduced overall consumption via an increased unit charge. This creates risks that users who are able to reduce overall consumption contribute less to cost recovery, resulting in additional costs being borne by other users. This is in contradiction to the principles of the TCR. The treatment and allocation of these costs should be considered on individual merits, but Ofgem's minded to decision[2] on the TCR is to recover the residual via fixed charges, which aligns to the proposed solution for DCP 333.

3.8 Careful consideration is also needed for the calculation of tariffs for LDNOs. If bad debt is simply recovered through revenue matching (as would be the case if this change is not made), an LDNO would benefit from higher potential revenue under its relative price control. This is because the host DNO's charges would increase but the LDNO's costs would not increase proportionally as the

[2] https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-minded-decision-and-draft-impact-assessment

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increase in the host DNO's tariff for customers connected to its network would be discounted when calculating tariffs applicable to the LDNO.

3.9 DCP 333 is seeking to ensure that an appropriate mechanism is in place which ensures that customers contribute to the recovery of costs without distorting the underlying cost signals generated by the existing charging methodologies, and without distorting LDNO margins.

4 Solution

DCP 333 Working Group Assessment

4.1 The DCUSA Panel established a Joint Working Group to assess DCP 332 ('Appropriate treatment and allocation of Last Resort Supply Payment claim costs') and DCP 333. This Working Group consisted of DNO, IDNO and Supplier representatives and Ofgem observers. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

4.2 The Working Group conclusions for the solution for DCP 333 can be found within this Change Declaration and a separate Change Declaration will be published for the solution for DCP 332.

Original Solution Options

4.3 There were four possible solutions initially presented for these issues, all of which are variations on the same theme, being that the new pass-through costs are excluded from both the calculation of revenue matching in the CDCM and the calculation of EDCM tariffs. A subsequent adjustment is then made to (a subset of) tariffs, with the same absolute adjustment being made to the tariff for end customers connected to a DNO network and end customers connected to LDNO networks. This ensures that LDNOs are neutral to the recovery of costs whilst ensuring that customers connected to LDNO networks contribute to the same level as customers connected to DNO networks.

4.4 Customers who:

- Are connected to LDNO networks where the DNO to LDNO is at the HV Substation network level or above; and
- Meet the definition of 'Designated Properties' are defined in the distribution licence, i.e. those who would be treated as CDCM customers if they were connected to a DNO network

have tariffs calculated in the EDCM, by applying discount to CDCM tariffs. In order to ensure consistent treatment of such customers, these tariffs must also be increased by the same adjustment as is being made to DNO end customer tariffs, hence it will be necessary to create a link between the CDCM and EDCM to ensure that:

- Tariffs for Designated Properties connected to LDNO networks which are calculated in the EDCM are subject to the same adjustment as tariffs for customers connected to DNO networks calculated in the CDCM; and
- The adjustment to tariffs (calculated in the CDCM) takes into account revenue will be derived in the EDCM from the application of step 1, to avoid over-recovery of the new pass-through costs.

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4.5 All four original solution options involve excluding any revenue relating to the new pass-through costs from the existing calculation for tariffs for users connected to DNO networks and tariffs for LDNOs in both the CDCM and EDCM, with the costs recovered through a subsequent adjustment, as follows:

- Option A – adjustment to all unit rates of all tariffs for all demand customers which are Designated Properties (including those calculated in the EDCM), with the same p/kWh adjustment being made to all tariffs (including those for LDNOs);
- Option B – adjustment to the unit rates of tariffs for domestic customers (including those calculated in the EDCM), with the same p/kWh adjustment being made to all tariffs for domestic customers (including those for LDNOs);
- Option C – adjustment to the fixed charges of tariffs for all demand customers which are Designated Properties (including those calculated in the EDCM), with the same p/day adjustment being made to all tariffs for all customers who receive a fixed charge (i.e. all except unmetered supplies and 'related MPAN' tariffs); or
- Option D – adjustment to the fixed charges of tariffs for domestic customers (including those calculated in the EDCM), with the same p/day adjustment being made to all tariffs for domestic customers (including those for LDNOs).

4.6 The following table details the Working Group's initial view of the pros and cons of each option.

Option	Pros	Cons
A – unit rates for all demand customers	Maintains the principle by which revenue matching is achieved in the CDCM. The costs do not discriminate against different types of customers; hence recovery from all customers is arguable more appropriate than from a subset.	Results in higher unit rates, giving stronger cost signal to customers to reduce overall usage of the network. The costs associated with the new pass-through terms cannot be reduced through reduced network usage, and so this stronger cost signal is not appropriate and contradicts the principles set out in Ofgem's TCR.
B – unit rates for domestic customers	Maintains the principle by which revenue matching is achieved in the CDCM, albeit applied to a restricted group of customers.	Results in higher unit rates, giving stronger cost signals to customers to reduce overall usage of the network. The costs associated with the new pass-through terms cannot be reduced through reduced network usages, and so this stronger cost signal is not appropriate and contradicts the principles set out in Ofgem's TCR. Unpaid use of system invoices may include charges in respect of all types of customer. However, a distributor incurring new eligible bad debt is likely to be associated with the same trigger as the appointment of a SoLR, therefore the bad debt will relate to the same

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		customer base and which to date is almost entirely associated with domestic customers.
C – fixed charges for all demand customers	The costs associated cannot be reduced through reduced network usage; hence a fixed charge is arguably the most appropriate means of recovery. The costs do not discriminate against different types of customers, hence recovery from all customers is arguably more appropriate than from a subset.	Deviates from the underlying principle by which revenue matching is achieved in the CDCM.
D – fixed charges for all domestic customers	The costs associated with the new pass-through terms cannot be reduced through reduced network usage; hence a fixed charge is arguable the most appropriate means of recovery.	Deviates from the underlying principle by which revenue matching is achieved in the CDCM. Unpaid use of system invoices may include charges in respect of all types of customer. However, a distributor incurring new eligible bad debt is likely to be associated with the same trigger as the appointment of a SoLR, therefore the bad debt will relate to the same customer base and which date is almost entirely associated with domestic customers.

Options progressed to consultation

4.7 The Working Group discussed the four original solution options presented in the Change Proposal. There was unanimous agreement that recovery of these pass-through costs through unit charges was not appropriate. Hence the Working Group decided to not progress Option A or Option B any further.

4.8 The Working Group discussed the merits of Options C and D for the recovery of bad debt costs and did not reach a unanimous conclusion, with both options having advantages and disadvantage (as detailed in the table above). Hence the Working Group has considered both Options C and D for DCP 333 and has made a decision on which to progress following the closure of their consultation. The Working Group conclusion can be found in paragraph 4.25 below.

DCP 333 Consultation

4.9 To aid further development of the solution for this CP, the Working Group issued a consultation to Parties on 29 April 2019. The aim of the consultation was to ask industry for views on the proposed solution for the CP. There were twelve respondents to the consultation comprising of five DNOs, three IDNOs, three Suppliers and one Party who wished to remain anonymous. A copy of the consultation and Working Group conclusions can be found as Attachment 4.

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Q1: Do you understand the intent of DCP 333?

4.10 All respondents to the consultation agree that they understood the intent of DCP 333.

Q2: Do you agree with the principles of DCP 333? If not, please provide your rationale.

4.11 Eleven of the twelve respondents to the consultation agree with the principles of DCP 333. However, one respondent did not agree with bringing bad debt claims into the current price control period and the introduction of claims for IDNO bad debt as this introduces new costs to be borne by Suppliers at a time of financial strain. However, the respondent recognised that this has already been determined by the recent licence changes.

Q3: Do you agree with the Working Group that Option D is appropriate for DCP 332? If not, which option do you consider to be more appropriate? Please provide your rationale.

4.12 This question of the consultation document was focussed on DCP 332 and therefore the Working Group comments and conclusions can be found in the DCP 332 Change Declaration.

Q4: Do you agree with the Working Group that Option C or D is appropriate for DCP 333? If so, which option would be your preference? If not, which option do you consider to be more appropriate? Please provide your rationale.

4.13 The majority of respondents preferred Option C for DCP 333 with two respondents preferring Option D.

4.14 One respondent provided an alternative option for the Working Group to consider which would mean creating an additional line in the charging methodology that shows a new fixed charge item different from the fixed charges used on the Use of System invoices. The Working Group discussed this but agreed that this would create material costs for industry to implement and so would not be appropriate.

4.15 As an alternative, the Working Group suggested that the DNOs could publish the breakdown of the fixed charge in the LC14 statement to separately identify the impact of the recovery of Bad Debt.

Q5: Which of the DCUSA Objectives does the implementation of DCP 333 better facilitate? Please provide your rationale.

4.16 Eleven of the twelve respondents believe that DCUSA Charging Objectives 3 and 4 would be better facilitated by the implementation of DCP 333. Nine respondents believe that DCUSA Objective 2 would be better facilitated and one respondent believes that DCUSA General Objective 1 would be better facilitated.

4.17 The Working Group conclusions in this area can be found in section 5 below.

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Q6: Are you aware of any wider industry developments that may impact upon or be impacted by DCP 333? Please provide your rationale.

4.18 The majority of respondents did not believe that the Working Group needed to consider any wider industry developments, however, two respondents believe that consideration should be given to the Uniform Network Code (UNC) Change Proposals that are looking at the recovery of SoLR costs within the gas market and the implementation of these should be aligned.

Q7: Do you have any comments on the proposed legal text for DCP 333? Please provide your rationale.

4.19 The Working Group noted all responses to this question and highlighted that there were no comments or amendments on the current proposed legal text.

4.20 More information regarding the finalised legal text can be found in section 8 below.

Q8: The proposed implementation date for DCP 333 is 01 April 2021. Do you agree with the proposed implementation date?

4.21 Eleven of the twelve respondents were happy with the proposed implementation date of 01 April 2021 for DCP 333.

4.22 One respondent, however, believes that there should be a three-year implementation period and recommended that DCP 333 is introduced in the 2022/23 charging year. However, the Working Group noted that bad debt will be recovered in 2021/22 as determined by the licence changes, and DCP 333 therefore only determines who pays and how. Deferring implementation to 2022/23 would not stop bad debt being recovered, instead it would mean that in the intervening period all customers would contribute via increased 'residual' charges, and therefore the costs would manifest as a stronger price signal for users who can respond, and do, avoiding costs for others to later pick up.

4.23 More information regarding the implementation date can be found in section 7 below.

Working Group Conclusions and next steps

4.24 Following review of the consultation responses the Working Group agreed that they were happy to progress with Option C for DCP 333.

4.25 The Working Group believe that Option C is the most appropriate solution because:

- Unlike the costs associated with last resort supply payment claims which predominantly relate to the credit balances of domestic customers, use of system bad debt costs are incurred for domestic and non-domestic customers alike and so should be recovered from all customers; and

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- The changes to the distribution licence result in a situation in which charges may be changes with less than 15 months' notice for costs associated with last resort supply payment claims. This is not the case for bad debt costs, and so the arguments for amending as few tariffs as possible to minimise amendments to previous charges do not apply for DCP 333.

4.26 It was noted by one respondent to the consultation that more signposting needs to be conducted to allow Suppliers to be able to track the Bad Debt claims. The Working Group agrees with this and believe that the Authority should take this into consideration as part of their ongoing work in this area, however, the scope to improve transparency is far less than the recovery of SoLR costs for which DCP 332 is concerned, and where distributors will not recover bad debt from Use of System charges until at least three years after it has been incurred.

5 Relevant Objectives

Assessment Against the DCUSA Objectives

5.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. There are five DCUSA General Objectives and six DCUSA Charging Objectives. This Change Proposal impacts the DCUSA Charging Objectives.

5.2 The Proposer of DCP 333 believes that the proposed solution of DCP 333 will better facilitate DCUSA Charging Objectives two, three and four with no impact on the other Objectives.

5.3 DCUSA Charging Objective two will be better facilitated by the implementation of this change as it will avoid the distortions which would occur in tariffs for LDNOs if the change were not made.

5.4 DCUSA Charging Objective three will be better facilitated by the implementation of this change by ensuring that eligible bad debt costs are allocated to customers appropriately. Options which ensure these costs are recovered from all users are likely to be the most cost reflective, to ensure all customers contribute. The costs to be recovered cannot be reduced by reduced network usage, so this objective will be better facilitated by options which ensure these costs are recovered through fixed charges. Hence Option C is considered to facilitate this objective most fully.

5.5 DCUSA Charging Objective four will be better facilitated by the implementation of this change by ensuring appropriate allocation of pass-through costs in the CDCM.

5.6 The Working Group unanimously agree with the Proposer and considers that DCUSA Charging Objectives two, three and four would be better facilitated by the implementation of DCP 333.

Impact of the Change Proposal on the Relevant Charging Objectives:	
Relevant Objective	**Identified impacts and rationale**
Charging Objective One – that compliance by each	No Impact

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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	
Charging Objective Two – that compliance by each DNO Party with the Charging Methdologies 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 Distribition Licences)	**Positive**
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	**Positive**
Charging Objective Four – that, so far as is consistent with Clauses 3.2.1 to 3.2.1, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	**Positive**
Charging Objective Five - that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchanges in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulator	No Impact
Charging Objective Six - that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	No Impact

6 Impacts & Other Considerations

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

6.1 The Working Group has highlighted an impact on DNOs, IDNOs and Suppliers. However, no system impacts are anticipated, as the change will use existing tariff structures and will only impact the rates calculated.

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6.2 The Working Group agreed that there is a potential link with the TCR SCR, in that the change is linked to the mechanism by which revenue matching is achieved.

6.3 However, the solution for this CP only includes revenue relating to bad debt costs and so leaves the application of revenue matching unaltered for the remainder of DNO revenue, i.e. this change deals with costs which are currently not allocated or recovered as part of the distribution charging methodologies or indeed DNO allowed distribution network revenue.

6.4 As detailed throughout this document, the change has been aligned with the changes to the distribution licence and is the main driver for this DCUSA change which has been discussed with Ofgem as part of the review of licencing arrangements.

DCP 314 'Appropriate treatment of bad debt following appointment of a Supplier of Last Resort'

6.5 DCP 314[3] is seeking to implement a process that is triggered in the event that a Supplier of Last Resort is appointed following a Supplier default. Under these circumstances, DCP 314 proposes a redistribution of use of system bad debt where DNOs must credit LDNOs for the amount of DUoS charges attributable to the defaulting Supplier, where the LDNO has already paid the DNO for the use of the DNO assets but where the LDNO has not received payment from the Supplier. It is worth noting that the licence changes provide for both DNOs and IDNOs to recover bad debt and therefore DCP 314 will determine whether a DNO or IDNO later recovers that debt, albeit it would allow LDNOs to recover the debt sooner than via the licence changes.

6.6 The Working Group believe that the Authority should be aware that DCP 314 has already progressed through the DCUSA Change Process and is awaiting Authority approval and should be considered when the Authority are making their determination on DCP 333.

Consumer Impacts

6.7 The Working Group instructed the DCUSA Modelling Provider to develop CDCM and EDCM models in support of this change. The DCUSA Modelling Provider calculated the impact on CDCM tariffs, as well as on total revenue recovered per MPAN and per kWh from different tariff categories. This impact assessment was based on illustrative bad debt of £250k for each DNO.

6.8 The "base" impact assessments (without the new revenues included) returned no difference in costs for all-the-way tariffs compared to the original model without the CP implemented. The impacts are in line with expectations, in that they increase the fixed charges of domestic/demand customers (depending on cost recovery Option D or C respectively).

6.9 Absolute impact on LDNO tariffs are almost identical to those on all-the-way tariffs, with the exception of some ±0.01 changes in other charge due to rounding. These small changes also occurred in the "base" scenario when compared to published charges. This is because of rounding, as the structure of the rounding calculations has been changed. Previously, the LDNO discounted tariffs were calculated by applying the discount percentages to the unrounded all-the-way tariffs,

[3] DCP 314

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but they are now calculated based on applying the discount percentages to the unrounded all-the-way tariff. This means that, previously, LDNO tariffs were essentially being rounded twice – in the updated model, they are only being rounded once.

6.10 For some of the larger LDNO tariff categories, this difference leads to changes in bills in the order of £10s per customer per year. This is due to the rounding differences for capacity and unit rate charges which are then applied to large volumes of kWh or large values of capacity. The percentage differences are still very small (typically less than 1%). The Working Group agrees that applying rounding once is the appropriate treatment.

6.11 In addition, the increase in the fixed adders are higher (in percentage terms) for LDNO LV customers that all-the-way customers and even higher for LDNO HV customers. This is because the new fixed charges adders are not discounted, and LDNO connected customers are still to pay 100% of their share of the Bad Debt costs.

Environmental Impacts

6.12 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 333 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

Engagement with the Authority

6.13 Ofgem has been fully engaged throughout the development of DCP 333 as an observer on the Working Group.

7 Implementation

7.1 Bad debt costs will be included in revenue allowances with a three-year lag. The requirement to provide 15-months' notice of charges will be maintained. Charges have already been set for 2020/21 so the first year in which this change could take effect would be 2021/22. Hence the implementation data for DCP 333 is 01 April 2021.

8 Legal Text

8.1 The DCP 333 proposed legal text acts as Attachment 2 to this Change Declaration.

8.2 Changes made to Schedule 16 introduce a fifth step in the calculation process for the allocation of bad debt costs, with the details on allocation included as paragraphs 100 and 101. Changes to Schedule 17 and 18 are predominately to the section governing LDNO discounts, with the change to LDNO tariffs as a result of this change detailed in paragraph 25.3.

8.3 The DCP 333 legal text also includes and obligation in Schedule 16 on the DNO Parties to publish a breakdown of the fixed charge in their LC14 statements to separately identify the impact on the recovery of total Bad Debt pass-through costs.

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9 Code Specific Matters

Modelling Specification Documents

9.1 Modelling documentation can be found in Attachment 5.

Reference Documents

9.2 See footnote references throughout.

10 Voting

10.1 The DCP 333 Change Report was issued to DCUSA Parties for voting on 19 July 2019.

Part 1 Matter: Authority Decision Required

DCP 333: Proposed Variation (Solution)

10.2 For the majority of the Parties that were eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the proposed variation was more than 50%.

10.3 DCUSA Parties' have voted and recommend to the Authority to determine that the proposed variation (solution) is accepted for DCP 333.

DCP 333: Implementation Date

10.4 For the majority of the Parties that were eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was more than 50%.

10.5 DCUSA Parties' have voted and recommend to the Authority to determine that the implementation date is accepted for DCP 333.

The table below sets out the outcome of the votes that were received in respect of the DCP 333 Change Report that was issued on 19 July 2019 for a period of 15 working days.

DCP 333	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	CVA Registrant	GAS SUPPLIER
CHANGE SOLUTION	Accept	Accept	Accept	n/a	n/a
IMPLEMENTATION DATE	Accept	Accept	Accept	n/a	n/a

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11 Recommendations

DCUSA Parties Recommendation

11.1 DCUSA Parties have voted on DCP 333 and in accordance with Clause 13.5 of the DCUSA, recommend to the Authority to determine that the Change Proposal be accepted and thus that the proposed variation to the DCUSA should be made.

12 Attachments

- Attachment 1 – DCP 333 Consolidated Party Votes
- Attachment 2 – DCP 333 Legal Text
- Attachment 3 – DCP 333 Change Proposal
- Attachment 4 – DCP 333 Consultation and Collated Responses
- Attachment 5 – DCP 333 Modelling Documentation

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