




DCUSA Change Report		At what stage is this document in the process?
<h1>DCP 333</h1> <h2>Appropriate treatment and allocation of eligible use of system bad debt costs</h2> <p><i>Raised on 12 November 2018 as a Standard Change</i></p>	01 – Change Proposal	
	02 – Consultation	
	03 – Change Report	
	04 – Change Declaration	
Purpose of Change Proposal: <p>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eligible use of system bad debt due to the insolvency of electricity suppliers whose supply licence has subsequently been revoked.</p>		
	This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 333 – ‘Appropriate treatment and allocation of eligible use of system bad debt costs’.	
	Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by 09 August 2019	
	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.	
	If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3011.	
	Parties Impacted: DNOs, IDNOs and Suppliers	
	Impacted Clauses: Schedule 16, multiple paragraphs	
	Schedule 17 and 18, paragraph 13, 16, 24 and 25	

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Any questions?

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Timetable

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 the Authority	13 August 2019
Authority Decision	18 September 2019
Implementation	01 April 2021

1 Summary

What?

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity distributors, 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 debt¹. Once those changes have taken effect on 28 June 2019 each DNO will be required to add the costs associated with any bad debts 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 debt 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, 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.

How?

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

- 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). LDNO discounts would be applied to CDCM tariffs calculated at this stage, with a subsequent adjustment made to all tariffs (including those for Licensed Distribution Network Operators (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 333 has been designated as a standard change.

Requested Next Steps

- 2.3 The Panel considered that the Working Group have carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 333.
- 2.4 The DCUSA Panel recommends that this CP:
- Be issued to Parties for Voting.

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;
- 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 bad debt has been under review for some time, and in the intervening period DNOs have been required to commence 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 debts 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, 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. Without changes to Schedule 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 decision² 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 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 the costs without distorting the underlying cost signals generated by the existing charging methodologies, and without distorting LDNO margins.

4 Solution

DCP 333 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 Report and a separate Change Report will be published for the proposed 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.

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

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 discounts 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:

- 1) 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
- 2) The adjustment to tariffs (calculated in the CDCM) takes into account revenue which will be derived in the EDCM from the application of step 1, to avoid over-recovery of the new pass-through costs.

4.5 All four original solution options involve excluding any revenue relating to the new pass-through costs from the existing calculations 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
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Option	Pros	Cons
A - unit rates for all demand customers	<p>Maintains the principle by which revenue matching is achieved in the CDCM.</p> <p>The costs do not discriminate against different types of customers; hence recovery from all customers is arguably more appropriate than from a subset.</p>	<p>Results in higher unit rates, giving a stronger cost signal to customers to reduce overall usage of the network.</p> <p>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.</p>
B - unit rates for domestic customers	<p>Maintains the principle by which revenue matching is achieved in the CDCM, albeit applied to a restricted group of customers.</p>	<p>Results in higher unit rates, giving stronger cost signals to customers to reduce overall usage of the network.</p> <p>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.</p> <p>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 to date is almost entirely associated with domestic customers.</p>
C - fixed charges for all demand customers	<p>The costs associated cannot be reduced through reduced network usage; hence a fixed charge is arguably the most appropriate means of recovery.</p> <p>The costs do not discriminate against different types of customers; hence recovery from all customers is arguably more appropriate than from a subset.</p>	<p>Deviates from the underlying principle by which revenue matching is achieved in the CDCM.</p>
D - fixed charges for domestic customers	<p>The costs associated with the new pass-through terms cannot be reduced through reduced network usage; hence a fixed charge is arguably the most appropriate means of recovery.</p>	<p>Deviates from the underlying principle by which revenue matching is achieved in the CDCM.</p> <p>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.</p>

Options progressed to consultation

4.7 The Working Group discussed the 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 Options A and B any further.

- 4.8 The Working Group discussed the merits of Options C and D for the recover of bad debt costs and did not reach a unanimous conclusion, with both options having advantages and disadvantages (as detailed in the tables 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.

DCP 333 Consultation

- 4.9 To aid the 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 the 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.

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 agreed 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 Report.

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 charge 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.

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 recommend 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 a 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 predominately 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
- The changes to the distribution licence result in a situation in which charges may be changed 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 General DCUSA Objectives and six Charging Objectives. This change proposal impacts the 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 Objectives:

Relevant Objective	Identified impact
Charging Objective One – 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	No Impact
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)	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 3.2.3, 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.
- 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 through 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 314³ 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 that 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 versions of the 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.

³ [DCP 314](#)

- 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 impacts 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 rounded all-the-way tariffs, 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 increased in the fixed adders are higher (in percentage terms) for LDNO LV customers than 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 this CP 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 engaged throughout the development of this CP as an observer of 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 date for DCP 333 is 01 April 2021.

8 Legal Text

- 8.1 The DCP 333 legal text acts as Attachment 1 to this Change Report.
- 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 an 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.

9 Code Specific Matters

Modelling Specification Documents

- 9.1 Modelling documentation can be found in Attachment 5.

Reference Documents

- 9.2 Not applicable.

10 Recommendations

Panel's Recommendation

- 10.1 The Panel approved this Change Report on 17 July 2019. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 333.
- 10.2 The Panel have recommended that this report is issued for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

Attachments

- Attachment 1 – DCP 333 Legal Text
- Attachment 2 – DCP 333 Voting Form
- Attachment 3 – DCP 333 Change Proposal
- Attachment 4 – DCP 333 Consultation and Collated Responses
- Attachment 5 – DCP 333 Modelling Impact Assessment Documentation