



## **DCUSA CHANGE REPORT**

### **DCP 198 - Align the PCDM Model with the Legal Text**

## **1 PURPOSE**

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 198 'Align the PCDM Model with the Legal Text'. The voting process for the proposed variation and the timetable for the progression of the Change Proposal (CP) through the DCUSA Change Control Process are set out in this document.
- 1.2 Parties are invited to consider the proposed amendment (Attachment 2) and submit their votes using the Voting form (Attachment 5) to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **9 January 2015**.

## **2 BACKGROUND**

- 2.1 DCP 198 was raised by UK Power Networks and seeks to align the Price Control Disaggregation Model (PCDM) and the relevant legal text as laid out within DCUSA Schedule 16 clauses 96 to 125.
- 2.2 The Proposer explains that following the appointment from the DCUSA Panel of a consultant to undertake the modelling work for charge setting, a number of inconsistencies have been identified between the legal text as defined within DCUSA Schedule 16 and the current published DCUSA PCDM, which was brought under the DCUSA governance arrangements following the approval of DCP 129<sup>1</sup>. It was explained that DCP 129 only brought the existing model into DCUSA governance, that the legal text was not revised for DCP 129; it is therefore reasonable to accept that there will be differences between the model and legal text.
- 2.3 It was further highlighted by the Proposer that this change will benefit the work of DCUSA Parties by removing any difference between the legal text and the PCDM. It will work to ensure that Parties can be confident that the design of the model reflects the wording in the Agreement.

## **3 WORKING GROUP ASSESSMENT OF DCP 198**

- 3.1 The DCP 198 Working Group met on five occasions. The Working Group was comprised of Distributor, IDNO and Ofgem representation. It is noted that all DCUSA Parties were invited

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<sup>1</sup> Bringing the CDCM Price Control Disaggregation (Method M) under the DCUSA Open Governance Framework

to attend the Working Group. Meetings were held in open session and the documents of each meeting are available on the DCUSA website – [www.dcusa.co.uk](http://www.dcusa.co.uk).

#### **4 CONSULTATION RESPONSES**

- 4.1 The Working Group carried out two consultations to give DCUSA Parties an opportunity to review and comment on DCP 198. These documents are included as Attachment 3 and 4 respectively.

##### **CONSULTATION ONE – FEBRUARY 2014**

- 4.2 The Working Group reviewed the proposed intent and business justification of DCP 198 as submitted by the Proposer and agreed two options could be used to progress the CP further: Option 1 - Amend the PCDM to match the legal text as set out in the DCUSA, or Option 2 - Amend the legal text as set out in the DCUSA to match the PCDM.
- 4.3 The Working Group agreed that this was a question that should be posed to DCUSA Parties in order to garner a wider opinion on the preferred option to progress before any work is started on the assessment of the CP.
- 4.4 There were six responses received to the consultation. A summary of the responses received, and the Working Group's conclusions are set out below:

##### **Question 1 - Do you agree with the intent of DCP 198?**

- 4.5 The Working Group noted that all of the respondents agree with the intent of DCP 198.

##### **Question 2 - Do you agree with the principles of DCP 198?**

- 4.6 The Working Group noted that all the respondents agreed with the principles of DCP 198. The following table provides a break down by respondent type.

Respondent Type	Are you supportive of the principles of the CP?		
	Yes	No	Total
<b>DNO</b>	4		<b>4</b>
<b>IDNO</b>	2		<b>2</b>
<b>Total</b>	<b>6</b>		<b>6</b>

**Question 3 - Do you think that the Working Group should progress with Option 1 - Amend the PCDM to match the legal text as set out in the DCUSA? Please provide supporting comments of why you agree or disagree with this option.**

- 4.7 The Working Group noted that the majority of respondents were against progressing with Option 1. It was also noted that one DNO Respondent supported a mixed approach including elements of both Option 1 and 2.
- 4.8 An IDNO Party explained that they do not support such work. They think that taking such an approach is inconsistent with the development of the PCDM. It was further added that they felt the working group should recall that the PCDM Excel work book was developed first and the legal text developed second to describe the work book.
- 4.9 A DNO Party noted that in their view it is not clear from the information provided in the consultation which option is the appropriate course of action. They felt that the working group needs to clearly state the principals and functionality of both the model and the legal text which differ and explain why it is believed one is more appropriate than the other.
- 4.10 The Working Group reviewed and noted this comment, but reiterated that this consultation was only to garner views from the Industry as to what the preferences may be in regard to each Option, not to give a final view as to which one is more appropriate.

**Question 4 - Do you think that the Working Group should progress with Option 2 - Amend the legal text as set out in the DCUSA to match the PCDM? Please provide supporting comments of why you agree or disagree with this option.**

- 4.11 The Working Group noted that the majority of respondents agreed that Option 2 is the preferred way to progress the CP.
- 4.12 An IDNO Party agreed and noted that they believe that the way that the PCDM was formed (i.e. that the model was created first and then the legal text written around the model) means that for any discrepancies between the model and legal text, the model should be seen as the definitive source. By potentially changing the legal text rather than the model, it also alleviates any concerns that tariffs

could be impacted and increases certainty about prices.

- 4.13 A DNO Party explained that while in normal circumstances the model should support the legal text, the express intention of DCP 129 was to prioritise bringing the existing model under DCUSA governance. We therefore consider this case to be unique and the intention of DCP 129 should be carried through to the legal text i.e. the model should take priority.
- 4.14 Another DNO Party explained that in their view any models provided should reflect the legal text held within DCUSA.

**Question 5 - Are there any alternative solutions or matters that should be considered by the Working Group?**

- 4.15 The Working Group reviewed the responses and noted that it was the majority view of the respondents and the working group to progress with Option 2 which will align the legal text to the model.
- 4.16 A DNO Party identified several formulae errors contained within the PCDM, and made suggestions of how to amend the legal text in places, and where to amend the model; it would be a hybrid of the Option 1 and Option 2 being put forward by the Working Group.
- 4.17 The Working Group reviewed this response and noted that these issues were previously identified, and that these issues with formulae should be dealt with in separate change proposals.

**Introduction of DCP 212 into the DCUSA Change Process**

- 4.18 During the course of its discussions, the Working Group noted that there was a need to also update the legal text for the Extended PCDM. As the intent of DCP 198 was not broad enough to include this model within its scope, a new CP was raised to address the EDCM version of the PCDM.
- 4.19 A new CP was raised and accepted into the DCUSA Change Process, and the DCUSA Panel felt that as the subject matter was nearly identical it should be given to the DCP 198 Working Group to progress alongside one another, but as separate CPs.

- 4.20 The Working Group agreed and summarised the progress of the DCP 198 up to this point, specifically in regard to Consultation One where Parties agreed to match the legal text to the methodology (the model) instead of the reverse. This meant that the same progression route would apply to DCP 212 in regard to having the legal text to match the Extended PCDM. The Working Group members unanimously agreed with this approach.
- 4.21 The Working Group then discussed how the discrepancies within the legal text can be identified in order to update it accordingly to match the PCDM Models. The members agreed that the DCUSA modelling consultant should be requested to examine the legal text in order to identify the discrepancies and amend the legal text accordingly.
- 4.22 The Working Group were explicit in regard to what the scope of the work should be, and highlighted that it is only to identify the discrepancies within the legal text in regard to the model, and make no changes to the models themselves. The Working Group agreed with this approach.

#### **Consultation Two – September 2014**

- 4.23 It was explained within this consultation that the Proposer had highlighted that following the appointment of a consultant to undertake the modelling work for DCUSA charging methodology changes, a number of inconsistencies have been identified between the legal text as defined within DCUSA Schedule 16 and the current published DCUSA PCDM and Schedules 17 and 18 and the current published DCUSA Extended PCDM. The PCDM and Extended PCDM were brought under the open governance arrangements following the approval of DCP 128<sup>2</sup> and DCP 129<sup>3</sup>; the legal text was not revised in either DCP 128 or 129.
- 4.24 Within the document, it was noted that the Working Group had previously issued a consultation in order to gauge Industry opinion as to how best proceed with the DCP 198. In the consultation issued on 7 February 2014, the Working Group explained that two options could be used to progress the CP further: Option 1 - Amend the PCDM to match the legal text as set out in the DCUSA, or Option 2 - Amend the legal text as set out in the

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<sup>2</sup> Bringing the EDCM Price Control Disaggregation (Extended Method M) under the DCUSA Open Governance Framework

<sup>3</sup> Bringing the CDCM Price Control Disaggregation (Method M) under the DCUSA Open Governance Framework

DCUSA to match the PCDM.

- 4.25 The Working Group explained that they had reviewed the responses to the February consultation, and the majority of respondents agreed that the legal text should be amended to match the PCDM model. The reasoning behind this was that the PCDM was the methodology that was being used in practice, and that the legal text should be updated in order to match what was being used within the Industry.
- 4.26 The consultation consisted of questions for both DCP 198 and DCP 212.
- 4.27 There were four responses received to the consultation. A summary of the responses received in regard to DCP 198 only, and the Working Group's conclusions are set out below:

**Question 1 - Do you agree with the intent of DCP 198?**

- 4.28 The Working Group noted that the overall majority of respondents agree with the intent of DCP 198.
- 4.29 A DNO Respondent explained that they agreed with the intent of DCP 198 and understands the intent of this change proposal is to align the current Price Control Disaggregation Model (PCDM) with the relevant legal text as laid out within DCUSA.

**Question 2 - Do you agree with the principles of DCP 198?**

- 4.30 The Working Group noted that all the respondents agreed with the principles of DCP 198.

**Question 3 - Do you have any comments on the proposed legal text for DCP 198? Please provide supporting comments.**

- 4.31 The Working Group reviewed and noted all the responses. The members agreed with many of the comments and agreed to amend the legal text as suggested within the responses. The Working Group instructed the DCUSA Panel modelling consultant to amend the legal text in accordance with the responses.

**Question 4 - The Working Group considers that DCUSA General Objective 1<sup>4</sup> and Charging Objectives 1<sup>5</sup> and 3<sup>6</sup> are better facilitated by DCP 198, do you agree with this opinion? Please**

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<sup>4</sup> The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks

**provide supporting comments on this and any other DCUSA General or Charging Objective you feel is impacted by DCP 198.**

- 4.32 The Working Group reviewed and noted the comments within the responses. It is also noted that the majority of respondents agree with the Working Group's assertions regarding the DCUSA General and Charging Objectives.
- 4.33 A DNO Respondent noted that they would agree with the view of the working group that DCUSA general Objective 1 and Charging Objectives 1 and 3 are better facilitated as a result of this change proposal. This is a result of the methodology being more closely aligned to the model utilised, and by including relevant wording to better describe elements which the methodology was previously silent on.
- 4.34 A different DNO Respondent explained that they agree that this CP better meets Charging Objective 1 (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). In particular SLC 12.4 states that charges to be made must be consistent with the relevant Charging Methodology. As there are a number of inconsistencies between the DCUSA legal text and the PCDM at present this CP will remove this inconsistency and therefore better meet this Objective.
- 4.35 They explained that in their view, this CP is neutral to DCUSA General Objective 1 and Charging Objective 3 as there will be no impact on the PCDM and therefore no price impact as a result of this change.

**Question 5 - Do you agree with the implementation date of DCP 198?**

- 4.36 The Working Group noted that all respondents agree with the implementation date as proposed by the DCP 198 Working Group.

**Question 6 - Are there any alternative solutions or matters that should be considered by the Working Group for DCP 198?**

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<sup>5</sup> 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

<sup>6</sup> 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



- 4.37 The Working Group noted that the majority of respondents had no alternative solutions for the Working Group to consider.
- 4.38 One DNO Respondent explained that in their view, the Working Group should consider merging the LDNO text into one Schedule rather than having the same text in 3 separate Schedules of the DCUSA.
- 4.39 The Working Group reviewed and noted this comment, and again reiterates that this is outside the scope of this Working Group.

## **5 WORKING GROUP FINAL CONCLUSIONS ON DCP 198**

- 5.1 The Working Group's conclusion, reflecting Party opinion as presented in the Consultation responses, is that the proposed drafting meets the intent of DCP 198 and therefore should be issued for voting and Party determination.

## **6 ENGAGEMENT WITH THE AUTHORITY**

- 6.1 Ofgem has been engaged in the progression of DCP 198 as a member of the Working Group.

## **7 ASSESSMENT AGAINST THE DCUSA OBJECTIVES**

- 7.1 Working Group considers that the following DCUSA Objectives are better facilitated by DCP 198. The Working Group feel that these will all be improved as a result of this DCP 198, as it will ensure that the PCDM model is consistent with DCUSA Schedule 16.
- **General Objective 1 - The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks**
  - **Charging Objective 1 - 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**

- **Charging Objective 3 - 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**

## **8 DCP 198 – LEGAL DRAFTING**

- 8.1 The DCP 198 legal drafting has been reviewed by the DCUSA legal advisors and is provided as Attachment 2.

## **9 ENVIRONMENTAL IMPACT**

- 9.1 The Working Group unanimously agreed that there is no environmental impact associated with DCP 198 and, therefore, no environmental impact analysis is required on the implementation of this CP.

## **10 IMPLEMENTATION**

- 10.1 The proposed implementation date for DCP 198 is the first release following Authority consent.

## **11 PANEL RECOMMENDATION**

- 11.1 The Panel approved this Change Report at its meeting on 17 December 2014.
- 11.2 The timetable for the progression of the CP is set out below:

<b>Activity</b>	<b>Date</b>
Change Report issued for voting	19 December 2014
Voting closes	9 January 2015
Change Declaration	13 January 2015
Authority Determination	17 February 2015
DCP 198 Implemented	First Release Following Authority Consent

## 12 NEXT STEPS

- 12.1 Parties are invited to consider the proposed amendments (Attachment 2), together with the Consultation documentation (Attachments 3 and 4) and submit their votes using the Voting form (Attachment 5) to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **9 January 2015**.
- 12.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3014.

## ATTACHMENTS

- Attachment 1 – DCP 198 CP Form
- Attachment 2 – DCP 198 Proposed Legal Drafting
- Attachment 3 – DCP 198 Consultation One – February 2014
- Attachment 4 – DCP 198 and 212 Consultation Two – September 2014
- Attachment 5 – Voting Form