

DCUSA DCP 178 Consultation Responses – Collated Comments

PART 1		
Party	Response	Working Group Comments
Question One		
Do you support this change?		
Working Group summary: It was noted that customers are broadly supportive of DCP 178, with no respondents to this question against the proposal.		
Anonymous	Yes	Noted
Anonymous	Yes.	Noted
Anonymous	Yes	Noted
Anonymous	yes	Noted
BT Group plc	Yes	Noted
GlaxoSmithKline	Yes	Noted
Dwr Cymru Cyf	Yes - a fairer solution for customers, suppliers, distribution companies and customers. As a participant in the working group we have had excellent exposure to the argument for and against and support the final proposition.	Noted
Associated British Foods	Yes	Noted
CEMEX UK Operations Ltd	Yes	Noted
Consumer Futures	Yes – although we note that this change addresses a symptom of a wider problem, rather than the problem itself. We expand on this in Q7 below.	Noted
LASER Energy Buying Group (a division of Commercial Services Kent Ltd – wholly owned by Kent County Council)	Yes	Noted
Major Energy Users Council	Yes	Noted
Opus	Yes	Noted

Question Two What benefits do you believe it will bring to your organisation?		
<p>It was noted that there were a number of repeating positive themes in the responses to this question, particularly around improved certainty and the benefits for customers in terms of improved budgeting.</p>		
Anonymous	It will allow increased budget certainty as pass through charges will be known for the year in advance	Noted
Anonymous	It can allow your to budget and project your Utlility costs more accurately. For Organisations on shorter fixed contratcs, the potential to know charges well in advance, may allow time to shop around for alternative agreements.	Noted
Anonymous	Certainty in charges	Noted
Anonymous	none	Noted
BT Group plc	This change will provide us with a significant improvement in cost certainty on DUoS charges. The current regime does not provide us with a known value for DUoS until after our budget processes have completed. DUoS represents circa 15% of our total bill (£30m out of £220m) and to have this level of uncertainty is untenable and contrasts significantly with our ability to achieve cost certainty in the wholesale market.	Noted
GlaxoSmithKline	Better long term budget planning	Noted
Dwr Cymru Cyf	Less uncertainty and risk in the budgeting process which currently requires estimates to be calculated in the business plan for half-hourly supplies. Less uncertainty on our wrapped up NHH rates which we have to source as suppliers have to guess what the rates will be at the time we develop the business plan.	Noted
Associated British Foods	Ability to forecast costs more accuratley and more importantly build them into the budgeting process to allow better cost management.	Noted
CEMEX UK Operations Ltd	Will remove this element of risk premium from a 12 month all inclusive contract which should result in a lower price. Will enable a reforecast of charges slightly prior to the start of a calendar financial year rather than after a quarter in. (Assumptions for budgeting a calendar financial year will have already been made, so not much help from that perspective)	Noted

	Will aid transparency and therefore comparison of supplier products, as an element of their individual risk policies will have been removed. Added benefit being that they may look at other product options to maintain a competitive edge	
Consumer Futures	We consider that more stability in future pricing of distribution charges is likely to benefit consumers, by reducing the risk suppliers would otherwise have to build in to prices.	Noted
Group LASER Energy Buying	<p>We procure electricity on behalf of over 120 local authorities within 10 distribution areas, on both flexible and fixed contract methods amounting to approximately 2.8 TWh/annum. For both purchasing methods, the billed charges are all inclusive, non-pass through rates. Our flexible product, which accounts for over 80% of the energy we purchase, offers validation of the core components to ensure that invoices paid by public sector organisations and end users (such as schools, housing, care homes, street lighting etc) have non-commodity components we are able to evidence and justify back to regulated charges. With the current method of releasing DUoS charges, the supplier takes a view on what to apply for any portion of a contract year beyond the expiry date of the prevailing DUoS pricing period. This reduces the transparency of DUoS charges within overall delivered energy prices.</p> <p>This change will benefit the public sector organisations we represent in our flexible product by providing greater transparency between the published DUoS charges and the associated cost recoveries included within the delivered energy price. The distribution charge is the highest non-commodity component cost to an end user thus any further solidity and removal of risk applied by the supplier within the charges will no doubt benefit the justifiability and end cost. Furthermore, we support the idea that it will aid competition within our fixed product by eliminating the need for suppliers to take a view on much, if not all, of a requested contract period's distribution charges when releasing a tender on behalf of an authority.</p>	The Working Group noted this respondent's comments particularly highlight the argument in support of the change.
Major Energy Users Council	We have sought the opinion of a number of our members ranging from	Noted

	<p>large single site to multi site organisations. All agree that this will assist them in a number of ways. Tariffs should be more predictable and transparent and there should be improved certainty over budgeting for future DUoS charges. Removal of one element of suppliers risk might even lead to reductions in the charges some customers pay for DUoS in their contract.</p> <p>Many DNOs are predicting tariffs for the period 2015 - 2023 (subject to inflation indexing) so improved transparency would be beneficial. End users with pass-through contracts should benefit from being able to budget with greater certainty. Finally consumers have often complained that suppliers fail to inform them of new charges in advance of implementation so this would be helpful all round.</p>	
Opus	This change will aid us in offering accurate, more competitive fixed contracts for customers.	Noted
Question Three Do you agree with the proposed implementation date of December 2014? Please provide your rationale.		
<p>The Working Group noted that several respondents would have preferred for DCP 178 to be implemented earlier than December 2014, however the publication date of RIIO-ED1 allowed revenues will not permit earlier implementation. The group noted that no respondents wished the change to be implemented later than 2014 and many would prefer it to be earlier.</p>		
Anonymous	Yes	Noted
Anonymous	Yes , this allows for both supplier and end user organisations to plan for a long term strategy.	Noted
Anonymous	Yes, the sooner the better	Noted
Anonymous	yes	Noted
BT Group plc	We would prefer it to be in December 2013. However, we understand the logistical challenges in achieving this, including the reliance on Ofgem to adhere to their timetable for RIIO, and would support December 2014 to enable the industry to prepare properly.	Noted
Dwr Cymru Cyf	Yes. It should be implemented as soon as feasible.	Noted
Associated British Foods	We would like this change to be implemented as soon as possible, preferably December 2013 or April 2014.	Noted
CEMEX UK Operations Ltd	In the context of a 15 month notification period then yes enabling	Noted

	effectiveness from April 2016. Can't be any earlier for reasons identified and should not be permitted to be delayed further over a time when there will potentially be enough other uncertainties surrounding electricity.	
Consumer Futures	We are not in a position to comment on the proposal in this level of detail.	Noted
Group LASER Energy Buying	Yes. It is the next allowable date following the notification of the revenue change (RIIO-ED1) from OFGEM in February 2014 (at the earliest).	Noted
Major Energy Users Council	There seems no reason to delay implementation from a consumer's perspective.	Noted
Opus	Yes, this change will offer more security to fixed contracts when entering RIIO EDI.	Noted
Question Four Do you believe that the April 2015 tariffs published in December 2014 should be final tariffs, rather than indicative tariffs?		
The group noted that respondents supported this suggestion.		
Anonymous	Yes	Noted
Anonymous	If they are final tariffs, this will then not allow for any potential downward pressure on tariffs. Similarly it places greater risk on the Energy supplier, should prices take a severe upturn.	Noted
Anonymous	Yes	Noted
Anonymous	yes	Noted
BT Group plc	Yes. The whole point of the change is to provide cost certainty - whilst accepting that they would be published earlier than currently required by DCUSA, the intention of this change is to make sure that the charges are settled once.	Noted
GlaxoSmithKline	Final tariffs	Noted
Dwr Cymru Cyf	Yes - otherwise it operates the same as an estimate and is not a substantial improvement on the current system.	Noted
Associated British Foods	Yes.	Noted

CEMEX UK Operations Ltd	Yes as provides consistency with other proposed changes and no reason to delay if DCP 178 is to be implemented	Noted
Consumer Futures	We are not in a position to comment on the proposal in this level of detail.	Noted
Group LASER Energy Buying	Yes. If this change were to commence from December 2014, it would be counterintuitive for the April 2016 charges to be final whilst April 2015 charges are still indicative.	Noted
Major Energy Users Council	If it can be done - yes	Noted
Opus	Yes, the tariffs do not normally change much and this will give customers more notice of any changes.	Noted
Question Five This Change Proposal proposes a 15 month notification period. Do you agree with this timescale or do you believe that an alternative should be considered? Please provide your rationale.		
<p>The Working Group noted that 15 months had been chosen as a reasonable time frame that was shorter than some Working Group members would prefer and longer than others would prefer. It was noted that the responses from customer did not indicate strongly that another time period should be used.</p>		
Anonymous	Agree	Noted
Anonymous	Happy with the proposal.	Noted
Anonymous	This period is fine. Longer period more stability	Noted
Anonymous	Agree	Noted
BT Group plc	A 15 month notification period is ideal. It provides us with sufficient advanced notice to incorporate the DUoS charges into our cost forecasts and aligns with our strategy on the wholesale market.	Noted
GlaxoSmithKline	This is OK	Noted
Dwr Cymru Cyf	A 15 month notification period gives Suppliers and Consumers time to reflect them in charges appropriately. It also does not inconvenience the Distribution companies too much and if there is under or over recover there are measures to address this.	Noted
CEMEX UK Operations Ltd	Agree from a consistency point of view and all the reasoning identified, but based on a consumer calendar financial year basis, would be more useful at 18 to 20 months. This would give greater cost certainty in the next calendar financial year from a budgeting perspective, particularly	Noted

	where significant under recovery impact may become apparent in any December	
Consumer Futures	We are not in a position to comment on the proposal in this level of detail.	Noted
Group LASER Energy Buying	Yes, we agree with this timescale. As suggested in the consultation, solidity of DUoS costs 15 months in advance will allow further competition and visibility in the market.	Noted
Major Energy Users Council	Yes	Noted
Opus	Yes, there is already precedent set within the methodology to provide 15 months' notice for certain inputs so this change would complement that timeline.	Noted
Question Six Do you have any concerns about the change?		
Anonymous	No	Noted
Anonymous	Yes, but they are all hyperthetical .	Noted
Anonymous	No	Noted
BT Group plc	As a customer the only concern is that because this is a DCUSA change there will be a disconnect between the expectations of DNO's for charge setting and those of National Grid. A parallel CUSC change should be raised to address this and ensure alignment. At the end of the day any UoS charge is a pass-through to us and we want to minimise the risk to our business and customers as much as possible.	The Working Group noted that CUSC changes can be put forward by any party to the CUSC. It is outside of the scope of what can be done within the DCP 178 Working Group but should a customer wish to raise a such a change contact details for an appropriate person at National Grid can be provided.
Dwr Cymru Cyf	No.	Noted
CEMEX UK Operations Ltd	1) Impact of under recovery being published after calendar financial year budgeting process complete. 2) Impact that under recovery may have on DNO's delaying connection/upgrade works by a two year period due to budgetary constraints	Noted
Consumer Futures	We understand that the majority of DNOs are comfortable with this proposal. Our initial concern that the proposal might simply transfer costs from one part of the energy industry to another, with no net benefits for consumers, therefore seems unfounded.	Noted
Group LASER Energy Buying	The possibility that retrospective reconciliation of the recovery by the distribution network operators could cause significant fluctuations in	Noted

	charges year-on-year. For example, if there are consecutive over and under recoveries to account for.	
Major Energy Users Council	We are not aware of any	Noted
Opus	No	Noted
Question Seven Please state any other comments or views on the Change Proposal.		
Anonymous	This can only be positive.	Noted
Anonymous	If it results in a win/win process then we must apply a common sense approach.	Noted
BT Group plc	None.	Noted
Dwr Cymru Cyf	None.	Noted
CEMEX UK Operations Ltd	If this process can be adopted for DNO's, can't the same methodology be applied by DECC for ROC's, FIT's etc. Thereby giving even greater cost certainty for the consumer	It was noted that this is outside of the scope of the DCP 178 Working Group.
Consumer Futures	<p><i>The comments below provide a summary of our views of this proposal and its wider context.</i></p> <p>Consumer Futures recognises that the current charging methodology, while designed to be cost reflective and common across all DNOs, can produce significant variations in charges from year to year depending on network load and changes to the user base.</p> <p>This creates an issue for suppliers, who (obviously) want more certainty to be able to offer longer term prices. The price volatility is greatest for larger EHV industrial users, but also affects charges for domestic and small business users too.</p> <p>Suppliers therefore bear a degree of risk in offering medium or long term prices to customers. We accept that this situation is likely to lead to suppliers adding a risk premium to consumers' bills – although we would also note that volatility could work in suppliers' favour, depending on the direction of cost movement.</p> <p>We also understand that the majority of DNOs are comfortable with this</p>	<p>The Working Group noted that it is a fair point that DCP 178 does not address price volatility issues, however, there are a number of other DCUSA CPs seeking to address volatility.</p> <p>It was noted that there have been some large price swings between tariffs, especially in the earlier years of the CDCM. These swings that customers see are not driven by their own behaviour.</p>

	<p>proposal. Our initial concern that the proposal might simply transfer costs from one part of the energy industry to another, with no net benefits for consumers, therefore seems unfounded.</p> <p>We have also considered the issue from the perspective of individual consumers. From their point of view, the variable costs produced by the model seem strongly counter-intuitive, especially since this is the only part of energy bills in which prices are regulated directly:</p> <ul style="list-style-type: none"> - There is no link between the behaviour of individual consumers and the costs they incur. - Consumer behaviour does not, in effect, have an impact on the charges they pay, which can vary greatly between years even if individual consumers' consumption remains constant. - Further, the vast majority of consumers have no option to change their DNO; stability of pricing is therefore more important to consumers than cost reflectivity in this case. <p>Consumer Futures therefore sympathises with the aim of this proposal of reducing price volatility for consumers. We support this proposal as one which addresses a symptom of the problem, while also highlighting the need to continue work to reduce the price volatility which is the core of the issue.</p>	
Group LASER Energy Buying	None	Noted
Major Energy Users Council	The concerns of Q11 are noted but should not be a bar to taking forward a proposal that clearly offers benefits for the consumer.	Noted
PART 2		
Party	Response	Working Group Comments
Question Eight		
Do you understand the intent of the CP?		
Anonymous	Yes	Noted
First Utility	Yes	Noted
BT Group plc	Yes	Noted

UK Power Networks	Yes	Noted
Dwr Cymru Cyf	Yes.	Noted
Reckon LLP	Yes.	Noted
BGAS	Yes	Noted
EDF Energy	Yes	Noted
Electricity North West	Yes. The proposal is for DNOs to be required to publish final Use of System charges for all customers, including EHV, 15 months before their effective date. We understand that the principle is to transfer risk from suppliers to DNOs with the intent of reducing the overall risk premium factored into final customer bills; however we disagree with this logic and consider this to be an inefficient allocation of risks that would ultimately lead to higher charges to customers.	The Working Group noted that it had discussed the reallocation of risk previously.
ESP Electricity	Yes	Noted
Gazprom Energy	Yes	Noted
GTC	Yes	Noted
Haven Power	Yes	Noted
Group LASER Energy Buying	Yes	Noted
Northern Powergrid	Yes	Noted
Npower	Yes	Noted
Opus	Yes	Noted
Scottish Power	Yes	Noted
SP Distribution / SP Manweb	Yes	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Yes	Noted
SSE Supply	Yes	Noted
Western Power Distribution	Yes	Noted
Question Nine		
Are you supportive of the principles established by this proposal?		
Anonymous	Yes	Noted
First Utility	Yes, we agree increasing the notice period for DUoS tariffs from 40 days	Noted

	to 15 months as this will have significant benefits for both Suppliers and Consumers. Tariffs will be more predictable and transparent and with lower risk associated with forecasting tariffs, will likely lead to reductions in the charges some customers pay for DUoS in their contract.	
BT Group plc	Yes	Noted
UK Power Networks	Yes, we believe that this change would bring significant benefits to Suppliers and Consumers by providing certainty on their DUoS charges fifteen months in advance.	Noted
Dwr Cymru Cyf	Yes.	Noted
Reckon LLP	Mixed views. See answers to more specific questions below.	Noted
BGAS	<p>We are not supportive of the proposal as we believe it is likely to be detrimental to customers overall, but remain keen to improve predictability when this can be achieved without increasing costs to customers.</p> <p>We believe the uncertainty this modification seeks to address will be significantly reduced once all the measures relating to Price Control related volatility, and those related to CDCM volatility, have been fully implemented. This means the benefit to customers is highly unlikely to outweigh the detriment.</p> <p>However, we would support a change which contained a shorter extension to the tariff notification period, to a point shortly after DNOs have completed their annual reporting. This would eliminate much of the detrimental effect of this proposal, as the DNOs should be able to set tariffs for the following year far more accurately, but would also remove the perception of risk for suppliers at a much earlier point, meaning the benefit to customers may well now outweigh the detriment. Therefore we suggest an appropriate period would be 7 months, requiring tariffs for the following regulatory year to be published by 31 August</p>	The group noted that there is a difference in the views of some suppliers relative to others with regards to DCP 178. It was noted that this is the only Supplier that is opposed to the change.
EDF Energy	Yes	Noted
Electricity North West	No. We do not believe that this proposal is in the best interests of customers. The principle of transferring risk from suppliers to DNOs in	Some Working Group members suggested that Suppliers should not be competing around regulated

	<p>order to reduce the associated premium is fundamentally flawed. The additional risk on DNOs would translate into an increased marginal cost of debt, and possibly lead to a tendency to set prices at a level more likely to over-recover, to the detriment of end customers. It is the business of suppliers to manage a portfolio of risks, and gain competitive advantage through their ability to minimise the associated risk premium. Placing the risk premium with DNOs is not efficient and removes this competitive pressure.</p> <p>We also consider that the proposal is not consistent with Ofgem's stated policies in this area. These policies are designed to improve the predictability of network charge changes without increasing risk for network operators, with the aim of lowering overall customer bills.</p> <p>The issues raised by the proposal have been the subject of significant industry debate. In April 2012 Ofgem published a document 'Mitigating network charging volatility arising from the price control settlement' in which it discussed the issues and identified five potential options for addressing them. Ofgem's decision document was published In October 2012 (https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf)</p> <p>Ofgem's principal criterion for assessing the options was a consideration of which party is best placed to bear the cash-flow risk associated with changes to network allowed revenues. For example, limiting the number of changes or improving predictability of changes will reduce the risk to suppliers, and therefore potentially reduce the risk premium included in customers' bills. However, limiting DNOs' ability to recover costs may lead to increased variability in DNOs' cash-flows, which increases their financing costs, and potentially leads to higher overall network charges.</p> <p>Specifically, four proposals arising from Ofgem's consultation are being implemented:</p> <p style="text-align: center;">1 Improved information for suppliers and customers</p>	<p>charges. Counter to this it was suggested that Suppliers could target customers to balance their portfolio and reduce their overall risk. If you have a balanced portfolio in the DNO area then you are only exposed to the allowed revenue. It was noted that for smaller suppliers in particular it is very unlikely that they will be in a position to balance their portfolio to minimise DUoS risk.</p> <p>A customer attendee highlighted that larger customers are able to negotiate fixed contracts with their Suppliers whereas smaller organisations are left more open to the risks associated with DUoS tariffs.</p> <p>ENWL clarified that their view is that if the risk premium sits within the Supplier side then it is in a competitive market and thus there is a downward pressure on the premium. In response to this suggestion it was highlighted that Suppliers need to predict what the risk is going to be and apply a wide safety band to this. DNOs will not need to guess in this way as they will recover their allowed revenue in later years.</p> <p>It was suggested that if a DNO were to forecast a normal weather situation when calculation its DUoS tariffs and then for three years there is a mild winter, the DNO could under recover by a significant amount.</p> <p>It was noted that there is not an agreement amongst DNOs and Suppliers as to whether the DCP 178 is a good thing. However, customers are supportive of it and only one Supplier does not support it. The majority of DNOs concerns were around the under/over recovery limits and potential reduced cost reflectivity, with only one DNO expressing</p>
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	<p>2 Restricting the frequency of intra-year charge changes</p> <p>3 Increasing the lag on incentive rewards/penalties that networks recover through allowed revenues</p> <p>4 Increasing the lag on adjustments to allowed revenues from uncertainty mechanisms</p> <p>Ofgem also considered a fifth option which was to impose a cap and collar on changes to allowed revenues. This option was rejected on the basis that a cap and collar would not improve the allocation of risk, nor be beneficial to customers, given the improvement to predictability being introduced under options 1 to 4.</p> <p>We consider that the current proposal not only places a zero cap/collar on the allowed revenue that can be recovered, but also introduces additional uncertainty for DNOs in the form of increased volume risk due to the 15 month time horizon. At the extreme, the cash-flow risks arising from the build-up of significant deferrals of revenue could pose financeability concerns for DNOs which in the long run will be viewed as increasing the riskiness of network businesses, and therefore increase the cost of operating the networks.</p>	<p>significant concerns about cost of capital. It was noted that the different views will need to be captured in the Change Report.</p> <p>It was noted that apart from ENWL, the other DNO's concerns are mainly around the under/over recovery thresholds. These are set by Ofgem and could potentially be reviewed, although a licence change would be needed to amend them and thus it is outside of the scope of the DCP 178 Working Group. It was highlighted that there is an option of applying for a derogation, although derogations should not be seen as a solution.</p> <p>The Working Group discussed whether or not the benefits of DCP 178 are quantifiable, and concluded that they probably were not due to the confidentiality surrounding the risk premiums that suppliers apply. However there are qualitative benefits for both suppliers and consumers for increased predictability with the increased notification period.</p>
ESP Electricity	Broadly supportive although we have some concerns explained in Question 11.	Noted
Gazprom Energy	<p>Yes, we are supportive of the principles of the change.</p> <p>The change will provide greater predictability of DUoS costs. Extending the notification period for final DUoS tariffs from 40 days to 15 months will allow suppliers and consumers far greater certainty on what charges they will face for the use of the distribution network.</p> <p>This will aid suppliers when pricing customers in fixed contracts as they will know how much to factor in for DUoS charges for a much longer time period than is currently the case.</p> <p>Under the proposed change, there will be much greater advanced certainty of DUoS charges. This is a significant improvement from the</p>	Noted

	<p>current situation where DUoS charges are only known for certain for between 40 days ahead of a charging year and as noted in the consultation, are still open to within-year changes prior to the start of RIIO-ED1.</p> <p>This will be advantageous to customers directly, who can be given greater certainty of the cost of a significant element of their electricity bill. We also believe in general the change will be positive for competition between suppliers which will be beneficial to customers.</p>	
GTC	<ol style="list-style-type: none"> 1. Whilst we recognise that volatility is of concern we believe that this is more to do with the methodology than the frequency of changes. Delaying the introduction of price changes could lead to greater step changes in prices. 2. This will impact on IDNOs as well as DNOs. We would like to understand how IDNOs will be compensated for loss of cash flow arising from delays to implement changes, or alternatively how IDNOs will need to compensate others where changes result in IDNOs receiving excess cash flow? 3. What will the notice periods for IDNOs be? IDNOs cannot give notice of charges until they receive notice from DNOs 	<p>It was noted that step changes in tariffs is a risk that had previously been discussed.</p> <p>It was noted that if DCP 178 is implemented then market participants would need to accept that there is a delay in the implementation of changes, there would not be compensation.</p> <p>It was noted that the legal drafting would need to capture that IDNOs publish their tariffs a month later ACTION</p>
Haven Power	Yes	Noted
Group LASER Energy Buying	Yes	Noted
Northern Powergrid	<p>Yes</p> <p>Before bring forward this change proposal we heard some very strong messages from suppliers at the RIIO-ED1 forum and our own bilateral engagement that transparency and predictability of charges was one of a number of key issues to them. We were informed that improved notice of DUoS charges would potentially allow them to:</p> <ul style="list-style-type: none"> • Introduce new products, in particular non-pass through of DUoS contracts for EHV consumers. Currently, it is unlikely that Suppliers offer such contracts as the risk associated with them is too high. • Reduce the risk premium in existing DUoS non-pass through products, as there will be more certainty on the DUoS element 	Noted

	<p>of these charges.</p> <ul style="list-style-type: none"> Improved notice of DUoS tariffs will enhance the ability of Suppliers to forecast and budget for DUoS charges. <p>In addition we also feel that consumers will benefit as:</p> <ul style="list-style-type: none"> Non-pass through consumers will potentially face lower charges from Suppliers because Suppliers will not have to include such risk premiums into the DUoS element of their products. It may potentially widen the product range available to non-pass through consumers as they may be more willing to take pass through contracts. EHV consumers will potentially be offered a greater range of products to choose from, as non-pass through of DUoS contracts may become available. <p>Improved notice of DUoS tariffs will enhance the ability of consumers on pass through contracts to forecast and budget for DUoS charges.</p>	
Npower	<p>We are very supportive of this change.</p> <ul style="list-style-type: none"> For pass through DUoS customers and suppliers, it provides additional forecast and budgetary certainty. For customers on non-pass through DUoS charges, the 'DUoS cost stack' for pricing purposes will have reduced since risk premia should not be applied for known costs, resulting in a benefit to customers. A greater amount of the contractual period will be based on known tariffs, instead of supplier forecasts. At a time of increased pressure to reduce costs going into customer bills, this modification has very clear benefits. This reduced risk around regulated charges may also allow suppliers provide customers with a wider range of tariffs (e.g. EDCM – non-pass through?) 	Noted
Opus	Yes, reducing volatility in prices will benefit consumers.	Noted
Scottish Power	Yes	Noted
SP Distribution / SP Manweb	<p>We support the principle of reducing DUoS tariff volatility and increased certainty of tariffs.</p> <p>DCP 178 assumes a material cost benefit to consumers by reducing the</p>	Noted

	<p>risk the supplier bears, however this benefit to customers has not been quantified in monetary terms so the scale of the benefits is currently unknown.</p> <p>Although there may be some shorter term predictability in the charges which suppliers pay, these are likely to become increasingly volatile over the longer term, as significant over- or under-recoveries would have to be corrected in the following year.</p> <p>As such we are not supportive of how this proposal addresses volatility and increased certainty.</p>	
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Whilst we acknowledge the potential benefits for both suppliers and consumers that DCP 178 proposes, we have concerns regarding the cost reflectivity of tariffs going forward and the potential increase in the under/over recovery of revenue for DNOs. We are therefore unable to support this change proposal.	Noted
SSE Supply	Yes	Noted
Western Power Distribution	WPD are as yet undecided on the benefits of this change proposal. The consultation states that consumers will benefit but as yet no actual analysis or quantification of the transfer of risk has been done. As this could be an area where corporate confidentiality needs to be maintained the analysis could be shared with OFGEM alone. Headline figures could then be produced.	Noted
Question 10 Are there any unintended consequences of this proposal?		
Anonymous	Don't know	Noted
First Utility	With the expansion of the notice period for DUoS, there is concern amongst DNOs should there be an error in published tariffs. However as noted in the consultation, a DNO can request a derogation from Ofgem to publish a revised set of tariffs should the impact be significant.	<p>It was highlighted that derogations should be the exception rather than the rule.</p> <p>A Working Group member suggested that DNOs making mistakes with their tariffs should not be a reason to reject DCP 178.</p>
BT Group plc	No	Noted
UK Power Networks	No we do not believe there are any unintended consequences which have not been discussed or addressed within the DCP178 working	Noted

	group.	
Dwr Cymru Cyf	Not that I can recall.	Noted
Reckon LLP	For EDCM customers, the effect of a reduction in peak-time consumption on the notional asset and fixed adder elements of the tariffs would only feed into bills after three years. That seems a very long time. IDNOs and out of area DNOs might not be able to comply with the notice period if their tariffs depend on the host DNO's tariffs (and, under DCP 178, they would not even have indicative prices to work with ahead of the contractual notice deadline).	It was suggested that IDNO tariffs publication should be 14 months in advance rather than 15 months.
BGAS	<p>We have identified the potential for a number of undesirable consequences of the proposed change.</p> <p>a) <u>Additional cost to consumers in first year of price controls</u> Setting tariffs 15 months in advance is likely to result in networks setting tariffs based on their business plan submissions at a price control review. This is likely to be detrimental to consumers. Past experience suggests that final revenue allowances will be lower than originally contained in business plans which would result in consumers paying more than necessary in the first year of the new price control. Whilst network revenues could be adjusted by the WACC to ensure they are NPV neutral in such a scenario, we believe that the same discount factor does not apply to consumers and they will therefore be NPV adverse.</p> <p>b) <u>Increased probability of over recoveries leading to additional cost to consumers</u> Any proposal to remove the penalty interest rate adjustments to over or under recoveries will remove the incentive on networks to set tariffs as accurately as possible to recover allowed revenue. In a scenario with no penalty interest rate adjustments the incentive on a risk averse network will be to set tariffs to ensure no under recovery which could therefore lead to an increase in the frequency and magnitude of over recoveries, to the detriment of consumers.</p> <p>c) <u>Additional volatility in tariffs</u> Setting tariffs 15 months in advance will result in increased</p>	<p>It was noted that you cannot achieve what DCP 178 is aiming to do without introducing additional lead times.</p> <p>It was suggested that comment (a) is incorrect as the implementation date of the CP is being delayed until allowed revenues under RIIO-ED1 are known.</p> <p>(b) – the group noted that no changes to the penalty rates have been proposed by the DCP 178 Working Group.</p> <p>(c) - it was noted that increased volatility might occur but it is difficult to say whether it will actually occur.</p> <p>(d) - the group noted that the risk of DNOs making mistakes should not be a reason not to proceed with DCP 178. It was also highlighted that DNOs are developing increasing numbers of checks and there has been a learning curve from the introduction of the CDCM, thus reducing the risk of errors going forward. It was highlighted that published tariffs are checked extensively. The Annual Review Pack is provided on a voluntary basis and as such, may not be as accurate as it is a snap shot in time, but it should be noted that the published tariffs take</p>

	<p>volatility in charges since there will be so many unknowns at the time of setting tariffs leading to larger over and under recoveries.</p> <p>When setting tariffs in December of year t for the year t+2 unknowns include:</p> <ol style="list-style-type: none"> Forecast sales (£ and volumes) in year t, affecting the year t over/under recovery which will feed into the allowed revenue for year t+2 (note the materiality of this unknown would be significantly increased under any seasonal time of day (STOD) charging regime); RIIO ED1 Price Control Financial Model (PCFM) Iteration Adjustment relating to costs in year t which will feed into allowed revenues for year t+2; Incentive performance in year t which will feed into allowed revenues for year t+2; Pass-through cost true ups for year t which will feed into allowed revenues for year t+2; RPI true ups for year t which will feed into allowed revenues for year t+2; Any price control re-opener applications made in year t+1 which may feed into allowed revenues for year t+2. <p>Such significant unknowns will lead to larger over and under recoveries and therefore more volatile charges. Whilst this volatility will perhaps be more predictable (for year t+2 only) than under current arrangements we are not convinced it is in the interests of consumers.</p> <p>d) <u>Potential for manifest errors</u></p> <p>We are concerned that publishing tariffs in December of year t for year t+2 could result in manifest errors requiring subsequent correction which would defeat the purpose of the change. Our concern in this regards is driven by the fact that we identified errors in forecast CDCM input data in 9 out of 14 DNO areas in the Annual Review Packs (ARPs) published in December 2012 which had to be corrected by DNOs. We</p>	<p>precedence over the ARP.</p>
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	believe that publishing forecast CDCM inputs for future years in the ARPs before such inputs are used for charging provides an additional level of protection against such manifest errors occurring in charges. The proposed change removes this protection, especially in the year of implementation.	
EDF Energy	Not that we are aware of	Noted
Electricity North West	The increased risk on DNOs will incentivise DNOs to set prices at a level more likely to over-recover, to the detriment of end customers. It was noted in the Ofgem volatility decision that caps may increase instability (particularly between price controls) if material adjustments are required to recover uncollected revenues. We consider that customer charges would become less stable under this proposal as over/under recoveries will be expected to be larger than at present. We also note Ofgem's comment that this type of proposal may dampen the link between DNOs' performance and the revenues they earn, and thereby weaken the price signal provided to investors in relation to a network's performance.	<p>It was highlighted that most of the incentives under ED1 are lagged and under DCP 178 they would be further lagged.</p> <p>When setting the price in December for 15 months ahead you would not know the incentives for that year.</p> <p>For the 2013/14 period the incentives will not be known until March 2014 and would go into 2015/16 tariffs. It was suggested that the time lags do not quite work with the proposed DCP 178 timescales.</p>
ESP Electricity	ESPE have some concerns about the danger of a change proposal locking down the methodology and charges and therefore moving away from cost reflectivity, and the potential for a change proposal to be approved, but the impact on charges and margins not being felt for up to two years after the authorisation date.	<p>It was noted that these points have been previously discussed. It was agreed that it is a fair point that it is a long time to wait for a CP that would affect margins to be implemented.</p> <p>A Working Group member advised that this issue had been discussed in a meeting with Ofgem and it had been highlighted that there are many outstanding Change Proposals that will need to be implemented by December 2014 to avoid being impacted by DCP 178. Approving DCP 178 will effectively set a 'gate closure' point that the Working Groups of other DCUSA CPs will need to meet to avoid the 15 month notice period. The gate closure point will be known by these Working Groups and will give them an implementation date to aim for.</p>

		<p>It was noted that several DCUSA CPs have been under progress for over two years. It was highlighted that delays in providing modelling support was delaying the progress of a number CPs.</p> <p>It was suggested that an IDNO is party to the industry as are DNOs and Suppliers. There may be a niche supplier that has put a change through and has to wait for it to be implemented too, so it is not only INDOs that will be impacted.</p>
Gazprom Energy	None that we have identified.	Noted
GTC	See response to Q9	Noted
Haven Power	No	Noted
Group LASER Energy Buying	Please see answer to question 6.	Noted
Northern Powergrid	<p>One of the potential unintended consequences of this proposal is that it could result in an extension to the implementation timeline for future DCUCSA change proposals. That said, there are, a number of charging methodology inputs that already require 15 months' notice before they can be changed.</p> <p>We also appreciate that this change proposal may results in higher levels of year-on-year over- and under-recovery which has the potential to result in more volatile movements in tariffs. The feedback that we have had from our stakeholder engagement activity is that both suppliers and consumers would rather have advance notice of what the charges will be, so they can build them into their retail contact prices and budgeting assumptions.</p> <p>The other potential risk to this change proposal is that there is no guarantee that suppliers will pass on the increased certainty that this proposal offers, to end users.</p>	It was noted that in a competitive environment it would be expected that customers would benefit from the increased certainty provided by DCP 178.
Npower	No.	Noted
Opus	No	Noted
Scottish Power	A consequence of this proposal is already documented and as a supplier we recognise that the compromise for a longer notice period could be larger shifts and uncertainty in the long term.	It was suggested that there would not be more uncertainty, but potentially more volatility.

<p>SP Distribution / SP Manweb</p>	<p>The proposal does not explicitly recognise the duty on DNOs to take all appropriate steps in setting use of system charges not to exceed allowed revenue.</p> <p>Paragraph 6.1 of the consultation paper incorrectly states that allowed revenue for the 8 year period 2015 to 2023 will be notified to DNOs in February 2014. Although a final ED1 determination for 'fast track' companies is due in February 2014, even for these companies, allowed revenue for this period will be affected by performance against incentive mechanisms and costs allowed to be passed through.</p> <p>So in actual fact under RII0-ED1 no elements of allowed revenue will be known in advance – this is expanded in the following bullets:</p> <p>ED1 Base allowed revenues –</p> <p>Whilst ex-ante revenues (in real prices) will be set in advance at the conclusion of the ED1 price control process these will be subject to change every year to reflect:</p> <ol style="list-style-type: none"> a. RPI inflation to current year prices (there will be rules in the new Licence that provides for the determination of RPI in November of year t-1) b. Annual iteration process – this is a new process under ED1 (which will be set out in the Financial Handbook) to correct ex-ante revenues for: <ol style="list-style-type: none"> i. Adjustments to reflect actual expenditure compared with forecast expenditure ii. Legacy adjustments in respect of the outturn of the DPCR5 price control iii. Changes to the cost of debt element of the allowed return iv. The annual iteration process impact is not known until the end of November in year t-1 	<p>The Working Group noted the respondent's comments and observed that there are knock on effects of doing this type of change.</p>
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	<ul style="list-style-type: none"> v. For example base revenues (over 90% of allowed revenues) for 2016/17 tariff setting will not be known until November 2015. vi. Moving tariff setting back to 15 months before the start of a year e.g. December 2014 for 2016/17 would mean that the impact of the annual iteration process would be two years out of date; and fall foul of Ofgem's intention to ensure that charges to customers reflect actual costs <p>c. If tariffs for 2015/16 are to be set 15 months in advance (December 2013) no DNOs will know even the ex-ante base revenues as the ED1 process is not scheduled to conclude until November 2014.</p> <p>ED1 other allowed revenue items (Incentive mechanisms/pass through items etc) and the claw-back term (in respect of prior year over/under recovery) - The majority of the Licence conditions in respect of these items will have rules in place for determination with a two year delay to reflect actual revenue entitlements e.g. actual incentive revenues in respect of performance in 2015/16 under the quality of supply incentive would be reflected in allowed revenues in 2017/18; 15 months' notice would mean that we would be estimating the outturn for these items by December 2015 i.e. before the end of 2015/16.</p> <p>The proposed requirement to set final charges 15 months in advance would mean that DNOs would not be able to take into account a number of factors affecting allowed revenue. This is because this arrangement would for the most part counter balance the impact of incentive mechanism and pass through costs operating with a 2 year lag in ED1. The DNO would be correspondingly less able to forecast revenue for the charging year concerned, and this may lead to wider movements in annual charges as a result.</p> <p>This proposal requires all model inputs to be set in advance; resulting in</p>	
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	<p>the tariffs being calculated on aged customer data thus reducing cost reflectivity.</p> <p>Also approved change proposals will not be able to take effect for a minimum of 15month (and a max of 30 months) after approval.</p> <p>Resulting in a significant delay to the customer receiving any potential benefits these may bring.</p>	
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	<p>From a DNO perspective, there are particular CDCM/EDCM inputs i.e. CDCM Table 1053 and EDCM SUA costs, the lock down of which 15 months in advance may result in non-cost reflective charging, therefore compliance with the relevant methodology is of concern.</p> <p>For EDCM, there is also the question of how to deal with those customers that apply to increase/decrease their capacity after charges have been set.</p>	<p>The Working Group considered that the opportunity for customers to game are very small. It was suggested that the situation should DCP 178 be implemented would not be significantly different to now, there would just be more notice.</p> <p>It was clarified that new EDCM customers would be added in the same way as they are now.</p>
SSE Supply	The consequences of this proposal are adequately described in the consultation document.	Noted
Western Power Distribution	See answer to Q11.	Noted
Question 11 One DNO has expressed concern about the cost of capital and some DNOs have expressed concerns about under/over recovery thresholds (which are detailed in Ofgem's volatility paper - 2012). What are your views on these concerns?		
Anonymous	None	Noted
First Utility	With regards the DNO concerns about under/over recovery thresholds, we support Ofgem's proposal of doubling the penalty band thresholds within the distribution Licence.	Noted
BT Group plc	The materiality of the cost of capital issue is insignificant compared with the materiality of DUoS charges to customers bills. The benefits of achieving cost certainty therefore outweigh these concerns. Whilst the under/over recovery thresholds may be a concern in theory, the evidence suggests that DNO's are generally very good at forecasting their revenues in practice.	It was noted that cost of capital has been previously discussed.
UK Power Networks	The impact on the cost of capital is unknown at this time. The paper published in 2012 by Ofgem on charging volatility suggested revising the bandwidths thresholds from 3% to 6% as part of the proposed licence	Noted

	changes brought about as a result of the implementation from RIIO-ED1. At this time the revisions appear to be a reasonable change although it is too early to know whether this increase is sufficient. Under previous price controls DNOs have always had the ability to revise charges 'mid year' in October, which has allowed any over / under recovery position to be moved as required, however under ED1 this will no longer be an option. This is an area which should be monitored closely as it might require a further licence change at a future time.	
Dwr Cymru Cyf	I believe the measures suggested by the workgroup to deal with under or over recovery are fair.	Noted
Reckon LLP	DCP 178 would tend to increase under/over recoveries, which might cause problems for Ofgem/DNOs' current system of price controls based on total revenues. But DCP 178 should not be criticised or blocked because of an adverse interaction with the price control system: it is the price control system which is causing problems, and it is up to Ofgem/DNOs to rectify the price control system so that it is compatible with the DCP 178 policy of giving advance notice of price changes. Given that a price control review is in progress, now might be a particularly good time to implement DCP 178.	It was observed that Suppliers and Customers had wished to have this CP in place for April 2015 and this response is referring to that.
BGAS	<p>Forecasting allowed revenues and volumes 15 months in advance will be significantly more difficult than forecasting 3 months in advance and this is likely to result in larger levels of over and under recovery. Whilst it may be necessary to widen the band of acceptable over and under recoveries, we do not believe the range should be widened any more than already suggested in Ofgem's decision on mitigating network charging volatility (i.e. doubled).</p> <p>We also do not believe that the penalty rates of interest for over and under recoveries should be reduced, and certainly they should not be removed. These penalty rates of interest provide an important, and we believe necessary, financial incentive on networks which protects consumers from paying for DUoS sooner than they should.</p> <p>We do not support any proposal which would seek to add to the cost of capital for networks as this would add costs to consumers. We note that</p>	The group noted that the proposal on the table is 15 months. Some organisations would have preferred up to 27 months notice, whilst others would like less than 15 months.

	<p>the consultation document acknowledges this was not identified as an issue for all except one DNO.</p> <p>It is our view that an alternative period of notice, we suggest 7 months, would provide increased predictability to suppliers with no/minimal increase in risk to the DNOs (i.e. requiring no further increase in the over and under recovery thresholds already proposed for RIIO ED1 and with no impact on the DNOs cost of capital).</p>	
EDF Energy	<p>We appreciate that some DNOs are concerned that the under/over recovery positions will be in some way detrimental to their business but we believe that the benefit that this brings to all parties outweighs their concern. DNOs are already making decisions not to make tariff changes to address the whole of their under/over recovery positions under the current regulation so it would seem that this could be applied in RIIO-ED1 when the allowances are expanded.</p>	Noted
Electricity North West	<p><u>Risk allocation and the cost of capital</u></p> <p>The proposal would reduce DNOs' ability to collect allowed revenue in a timely manner. In particular, a DNO could effectively incur 3 years' of significant under-recovery before being able to amend charges to remedy the situation. This loss of revenue could increase the cost of securing new debt and potentially place the DNO in breach of debt covenants.</p> <p>It has been suggested that the cost to a DNO of bearing this risk would always be lower than for a supplier, on the basis that the financing costs for network operators are relatively low, and potentially lower than energy supply businesses. However, this argument ignores the marginal cost of financing which would be driven by the incremental risk rather than the average. The marginal financing cost faced by DNOs would increase if cost recovery is delayed, eg where the delay in cost recovery adversely affects credit metrics. Such cash-flow risk and higher financing cost could eventually translate into higher cost of capital and higher allowed rate of return being set at a price review, and thus higher overall network charges.</p> <p><u>Under/over recovery thresholds</u></p>	<p>It was noted that the risks are currently being borne by Suppliers and customers.</p> <p>It was pointed out that there had been a significant number of changes to the DUoS calculation over recent years, creating volatility as each change is implemented.</p>

	<p>The change proposal recognises, in part, the increased risk on DNOs, and addresses the issue of under/over recovery thresholds as follows: <i>“The limits on over/under-recovery in the licence would need to be reviewed and the penalty interest calculations potentially removed, or at least reduced, before this can be implemented in order not to increase the risk exposure on the DNOs”</i></p> <p>A similar issue was discussed in Ofgem’s decision to reject CUSC Proposal CMP207 “Limit increases to TNUoS tariffs to 20% in any one year (http://www.nationalgrid.com/NR/rdonlyres/1A51EC29-C190-408B-A7EC-32135C1A5653/58556/CMP207D.pdf). In this decision, Ofgem put forward the view that any required licence changes should be made before the associated Charging Code changes.</p>	
ESP Electricity	Under and over recovery are not issues that impact ESPE	Noted
Gazprom Energy	We would expect the overall benefits of this modification for suppliers and ultimately customers to outweigh this.	Noted
GTC	Such delays in tariffs bring under/ over recovery concerns to IDNOs. This is an area that has not been discussed by the working group.	Noted
Haven Power	<p>We appreciate both the capital and under/over recovery concerns. As a supplier, we are open to working with DNOs to understand the implications that amending the notice period will have on their under/over recoveries and associated cash flows to develop alternatives.</p> <p>Ultimately, this is an issue for DNOs and not one that we can significantly impact.</p>	Noted
Group LASER Energy Buying	Founded. However I believe the overall uncertainty and risk carried by the supplier (thus the end user) of settling contracts without knowing the distribution charges from the first April in the contract (unless settling up to 40 days prior to that April), and the potential cost and competition implications this entails outweighs these concerns. The pending change of bandwidths of over/under-recovery within the RIIO-ED1 from OFGEM and potential halving of the interest rates as well as the findings in paragraph 4.3 and 4.4 of the consultation show the possibility of costs incurred by the network operator are of less certainty than the definite risk carried by supplier and end user.	Noted

Northern Powergrid	<p>We do not share the concerns on the cost of capital issue, but do have concerns about the potential breach of over- and under-recovery thresholds. The working group concluded that the overall benefits to suppliers and consumers outweighed the concerns about cost of capital for one DNO.</p> <p>We believe that changes to the over- and under-recovery parameters in the price control (and the associated penalties) will be needed to ensure recovery of DNOs allowed revenue in aggregate over the price control period. Changes to the penalty rate as well as the penalty bands will need to be considered.</p>	Noted
Npower	<p><u>Cost of Capital:</u> Only ENW raised Cost of Capital as an issue. All other DNOs on the working group did not identify this as a problem. If this concern is as large as ENW are suggesting, this therefore implies that ENW are running their business differently to other DNOs? Such individual cases should not be used as a reason to reject this modification. The individual case should be brought in line with other DNO business models to allow this modification to proceed.</p> <p><u>Under / Over Recovery Thresholds:</u> We fully recognise this is a potential issue for DNOs. We would not wish for DNOs to be penalised as a result of this modification. We believe that the band width should remain at 6%, in line with Ofgem's proposal in the volatility decision paper (https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf).</p> <p>If this is then found not to be enough as a result of this modification, we would support DNOs seeking a retrospective change to ensure that they are not unduly penalised for assisting consumers and providing a positive benefit to the industry.</p> <p>We believe the benefits of this modification outweigh these concerns and that those concerns that are relevant can be effectively mitigated.</p>	The respondent suggested that if some DNOs are not concerned (or are less worried) about the cost of capital then the DNOs must be running their businesses differently. It was suggested that there may be a difference between how different sets of managements teams and owners look at their businesses. A lot may be down to how the businesses are financed and how their debt is financed.
Opus	Due to the longer period DNO's will be more susceptible to changes, therefore the Ofgem thresholds should be relaxed slightly.	Noted
Scottish Power	This question is directed at DNO costs and therefore as a supplier cannot answer these concerns.	Noted

SP Distribution / SP Manweb	<p>There is a greater possibility of significant under- or over-recoveries occurring as a result of the proposed notice period, and due to the asymmetry in the treatment of interest there is a potential impact on the cost of capital.</p> <p>There may also be an increased need for DNOs to seek derogation in order to amend charges mid-year to remain within their allowed revenue ceiling.</p>	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	We note that the over/under recovery penalty thresholds have been doubled by Ofgem for RIIO-ED1 but it is difficult to determine at this time whether this revision will be sufficient if we are required to give 15 months notice. We also share the concerns raised regarding the potential impact of increased under/over recovery on DNOs cost of capital as outlined in Appendix D.	Noted
SSE Supply	The distributors may not be able to recover their Allowed Revenue quite so easily if this proposal is adopted. The distributors are in the best position to judge the extent of this impact.	Noted
Western Power Distribution	The change proposal will lead to increased k factors in the allowed revenue formula as the DNOs will be forecasting a minimum of 28 months including 3 winters ahead as oppose to 16 months and 2 winters ahead, which in turn will create increased year on year volatility in prices. It could also lead to DNOs being penalised or in extreme cases cash flow issues.	It was highlighted that this is a worst case scenario and it may not be the case that the k factor is increased.
Question 12 Do you consider that the proposal better facilitates the DCUSA objectives? Please give your rationale.		
Anonymous	Yes	Noted
First Utility	We feel that DCP 178 will help facilitate more effective competition with lowering the risk and therefore also cost, that is involved when setting tariffs.	Noted
BT Group plc	Yes - it will help facilitate competition in the supply of electricity as, for example, suppliers will have greater certainty upon which to bring fixed price products to market.	Noted

UK Power Networks	We would agree with the conclusions of the working group that both charging and general objectives 2 are better facilitated as a result of DCP178 by improving the stability and transparency of the charging methodologies.	Noted
Dwr Cymru Cyf	Yes.	
Reckon LLP	The consultation paper's claims about facilitating competition are not convincing. No reason is given for the proposition that DUoS charge certainty facilitates competition. It could even go the other way: some forms of competition (based on competitors with a particular propensity to bear risks) might actually be deterred by greater certainty, since, with DCP 178, no supplier could really draw a competitive advantage from a willingness to bear short-term DUoS risk. Greater certainty (and the improvement in transparency that might also result from DCP 178) would probably be in the interests of customers, by facilitating their business planning and perhaps by reducing the margins that suppliers charge for taking DUoS risks. But unfortunately there is no DCUSA objective that refers to protecting the interests of customers. That just means that the DCUSA objectives are not very good. The defects in the DCUSA objectives should probably not detract from the merits of DCP 178 in this respect -- after all Ofgem is supposed to make the decision on this change proposal by reference to its duty to protect the interests of customers. Against this, the proposal reduces cost-reflectivity (by mandating the use of out-of-date data), increases the adverse consequences of any errors. These are serious detriments. They also mean that the proposed change would have a negative effect against DCUSA charging objective 3 and possibly against DCUSA charging objectives 4 and 5.	The Working Group noted this response.
BGAS	<p><u>DCUSA General Objectives</u></p> <p>2. <i>The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity.</i></p> <p>We are not convinced that this objective is better facilitated. By effectively mandating a minimum lead time of 15 months for</p>	<p>The group noted that Bgas' points against objective two were possible.</p> <p>It was questioned how completely cost reflective the CDCM and EDCM models are today. Why charge over one year? For instance, you could calculate charges for each half hour or you could say assets tend to be in the ground for 40 years. It was suggested that</p>

	<p>implementation of any charging proposal we believe the change would place excessive restrictions on the development of the charging methodologies which could adversely impact on the promotion of competition by delaying necessary developments in DUoS charging.</p> <p>We also note that whilst the change would reduce the risk associated with 2 year fixed contracts, it would increase the risk differential between a 2 year contract and a longer term contract which could have an impact on the market for longer term products.</p> <p><u>DCUSA Charging Objectives</u></p> <p>2. <i>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)</i></p> <p>As with general objective 2, we are not convinced that charging objective two is better facilitated. By effectively mandating a minimum lead time of 15 months for implementation of any charging proposal we believe the change would place excessive restrictions on the development of the charging methodologies which could adversely impact on the promotion of competition by delaying necessary developments in DUoS charging.</p> <p>We also note that whilst the change would reduce the risk associated with 2 year fixed contracts it would increase the risk differential between a 2 year contract and a longer term contract which could have an impact on the market for longer term products.</p>	<p>increasing the notice period by a year is a relatively small amount when you consider that the life span of the cables is around 40 years.</p>
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	<p>3. <i>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</i></p> <p>Not better facilitated. Setting charges 15 months in advance will reduce the cost reflectivity of DUoS charges because:</p> <ul style="list-style-type: none"> (a) Charges are much less likely to recover the overall costs (revenues) in the appropriate year (b) There are a number of inputs to the CDCM which will have an increased lag applied before being represented in charges. The current CDCM inputs which require 15 months notice typically relate to assets costs which do not change much year on year. However there are important CDCM inputs, especially in relation to customer behaviour e.g. load factors and coincidence factors, which can change significantly year on year and therefore introducing a one year lag on these inputs will reduce cost reflectivity. <p>4. <i>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</i></p> <p>Not better facilitated. Since there will necessarily be at least a 15 month lag in implementing charging methodology changes which have been deemed to better achieve the relevant objectives.</p> <p>Whilst we agree that implementation dates of change proposals should have an appropriate lag, and indeed in some instances 15 months might be appropriate, we feel that mandating a minimum of 15 months for every change is an excessive restriction.</p>	
EDF Energy	From a supply perspective we believe that more transparent DUoS	Noted

	charges better facilitates competition within the industry as it seems perverse to compete on a charge that we can neither accurately predict ,control nor hedge.	
Electricity North West	<p>We do not agree that this change proposal better meets the DCUSA general objectives or charging objectives as follows:</p> <p><i>DCUSA General Objectives</i></p> <p><i>1. The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks.</i></p> <p>The proposal reduces the ability of DNOs to finance the development and maintenance of their networks efficiently.</p> <p><i>2. The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity.</i></p> <p>It is possible that reducing the cash flow risks for suppliers would reduce the cost of</p> <p>entry for new suppliers and allow some types of suppliers to compete more evenly (e.g. those with a less diversified customer base). However, as outlined elsewhere in this response, we believe that this would come at an increased cost to end customers.</p> <p>This change proposal transfers the risk of distribution use of system charges from suppliers to DNOs. Suppliers are risk management businesses and best placed to manage this risk. Suppliers can gain a competitive advantage if they manage this risk well, which benefits customers. Transferring the risk to DNOs removes the downward pressure on the risk premium to customers.</p> <p><i>3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences.</i></p> <p>The change proposal incentivises DNOs to over-recover their allowed revenue to ensure they don't incur financing risk. This effectively results</p>	<p>It was highlighted that if there is a reopener DNOs can adjust their allowed revenue mid-year. Under this proposal it would not be allowed to recover for up to two years, rather than within year.</p> <p>A Supplier representative stated that they would be happy with this delay.</p>

	<p>in working capital being held by DNOs and higher prices to end customers.</p> <p><i>4. The promotion of efficiency in the implementation and administration of this Agreement.</i></p> <p>No impact.</p> <p><i>5. Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.</i></p> <p>No impact.</p> <p><i>DCUSA Charging Objectives</i></p> <p><i>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.</i></p> <p>This change proposal incentivises DNOs to over-recover their allowed revenue to ensure they don't incur financing risk. This effectively results in working capital being held by DNOs and higher prices to end customers.</p> <p><i>2. 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) –</i></p> <p>is possible that reducing the cash flow risks for suppliers would reduce the cost of entry for new suppliers and allow some types of suppliers to compete more evenly (e.g. those with a less diversified customer base). However, as outlined elsewhere in this response, we believe that this would come at an increased cost to end customers.</p> <p>This change proposal transfers the risk of distribution use of system charges from suppliers to DNOs. Suppliers are risk management</p>	
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	<p>businesses and best placed to manage this risk. Suppliers can gain a competitive advantage if they manage this risk well which benefits customers. Transferring the risk to DNOs, removes the downward pressure on the risk premium to customers.</p> <p><i>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</i></p> <p>We consider that the proposal reduces the cost reflectivity of the price signal in charges (particularly if any shortfall or surplus triggers penal interest rates relating to over or under recoveries).</p> <p>The proposal would also delay the implementation of modifications to the charging methodology which had been accepted as meeting the DCUSA objectives. More generally, by deferring charges the proposals would weaken the cost reflective signal relative to the baseline (for example the effectiveness of the “super red” price signal in EDCM charges).</p> <p><i>4. 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 –</i></p> <p>The proposal will make it more difficult for DNOs to take account of any changes to their business. Where a reopener has been identified or a within-period determination has been made, the DNO may be entitled to recover the cost within year (in line with paragraph 2.79 of the Ofgem charging volatility decision). This change proposal will mean that DNOs would not be able to amend charges to reflect these changes for an additional year.</p> <p><i>5. That compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy</i></p>	
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	<p><i>Regulators.</i></p> <p>No impact</p>	
ESP Electricity	ESPE believe that DCUSA General Objective 2 and Charging Objective 2 are not better met under this change proposal, as potentially not implementing approved charging methodology changes for a considerable time could distort competition in distribution.	Previously discussed
Gazprom Energy	<p>Yes the second objective of both the General objectives and the Charging objectives is better facilitated by this change.</p> <p>DCUSA General Objectives</p> <p>2. The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity.</p> <p>DCUSA Charging Objectives</p> <p>2. 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).</p>	Noted
GTC	No. Without further clarification we think the proposal has the potential to distort competition for IDNOs.	Noted
Haven Power	<p>Yes. We believe the proposal better facilitates both the 'general' and 'charging' objectives.</p> <p>DCP 178 will increase market confidence in the tariff setting regime and would result in earlier visibility of future tariffs, providing increased certainty over short-term DUoS charges.</p> <p>This proposal will improve all suppliers' ability to price contracts for consumers more effectively as there will be better information on future DUoS charges. The modification could also lead to an increase in the range of products that can be offered to consumers and would therefore effectively promote competition in the supply of electricity.</p>	Noted
Group LASER Energy Buying	We agree with section 5 in the consultation that this proposal compliments both General Objective 2 and Charing Objective 2.	Noted

Northern Powergrid	General objective 2 and charging objective 2 – the facilitation of effective competition are better met by ensuring increased stability and transparency within the Charging Methodology. This in turn, should increase market confidence in the tariff setting regime and encourage competition by reducing price uncertainty for Suppliers (both new entrants and current participants) and consumers.	Noted
Npower	Objective 2 – both General and Charging Objectives are better facilitated. This proposal facilitates effective competition by ensuring that price are transparent and that no unnecessary risk premia are applied to charges that should be predictable and stable. Regulated charges should not be a source of uncertainty in Supplier pricing and DCP178 effectively mitigates a large proportion of market risk in relation to DUoS pricing.	Noted
Opus	This better fulfils charging objective 2. It ensures increased stability within the Charging Methodology; in turn this should increase market confidence in the tariff setting regime and encourage competition by reducing price shocks for Suppliers and consumers. In turn this will mean that suppliers can be more competitive on fixed tenders due to the costs being fixed for a longer period.	Noted
Scottish Power	<u>DCUSA Objective 2</u> Greater certainty as fixed charges leads to more benefit for customer tariffs and also allows SP to forecast better as a business as we have charges in advance.	Noted
SP Distribution / SP Manweb	General objective 2 & charging objective 2. We recognise that the proposed 15 month notice period may assist suppliers in offering a wider range of tariff products. As regards DNOs, it may have a negative impact on their ability to efficiently discharge their licence obligations, due to the greater uncertainty as to their allowed revenue at the time of setting charges. In order to comply with the licence requirement for use of system charges to remain within the allowed revenue cap, there will be a greater possibility that regulatory consent will be sought for a mid-year charges revision.	Noted

	There is also a likelihood of wider movements in charges than where a 3 months' notice period applies.	
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Arguably, Charging Objective 2 as well as General Objective 2 are better met for the reasons specified in the consultation document.	Noted
SSE Supply	It facilitates objective 2 " <i>The facilitation of effective competition in the generation and supply of electricity</i> " by providing greater certainty over future DUoS prices.	Noted
Western Power Distribution	The change proposal will may enable smaller companies or niche companies to compete better as larger companies will have more resource to predict DNO charges and spread the risk of inter tariff volatility.	It was noted that this was a good point.
Question 13 Do you agree with the proposed implementation date of December 2014? Please provide your rationale.		
Anonymous	Yes	It was noted that the majority of respondents support the implementation date, with only a small number of respondents that disagree. Those that disagreed would have liked an earlier date rather than a later one.
First Utility	Yes, given that in the consultation it states that DNO revenues under RIIO-ED1 will not be confirmed by Ofgem until February 2014 at the earliest. An implementation date proposed for DCP 178 of December 2014 therefore sounds sensible.	Noted
BT Group plc	Yes, please see previous answer	Noted
UK Power Networks	We would have liked to have seen this change to have been effective from December 2013 to assist Suppliers and Consumers with managing the impact of the first year of RIIO-ED1. However we understand why this was not possible and as a result we would welcome this change taking effect in December 2014 which would allow charges effective for 2016/17 to be published fifteen months in advance.	Noted
Dwr Cymru Cyf	Yes.	Noted
Reckon LLP	If it were the case that significant methodology DCPs were likely to be resolved by December 2014, then the implementation method and	Noted

	timing would be sensible. But I am not confident that this will be achieved. Perhaps a more progressive lengthening of notice periods would be appropriate. Or defer DCP 178 until serious problems like excessive revenue matching charges to CDCM HV customers in some DNO areas have actually been addressed rather than merely talked about.	
BGAS	We are not supportive of the change although we do suggest an alternative which could be implemented earlier, in August 2014.	Noted
EDF Energy	We would prefer an implementation date of December 2013 but we understand that without Ofgem's intervention on allowed revenues this is not possible.	Noted
Electricity North West	We do not support this change proposal. However, if approved, the proposed implementation date of December 2014 is reasonable.	Noted
ESPE Electricity	ESPE believe that as the potential implementation date of December 2013 can no longer be met, December 2014 would be the most sensible date.	Noted
Gazprom Energy	Yes we agree with December 2014 as the proposed date of implementation as this seems to be the earliest, most realistic date taking into consideration Ofgem's confirmation of DNO revenues under RIIO-ED1. Although we note that there is a possible interaction with Ofgem's recent consultation of options on when to finalise DNOs revenue for 2015/16.	Noted
GTC	No. We think the work to date is incomplete and until we better understand how IDNOs will be compensated for over/under recovery do not support this change	It was suggested that this is referring to the situation where a CP that would increase the IDNO's revenue is not implemented for more than 15 months. It was noted that it could also be the opposite case where the IDNO benefits from the delay.
Haven Power	<i>Yes. The outcome of RIIO will be known by November 2014 (subject to any appeals from slow tracked DNOs) and it makes sense to wait before implementing DCP 178.</i>	Noted
Group LASER Energy Buying	<i>Please see answer to question 3.</i>	Noted
Northern Powergrid	We feel that December 2014 is an appropriate date as all DNOs will	Noted

	know their RIIO-ED 1 allowed revenue by that point in time and will then be able to provide a forecast to suppliers for April 2015 and April 2016 tariffs.	
Npower	Ideally we would have preferred December 2013 since this would have given certainty around tariffs from April 2015, the start of RIIO-ED1. However, given that Ofgem indicated revenues would not be available around that time, it was pragmatic to delay the implementation date. We therefore agree that December 2014 is the appropriate date for implementation.	Noted
Opus	Yes, this change will offer more security to fixed contracts when entering RIIO EDI.	Noted
Scottish Power	December 2014 seems like a reasonable option.	Noted
SP Distribution / SP Manweb	No, by moving tariff setting back to 15 months before the start of a year e.g. December 2014 for 2016/17, this would mean that the impact of the annual iteration process would be two years out of date; and fall foul of Ofgem's intention to ensure that charges to customers reflect actual costs. If tariffs for 2015/16 are to be set 15 months in advance (December 2013) no DNOs will know even the ex-ante base revenues as the ED1 process is not scheduled to conclude until November 2014.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	This date seems reasonable as DNOs will have notification of their allowed revenues for RIIO-ED1 from Ofgem.	Noted
SSE Supply	As a supplier we want this information as soon as possible. December 2014 is the earliest practical implementation date.	Noted
Western Power Distribution	The consultation mentions that there are lot of change proposals due for completion in April 15. Realistically some of these will not complete until April 16 and therefore will be delayed until April 17.	Noted
Question 14 Do you believe that the April 2015 tariffs published in December 2014 should be final tariffs, rather than indicative tariffs?		
The Working Group noted that the majority of respondents supported this suggestion.		

Anonymous	Yes	
BT Group plc	Yes, please see previous answer	Noted
UK Power Networks	We believe that the April 2015 tariffs published in December 2014 should be final rather than indicative charges, however please also refer on the comments on the legal text which relate to this area.	Noted
Dwr Cymru Cyf	Yes.	Noted
Reckon LLP	See answers to Q13 and Q15.	Noted
BGAS	If the change is implemented then yes, although we do not support the change.	Noted
EDF Energy	Yes as most contracts are signed prior to the release of final tariffs in February it will provide more certainty for both Suppliers and customers.	Noted
Electricity North West	Yes. See Q15 below.	Noted
ESP Electricity	In order to provide greater certainty of the April 2015 tariffs, it would make sense for the publication in December 2014 to be finals rather than indicatives.	Noted
Gazprom Energy	Yes we believe these should be final tariffs. This will mean some of the benefits of the change can be realised earlier with certainty 4/5 months in advance rather than 40 days.	Noted
GTC	We have some support for this. However, IDNOs would need a shorter timescale because they cannot publish their tariffs until they have received notices from all 14 licensees and assimilated changes into their own charging statements. In addition, historically movement between Indicative & Final statements has been highly variable and we have concerns that DNO's will be able to produce 1 set of Final charges without any error and omissions with the charges	Noted
Haven Power	<i>We believe that final tariffs for the period April 2015 to March 2016 should be published in December 2014. (We note that this may be earlier depending on the outcome of Ofgem's "Consultation on the timing of a decision on electricity distribution networks' revenue for 2015-16".)</i>	Noted
Group LASER Energy Buying	Please see answer to question 4.	Noted

Northern Powergrid	A simple change to DCUSA to provide more predictable and transparent charges would be to align the 40 day notice period in DCUSCA to the three months required by the licence (i.e. effectively removing the requirement for indicative and final charges). Given the fact that, under this proposal, tariffs will be set for two years, and the licence only allows us to change between indicative and final charges if there are material changes in the underlying assumption, making the April 2015 tariffs published in December 2014 final tariffs, rather than indicative does not seem to be an unreasonable position to adopt.	Noted
Npower	These should be final tariffs. As should those tariffs published for April 2016.	Noted
Opus	Yes, the indicative tariffs do not normally change much to finals and this will give customers more notice of any changes to their tariffs.	Noted
Scottish Power	Yes, however, if the result of Ofgem's consultation on the timing of a decision on the electricity distribution network's revenue for 2015-16 is finalising all revenues in advance of November 2014 we would recommend the finalised tariffs are published then.	Noted
SP Distribution / SP Manweb	Assuming this question is only relevant in the event this CP is approved, we believe the only benefit would be to prevent confusion for customers otherwise the 2016/17 tariffs would be published prior to 2015/16 finals.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	In principle yes, although historically we have found this window between indicatives and finals useful to make necessary updates.	Noted
SSE Supply	Yes.	Noted
Western Power Distribution	WPD always makes its best endeavours to ensure data, assumptions and forecasts are as accurate as possible at the time of indicatives to prevent changes between indicative and final tariff setting.	Noted
Question 15 This Change Proposal proposes a 15 month notification period. Do you agree with this timescale or do you believe that an alternative should be considered? Please provide your rationale.		

Anonymous	Yes	Noted
BT Group plc	Yes, please see previous answer	Noted
UK Power Networks	We believe that fifteen months is an appropriate timescale, this provides Suppliers and Consumers with the advance notice of the changes in the charges which they require whilst also being a practical period of time for DNOs to lock down their charges.	Noted
Dwr Cymru Cyf	Yes, this would help suppliers and customers firm up prices for inclusion in contract rates and budgeting.	Noted
Reckon LLP	I think that it might be desirable to keep the distinction between indicative and final notices, so that there is a chance to spot mistakes or implausible assumptions in DNOs' models and prices. But bringing all the notice requirements under DCUSA rather than relying on licence conditions would improve certainty. A small increase in notice periods would probably have no serious adverse effects (but would gain only a small part of the benefits of a move to 15 months). For example, indicative charges five months ahead and final charges three months ahead. To keep the indicative/final distinction in the context of a ca 15-month notice period, I would suggest a 16-month notice, followed by an opportunity for DNOs to publish a revision to the tariffs in the following two-month period. This would mean that tariffs would become certain at least 14 months in advance. It would also avoid 31 December deadlines.	The group noted that under the current DCP 178 legal text there would only be a final notice. It was agreed that there may be some benefit in having a 16 month noticed followed by an opportunity to revise tariffs. It was noted that there is nothing to stop DNOs from choosing to publish indicatives in advance of the final publication. Supplier attendees noted that there would be benefit in having indicatives particularly from the checking perspective, however, there would still be the potential volatility between indicatives and finals and it may be preferable not to see this.
BGAS	For the reasons outlined in our responses above, we are not supportive of a 15 month notification period as we believe this: <ul style="list-style-type: none"> • could have a number of unintended consequences; • could add costs to consumers, and; • will not better facilitate the relevant objectives. We believe an appropriate alternative notification period would be 7 months i.e. tariff publication by 31 August for the following regulatory year. We consider that on 31 July of each year there is a significant step change reduction in uncertainty in relation to allowed revenues for the following regulatory year.	It was noted that 7 months' notice would be too close to the October contract round for Suppliers. It was noted that this option would avoid having a significant impact on DNOs. Supplier Working Group members highlighted that this length of notice period would not provide any real benefit due to the timing of the contract rounds.

	<p>In our response to Q2, we identified a number of important revenue items which in December of year t would be unknown and which would affect allowed revenues for year t+2:</p> <ul style="list-style-type: none"> a) Forecast sales (£ and volumes) in year t; b) PCFM Iteration Adjustment relating to costs in year t; c) Incentive performance in year t; d) Pass-through cost true ups for year t; e) RPI true ups for year t; f) Any price control re-opener applications made in year t+1 <p>We believe that with the submission of the various regulatory returns for year t which are typically submitted by 31 July of year t+1, there is a significant step change reduction in uncertainty associated with these items. This reduction in uncertainty will allow the DNO to set tariffs much more accurately than they could do under the proposed 15 months notification period and as such would mean that there would not need to be any impact on their cost of capital or on the penalty interest rate thresholds already suggested by Ofgem for RIIO ED1.</p> <p>We suggest 31 August as an appropriate date for tariff notifications as it provides an additional month once the DNO has submitted their regulatory returns to use the information to set tariffs for the following year.</p> <p>Whilst forecast revenues should be reasonably predictable after 31 July each year, under the current arrangements of indicative tariff notification by 31 December there will inevitably remain an element of perceived risk in the market that there could be unexpected changes in revenues between July and December. Setting tariffs at 31 August would remove this perceived risk and is therefore likely to be beneficial to customers.</p> <p>We consider that this notification period represents the maximum period possible which does not begin to have a material impact on the ability of a DNO to forecast revenues accurately for the relevant</p>	
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	charging year. If the working group considered this alternative notification period appropriate, we would be happy to sponsor an alternate change proposal to this effect.	
EDF Energy	We feel that 15 months notice is in line with other notification periods for the CDCM. It will provide absolute charges for two years which will help reduce the risk for both customers and suppliers.	Noted
Electricity North West	<p>We believe it would be sensible to align the 40 day notice with the 3 month notice required for indicative prices in the licence. We believe that providing 3 months notice of final prices would bring a tangible benefit to suppliers and customers without significantly compromising the principles of efficient risk allocation, in contrast with the proposed 15 month notice period.</p> <p>In addition, we already provide suppliers with long-term projections of our expected revenues and charges and we plan to supplement these by giving 15 months' notice of indicative tariffs along with the assumptions underpinning them. This gives suppliers the predictability they need in making their offers to customers and is consistent with Ofgem's proposals on risk allocation designed to keep customers' electricity bills to a minimum</p>	<p>It was noted that this suggestion would not provide suppliers with significant benefit.</p> <p>It was highlighted that an alternative change proposal with a shorter notice period could be raised should a Working Group member feel that they wanted to do this. It was noted that a second consultation may be required if an alternative is raised.</p>
ESP Electricity	As mentioned in previous answers, ESPE are concerned at a loss of cost reflectivity potentially caused by delaying the implementation of approved charging methodology changes, although if the charges were to be published in advanced, 15 months would be the maximum time period that we could see as plausible.	Noted
Gazprom Energy	We agree that the 15 month notification period proposed in this Change Proposal is the best approach. We feel 15 months is a fair balance between greater DUoS cost certainty for suppliers/consumers than is currently the case; and minimising complexity and cost reflectivity concerns with an accurate recovery of allowed revenue.	Noted
GTC	One of the big issues with an April price change is the volatility between indicative and final charges brought about by the uncertainty of the winter season. Moving tariff changes to October would potentially mitigate some of this volatility because by and large consumption is more stable during the summer period.	Noted

	Longer notification periods do not remove the risk, it just transfers it to the distributor. If distributors have to bear the risk then they have a case for increased cost of capital. The change proposal appears to be addressing a symptom brought about by the methodology- it does not address the root cause of why there is volatility in charges in the first instance.	
Haven Power	<i>Yes. We agree with the timescale of 15 months.</i>	Noted
Group LASER Energy Buying	Please see answer to question 5.	Noted
Northern Powergrid	As discussed earlier it was clear as part of our stakeholder engagement that supplier wanted more notice of future charges. As part of the discussions in the development stage of this proposal, parties felt that 15 months' notice was the most appropriate proposition to bring forward as it held the publication dates in line with current annual timeline and allowed DNOs time to populate the charging models with the most up-to-date inputs.	Noted
Npower	We agree with 15 months. Many of the inputs into charging models need 15 months notice if a DNO wishes to change them. It is therefore appropriate that the timescale for this modification should also be 15 months. In addition, this fits in with the lagging on incentive schemes and k factor – as approved by Ofgem in the volatility decision document.	Noted
Opus	Yes, there is already precedent set within the methodology to provide 15 months' notice for certain inputs so this change would complement that timeline.	Noted
Scottish Power	Scottish Power agree given that the precedent is set within the methodology, where other inputs already have a 15 month timeline.	Noted
SP Distribution / SP Manweb	We have an obligation to ensure that regulated revenues do not exceed allowed revenues. Under the current approach to forecasting tariffs we are forecasting allowed revenues 40 days in advance – with a 40 day notice period there will be certainty regarding the majority of the components of allowed revenue under ED1. However, tariffs are not only based on forecasts of allowed revenues; there are estimates of a number of variables including units distributed, MPAN counts and capacity. The likelihood is that the actual outturn for these variables will	It was noted that there was limited benefit in 40 days notice.

	<p>be different (e.g. a very cold winter (compared with normal) could cause units distributed to increase above the estimates at the time of tariff setting – this will lead to an over recovery). A mid year price change was used to correct prices if an over/under recovery was forecast to try to ensure that regulated revenues do not exceed allowed revenues.</p> <p>For the reasons discussed we do not believe that the notice period should be increased, if anything it should remain unchanged at 40 days' notice.</p>	
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	We feel that setting UoS tariffs 15 months in advance is too long to maintain an accurate level of cost reflectivity – the current 3 months we feel is appropriate.	Noted
SSE Supply	Yes we agree with this timescale.	Noted
Western Power Distribution	There are other alternatives which could include fixing on a permanent basis some inputs to the CDCM model now that we have 4 years of data. This will prevent inter tariff volatility which will help small suppliers and niche suppliers to compete better with big suppliers and therefore making the supplier market more competitive.	It was suggested that other CPs have been seeking to do this and they have not provided the certainty that Suppliers and Customers would like.
Question 16 A significant number of the CDCM inputs already require 15 months' notice to update them, DCP 178 would mean that this period would apply to all inputs to both the CDCM and EDCM model. The majority of the Working Group believe that the benefits of DCP 178 outweigh any potential delay in implementing other charging methodology changes, do you agree?		
Anonymous	Yes	It was noted that this was an issue that the group had discussed against earlier responses
BT Group plc	Yes	Noted
UK Power Networks	Yes we would agree with the assessment of the majority of the working group.	Noted
Dwr Cymru Cyf	Yes.	Noted
Reckon LLP	I cannot find in the consultation document any explanation of the alleged majority belief mentioned in the question. The question seems a bit confused. Locking both the methodology and all input data 15 months in advance seems to be an integral part of the intent of DCP 178. I am not sure whether this is a good idea, so answers to other	Noted

	more specific questions.	
BGAS	<p>We do not believe the benefits of DCP 178 are easily quantifiable at this stage since there is no evidence of the volatility that will remain once the existing measures either already approved through DCPs or which will be implemented as part of RIIO ED1 have bedded in.</p> <p>We believe that the industry should allow these improved arrangements to bed in before seeking to implement yet further changes as we are not convinced that an issue remains and it is difficult to assess the impact of further changes until we understand the level of volatility and predictability which remain following the improvements listed below.</p> <p>Improvements delivered within the last two years:</p> <ul style="list-style-type: none"> • DCP 086: Introduction of the Annual Review Pack, approved in September 2011, providing users with 5 year view of tariffs and a model to create tariffs under their own scenarios. • DCP 087: Smoothing Load Characteristics and Peaking Probabilities, approved in October 2011, smoothing the most volatile CDCM inputs. • DCP 126: Require DNOs to publish and update year-ahead forecasts of DUoS tariffs, approved in February 2013 • DCP 131: Improving the Predictability and Transparency of CDCM Inputs, approved in October 2012, providing increased transparency of the 3 year average data used for load characteristics and peaking probabilities. • DCP 132: Improving the Transparency of CDCM Target Revenue, approved in November 2012, providing users with transparency of the revenues used in CDCM modelling. • DCP 134: Implementation of notice in DCUSA for changes to Distribution time-bands, approved in November 2012, requiring DNOs to provide 15 months notice of a change in time-bands • DCP 136: Notice period for asset cost changes in the CDCM, approved in December 2012, requiring DNOs to provide 15 months notice of a change in asset cost inputs to the CDCM. 	Noted

	<p>Improvements to be implemented as part of RIIO ED1:</p> <ul style="list-style-type: none"> • No mid-year price changes • 2 year lag on over/under recovery adjustments • 2 year lag on pass-through true-ups • 2 year lag on incentive payments <p>One area which has not been addressed by the improvements listed above is the volatility and unpredictability on implementation of a new price control. We consider this could be overcome by using the revenues from Ofgem's Draft Determination to set tariffs for the first year of the price control and we note this would be compatible with our proposed alternative notification period of 7 months.</p> <p>We do recognise that sudden unexpected price shocks have occurred in the past which has perhaps created a perception of risk – however there is no evidence that such unexpected price shocks will occur under the improved arrangements already delivered or to be delivered as part of RIIO ED1. Despite this, we can see that providing an additional 4 months notice (tariff notification by 31 August) would remove a good degree of any perceived risk with minimal impact on ability of the DNO forecast revenues accurately.</p>	
EDF Energy	<p>Yes, currently changes can be made to the methodology at any point in time. The industry does try to ensure that changes are known by the time of publication of indicative charges, which provides 3 months notice of changes which can have a major impact to charges. However, the risk of such changes for all-inclusive contracts fall with the supplier and for pass-through contracts the customer, so it seems fairer that changes are only implemented with reasonable notice.</p>	Noted
Electricity North West	<p>The proposal would delay the implementation of modifications to the charging methodology which had been accepted as meeting the DCUSA objectives, and therefore weaken the cost reflective price signal relative to the baseline.</p> <p>We also note Ofgem's comments in its decision on DCP 164, in relation</p>	The Working Group noted that as part of its assessment of DCP 178 the Working Group will need to consider the impact of the CP on other Changes.

	to delay in implementing change proposals: <i>"More generally (i.e. in all years), the proposal would produce a timetable that we would not be able to amend (under normal circumstances) even where we think such amendment would facilitate a modification that would better facilitate general and/or charging objectives and reflect our duties, including our principal objective."</i>	
ESP Electricity	ESPE believe that if a charging methodology change is approved then it should be implemented as soon as is reasonably practical, therefore see the delayed implantation as a concern, particularly as the delay period could be substantial.	Noted
Gazprom Energy	Yes we agree that DCP 178 should be prioritised over other charging methodology changes due to the significant benefits for suppliers and ultimately consumers.	Noted
GTC	Have the working group quantified the benefits and undertaken an impact analysis? In the absence of such analysis we struggle to understand on what basis the working group has made its judgement that the benefit of DCP 178 outweighs delays in implementing changes to the methodology.	The Working Group noted that impact assessment would be desirable but difficult to produce. It was suggested that if the vast majority of the industry agree that a change is beneficial, however, calculating a monetary value of the benefit is not possible it would be a shame for the CP to be rejected.
Haven Power	Yes	Noted
Group LASER Energy Buying	Yes	Noted
Northern Powergrid	Yes - we believe this enhances the current process and will ensure that any changes are consulted on in sufficient time to be included in any given year. It will also introduce some stability for EDCM customers, whose charges can change significantly year-on-year.	It was noted that all changes to reduce volatility have been on the CDCM, which does not help EDCM customers
Npower	We agree completely. Precedence has already been set by freezing a number of inputs at 15 months and some are the average of the previous 3 years. Benefits of this modification already listed above. It has been discussed that one of the disbenefits of this modification is that by delaying the implementation out by a year, the charging	Noted

	<p>becomes less 'cost reflective'. We wish to strongly dispute this point. The timescale at the moment means that charging model changes are implemented for the following charging year. Implementation of this change would result in changes going into the year after that with the customer still receiving a cost reflective tariff, just one year later. A one year delay is not a significant delay – particularly when compared to the length of time it takes some charging methodology changes to be implemented through the change process.</p> <p>The model implementation timescales associated with this change will be very clear if approved. The onus should be on the working groups of the modifications going through the change process to progress the change as quickly as possible to meet the implementation deadlines.</p>	
Opus	Yes	Noted
SP Distribution / SP Manweb	No, we would like to understand the benefits for customers in monetary terms, and believe suppliers should quantify the benefit including the reduction in risk premium.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	In principle yes, provided that the changes currently being considered are approved before the proposed implementation date of DCP 178.	Noted
SSE Supply	Yes.	Noted
Western Power Distribution	Depends entirely on the change.	Noted
Anonymous	No	Noted
BT Group plc	No.	Noted
UK Power Networks	We believe that the legal text of this change might need to be considered further depending upon the responses to question fourteen, if its decided that the April 2015 charges will be set as 'final', in December 2014. However We are unsure whether this may be achievable via the charging statement in accordance with clause 19.1 of DCUSA or if that clause should be changed from forty days to three months (for the setting of only the 2015/16 charges), which is drafting that would subsequently need to be removed, as from future years	<p>The group agreed that this was an area that requires consideration.</p> <p>It was noted that there would need to be a mechanism for tracking changes that have not yet been implemented.</p>

	<p>fifteen months would then apply, or whether DCUSA would remain unchanged and these charges would be set as final under an 'off-line agreement', which would remain informal. What needs to be considered is whether if DCUSA was not revised to reflect these being 'final' charges set three months in advance, then it is possible that a methodology change could be approved in January 2015, resulting in a change needing to be implemented which could impact upon the perceived 'final' charges set for April 2015 in December 2014, which according to DCUSA would still be 'indicative'. This is something for the working group to consider further.</p> <p>We would also like to understand how the methodology will be published once this change is in operation. The current prices must reflect the current methodology (as published in DCUSA today). The prices for 15 months' time must reflect a future methodology, that may be different. Will that future methodology be published as another schedule in DCUSA or a pre-release of DCUSA (other parts of which will be changeable in the meantime) or a separate document? Moreover the prices for the forthcoming year must reflect yet another methodology set some time in the 15 months. So by our reckoning there can be up to three different methodologies that are fixed and we will be obliged to operate at varying times all published in some form. This will also be true of all of the suite of models involved in the process.</p>	
Dwr Cymru Cyf	No.	Noted
Reckon LLP	<p>The legal text expressly allows any DNO, with Ofgem's consent, to specify a shorter notice period in the charging statement. This means that the DCP does not achieve its intent of guaranteeing a long notice period to suppliers and customers. Customers and other victims have no practical way of challenging an Ofgem consent in this area. I cannot make sense of the proposed paragraphs 3A and 1.3A. Here is a suggestion for what might have been intended: "Each DNO Party to which this schedule applies must populate [and publish] each of these models at the time of publishing charges under DCUSA clause 19.1. Inputs to each of these models should reflect the information available in time to publish charges for the relevant year. Any subsequent</p>	It was noted that this should be considered when the legal text is reviewed.

	information must be disregarded for the purposes of complying with this methodology."	
BGAS	No	Noted
EDF Energy	No	Noted
Electricity North West	We do not understand the intent of the new wording to be inserted into Schedules 16 and 18: "All inputs to this charging methodology need to be confirmed and used in the DUoS charges as published under clause 19.1."	The respondent clarified that "confirmed" implied that it needed to be audited externally. ACTION to review
ESP Electricity	None	Noted
Gazprom Energy	No.	Noted
GTC	No	Noted
Haven Power	No	Noted
Group LASER Energy Buying	No	Noted
Northern Powergrid	None at this time	Noted
Npower	No	Noted
Opus	No	Noted
Scottish Power	No	Noted
SP Distribution / SP Manweb	We note that paragraph 19.1 does not yet incorporate Ofgem's proposed requirement for revisions to charges to take effect from 1 April.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Not at this time	Noted
SSE Supply	No.	Noted
Western Power Distribution	No	Noted
Question 18		
Do you have any further comments?		
Anonymous	No	Noted
BT Group plc	No	Noted
UK Power Networks	No	Noted
Dwr Cymru Cyf	None.	Noted

Reckon LLP	Paragraph 3.24: what is this "DCMF issues sub-group"? Is it MIG?	It was noted that this is the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG)
BGAS	No	Noted
EDF Energy	No	Noted
Electricity North West	<p>The Ofgem consultation examined options for addressing network charging volatility arising from the price control settlement, ie the process for determining and adapting total revenue allowances. It did not address charging volatility arising from the application of the charging methodologies, ie how total allowed revenues are recovered from different customers. We recognise that network charge volatility related issues need to be addressed through the respective codes.</p> <p>There are a number of options for increasing the predictability of the relationship between individual charges (eg DCP 180 "Further reduction in the volatility of Use of System Charges"). The principle should be maintained however that the DNOs' ability to recover allowed revenue in a timely manner should not be compromised.</p> <p>We recognise that the process of introducing new charging methodologies may have increased volatility in recent years, but there are a number of change proposals that have been implemented and some that are still under consideration that should reduce this effect in the future. In addition, the initiatives in Ofgem's decision document on volatility have not all yet been implemented and will further reduce volatility. We do not believe that an inefficient market structure should be put in place to address what is a temporary issue. We believe the enduring solution is not to implement this change proposal.</p>	Noted
ESP Electricity	None	Noted
Gazprom Energy	No.	Noted
GTC	The working group has failed to consider how DCP178 would impact on IDNOs in any way particularly in respect of over and under recovery	The group agreed to ask for more detail from GTC with regards to this response. ACTION
Haven Power	No	Noted
Group LASER Energy Buying	None	Noted
Northern Powergrid	We believe this change is not only helpful to suppliers, but is also what	Noted

	<p>end-users/consumers are looking for as they do not currently receive notification of future use of system charges, in time to include in their annual budget planning. It provides more predictability and certainty which will potentially allow suppliers to look at new fixed products, in particular non-pass through of DUoS contracts for EHV consumers. It also facilitates the potential for reduced charges to consumers, as supplier would be able to better manage the risk premium that they build into their retail prices.</p>	
Npower	<p>DCP178 is an effective and well considered modification to the DCUSA. It is supported by DNO's and Suppliers alike and is considered very favourably by customers. We therefore see no reason to not progress this change as speedily as possible.</p>	Noted
Scottish Power	No	Noted
SP Distribution / SP Manweb	<p>From an allowed revenue (over/under recovery) perspective we perceive major risks for SPD and SPM in fixing tariffs 15 months in advance.</p> <p>We would only be able to sign up to this proposal if there were significant changes to the current/ED1 Licences in respect of the over/under recovery mechanisms; and ensuring that the impact of the delays in accurate calculation of allowed revenues is NPV neutral.</p> <p>It is also worth noting that SPEN does not have a view as to whether or not +/- 6% tolerance levels will be sufficient; however increasing the notice period for tariffs from 40 days to 15 months will increase the chances that over/under recoveries will be higher for all the reasons noted in this consultation.</p> <p>For example, you might estimate that allowed revenue is £200m and set your tariffs accordingly 15 months in advance; 27months later at the end of the regulatory year in question it transpires that allowed revenues should have been £190m and there were 5% more units distributed meaning that revenues collected were £210m leading to an over recovery of £20m i.e. greater than 10%</p>	<p>It was suggested that with regards to the example, it is not possible to know what the total benefit to customers and the total cost of capital for DNOs will be. Also we do not know what the penalties will be. We don't know what future under/over recovery values will be. There is a lot of unknowns in relation to this change. It is hard to quantify the benefit to customers and the dis-benefit to DNOs.</p> <p>It was highlighted that if one DNO missed a debt repayment because of a large under-recovery then this would affect the cost of capital for all DNOs.</p> <p>For non-pass through contracts this change would take away a cost (the risk premium) is avoidable.</p> <p>Worth mentioning in the change report the impact of other CPs on reducing volatility is not yet known. It was highlighted that changes to the charging methodologies is one of the larger sources of charging volatility.</p>

Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Not at this time	Noted
SSE Supply	One has to balance the interests of the consumers against the requirement to adequately finance the distribution companies.	Noted
Western Power Distribution	No	Noted

Letter from Consumer Futures

Response to DCP 178 Consultation

Consumer Futures welcomes the opportunity to respond to this consultation. This letter summarises our views of the context for the proposal and the proposal itself. Our response is not confidential, and may be published.

We recognise that the current charging methodology, while designed to be cost reflective and common across all DNOs, can produce significant variations in charges from year to year depending on network load and changes to the user base.

This creates an issue for suppliers, who (obviously) want more certainty to be able to offer longer term prices. The price volatility is greatest for larger EHV industrial users, but also affects charges for domestic and small business users too.

Suppliers therefore bear a degree of risk in offering medium or long term prices to customers. We accept that this situation is likely to lead to suppliers adding a risk premium to consumers' bills – although we would also note that volatility could work in suppliers' favour, depending on the direction of cost movement.

We also understand that the majority of DNOs are comfortable with this proposal. Our initial concern that the proposal might simply transfer costs from one part of the energy industry to another, with no net benefits for consumers, therefore seems unfounded.

We have also considered the issue from the perspective of individual consumers. From their point of view, the variable costs produced by the model seem strongly counter-intuitive, especially since this is the only part of energy bills in which prices are regulated directly:

- There is no link between the behaviour of individual consumers and the costs they incur.

- Consumer behaviour does not, in effect, have an impact on the charges they pay, which can vary greatly between years even if

individual consumers' consumption remains constant.

- Further, the vast majority of consumers have no option to change their DNO; stability of pricing is therefore more important to consumers than cost reflectivity in this case.

Consumer Futures therefore sympathises with the aim of this proposal of reducing price volatility for consumers. We support this proposal as one which addresses a symptom of the problem, while also highlighting the need to continue work to reduce the price volatility which is the core of the issue.

I would be happy to discuss this further if necessary.

Yours,

A handwritten signature in black ink that reads "Andrew H Faulk". The signature is written in a cursive, slightly slanted style.

Andrew Faulk
Policy Manger (Energy)

Letter from Energy UK

Working Group comment: The working group noted that additional information had been sought from Energy UK as to what the suggested impact assessment might contain. A response has not yet been received.

Energy UK's response to the Distribution Connection and Use of System Agreement (DCUSA) Consultation DCP 178 - Notification Period for Change to Use of System Charges

04 November 2013

Introduction

Energy UK is the Trade Association for the energy industry. Energy UK has over 80 companies as members that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes.

Consultation Response

Energy UK strongly believes in promoting competitive energy markets that produce positive outcomes for consumers. We are committed to working with Government, regulators, consumer groups and our members to develop reforms which enhance consumer trust and effective engagement. We consider a stable and predictable regulatory regime that fosters innovation, market entry and growth, bringing benefits to consumers and helping provide the certainty that is needed to encourage investment and enhance the competitiveness of the UK economy. It would be a positive outcome to improve predictability, when this can be achieved without increasing costs to customers. DCUSA change proposal *DCP 178 - Notification Period for Change to Use of System Charges* will provide suppliers with the information needed to improve predictability in distribution charges which are passed through to their customers, members have a variety of views regarding whether this proposal will improve the stability of distribution charges or introduce additional cost. We would look to a robust impact assessment to inform the debate.

At a time when customers are experiencing increased volatility in their electricity bills, changes that provide more certainty should be explored and implemented where beneficial to customers. Our response provides a high level review of the change proposal set out in this consultation. Currently, a consumer who opts for a pass through tariff is exposed to changes in DUoS charges (whereas if a consumer opts for a non-pass through contract the supplier will be liable for changes in DUoS charge). With DUoS charges contributing around 12% of a half hourly metered electricity bill, the advantage of setting the notice period to 15 months with final charges being set 1 year ahead provides greater certainty to consumers and suppliers.

The RIIO-ED1 price control will set the framework for the Distribution Network Operators' (DNOs) recoverable revenue for the next 8 year period from 1 April 2015 to 31 March 2023. Ofgem will need to approve DNOs recoverable revenue which is likely to be available in February 2014 at the earliest. It is recognised that due to the time limitations, the April 2015 and April 2016 tariffs would both be published in December 2014, if this modification was adopted.

Energy UK would not look to comment on individual business's, however, we do note that one DNO expressed concern about the cost of capital involved in initiating the proposed changes in the consultation document; as this point has not been raised by the other DNOs, we would therefore not consider this an industry issue and we would expect uncertainty to be mitigated through the DNOs experience of factoring volatility into their budget and forecasting calculations.

We consider an independent impact assessment as a means to clarify the situation regarding the overall cost benefits of this change proposal. Energy UK would be happy to discuss our response in more detail. For further information please contact kyle.martin@energy-uk.org.uk

Kyle Martin
Policy & External Affairs Executive
Energy UK