

DCUSA DCP 178 Consultation Responses – Collated Comments

Question One	<p>The Working Group is seeking information from respondents that would aid it in quantifying the benefits and dis-benefits of DCP 178, can you provide such information?</p> <p>Note, this information can be provided directly to Ofgem rather than shared with the Working Group if you consider it to be commercially sensitive.</p>	Working Group Comments
BOC	<p>BOC is a large consumer, and pays DUoS charges as a pass through on most of it's volumes. The ability to budget forward what can be a volatile and considerable charge is vital. The current 40 day notice period (or even the 90 days from illustrative charges) makes budgeting for this charge impossible.</p>	<p>The Working Group noted that this response provides a customer perspective on the issue that DCP 178 seeks to address.</p>
Northern Powergrid	<p>We believe this question is aimed at Supplier's risk premium so it is not directly applicable to Northern Powergrid as a DNO. That said, we can see some opportunities and risks from this change proposal and potential benefits for both suppliers and end users. Only suppliers or end users will be able to quantify the value of any benefits and dis-benefits. These are detailed below:</p> <p>Opportunities</p> <ul style="list-style-type: none"> • Tariffs will be more predictable and transparent; • Suppliers and consumers will have greater certainty over future DUoS charges; and • Potential for reduced charges to consumers as a result of lower supplier risk premiums. <p>Risks</p> <ul style="list-style-type: none"> • The timeline for future DCUSA changes will need to be extended; 	<p>It was noted that in a competitive market the increased certainty will be passed on to end users by Suppliers.</p> <p>It was noted that any change to over/under recovery thresholds would need to be proposed to Ofgem as a licence change and thus cannot be progressed under DCP 178.</p>

	<ul style="list-style-type: none"> • Changes to the over- and under-recovery price control parameters need to be considered; • Potential for larger year-on-year movements in prices; • There needs to be a mechanism for dealing with any tariff errors; and • There is no guarantee that suppliers will pass the increased certainty on to end users. <p>Supplier Benefits</p> <p>Improved notice of DUoS tariffs will potentially enable Suppliers to:</p> <ul style="list-style-type: none"> • Introduce new products (e.g. non-pass through of DUoS contracts for EHV consumers); • Reduce the risk premium in existing DUoS non-pass through products; and • Enhance the ability of Suppliers to forecast and budget for DUoS charges. <p>Customer Benefits</p> <p>Consumers will benefit as:</p> <ul style="list-style-type: none"> • Non-pass through consumers will potentially face lower charges; • It has the potential widen the product range on offer from suppliers (e.g. pass-through and non-pass-through contracts); • Improved notice of DUoS tariffs will enhance the ability of customers to forecast and budget for DUoS charges. 	
Opus	This change will aid us in offering accurate, more competitive fixed contracts for customers.	Noted
UKPN	We believe that the real benefits of this change will be seen by Suppliers and their Customers. As a result we feel that should there be any benefits of this proposal then they would need to be shown by Suppliers; although we appreciate that some of this data could be commercially sensitive.	Noted
WPD	This is data for the suppliers to provide. WPD does note, however, that if suppliers cannot make a distinction, as mentioned in the consultation, of which	It was suggested that Suppliers would need to pick up the

	<p>part of the risk premium is due to uncertainty of price, how would suppliers know the value to reduce their prices by if DCP178 were to come into force. Does this mean that customers would not be able to see the benefit?</p>	<p>construction of their risk premium with Ofgem separately, rather than discussing it openly in the Working Group.</p> <p>It was suggested that a generic example of risk premium could be included within the Change Report.</p>
BU-UK	<p>DCP178 in effect delays the introduction of methodology changes for over a year (following such methodology changes being approved under the DCUSA governance regime). This means that it is highly likely that a period well in excess of two years will have elapsed between the date that a defect in the charging methodology, or a change proposal that better meets the objectives, is first submitted as a change proposal; and the date that charges from such proposals first come into effect.</p> <p>Where an IDNO puts forward a proposal that corrects a flaw in the methodology, and as a consequence identifies an increase in margins, the IDNO would be starved of such margin until implemented. This would result in margin squeeze and would be inconsistent with competition law. IDNOs do not have the same “allowed revenue” provisions. Therefore, any revenue not recovered in an year, cannot be recovered in subsequent years.</p> <p>Also, Consumer groups who would benefit from a change proposal (lower DUoS charges) that was approved would also be in the position where the charges would be subject to a discriminatory actions whereby they would potentially be required to unduly cross subsidise other customer groups.</p>	<p>The Working Group noted that the points raised by this respondent had been picked up in earlier DCP 178 Working Group discussions.</p> <p>It was noted that currently it takes time to progress and implement a change to the methodology. It was suggested that if the respondent feels that there is a defect they can raise a CP to address this.</p> <p>The group noted that this area needs to be address in the final report. It ties back into cost reflectivity, i.e. over what period do you want to be cost reflective</p>

	<p>DNOs are also exposed to under/over recovery provisions in that delays in implementing revised charges could perpetuate any under/ over recovery positions.</p> <p>In the above two scenarios delays in implementing agreed changes to the methodology, or implementing charges that arise as a consequence of changes to the methodology, could lead to charges that are not cost reflective (prior to implementation).</p> <p>Also, changes to charges will arise as a consequence of step changes in allowed revenue between one price control period and another.</p> <p>Failure to limit charges in a reasonable time would be in breach of competition law and of the distributor's licence</p> <p>Whilst we understand the concerns raised by suppliers in respect of the volatility of charges, we do not support the proposal.</p>	(why choose one year)?
SSE Energy Supply	We are not able to provide this information as it's commercially confidential.	Noted
GMTR	We have shared information directly with Ofgem.	Noted
Haven Power	If approved, DCP178 would give suppliers more confidence when factoring in DUoS tariffs to customer contracts and would reduce risk premia currently associated with the uncertainty that a 40 day notice period gives. Increasing the notice period for finalised DUoS tariffs from 40 days to 15 months would be a significant step forward for suppliers in gaining earlier visibility of Distribution charges. We estimate that prices would be 3% lower if there was no uncertainty in third party charges.	The Working Group noted this response.

British Gas	N/A	Noted
ENWL	<p>We believe that Ofgem has already addressed this issue in its assessment of the potential effects of applying a cap and collar on allowed revenue changes (in the document “Decision in relation to measures to mitigate network charging volatility arising from the price control settlement”) .</p> <p>Ofgem’s analysis is summarised in the following paragraph: 2.83. Our initial conclusion was that caps and collars would not be beneficial given our other proposed changes under options 1 to 4. We considered that there would be a cost involved both in terms of financing costs of delayed revenue collection for a NWO and the potential for investors to view NWOs as more risky investments. We were also concerned that the introduction of such a mechanism would introduce added complexity which could reduce the transparency of the price control framework and potentially diminish signals relating to a NWO’s performance.</p> <p>The decision confirmed this initial conclusion: 2.91. We accept that implementation of this option would create more certainty for suppliers, and consumers, on the costs that they will incur from network use. However, we do not consider that these benefits will be outweighed by the potential costs particularly given the other options we are intending to implement.</p> <p>We note that Ofgem did not explicitly consider caps and collars on network charges, since changes to the charging methodologies were not within the scope of the decision. However, we consider that the current proposal would effectively apply a zero cap and collar on charges, which is a more extreme version of a cap on allowed revenue and therefore inconsistent with Ofgem’s policy decision.</p>	<p>The Working Group noted that ENWL had raised similar concerns previously.</p> <p>It was observed that no decision is set in stone and this decision was some time ago. BH took an action to feedback to the group on whether there is anything about this decision that the Working Group needs to be aware of for DCP 178.</p> <p>It was also noted that Ofgem invited industry charging methodology changes forward as part of its Volatility decision document.</p>

NPower	We will contact Ofgem separately if we wish to provide this information	Noted
SP Power Systems	<p>Please see our answers included within Consultation One.</p> <p>Suppliers will need to provide evidence of the reduction in risk premium applied to customer's bills to support this change.</p>	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	<p>Numeric evidence is not available at this time. However, we would re-iterate some of the reasons why we are unable to support this proposal.</p> <ul style="list-style-type: none"> • Dilution of cost reflectivity – Forecasting 15 months in advance is more difficult and is likely to put DNOs at an increased risk of not being cost reflective in tariffs. • The risk to DNOs is increased substantially - The recovery position will be more volatile and therefore the cost of capital could be negatively impacted. • In December of year t, there will be a lot of uncertainties with regard to year t+2. 	<p>The Working Group noted the respondent's concerns.</p> <p>A Working Group member suggested that if Suppliers are asked to quantify the benefit then DNOs should quantify the risks. This information could be shared directly with Ofgem. Seeing the risk to the customer compared to the risk to DNOs would aid Ofgem in assessing the CP.</p> <p>It was observed that some DNOs do not perceive there being a risk whilst others do. This may be due to the way in which the company is structured. It was asked whether this means that some DNOs are better structured to manage the risk to consumers.</p>

BT GROUP PLC	The primary benefit to customers of this change is that of providing enhanced budget certainty. The current approach of only publishing final charges a month before the start of the new tax year does not allow companies full certainty of costs for the coming year.	The Working Group noted the response.
Summary Comments: It was observed that all customers to respond to this question had expressed the same view, i.e. the current uncertainty is a direct risk to their business plan.		
Question Two	Do you have any comments on the updated DCP 178 legal text?	Working Group Comments
BOC	No view.	Noted
Northern PowerGrid	We are generally in agreement with the proposed licence drafting. Our only comment is that that paragraph 28A of schedule 16 should also be removed to be consistent with the removal of paragraphs 25A and 35A and 51A in the same schedule.	The group noted this response and agreed to pick this up as part of the legal text review.
Opus	No	Noted
UKPN	We believe that some further small changes are required to the legal text for clause 19.1 to make it clearer. We also believe that the inclusion of clause 3A (in Schedule 16) and clause 1.3A (in Schedule 17 & 18) are not required as they do not add anything by their inclusion. The methodology published in DCUSA with effect from a given release date is the one that applies to the published charges that have the same effective from date or a later date (if no subsequent DCUSA methodology exists). In addition these clauses reference charges published under 19.1 but there are two sets of charges referred to in that clause. We have shown all above as tracked changes to Attachment D (now titled as v0.4).	The group noted this response and agreed to pick this up as part of the legal text review.
WPD	No	Noted
BU-UK	Clause 19.1 We think the proposed amended drafting for clause 19.1 is poor. The proposal	It was noted that the Working Group had debated the notice

	<p>makes the notice period put forward by the drafting as a default position. DNOs could if they so wished, select an alternate notice period and publish it in their charging statement (unless revised dates become subject to a licence condition change). Under such arrangements DNOs may choose to use different notice periods). This may well be the case if DNOs believe they are exposed to competition law type challenges.</p> <p>IDNOs already use a shorter notice period than that used by DNOs because they publish the notice period in their charging statement (to address the issue that they need to receive DNO charging statements before they can produce their own).</p> <p>Clause 3A Neither this clause (nor clause 3) specifies what inputs are to be used. Whilst it uses the term “all inputs”, it does not specifically state the variables to be used as inputs, or the temporal basis of the inputs. For example there is no requirement for the data inputs to be the up to date and reflective of the DNOs current cost base. It is accepted that this is a more generic point not specific to DCP178. Nonetheless, clause 3A drafting perpetuates the weakness.</p> <p>Schedule 16; clauses 19, 33, 49, 25A, 35A, 51A.</p> <p>Deleting these clauses, or provisions contained within the clauses, appears to remove the obligation to update the input data to which the clauses refer. It would seem to make sense that if DCP 178 is to be implemented that updating the inputs referred to by these clauses is mandated in the schedule. (to miss updating for one charging period would introduce a 30 month delay?? for updates to the methodology</p>	<p>period and had decided that this was the optimum position to achieve commonality, as opposed to DNOs each having different options.</p> <p>The Working Group tidied paragraph 19.1.</p> <p>The group amended the legal text to remove Clause 3A.</p>
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	<p>Schedule 17 Clause 1.3 and 1.3A</p> <p>See comments to Schedule 16 Clause 3 and 3A</p> <p>Schedule 18 Clause 1.3 and 1.3A</p> <p>See comments to Schedule 16 Clause 3 and 3A. Additionally numbering of Clause 1.3 appears to be incorrect.</p>	
SSE Energy Supply	No.	Noted
GMTR	We have not reviewed the legal text.	Noted
Haven Power	No	Noted
British Gas	<p>Clause 19.1 could be made clearer by setting out the requisite notice period for each type of charge separately.</p> <p>Also, the new footnote added to 19.1 reads “With the sole exception of the setting of charges for 2015/16 which would require that a notice period of 3 months is provided”. However it comes directly before another ‘exception’ to the 15 month notice period and so is not the sole exception.</p> <p>Para’s 43 and 49: We do not believe the addition of “at the time of setting charges for the relevant charging year” is required since these paragraphs already state “for which data are available in time for use in the calculation of charges”.</p>	The group amended clause 19.1.
ENWL	No comments.	Noted
NPower	No	Noted
SP Power Systems	None, at this time.	Noted

Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Not at this time.	Noted
BT GROUP PLC	No	Noted
Question Three	As discussed in section 4 of the consultation document, do you agree with the view of the Working Group to maintain two separate versions of the charging methodologies in those instances where change(s) are approved but will not affect charges until after the next set of charges have been published?	Working Group Comments
BOC	This sounds reasonable.	Noted
Northern PowerGrid	Yes we agree that this would be prudent to maintain two separate versions of the charging methodologies as this would provide all parties with an awareness of what changes the methodology would contain going forward as well as details of the current methodology.	Noted
Opus	Yes	Noted
UKPN	We would agree with the assessment of the working group, and believe that due to the nature of setting charges fifteen months in advance it will be necessary to manage two future versions of the charging methodologies.	Noted

WPD	Yes	Noted
BU-UK	<p>Why two.</p> <p>There will be the current charging methodology (say in force in January 20YX); The new methodology (in force from April 20YX).</p> <p>Where will methodology changes approved between January and end of March of year 20YX but which will only come into force on April 20YX + 1 ?</p> <p>This suggests 3 separate versions</p>	It was noted that the group had considered this area and noted that there is the current version of the model, version two will be the one used to set the future charges.
SSE Energy Supply	Yes. It's the obvious outcome of this change proposal.	Noted
GMTR	Yes we agree that this would make sense to aid clarity.	Noted
Haven Power	Yes. We agree with the Working Group and think that it would be necessary to have two separate Charging Methodologies. Not only will it prevent confusion but it will make it simpler to differentiate documentation and identify which tariffs were produced using each methodology in the future.	Noted
British Gas	This seems sensible.	Noted
ENWL	No. It would be complicated to maintain two versions of the methodology and make the governance process more difficult. It may be better to delay updates to the methodology by ensuring that the implementation dates of new changes are delayed to take account of the timescales applied to charging. DNOs would then just need to comply with the methodology as detailed in the current version of DCUSA when prices are set.	The Working Group observed that this approach would potential create more of a problem than there was originally.
NPower	Yes, this is the most sensible approach.	Noted
SP Power	Only one methodology should be in place at any one time.	It was noted that one methodology will be a pre-

Systems		release.
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	We feel this may be potentially misleading and therefore consequential non compliance is of concern. If two methodologies were to be maintained, DCUSA would need to manage this closely to try and minimise confusion. It also reinforces the perception that 15 months notice is not a good or viable change to a methodology that is subject to ongoing development and change proposals.	It was observed that the Charging methodology model is attempting to take a snap shot in time. When you set charges there will only be one version.
BT GROUP PLC	Yes. This will provide transparency and ensure that there is no crossover effect of changes.	Noted
<p>Summary Comments:</p> <p>The group noted that there is a risk of confusion. To avoid this the DCUSA website will need to be very clear on which methodology is to be used for each charging year.</p> <p>It was noted that the Change Report will need to capture how changes to the methodology will be applied. For instance, a timeline could be included.</p>		
Question Four	Do you agree with the Working Group's view that DCP 178 does not conflict with Distribution Standard Licence Condition 13.2?	Working Group Comments
BOC	No view.	Noted
Northern PowerGrid	Yes Northern Powergrid agrees with the Working Group's view that as there is no licence requirement to implement changes to the charging methodology within a certain timeframe there is no conflict.	Noted

Opus	Yes	Noted
UKPN	We agree with the view of the working group and do not believe that the wording of SLC13.2 conflicts with the proposal suggested as part of the solution for DCP178.	Noted
WPD	No	Noted
BU-UK	<p>No.</p> <p>We think DCP 178 conflicts with SLC 13.2 (b) because it constrains a license from making modifications to its charges following changes to the methodology which better meet the relevant objectives and in particular:</p> <p>“(b) that compliance with the methodology facilitates competition in the generation and supply of electricity, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity;</p> <p>(c) that compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business;”</p> <p>See our response to Question 1.</p> <p>We do not think DCP178 leads to charges that better reflect the costs incurred by the licensee.</p> <p>We have not seen arguments that demonstrate that competition between suppliers would be improved as a consequence of this change. We note that suppliers have to manage the risk of DUoS volatility, but this is the same for all suppliers. DUoS volatility in itself has a neutral impact on competition</p>	<p>The Working Group noted that there is no time constraint on changes being implemented. There will still be an annual review.</p> <p>It was suggested that the group should particularly consider whether there is conflict with condition (c).</p> <p>At the time of setting charges DNOs are using the prevailing methodology. If you wanted to be perfectly cost reflective you could argue that charges should be amended daily.</p> <p>Working Group members disagreed with the view that volatility has a neutral impact on competition.</p>

		It was queried whether if the CP better facilitates one objective (competition) but has a small detraction against another then how will the regulator view this.
SSE Energy Supply	As a Supplier we are not able to comment on a Distributor's licence conditions.	Noted
GMTR	No Comment	Noted
Haven Power	Yes	Noted
British Gas	<p>Standard Licence Condition 13.2 states: "The licensee must, for the purpose of ensuring that the Charging Methodology continues to achieve the Relevant Objectives: (a) review the methodology at least once every year; (b) subject to paragraph 13.4, make such modifications (if any) of the methodology as are necessary for the purpose of better achieving the Relevant Objectives.</p> <p>We are concerned that a 15 month delay in changes which are necessary to better achieve the relevant objectives could, in some instances, be assessed as being in breach of 13.2 (b). Assurances should be sought from Ofgem before progressing this modification.</p>	It was noted that discussions have been had with Ofgem regarding the licence conditions.
ENWL	<p>We agree that the DCP is not technically inconsistent with the licence requirement for annual review of the charging methodology; however the spirit of annual review is somewhat undermined by the delay in implementing changes.</p> <p>We note in this context that changes approved after December 2014 will not be implemented in charges until 2017/18.</p>	<p>It was observed that changes approved by September/October of each year can be implemented in time for the next charging year.</p> <p>It was noted that customers</p>

		would rather have certainty. DUoS Charges relate to assets that are in the ground for many years which makes it very hard to explain the year on year changes.
NPower	Yes, DCP178 does not conflict with licence condition 13.2	Noted
SP Power Systems	Yes, we agree with the Working Group's view.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Yes	Noted
BT GROUP PLC	Yes	Noted
Question Five	Are you aware of any other Licence Conditions that DCP 178 either aids or is inconsistent with? If yes, please provide details.	Working Group Comments
BOC	No view.	Noted
Northern	None that we are aware of at this time.	Noted

Powergrid		
Opus	No	Noted
UKPN	No, we are not aware of any other LC's which this change would impact upon.	Noted
WPD	DCP178 does move against the objective of cost reflectivity as the data for setting prices in all cases would be an extra year older.	It was noted that there is a need to balance cost reflectivity against predictability
BU-UK	Licence Condition 22A.19 requires the licensee to make changes to the methodology unless the Authority directs otherwise within 28 days. SLC 19.1– see response to Question 1. A 15 month delay is not reasonable on the part of the DNO (given that the licence only requires a 3 month notice)	It was observed that currently DNOs could set charges 15 months in advance and this is not inconsistent with the licence.
SSE Energy Supply	As a Supplier we are not able to comment on a Distributor's licence conditions.	Noted
GMTR	No Comment	Noted
Haven Power	No. We are however, familiar with the DCUSA 'General Objective 3.1.2' that looks to facilitate "effective competition in the generation and supply of electricity and ... the promotion of such competition in the sale, distribution and purchase of electricity."	Noted
British Gas	No comment	Noted
ENWL	The draft RIIO ED1 Licence CRC 2A.2 states: "The licensee, in setting Use of System Charges, must use its best endeavours to ensure that, in Regulatory Year t, Regulated Distribution Network Revenue is equal to its Allowed Distribution Network Revenue." It is clearly far more difficult to meet this requirement and remain within the penalty interest caps, when setting charges based on forecasting a minimum of	The group noted that this is a risk now. All the risk of the forecasting is currently with the customer. The Working Group questioned whether the DNO would use

	<p>28 months including 3 winters ahead as opposed to 16 months and 2 winters ahead.</p> <p>Our earlier consultation response provided arguments that this change proposal would not facilitate the DCUSA general objectives or charging objectives as set out in SLC 22 and SLC 22A.</p>	<p>anything other than seasonal normal to calculate their winter forecasts.</p> <p>It was noted that licence derogations have been applied for and accepted in the past relating to revenue recovery bands (e.g. for extreme weather). This is the exception rather than the rule.</p> <p>If evidence shows that the bands need to be amended then a licence change could be proposed.</p>
NPower	No	Noted
SP Power Systems	We believe Licence Conditions 13.3C and 13A (part C 13.3A.10) relating to relevant objectives, cost reflectivity, could be impacted by this proposal. DNOs would be restricted from updating their models with latest available information.	The group noted that this comment also relates to balancing cost reflectivity with stability.
Southern Electric Power Distribution plc and Scottish Hydro	No	Noted

Electric Power Distribution plc		
BT GROUP PLC	No	Noted
Question Six	Do you believe that the illustrative tariffs published as part of DCUSA Schedule 15 would no longer be necessary if DCP 178 is implemented? Please provide rationale.	Working Group Comments
BOC	From a consumers perspective, if there is a 15 month lead on changes to charges, then there is limited extra value in having an additional illustrative tariff for year 1.	Noted
Northern Powergrid	We agree with the working group's conclusion that there would be no requirement to forecast tariffs forward for 12 months when there are 15 months prices given. That said, some DNO, on a voluntary basis, provide tariff information for the full period of the DCUSA schedule 15 cost information rather than just the year ahead which is the obligation.	Noted
Opus	In line with our response to Q7, it would be preferable if the illustrative tariffs continue to be published.	Noted
UKPN	Although we believe that the schedule 15 information is still useful to Suppliers we cannot see any benefit in continuing to publish the illustrative tariffs as part of this requirement. These tariffs would no longer be of any use to parties as final charges, rather than purely illustrative charges, would be published by each DNO as a result of this change proposal.	Noted
WPD	The ARP could still be useful as it forecasts 5 years in advance.	Noted
BU-UK	Out of scope of this DCP	Noted

SSE Energy Supply	This Change Proposal appears to render the illustrative tariffs redundant.	Noted
GMTR	We agree that illustrative tariffs would no longer be required if final tariffs were finalised 15 months ahead of the charging year.	Noted
Haven Power	Yes – to a certain extent. The 15 months stated under DCP178 is sufficient to predict shorter-term movements, however we don't want to lose sight of the additional rolling three year movements currently issued under Schedule15 (DCP066) on a quarterly basis.	It was noted that the respondent does not want to be in a worse position as a result of this change. It was observed that DCP66 needs to be updated for other things such as RIIO. Could look at it in the round with these other required changes.
British Gas	<p>Provided the DCP, if approved, is implemented as planned in December 2014 then there would not be a need to include illustrative tariffs for year t+1 since these tariffs would already be finalised.</p> <p>However there is a short term implementation risk which would need to be managed if DCP 178 was implemented prior to the 7th November 2014. In such an instance removing the illustrative tariffs would have a short term negative impact on the information available to the market as illustrative tariffs for 2015/16 would not be included with the Schedule 15 submissions for November.</p>	It was noted that DNOs could provide this information for an extra quarter.
ENWL	Since the publication of illustrative tariffs each quarter is for 1 year ahead, this would not be required if DCP178 is implemented.	Noted
NPower	Yes, this makes sense	Noted
SP Power Systems	Yes, should DCP 178 be implemented illustrative tariffs would no longer be required.	Noted

Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	If this DCP is implemented, we believe there would be no need to publish illustrative tariffs for the reasons specified in the consultation document. However, we are not supportive of this DCP as indicated in Question 1 and would therefore be happy to continue publishing the illustrative tariffs.	Noted
BT GROUP PLC	Yes. How far ahead would DNO's publish the illustrative tariffs? 18 months, 24 months? The further ahead they are published the more uncertainty will be built into the charges within, therefore defeating the object of DCP178. Publication of final charges 15 months ahead is much more valuable.	It was noted that this may not reflect the point of the question.
Summary Comments: The group noted that the general response is that yes, these tariffs are no longer needed.		
Question Seven	Do you believe that the illustrative tariffs currently shown within the Annual Review Pack (ARP) would no longer be necessary if DCP 178 is implemented? Please indicate whether you feel that there is a need to continue to see years 2-5 even if you feel that those for year 1 are no longer necessary. Please provide rationale.	Working Group Comments
BOC	<p>As an EDCM consumer, our fixed and capacity charges are heavily influenced by our consumption patterns, as well as by the charging methodology.</p> <p>To change consumption patterns, and behaviour, a 2-5 year trajectory of charges at constant consumption, and an understanding of how changing peak consumption affects the trajectory is required. Otherwise future benefits of</p>	<p>The Working Group noted that currently EDCM customers cannot see this information. There is not an ARP for the EDCM and changes to other EDCM customers behaviour can</p>

	actions today cannot be properly quantified.	<p>have a significant effect thus making it difficult to provide ARP style data for the EDCM.</p> <p>The Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG) is looking at EDCM volatility.</p>
Northern Powergrid	<p>As suggested by the Working Group it may be worth looking at the alternative discussed in section 8.3 of the consultation. Using the DCUSA schedule 15 information would provide the impact of a change of revenue for a future year using the schedule 15 allowed revenue number(s) and the latest CDCM model. Instructions on how to achieve this could potentially be included within the DCUSA legal text.</p> <p>As commented in the answer to question 6 some DNO, on a voluntary basis, provide tariff information for the full period of the DCUSA schedule 15 cost information rather than just the year ahead which is the obligation. This replicates a lot of the content of the ARP.</p>	The Working Group noted that there is a need to look at the ARP and Schedule 15 in the round, outside of DCP 178.
Opus	Because some customers have long-term contracts (e.g. 3 year contracts) the illustrative tariffs currently shown within the ARP would still be required.	Noted
UKPN	<p>Similar to the illustrative tariffs provided as part of schedule 15, we do not see any benefit to Suppliers of the 'year 1' tariffs as published within the ARP should DCP178 be approved and final tariffs are shown fifteen months in advance.</p> <p>Furthermore the tariffs for years 2-5 are unlikely to make use of input data which is materially different to the values used as part of the CDCM for the setting of the final charges (provided with fifteen months' notice), as a result it would be worth considering whether the whole ARP is any longer required, (although the data referred to in Q8 would need separate consideration, but could be published</p>	It was noted that DCP066 could be expanded

	as part of a much reduced requirement).	
WPD	This is a question for the DNO's customers, (suppliers and end customers), to answer and not the DNOs. WPD would still be happy to provide the ARP or something similar even if it wasn't a DCUSA requirement.	Noted
BU-UK	Out of scope of this DCP	Noted
SSE Energy Supply	The illustrative tariffs currently provided by the Annual Reporting Pack are still required for all years from at least one source. The illustrative/final tariffs for the first year will be available via DCP 178, but we still require the illustrative tariffs for the remaining years.	Noted
GMTR	As previously stated, we do not believe illustrative tariffs for year 1 will be required with tariffs finalised 15 months ahead. However, we believe that illustrative tariffs shown in the Annual Review Pack should continue to be provided for years 2-5.	Noted
Haven Power	No. We believe there is limited tangible benefit in retaining the current ARP of 2-5 years in its current format but if DCP178 is implemented, we don't want to have less information than is currently available. A future suggestion could be to slim down the ARP to include only 2-3 years.	Noted
British Gas	The ARP provides a 5 year forecast of UoS charges and would remain necessary. Providing more notice of tariffs for year t+1 does not make redundant a forecast of tariffs for years t+2 to t+4. The ARPs should still be produced.	Noted
ENWL	The ARP covers a 5 year period and was produced to meet an Ofgem requirement in the Structure of Charges 2008 decision document. There is no rationale to stop producing the ARP.	Noted
NPower	We believe it is worthwhile continuing to see the DNOs views of future tariffs within the ARP (2-5 years out). Suppliers may be contracting 2-5 years out. This is particularly useful for small suppliers who may not have any other means of forecasting DUoS tariffs over that time horizon. May also be useful to customers.	Noted

SP Power Systems	If DCP 178 is implemented the annual review pack would not be required to calculate future tariffs – for years 2-5 this could be easily communicated by inputting the Schedule 15 revenue numbers into the current models.	It was observed that this would be true for years 1 and 2 but not 3 and 5. The ARP could be expanded out.
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	As above.	Noted
BT GROUP PLC	It would be useful to see a path of prices going out five years. This will give indications of whether any step changes are anticipated e.g. at control period boundaries. Also as a customer I do not wish to have to understand a CDCM model to obtain this data.	The group noted that this was a fair point.
Summary comments: The Working Group noted that parties and customers do not wish to lose any of the information that they currently have as a result of DCP 178. There may be changes to the ARP required outside of DCP 178.		
Question Eight	Do you agree with the Working Group's view that the three individual years data, which is smoothed as an input to the CDCM, needs to be shown and available either in the ARP or a similar communication? Please provide rationale.	Working Group Comments
BOC	No view.	Noted

Northern Powergrid	Yes. In the interests of transparency, there is no reason not to make available this data which is currently published. There is no reason why an additional table couldn't be added to the charging model which contained the information that was required to calculate the three year average.	It was noted that this may be of more use than the current approach.
Opus	Yes.	Noted
UKPN	Even if it is agreed that no illustrative tariffs are provided as part of the ARP publication we believe that it would still be necessary to make available the individual year's data which is smoothed within the CDCM, although this could be provided within a single document instead of being part of the current ARP.	Noted
WPD	The point of providing the smoothed data is to allow suppliers to model future years using the 3 years data. WPD would not expect the appetite for this to have changed.	Noted
BU-UK	Not sure that the consultation expresses the Working Group's view. Not sure to what the aspect of the consultation the question relates. As commented earlier not sure that there is clear reference in the Schedules as to what data is mandated to be used by the DNO	Noted
SSE Energy Supply	Yes. We need to have visibility of the data used to calculate tariffs.	Noted
GMTR	Yes	Noted
Haven Power	Yes. Three years of data should be made available to industry as it provides greater clarity and transparency as to what is going on and how changes are being implemented.	Noted
British Gas	These items should continue to be published via the ARP.	Noted
ENWL	We consider that this data should continue to be shown in the ARP.	Noted
NPower	Yes – we would want the 3 years individual years data which is smoothed as an	Noted

	input to continue to be published.	
SP Power Systems	If this data is required it could be included in the CDCM model (although a further DCP would be required as this is outside the scope of this DCP).	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	This level of detail provides increased clarity and we therefore agree that the smoothed data should continue to be published in the ARP. However, if this DCP were approved we would like to see the ARP requirement removed and perhaps have the smoothed data published within the CDCM model.	The Working Group noted that several respondents had suggested this.
BT GROUP PLC	NA	noted
Question Nine	Do you believe that changes to the requirements for either the illustrative tariffs as published as part of DCUSA Schedule 15 and/or the requirement on DNOs to publish an ARP, should be removed or revised as part of DCP 178 or, alternatively, should this be progressed as a separate Change Proposal?	Working Group Comments
BOC	No view.	Noted
Northern Powergrid	This should be progressed via a separate change proposal.	Noted
Opus	To ensure transparency of this issue, we would favour this to be progressed as a separate Change Proposal, with our preference being for the publication of the ARP to remain in place.	Noted

UKPN	We believe that these changes to remove either the illustrative tariffs from Schedule 15 and / or the tariffs from the ARP (or the whole ARP requirement) would be more appropriately progressed as part of separate DCPs. Considering them as part of a broader scope of this DCP could slow down the progress of the changes originally proposed as part of DCP178 or even ultimately see the whole proposal rejected.	Noted
WPD	This is a question for the DNO's customers, (suppliers and end customers), to answer and not the DNOs. WPD would still be happy to provide the ARP or something similar even if it wasn't a DCUSA requirement.	Noted
BU-UK	The intent of this change proposal is to "amend the notice period in section 19.1 of DCUSA for finalising tariffs from 40 days to 15 months. Changes may also be required to schedules 16 to 18". Therefore changes to Schedule 15 and the requirements in respect of the ARP are out of scope of the intent.	Noted
SSE Energy Supply	The simplest solution is to leave all other reports and models unchanged and for the distributors to either:- (a) Raise a Change Proposal at a later date, or (b) Request a derogation from OFGEM. to deal with any reports that appear to be an unnecessary duplication after DCP 178 is implemented. We would risk extending DCP 178 outside of its original terms of reference by attempting to deal with these matters here.	Noted
GMTR	No Comment	Noted
Haven Power	We feel as though this should be treated as a separate proposal as we don't want	Noted

	to delay the benefits of DCP178 or “muddy” the water with other changes. Any subsequent proposals for change beyond the intent of DCP178 should be addressed at a later date via another DCP.	
British Gas	Changes to the requirements of Schedule 20 are outside of the scope of DCP 178.	Noted
ENWL	Any changes that are necessary to Schedule 15 or the ARP are consequential changes as a result of DCP178. Therefore, they should be progressed as part of DCP178 rather than a standalone change proposal.	Noted
NPower	This should be progressed as a separate change proposal since approval of DCP178 should not be dependent on an outcome of whether to stop these activities.	Noted
SP Power Systems	This could be considered as consequential changes of DCP 178 and therefore removed/revised as part of this DCP.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	We feel that the proposed changes should be addressed within this change proposal	Noted
BT GROUP PLC	Should be covered as part of DCP178 so as to ensure that the change is fully implemented and all its effects are dealt with.	Noted
Summary comments: It was noted that there is a mixture of views but the preferred approach appears to be to progress separately to DCP 178.		

The Working Group agreed that this area should be raised as an issue with the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG).		
Question 10	Do you have any further comments?	Working Group Comments
BOC	BOC is supportive of this change, and has long argued for longer notice periods with respect to DUoS changes.	Noted
Northern Powergrid	We believe this change is not only helpful to suppliers, but is also what 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. 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
Opus	No	Noted
UKPN	No	Noted
WPD	As mentioned in question 1, if the change proposal was accepted WPD would like to see the benefits passed on to the end customer. Therefore this would have to be quantified in advance of the proposal going through and this benefit should also be demonstrated to OFGEM in implementation and on going in future years.	The group noted that these points had been discussed earlier and agreed that it would be useful to quantify the benefits. However, this will need to be done on a confidential basis.
BU-UK	No	Noted

SSE Energy Supply	No	Noted
GMTR	No comment	Noted
Haven Power	DCP178 would provide additional information to suppliers and customers that would allow both to plan further into the future. The approval of this DCP would also underwrite investment in equipment and minimise the volatility that can mask price signals. We also believe that this proposal will help DNOs forecast revenue.	Noted
British Gas	No comment	Noted
ENWL	<p>In the previous consultation responses that were supportive of the change there was a recurring theme, summarised in a response highlighted by the working group:</p> <p>“.... and removal of risk applied by the supplier within the charges will no doubt benefit the justifiability and end cost.”</p> <p>We believe that this statement is misleading - it is wrong to suppose that a risk is removed by simply transferring it to another party. Volume risk is a significant contributor to the overall risk of recovery of allowed revenue, and is not within the control of the network operators. It is therefore reasonable to expect that DNOs will be incentivised to set prices at a level more likely to over-recover, which would add to the overall premium throughout the supply chain rather than being accommodated within the portfolio of risk premia that suppliers currently manage.</p> <p>We also have two comments on the response from Consumer Futures:</p> <p>1. “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,</p>	<p>The Working Group noted that with regards to the first comment on DNOs being incentivised to set charges in a way more likely to over recover would put DNOs in breach of their licence.</p> <p>It was observed that DNOs will not be prevented from recovering their allowed revenue, it will just be over a longer basis.</p> <p>It is not a benefit to consumers in all cases.</p> <p>Suppliers have no way of managing volume risk on the</p>

	<p>therefore seems unfounded.”</p> <p>Now that we have sight of the consultation responses it is apparent that only 2 of the 6 DNO groups (5 out of 14 licensees) have outright support for the proposal.</p> <p>2. Consumer Futures identify the proposal as addressing the symptom of the problem rather than the cause. We agree with this view, and support measures to reduce volatility and improve predictability of the calculation of individual charges within the charging models. A number of proposals in this area are currently being implemented and we have not yet had the opportunity to see the benefits of these in practice. It may be appropriate to consider further measures that move the balance of DNO charges from energy to capacity or fixed charges, thus reducing the exposure of all parties to volume risk.</p>	<p>DNOs’ behalf. For DNOs volume risk is a timing issue for them, affecting their cash flow, but they will always get their allowed revenue. For Suppliers, it is a risk that is priced into their premiums.</p> <p>It was noted that from the consultation responses it appeared that only three DNO Licences do not support DCP 178. Others have raised concerns. The true view will be seen when the CP is issued for voting.</p> <p>It was noted that other CPs are looking at getting a balance between volatility and cost reflectivity.</p> <p>It was noted that Ofgem is supportive of steps to reduce volatility.</p> <p>It was noted that the CDCM is driven by volumes. BH took an action to confirm to the group</p>
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		whether the rationale for having a volume driver in the CDCM is still valid.
NPower	Comments provided in earlier consultation. We fully support this change.	Noted
SP Power Systems	From an allowed revenue (over/under recovery) perspective we remain concerned that there will be major risks for SPD and SPM in fixing tariffs 15 months in advance. Our comments sent to DCUSA in October 2013 in respect of the first DCP178 consultation remain valid. Consultation 2 does not seem to repeat the significant issues regarding DNO risk exposure; we expect this to receive prominence in any final change proposals. We are concerned that the working group has not entered into more detailed dialogue with Ofgem regarding the 6% threshold.	The Working Group noted that the 6% threshold has been discussed at length by the group. Based on historic data the group could not prove that the 6% was insufficient. It was noted that if going forward the 6% is found to be insufficient then in the short term DNOs can apply for a derogation and in the long term a change to it can be raised.
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Not at this time	Noted
BT GROUP	None	Noted

PLC		
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