

Proposed variation:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP050 – Provision of cost information regular meeting</b>		
Decision:	The Authority <sup>1</sup> directs that proposal DCP050 be made <sup>2</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested Parties		
Date of publication:	21 January 2010	Implementation Date:	25 February 2010

## Background to the modification proposal

DCP030 – *Provision of cost information* was approved by the Authority on 9 December 2008. Distribution Network Operators (DNOs) are now required to provide detailed cost information to suppliers and embedded generators in respect of allowed distribution revenue and expected changes to charges.

DNOs are required to make the following information available for publication on the publication public area of the DCUSA website<sup>3</sup> on a quarterly basis, based on the DNOs' latest best estimates where the exact figure is not known:

- base demand revenue forecast;
- total pass-through forecast;
- incentive payments forecast;
- correction factor forecast;
- final allowed demand revenue latest;
- final collected revenue forecast;
- forecast over/under-recovery for year, and;
- forecast percentage change to demand use of system charges.

Although suppliers were fully supportive of the proposal and the publication of the aforementioned data there remained a desire amongst suppliers to be able to discuss the published data to obtain a better understanding of the data and the modelling methodology that underpin the forecasting data. Some suppliers have additionally noted that DNOs' assumptions differ in providing their forecasts and that this is unhelpful.

## The modification proposal

This proposal seeks to amend the DCUSA to oblige the DNOs to hold a meeting (or teleconference) with suppliers within 20 working days of publishing the cost information.

The originator considers that the Change Proposal (CP) will better facilitate DCUSA Objective (b) on the basis that it will enable Suppliers to improve the accuracy of their own forecast and assessments and will provide greater certainty of future charges, both within the immediate price control and subsequent price control. The CP will also facilitate competition between suppliers as it will enable them to compete more effectively due to the additional clarity this proposal will provide in terms of forecast costs.

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> <http://www.dcuda.co.uk/Public/Documents.aspx?t=10>

## **DCUSA Parties' recommendation**

In accordance with the Change Declaration for DCP050, while the proposal achieved majority support in both the IDNO and Supplier categories, the DNO Party class rejected the proposal and associated implementation date. Therefore in accordance with the weighted vote procedure the recommendation to the Authority is that DCP050 be rejected.

## **The Authority's decision**

The Authority has considered the issues raised by the change proposal and the final Change Report received 14 December 2009. The Authority has considered and taken into account the responses to the consultation on the change proposal which are attached to the Change Declaration. The Authority has concluded that:

1. implementation of the change proposal DCP050 will better facilitate the achievement of the applicable DCUSA objectives; and
2. directing that the change is consistent with the Authority's principal objective and statutory duties<sup>4</sup>.

## **Reasons for the Authority's decision**

We note that seven responses were received to the DCUSA consultation on DCP050. Six respondents agreed with the proposer that the proposal would better facilitate applicable objective (b). One respondent also noted that applicable objective (c) could be promoted as DNOs have an obligation not to discriminate between suppliers however; one respondent considered that the implementation of DCP050 would not better facilitate any of the applicable objectives.

The Authority considers that DCP050 will better facilitate the achievement of applicable DCUSA objective (b) - the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution, and purchase of electricity;

The specific reasons for our decision are below.

***Applicable objective b) - the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution, and purchase of electricity;***

Ofgem notes that out of the 11 licensed DNOs that voted 9 rejected the proposal. Their objection to the proposal related to a number of issues. First, the DNOs had concerns that smaller suppliers may not have adequate resources to participate in these meetings/teleconferences. This therefore, may place smaller suppliers at a disadvantage to larger suppliers who can more readily access this information to obtain an advantage over their smaller competitors by making more informed business decisions.

We note that there may be a small risk to small suppliers not being able to fully participate in these meetings however, given that a meeting will be arranged 20 working days after the information is published this should provide sufficient time for any

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<sup>4</sup> The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989, the Gas Act 1986, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 & 2008 as well as obligations arising under Community legislation.

issues/queries to be formulised prior to the meeting. Therefore, all parties should be able to determine whether or not attendance is required. Further, as the meeting can be facilitated via a teleconference we believe that this will facilitate participation by smaller parties given reduced travel costs.

One DNO stated that since the proposal was raised the DNOs have committed to and initiated voluntary programmes of stakeholder communications which will be open to parties other than users and during which cost information issues may be discussed. This particular DNO believes that this recent communication initiative should be given the opportunity to demonstrate (or otherwise) whether it can fulfil the intent of this proposal and further prove whether there is a genuine demand for a discussion relating to cost information.

Those parties that supported the proposal felt that having a meeting to discuss the cost information will promote a better understanding of the assumptions behind the cost forecasts and facilitate a dialogue between suppliers and DNOs.

The Authority believes that the provision of DNO cost information to suppliers, generators and IDNOs brings a number of benefits. As stated in our decision letter to DCP030, we believe that better forecast information will enable more informed decision making and enable resources to be better utilised. In addition we believe that there are real costs which can be expected to be eliminated (e.g. the costs to suppliers of individually generating their own forecasts or greater costs of price risk insurance where there is greater uncertainty).

However, we note the concerns that have been raised since DNO-specific cost information has been provided under DCP030. Specifically, some suppliers are concerned that the usefulness of DCP030 cost information is compromised given that DNOs' assumptions differ in providing their estimates.

We believe that convening a meeting to discuss cost information will promote suppliers' understanding of the assumptions that underpin the various cost forecasts and will therefore further support their ability to make informed business decisions and as such will facilitate effective competition between suppliers.

While we recognise and support the voluntary initiative by DNOs to improve communications with stakeholders, we consider the DNO-specific teleconferences are not as optimal for suppliers as this proposal's request for one meeting following the submission of cost information each quarter. One meeting would ensure all DNOs and suppliers have the opportunity to ask questions around the commonality of assumptions in forecasting in order to clarify matters. We have already urged DNOs to work together to establish a common approach to DCP030 reporting so that it more properly allows suppliers to understand better how prices might change in the future. We believe that this proposal will add impetus to this request and better ensure commonality than voluntary DNO-specific arrangements. In addition, we are satisfied that making the meeting an obligation is justified at this time in view of the continuing importance of communication between DNOs and their stakeholders.

We consider that DCP050 better facilitates Applicable Objective (b).

## **Decision notice**

In accordance with standard condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP050: *Provision of Cost Information Regular Meeting* be made with effect 25 February 2010.

**Mark Cox,**  
**Associate Partner, Licensing and Industry Codes**  
Signed on behalf of the Authority and authorised for that purpose.