

DCUSA CONSULTATION DOCUMENT	
<b>CHANGE PROPOSAL</b>	DCP 030 - Provision of cost information
<b>DATE OF ISSUE</b>	01 August 2008
<b>ISSUED TO</b>	DCUSA Contract Managers
<b>RETURN DEADLINE</b>	22 August 2008

## 1 BACKGROUND

- 1.1 DCP 030 was raised by British Gas on 11 June 2008 and was considered by the DCUSA Panel at its meeting on 18 June 2008. The Panel determined that the CP was a non-urgent Part One change that should be progressed through the Definition Procedure.
- 1.2 The DCUSA Panel established a Working Group to consider the Change Proposal. The Working Group met on 10 July and 24 July 2008 to assess the CP and evaluate it against the DCUSA Objectives. The Working Group was broadly supportive of the principle of the CP and the proposed legal drafting and recommended that the CP should be issued to all Parties for Consultation.

## 2 DCP 030 - PROVISION OF COST INFORMATION

- 2.1 DCP 030 has been raised to require DNOs to provide such information to enable Suppliers to forecast more accurately the likely direction and magnitude of changes in distribution revenue over a rolling five year basis. The proposer considers that distribution costs are a significant element of each Suppliers cost base but because the current regime is not transparent cost forecasting is extremely difficult. DCP 030 seeks to increase the level of information published to assist Suppliers in improving their forecasting.
- 2.2 On 01 May 2008 Ofgem approved a code change (UNC 186) in the gas industry requiring gas distributors to publish allowed revenue and the expected changes to charges. In approving the modification Ofgem recognised that DNOs attempts to forecast costs can provide invaluable signals to Suppliers. DCP 030 is seeking to adopt the broad principles of UNC 186 for the electricity market.

## 3 WORKING GROUP REVIEW

- 3.1 The Working Group considered the following matters as part of its review of the CP:
- 3.2 Principles – The majority of Working Groups members indicated their support for the principle of the CP but noted that some parties had raised significant concerns and not all were supportive of its progression. Members recognised that Suppliers can spend a considerable amount of time, effort and money trying to predict costs and want to eliminate some of the risk associated with that activity.
- 3.3 The Working Group noted that whilst there may be some value in the change to Suppliers there will be issues to address regarding the levels of uncertainty surrounding the accuracy and completeness of the data that Distributors could provide. Some Distributor members expressed concern that the volatility of the data that was being requested may negate the value that it could provide. Supplier members recognised the difficulty for Distributors in forecasting and providing accurate data but maintained that any indications from the DNOs regarding their costs and spending would be beneficial to Suppliers.
- 3.4 The Working Group concluded that in order to make a robust case for the Proposal parties would need to demonstrate that the information requested from Distributors would be of benefit and of use to Suppliers.

- 3.5 DCUSA Objectives - All members of the group considered that Objective 2<sup>1</sup> was applicable to DCP 030 and the majority considered that this was the only relevant objective. Some members considered that Objective 2 is better facilitated by leading to increased competition as a result of the regular provision of relevant information on revenues and charges, enabling suppliers to improve accuracy of their forecasts and assessments. They considered that greater certainty of future charges will enable Suppliers to compete more effectively due to increased information provision. Other members considered that although greater transparency was desirable, and that the provision of data may reduce the level of risk to Suppliers, it was not clear that the change would lead to increased competition.
- 3.6 Provision of Data - The Working Group considered the mechanism for the publication of the data. Some Parties considered that the data was commercially sensitive and should not be open to disclosure. The Working Group considered that data could either be published via the DCUSA website or directly to Supplier Contract Managers on a party to party basis. The Working Group also considered that the distribution market is a competitive environment and that any provision of information to Suppliers should not be used by other DNOs to gain a competitive advantage.
- 3.7 Impact on IDNO Parties - The Working Group considered the potential impact of DCP030 on IDNO businesses. The Working Group believed that IDNO parties would not be impacted by the CP as they match their tariffs to that of the host DNO, however, members agreed to seek to clarify the IDNO position, and that of other smaller parties, as part of the consultation exercise.

#### **4 PROPOSED LEGAL DRAFTING**

- 4.1 The proposed drafting as developed by the Working Group is attached as Appendix B. The proposed drafting seeks to introduce 3 new clauses in the main body of the Agreement and a new Schedule to the DCUSA. The Proposer has recommended that the new clauses and Schedule are categorised as Part 1 provisions.

#### **5 CONSULTATION**

- 5.1 In accordance with the DCUSA, any CP progressed through the Definition Process may be issued to DCUSA Parties as part of a consultation exercise. The Working Group has recommended that DCP 030 is put forward for consultation.
- 5.2 Parties are asked to review the proposed CP and provide feedback, paying particular attention to the following:
- 1) Does the proposed CP better facilitate the DCUSA Objectives? Please state which objective(s) and give supporting comments.

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<sup>1</sup> 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

- 2) Do you consider there to be any legal impediment or reason why the data could not be published on the DCUSA website? Please state why and give supporting comments.
  - a) If you consider there to be a legal impediment to publishing the information on the DCUSA website, do you consider that the provision of the information on a party by party basis would meet the requirements of this modification? Please state why and give supporting comments.
- 3) Do you consider that the frequency of provision of this information i.e. 4 times a year to be appropriate? Please state why and give supporting comments.
- 4) Do you consider that the level of information to be provided within Schedule 14 to be appropriate? Please state why and give supporting comments.
- 5) Do you consider the information requested should only refer to the current Price Control Period or extend into the next Price Control Period (recognising that such data within the next Price Control Period would be estimated)? Please state why and give supporting comments.
- 6) Are there any other alternative solutions you would like to be considered by the Working Group? Please state why and give supporting comments.
- 7) Please indicate if you expect to incur any costs to support the CP (particularly where these are related to internal system changes)?
- 8) Do you support the proposed implementation date? Please state alternative if applicable and state why.
- 9) Please state any other comments or views on the Change Proposal.

- 5.3 You are asked to provide as much relevant detail in your response as possible to enable the DCUSA Panel to understand your comments and the reasons behind them. A response form has been included in Appendix C for your convenience. Please clearly indicate which parts, if any, of your comments are to be treated by the Working Group and Panel as confidential.

## **6 NEXT STEPS**

- 6.1 Following the end of the consultation period the working group will consider all responses and present a final report to the DCUSA Panel. The DCUSA Panel will determine which variation(s) will be put forward to the vote.

## **7 TIMESCALES**

- 7.1 The Working Group has determined that the consultation period should be 15 Working Days. Parties are invited to submit responses to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) no later than 22 August 2008.
- 7.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) or telephone 020 7432 3017.

## **8 APPENDICES**

- Appendix A – DCP 030
- Appendix B – DCP 030 – DCUSA Drafting
- Appendix C – Consultation Response Form