

APPENDIX B - RESPONSE FORM

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How do the proposed CPs better facilitate the DCUSA Objectives?

<i>Change Proposal</i>	<i>Better Facilitates (Yes/No)</i>	<i>Which Objective</i>	<i>Reasons/Comments</i>
DCP001			N/A as the implementation date is not achievable.
DCP001a	Yes	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;	We are not sure that this is necessarily true. We accept that for suppliers the risk of big changes in charges at different points throughout the year has the potential to be detrimental, but the charges are the same for all suppliers. - In any competitive environment suppliers do have their costs (of raw materials or services) changed and they are able (or not) to pass them on to customers. It does not mean that the change in cost is anti-competitive. It should also be noted that DNOs are regulated and therefore are restricted via licence conditions. DNOs must review charges at least once a year and must not knowingly set charges to exceed their allowed income. The under/over recovery mechanism
DCP001b	Yes		
DCP001c	Yes		

			is restricted to +4% (over-recovery) in any year and -10% (under-recovery) in any 2 consecutive years, therefore DNOs need the freedom to change at any point in the year to address any potential breach of licence requirements.
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Are there any other alternative solutions you would like to be considered by the DCP 001 Working Group? Yes

CE believes that there should be a further option, which is effectively “do nothing”. All the proposals and alternative proposals seem to be supplier driven, there is currently no reference to the DNO licence requirements to provide 3 months indicative notice of a change in charges followed by the 40 days DCUSA notice period. There also needs to be consideration given to the allowed revenue cap restricting under/over recovery to + 4% (over-recovery) in any year and - 10% (under-recovery) in any 2 consecutive years.

Reasons and explanations:

DNOs currently have a licence requirement to provide three months notice to suppliers of any change to charges in order to remain within the licence constraints.

The licence requires us to review charges at least once a year, currently most DNOs adhere to the same timescales and publish new charges on the 1st April each year even though there is no specific date requirements. They also use best endeavours not to have mid-year tariff changes. In order to agree to any of the proposals consideration should be given to the possible need for licence changes, particularly the under/over-recovery limits.

Appendix 1 summarises the relevant licence conditions.

If you believe more than one solution better facilitate the DCUSA objectives, indicate an order of priority between each of the alternatives. This will inform the Panel’s decision about which alternate(s) to put forward for formal voting in addition to the original CP.

Highest Priority: DCP001(d) proposed alternative to “do nothing”

Next Priority if any: DCP001(c)

Next Priority if any:

Next Priority if any:

Reasons and explanations:

Apart from our alternative proposal of "do nothing". DCP001(c) is the only proposal that CE would be prepared to consider. We believe that we currently already use "reasonable endeavours" to avoid more than one change in a year however we still need the flexibility to revise charges if we deem it necessary to stay within our licence constraints.

Both other proposals restrict us to only introducing tariff changes on set dates (either once or twice a year). This is likely to introduce more volatility between tariff changes as we endeavour to stay within the licence obligations. (i.e. significant tariff changes as income would need to be recovered over a shorter period of time)

Indicate if you expect to incur any costs to support each alternative, particularly where these are related to internal system changes:

If licence modifications were required this would have cost implications on DNOs in terms of reviewing and agreeing the terms and conditions with Ofgem. No other costs are expected.

Comment on the suitability of the proposed implementation date for each CP and each alternative:

The proposed implementation date of 10 days after authority approval is the same for all options and appears to be reasonable.

Reasons and explanations:**Any other comments or views on the Change Proposal and Alternatives:**

None

Please clearly indicate which parts, if any, of your comments are to be treated by the Working Group and Panel as confidential.

None

Appendix 1 – Summary of Licence obligations associated with setting UoS charges

- **Standard Condition 4A** – “charges for use of system” defines the rules that apply to the setting of use of system charges, namely:
 - we must have a statement, in a form approved by the Authority;
 - that we must set charges in accordance with our published methodology statement;
 - we must give three months notice of a change to charges (i.e. to introduce a tariff change from the first of April we need to have charges calculated and published by the end of December); and
 - we can only change from our indicative charges if there are material changes in the underlying assumptions.
 - at least once in every year, make such changes (if any) as are necessary to the charging statement to ensure that the information set out in it continues to be accurate in all material respects.
- **Special condition E1** - “charge restriction conditions” defines the tolerances within which we must set charges to recover our allowed income, namely:
 - not more than 4% over-recovered in any year; or
 - not more than 10% under-recovered in two consecutive years.
- **Special condition B1** - “restriction of distribution charges: demand use of system charges” defines the algorithms to establish the charge restrictions that determine the level of allowed demand revenue that may be recovered. It also states that we should use best endeavours to make sure that we do to set charges to over-recover.