



DCUSA CONSULTATION

DCP 132- Improving the Transparency of CDCM Target Revenue

1 PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators.
- 1.2 Parties to the DCUSA can raise a DCUSA Change Proposal (“DCP”) to amend the Agreement. DCPs should better facilitate the General Objectives and (if applicable) the Charging Methodology Objectives of the DCUSA document.
- 1.3 Amendments to DCUSA may only be made with the consent of a majority proportion of Parties to the DCUSA, through a voting process, or (where applicable) the Gas and Electricity Markets Authority.¹
- 1.4 When a DCP is raised, a Working Group is established to assess and develop the proposal in consultation with industry parties and other interested parties.
- 1.5 This document is a consultation issued in accordance with Clause 11.14 of the DCUSA and seeks industry views on Change Proposal DCP 132 – Improving the Transparency of CDCM Target Revenue.
- 1.6 The Consultation has been issued to DCUSA Parties, CDCM Interested Parties and Ofgem.
- 1.7 Parties are invited to consider the Change Proposal detailed in this consultation and submit comments using the form attached as Appendix D to dcusa@electralink.co.uk by **23 August 2012**.

2 INTENT OF DCP 132 – IMPROVING THE TRANSPARENCY OF CDCM TARGET REVENUE

- 2.1 The issue was raised at the Annual Review Meeting of the CDCM. Following that workshop, it was agreed that the issue should be progressed by the DCMF MIG Annual Review Supergroup. The Annual Review Supergroup contains a good mix of Suppliers and DNOs and the group is in agreement that the proposal represents a relatively simple change to DCUSA and to the CDCM that will provide improvements in transparency and predictability.

¹ For more information about GEMA visit the Ofgem website: <http://www.ofgem.gov.uk/TheAuthority>

- 2.2 DCP 132 has been raised by British Gas as a result of the work undertaken by the DCMF MIG Annual Review Supergroup. The intent of DCP 132 is to modify the format of Table 1 of Schedule 15 to make it consistent with the way that DNOs calculate their target revenue for the CDCM.
- 2.3 It is also the intent of this DCP 132 to add a new table into the CDCM model which is consistent in format to the amended Table 1 of Schedule 15 and to change the functionality of the CDCM model in a way that ensures the target revenue for tariff setting is derived from the CDCM target revenue contained in this new table.
- 2.4 The Proposer explains that Table 1 within Schedule 15 of the DCUSA contains DNO allowed revenue information and CDCM revenue information; however the CDCM revenue information contained within this table is not always consistent with the way that DNOs internally calculate their target revenues for the CDCM model when setting tariffs.
- 2.5 Table 1076 within the current CDCM model contains the constituent elements of Target Revenue, but it is not completed in a consistent way among DNOs; and as such transparency could be seen as adversely affected. The Proposer feels that there is also not sufficient detail provided for Users to fully understand the price control assumptions underlying the tariffs calculated by the CDCM model.
- 2.6 The Proposer considers that transparency and predictability would be improved if Table 1 within Schedule 15 was amended to make it consistent with the way that DNOs calculate their target revenue for the CDCM. It is further explained that transparency will be further improved by including a new revenue table within the CDCM model in a format consistent with the new Table 1 of Schedule 15; such that the Target Revenue that the CDCM model uses is derived from this new table.

3 DCP 132 – WORKING GROUP CONSIDERATIONS

- 3.1 The Working Group is comprised of an Ofgem representative, Distributors and Supplier Parties; all DCUSA Parties were invited to attend the Working Group.
- 3.2 All Working Group members are supportive of the general principles of the proposal.
- 3.3 The Working Group reviewed the CP against the following General DCUSA Objectives:

- Objective 1 – No Impact
- Objective 2² – Better facilitated - The change proposal better meets general objective two by improving the transparency and predictability of the target revenue in the CDCM. This is achieved in two ways:
 - Amending Table 1 of Schedule 15 to ensure that the CDCM revenue forecasts contained within it are calculated in a way that is consistent with the way DNOs calculate target revenues when setting tariffs.
 - Adding a table into the CDCM in a consistent format to that of Table 1 of Schedule 15 which will clearly show the allowed revenue assumptions underlying tariff changes.
- Objective 3³ – Better Facilitated – This issue was raised at the annual review meeting of the CDCM. Therefore, the Working Group feel that DCP 132 better meets this objective by satisfying the Licence obligation placed upon DNOs to review the charging methodology and bring about changes to improve the methodology.
- Objective 4 – No impact
- Objective 5 – No Impact

3.4 The Working Group reviewed the CP against the following DCUSA Charging Methodology Objectives:

- Objective 1⁴ – Better Facilitated - This issue was raised at the annual review meeting of the CDCM. Therefore the change proposal better meets CDCM objective one by satisfying the licence obligation on DNOs to review the charging methodology and bring about changes to improve the methodology.
- Objective 2⁵ – Better Facilitated - The change proposal better meets CDCM objective two by improving the transparency and predictability of the target revenue in the CDCM. The Working Group feel that this is achieved in two ways:
 - By amending Table 1 of Schedule 15 to ensure that the CDCM revenue

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

³ The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

forecasts contained within it are calculated in a way that is consistent with the way DNOs calculate target revenues when setting tariffs.

- By adding a table into the CDCM in a consistent format to that of Table 1 of Schedule 15 which will clearly show the allowed revenue assumptions underlying tariff changes.
- Objective 3 – No Impact
- Objective 4 – No Impact
- Objective 5 – No Impact

4 PROPOSED LEGAL TEXT

4.1 The DCP 132 proposed legal text is set out in Appendix B.

4.2 Following a review of the proposed legal text by the Working Group after feedback gained from the consultation, it will be issued to the DCUSA legal representative for review.

5 CONSULTATION

5.1 Parties are asked to consider the intent and impact of DCP 132 and answer the following consultation questions:

1. Do you understand the intent of DCP 132?
2. Are you supportive of its principles?
3. Do you agree that DCP 132 better facilitates the DCUSA General Objectives and DCUSA Charging Methodology Objectives as explained by the Working Group? Please provide supporting comments.
4. Do you have any comments on the proposed legal text?
5. Do you feel that Appendix C – Changes to CDCM Model 100 sufficiently explains the changes that will be made to the Model? Please provide supporting comments.

⁴ The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks

⁵ 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

6. Are you aware of any wider industry developments that may impact upon or be impacted by this CP? If so, please give details, and comment on whether the benefit of the change may outweigh the potential impact and whether the duration of the change is likely to be limited.
 7. Are you supportive of the proposed implementation date of 1 November 2012 (to allow for the population of indicative charges for 2013/14)?
 8. Are there any alternative solutions or matters that should be considered by the Working Group?
 9. Do you have any other comments regarding DCP 132?
- 5.2 Consultation responses (Appendix D) form should be submitted to dcusa@electralink.co.uk no later than **23 August 2012**. Parties are asked to provide as much relevant detail as possible to enable the Working Group to understand the comments and the reasons behind them.
- 5.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

6 NEXT STEPS

- 6.1 Following the end of the consultation period the Working Group will meet to review and consider the responses. The DCP 132 Working Group will submit its final report setting out the proposed variations to DCUSA Panel before the CP is issued to all DCUSA Parties for voting.
- 6.2 If you have any questions about this paper or the DCUSA Change Process or would like to participate in the Working Group please contact the DCUSA Help Desk by email to dcusa@electralink.co.uk or telephone 020 7432 3014.

7 APPENDICES

- Appendix A – DCP 132 Improving the transparency of CDCM target revenue
- Appendix B – DCP 132 Proposed legal text
- Appendix C – Changes to CDCM Model 100
- Appendix D – Response Form