

## DCUSA Change Proposal Form

This form is issued in accordance with Clause 10.5 of the DCUSA.

Completed forms should be returned to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) for assessment by the DCUSA Panel. Failure to complete all parts of the form may result in it being rejected by the DCUSA Panel.

PART A – Mandatory for all Change Proposals

PART B – Mandatory for Non Charging Methodologies Proposals

PART C – Mandatory for Charging Methodologies Proposals

PART D – Guidance Notes

### PART A - MANDATORY FOR ALL CHANGE PROPOSALS

<b>Document Control</b>	
CP Status	Standard
CP Number	DCP 228
Date of submission	13/01/2015
Attachments	<b>CDCM incremental cost signals.xlsx</b>
<b>Originator Details</b>	
Company Name	George Moran
Originator Name	British Gas
Category	SUPPLIER
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<b>Change Proposal Details</b>	
CP Title	Revenue Matching in the CDCM
Impacted parties	DNOs, IDNOs and Suppliers
Impacted Clause(s)	Schedule 16
Part 1 / Part 2 Matter	Part 1
Provide your rationale why you consider this change is a Part 1 or Part 2 Matter	The proposal changes the way in which revenue matching occurs in the CDCM and therefore affects CDCM tariffs.
Related Change Proposals	DCP 123
<b>Change Proposal Intent</b>	
The intent of this proposal is to change the way revenue matching (scaling) is achieved within the CDCM to accurately reflect the price differentials produced by the cost-reflective incremental 500MW model. Currently this is achieved in a manner which primarily affects only the day/red unit prices. This change proposal intends to replace the current method of revenue matching such that all unit rates face the same absolute p/kWh adjustment (except where any unit rates are subject to a floor price).	
<b>Business Justification and Market Benefits</b>	
<ul style="list-style-type: none"><li>• The CDCM is designed as an incremental model i.e. assessing the marginal cost of adding a new 500MW increment of network.</li><li>• The CDCM is therefore not intended to, and is highly unlikely to, recover the total costs (or allowed revenues) of the DNO.</li><li>• This is illustrated, as shown in the attached analysis (see the spreadsheet 'CDCM incremental cost signals.xlsx'), by the fact that the revenue recovered from peak charges is over 10x more</li></ul>	

than the costs attributed to reinforcement in the price control. The CDCM is clearly not a cost allocation model.

- Since the CDCM is fundamentally designed to provide incremental cost signals, as opposed to simply allocating the total cost of the DNO across users of the network, scaling must be done in a way that maintains the price signals generated from the incremental part of the model.
- The simplest way of doing this is by a uniform p/kWh adjustment.

The current approach to scaling in the CDCM, by applying scaling to peak time band consumption only, significantly distorts the economic signals provided from the pre-scaled tariff rates, and therefore produces tariffs which are not reflective of the incremental costs of reinforcing the network. Neither are the resulting tariffs reflective of the total costs of the DNO (even if that were the aim of the CDCM) as they can produce excessive charges in the red time band.

A method of scaling which applies equally to all unit rates – in the form of a fixed p/kWh applied to all pre-scaled unit rates does not suffer from these obvious defects and maintains the incremental cost nature of the CDCM.

Following the approval of DCP 179, this is now becoming an urgent issue – since Time of Use signals are now going to be used more widely in the CDCM, it is vital the economic signal of the incremental models are not distorted by scaling as this could lead to inefficient actions being taken by users.

#### **Related Change DCP 123:**

DCP 123 was rejected by the Authority on 12<sup>th</sup> August 2014. DCP 123 also sought to change the method of scaling in the CDCM to one which better maintained the incremental cost signals of the CDCM, albeit in a more complicated manner than proposed by this change. In rejecting the proposal the Authority felt the change failed to demonstrate that scaling has been spread in a more cost reflective way, and that without a detailed comparison of costs determined through the 500MW model and costs allowed for in the price control it wasn't possible for the Authority to be sufficiently satisfied that the change was more cost reflective. The Authority did, however, recommend that the industry develop the proposal further.

In retrospect, we consider that DCP 123 failed to adequately explain the purpose of scaling applied to the incremental cost signals – for instance the DCP 123 change proposal form explained scaling as a shortfall or excess which is *"to a large extent unidentified and therefore unallocated allowed income within the CDCM"* and that, *"as such, it has not been identified that these costs relate to peak time band consumption"*. We recognise that this implies that DCP 123 was attempting to 're-allocate' costs away from peak time and, in this context, agree with Ofgem that more evidence would be required if considering cost allocation. However, this new change is not seeking to allocate overall costs, as this is not appropriate or possible within an incremental model, and so Ofgem's reason for rejecting DCP 123 should not apply to this proposal.

This new change proposal is intended to be clearer in explaining that the shortfall or excess of revenue recovered from pre-scaled tariffs is a natural consequence of the incremental design of the CDCM. As the accompanying spreadsheet demonstrates, the CDCM recovers significantly more in peak charges than DNOs expect to spend on network reinforcement for the foreseeable future. This is because the CDCM provides incremental cost signals rather than total cost signals. Similarly, there are DNO costs which are not included in the CDCM (such as replacement costs and a portion of indirect costs), however these are not *'unidentified'* as the DCP 123 form suggested, but rather they are **intentionally** excluded from the CDCM for the purpose of deriving the desired incremental cost signals. This change proposal is therefore clear in its intent that scaling should not be used to allocate

any cost not included within the CDCM, but should rather be applied in a way which maintains the incremental cost signals produced by the pre-scaled tariffs.

### **Proposed Solution and Draft Legal Text**

The proposed solution is to remove the fixed £/kW/year adder currently applied at the transmission exit level, as detailed in paragraphs 92 to 93 of Schedule 16, and replace this with a fixed p/kWh applied to the calculated pre-scaled unit rates.

#### **Generation scaling and the floor price for demand tariffs:**

The current CDCM does not apply scaling to generation tariffs and applies a floor price to demand tariffs of 0.000p/kWh. We propose to maintain both of these rules for this change proposal.

In the case of generation scaling, this was looked at in detail during the progress of DCP 123 and whilst the proposed solution for DCP 123 did apply scaling to the fixed and reactive charge elements of generation tariffs, it did not propose to apply any scaling to generation unit rates, since these reflect the incremental benefit provided by generation (as opposed to a DNO cost). The DCP 123 change report notes that all respondents supported not applying scaling to generation unit rates. Since this new change proposal only applies scaling to unit rates, the proposal is that scaling will continue to not be applied to Generation tariffs (i.e. no change to the current CDCM).

In the case of the current floor price of the CDCM of 0.000p/kWh, we propose to maintain this floor price. Whilst removing the floor price would provide an even greater improvement to the methodology in terms of maintaining the incremental cost signals of the pre-scaled tariffs, we are mindful that the issue was consulted upon as part of DCP 123 and the industry consensus was that the floor price should remain.

#### **Proposed legal text: Amend Schedule 16 as follows (drawing on the proposed legal text for DCP 123):**

##### **Step 3: Match revenues**

89. The DNO Party uses its volume forecasts to estimate the revenues that would be raised by applying the tariff components derived from step 2, excluding any revenues treated as excluded revenue under the price control conditions.

90. If any separate charging methodology is used alongside the CDCM, e.g. for EHV users, then the forecast revenues from these charges, excluding any revenues treated as excluded revenue under the price control conditions, are added to the total.

91. If the forecast of allowed revenue exceeds the estimate of relevant revenues, then the difference is a shortfall. If the estimate of relevant revenues exceeds the forecast of allowed revenue, then the difference is a surplus.

92. ~~To allocate any shortfall or surplus, the DNO Party calculates the effect on demand tariffs and on forecast revenues from these tariffs of adding £1/kW/year (relative to system simultaneous maximum load) to costs at the transmission exit level.~~ Revenue matching is achieved by applying a unit charge adder (p/kWh) calculated as follows:

- the revenue surplus or shortfall (in pence) to be recovered divided by the total volume of all demand customers (in kWh).
- The unit charge adder is applied to demand tariffs only.

93. ~~Using this estimate, the DNO Party determines a single adder figure in £/kW/year such that adding that amount to costs at the transmission exit level would eliminate the shortfall or surplus. The single adder is positive if there is a shortfall and negative if there is a surplus. Not used.~~

94. If this procedure would result in negative value for any tariff component, then the tariff component is set to zero and the **unit single** adder figure is modified to the extent necessary to match forecast and target revenue.

95. ~~The final tariffs for demand (before rounding and application of LDNO discounts) are determined on the basis of an allocation with the single adder included in costs.~~ Tariffs for generation do not have any revenue matching element.

#### **Proposed Implementation Date**

Given the extensive industry engagement already provided to this issue we propose an implementation for Tariffs effective from 1 April 2016.

#### **Impact on Other Codes**

Please tick the relevant boxes and provide any supporting information.

BSC	<input type="checkbox"/>
CUSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
MRA	<input type="checkbox"/>
SEC	<input type="checkbox"/>
Other	<input type="checkbox"/>
None	<input checked="" type="checkbox"/>

If other please specify

#### **Consideration of Wider Industry Impacts**

N/A

#### **Environmental Impact**

None

#### **Confidentiality**

N/A

### **PART B – MANDATORY FOR NON CHARGING METHODOLOGIES CHANGE PROPOSALS**

#### **DCUSA Objectives**

General Objectives:

Please tick the relevant boxes. [See Guidance Note 9]

- ☐ 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
- ☐ 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
- ☐ 4 The promotion of efficiency in the implementation and administration of this Agreement
- ☐ 5 Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

**Detailed rationale for better facilitation of the DCUSA Objectives identified above**

[See Guidance Note 10]

**PART C – MANDATORY FOR CHARGING METHODOLOGIES CHANGE PROPOSALS**

**DCUSA Charging Objectives**

Please tick the relevant boxes. [See Guidance Note 11]

Charging Objectives:

- ☐ 1 that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence
- ☐ 2 that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)
- ☒ 3 that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business
- ☐ 4 that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business
- ☐ 5 that compliance by each DNO Party with the Charging Methodologies facilitates compliance with

the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

General Objectives:

- ☐ 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
- ☐ 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
- ☐ 4 The promotion of efficiency in the implementation and administration of this Agreement
- ☐ 5 Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

**Detailed rationale for better facilitation of the DCUSA Objectives identified above**

Charging Objective 3 is better facilitated. The incremental cost signals produced by the pre-scaled tariffs in the CDCM are currently distorted by applying scaling primarily into one timeband. By allocating unallocated allowed revenue across each of the unit rates on a fixed adder basis, this change improves cost reflectivity by maintaining the incremental cost differential between unit rates across all tariffs and all timebands. The change also ensures that the unit costs in peak time bands (day or Red unit rates) will better reflect the underlying cost message by virtue of being distorted less than the current method of scaling.

**Has this issue been discussed at any other industry forums? If so please specify and provide supporting documentation**

Revenue matching has been discussed at length within the DCMF MIG and through the related change DCP 123. The proposer also presented this DCP in draft form for discussion to the DCMF MIG meeting in January 2015.

**PART D – GUIDANCE NOTES FOR COMPLETING THE FORM**

Guidelines for Working Group Members and Working Group Terms of Reference are available on the DCUSA Website and provide more information about the progression of the Change Process. [www.dcusa.co.uk](http://www.dcusa.co.uk)

Ref	Data Field	Guidance
1	<b>Attachments</b>	Append any proposed legal text or supporting documentation in order to better support / explain the CP.
2	<b>Part 1 / Part 2 Matter</b>	A CP must be categorised as a Part 1 or Part 2 matter in accordance with Clause 10.4.7 of the DCUSA. All Part 1 matters require Authority Consent.
3	<b>Related Change Proposals</b>	Indicate if the CP is related to or impacts any CP already in the DCUSA or other industry change process.

<b>4</b>	<b>Proposed Solution and Draft Legal Text</b>	<p>Outline the proposed solution for addressing the stated intent of the CP. The Change Proposal Intent will take precedence in the event of any inconsistency. A DCUSA Working Group may develop alternative solutions.</p> <p>The plain English description of the proposed solution should include the changes or additions to existing DCUSA Clauses (including Clause numbers).</p> <p>Insert proposed legal drafting (change marked against any existing DCUSA drafting) which enacts the intent of the solution. The legal text will be reviewed by the Working Group (if convened) and is likely to be subject to legal review as part of its progress through the DCUSA change process.</p>
<b>5</b>	<b>Proposed Implementation Date</b>	<p>The Change can be implemented in February, June, and November of each year or as an extraordinary release. For Charging Methodology CPs, select an implementation date which takes in to consideration the deadlines for publishing indicative tariffs.</p> <ul style="list-style-type: none"> <li>• Submission of Company indicative tariffs is 31 December of each year.</li> <li>• Final tariffs are published on 1 April of each year.</li> </ul> <p>Please select an implementation date that provides sufficient time for the change to be incorporated into the appropriate charging model and the DCUSA in order to be reflected within the December indicative tariffs.</p> <p>Contact the DCUSA helpdesk for any further information on the releases <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a>.</p>
<b>6</b>	<b>Consideration of Wider Industry Impacts</b>	<p>Indicate whether this Change Proposal will be impacted by or have an impact upon wider industry developments. If an impact is identified, explain why the benefit of the Change Proposal may outweigh the potential impact and indicate the likely duration of the Change.</p>
<b>7</b>	<b>Environmental Impact</b>	<p>Indicate whether it is likely that there would be a material impact on greenhouse gas emissions as a result of the proposed variation being made. Please see <a href="#">Ofgem Guidance</a>.</p>
<b>8</b>	<b>Confidentiality</b>	<p>Clearly indicate if any parts of this Change Proposal Form are to remain confidential to DCUSA Panel (and any subsequent DCUSA Working Group) and Ofgem.</p>
<b>9</b>	<b>DCUSA General Objectives</b>	<p>Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.</p>
<b>10</b>	<b>Detailed Rationale for DCUSA Objectives</b>	<p>Provide detailed supporting reasons and information (including any initial analysis that supports your views) to</p>

		demonstrate why the CP will better facilitate each of the DCUSA Objectives identified.
<b>11</b>	<b>DCUSA Charging Objectives</b>	Indicate which of the DCUSA Charging Objectives will be better facilitated by the Change Proposal. Please note that a CDCM or EDCM change may also facilitate the DCUSA General objectives.