

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 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

Document Control	
CP Status	Standard
CP Number	DCP 180
Date of submission	12 June 2013
Attachments	n/a
Originator Details	
Company Name	Electricity North West / Haven Power
Originator Name	Andrew Pace / Antony Badger
Category	DNO / SUPPLIER
Email Address	Andrew.pace@enwl.co.uk
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Change Proposal Details	
CP Title	Further reduction in the volatility of Use of System Charges
Impacted parties	All
Impacted Clause(s)	Schedule 16
Part 1 / Part 2 Matter	Part 1
Related Change Proposals	
Change Proposal Intent	
<p>To fix the differential between CDCM tariffs for a period of up to five years by locking down the CDCM models to be used in each year. To introduce a mechanism outside of the CDCM model that will enable DNOs to amend the CDCM tariffs by applying a scaling factor to all tariffs to ensure the DNO recovers its allowed revenue within the charging year.</p>	
Business Justification and Market Benefits	
<p>The introduction of the Common Distribution Charging Methodology (CDCM) in 2010 has provided commonality in the charging methodologies used by DNOs and associated tariff structures. However the requirement to amend some input data annually coupled with the extreme sensitivity of the CDCM model to some small changes in input parameters and the high volume of change proposals has introduced significant volatility in Distribution Use of System (DUoS) charges. These factors can have a particularly significant impact on some tariffs with fewer customers and on specialist suppliers supplying particular tariff groups. A number of measures have been implemented or are under consideration to reduce this volatility which includes smoothing or lagging the CDCM inputs. Ofgem has also proposed a number of changes which will reduce the volatility associated with the</p>	

determination of the Allowed Revenue.

The initiatives to date have all focused on reducing volatility for 12 month periods in isolation. However, significant volatility remains, particularly for the level of tariffs that will apply in future years. This uncertainty is only reduced when indicatives are published 3 months ahead of the applicable charging year and removed completely when final prices are published 40 days ahead of the charging period. For suppliers looking to provide fixed prices to customers for periods of up to 5 years, this uncertainty makes it difficult to accurately forecast the use of system element and potentially adds a large risk margin to customer's prices to take account of this.

The benefit of this change proposal is that it allows suppliers to have advance warning of the differential between use of system tariffs. The only risk that will remain with suppliers is the overall level of the allowed revenue, rather than how individual tariffs move relative to each other. For suppliers operating in a niche markets this ensures they are not disadvantaged by a large shift in one tariff which a large supplier with a balanced portfolio is not exposed to. Consequently this change proposal will ensure a level playing field for all suppliers from a use of system perspective.

This change proposal will also enable suppliers to offer fixed price deals to customers with longer durations without the need for potentially large risk premiums.

Proposed Solution and Draft Legal Text

The solution is based on the premise that as the CDCM is now more mature and the need for constant refinement to correct anomalies in the original methodologies has reduced greatly. It should also be recognised that tariff models can, at best, only be broadly cost reflective and constant tweaking of the models imply a degree of precision and accuracy that is not there.

Each DNO will issue a CDCM model for each year over which the tariffs are to be fixed (the proposed time period is between 2 and 5 years, and the actual time period should be consulted on as part of the DCUSA consultation). The DNOs will provide [2] years notice of new models that are to be added to the end of the fixed period.

The CDCM models will provide benchmark tariffs which will be used in each of the years for which the tariffs are fixed. This fixes the differential between the tariffs over the pricing period.

To recover the allowed revenue and to take account of the DNOs volume forecast a percentage scaler will be calculated and published each year. This percentage scaler will be applied uniformly to all tariffs and tariff components. This percentage scaler will be the only source of volatility and DNOs will be able to provide an update on the scaler as part of the DCUSA cost information submissions each quarter.

This solution will enable Suppliers and customers to predict DUoS tariffs with greater certainty and remove exposure to the existing adjustment between tariffs which is extremely difficult to predict.

Proposed Implementation Date

April 2014

Impact on Other Codes

Please tick the relevant boxes and provide any supporting information.

BSC ☐
CUSC ☐

Grid Code	<input type="checkbox"/>
MRA	<input type="checkbox"/>
Other	<input type="checkbox"/>
None	<input type="checkbox"/>
If other please specify	
Consideration of Wider Industry Impacts	
Environmental Impact	
Confidentiality	

PART B – MANDATORY FOR NON CHARGING METHODOLOGIES CHANGE PROPOSALS

DCUSA Objectives
<p><u>General Objectives:</u></p> <p>Please tick the relevant boxes. [See Guidance Note 9]</p> <p><input type="checkbox"/> 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks</p> <p><input checked="" type="checkbox"/> 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</p> <p><input checked="" type="checkbox"/> 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences</p> <p><input type="checkbox"/> 4 The promotion of efficiency in the implementation and administration of this Agreement</p> <p><input type="checkbox"/> 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.</p>
Rationale for better facilitation of the DCUSA Objectives identified above
<p>This change proposal better meets general objective 2 by reducing the volatility of DUoS charges which enables suppliers to offer a greater range of products to customers. Competition will also be more effective as customers will be much less exposed to price changes caused by DUoS charge volatility.</p>

This change proposal better meets general objective 3 by reducing the workload on DNOs as they will not have to run the CDCM models as frequently. In addition, DNO income will be easier to forecast because it will be less exposed to small variations between tariff groups.

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.

Rationale for better facilitation of the DCUSA Objectives identified above

[See Guidance Note 10]

Charging Objectives:

This change proposal better meets charging objective 2 by ensuring niche or smaller suppliers are not disadvantaged by unpredictable movements in use of system tariffs when providing fixed prices for customers over contract durations larger than 12 months.

This change proposal better meets charging objective 3 by stabilising the tariffs over a longer time period than the current 12 months which is more reflective of the long run future costs which the CDCM is meant to represent.

General Objectives:

This change proposal better meets general objective 2 by ensuring niche or smaller suppliers are not disadvantaged by unpredictable movements in use of system tariffs when providing fixed prices for customers over contract durations larger than 12 months.

This change proposal better meets general objective 4 by simplifying the pricing process and reducing the frequency of updates to the CDCM model. This will increase the efficiency of the DNOs in complying with DCUSA.

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

Discussed at the MIG and DCMF.

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

Ref	Data Field	Guidance
1	Attachments	Append any proposed legal text or supporting documentation in order to better support / explain the CP.
2	Part 1 / Part 2 Matter	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	Related Change Proposals	Indicate if the CP is related to or impacts any CP already in the DCUSA or other industry change process.
4	Proposed Solution and Draft Legal Text	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. The plain English description of the proposed solution should include the changes or additions to existing DCUSA Clauses

		<p>(including Clause numbers).</p> <p>Insert proposed legal drafting (change marked against any existing DCUSA drafting).</p>
5	Proposed Implementation Date	The Change can be implemented in February, June, and November of each year.
6	Consideration of Wider Industry Impacts	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.
7	Environmental Impact	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 Ofgem Guidance .
8	Confidentiality	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
9	DCUSA General Objectives	Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.
10	Rationale for DCUSA Objectives	Provide supporting reasons and information (including any initial analysis that supports your views) to demonstrate why the CP will better facilitate each of the DCUSA Objectives identified.
11	DCUSA Charging Objectives	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.