



DCUSA CONSULTATION TWO

DCP 178 - Notification Period for Change to Use of System Charges

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. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) Ofgem.
- 1.2 This document is the second consultation to be issued seeking industry views on DCP178 'Notification period for change to use of system charges'. The consultation has been circulated to Distributors, Suppliers, Consumer Focus, Ofgem and other interested Parties.
- 1.3 You are invited to consider the questions set out in section 9 below and submit comments using the form provided as Attachment A to dcusa@electralink.co.uk. Alternatively, responses can be submitted via the online form which is available here:

https://www.surveymonkey.com/s/DCP_178

- 1.4 Responses to this consultation should be submitted no later than **Tuesday, 11 March 2014**.

2 Background

- 2.1 Distribution Network Operators (DNOs) are currently required to finalise and publish Distribution Use of System (DUoS) tariffs 40 days before they take effect. DCP 178 'Notification Period for Change to Use of System Charges' has been raised by Northern Powergrid and seeks to increase this notice period from 40 days to 15 months. This change would provide Suppliers and consumers with greater certainty of future DUoS charges they will face. Any over/under recovery of allowed revenue which arises because of the increased notice period would be recovered in future years. Full details of the Change Proposal (CP) are provided in the CP form (Attachment B).
- 2.2 In October 2013 the DCP 178 Working Group issued a consultation inviting industry participants to comment on DCP 178. This consultation document and the non-confidential responses received are provided as Attachment C. The Working Group has issued this second consultation seeking additional

information from market participants.

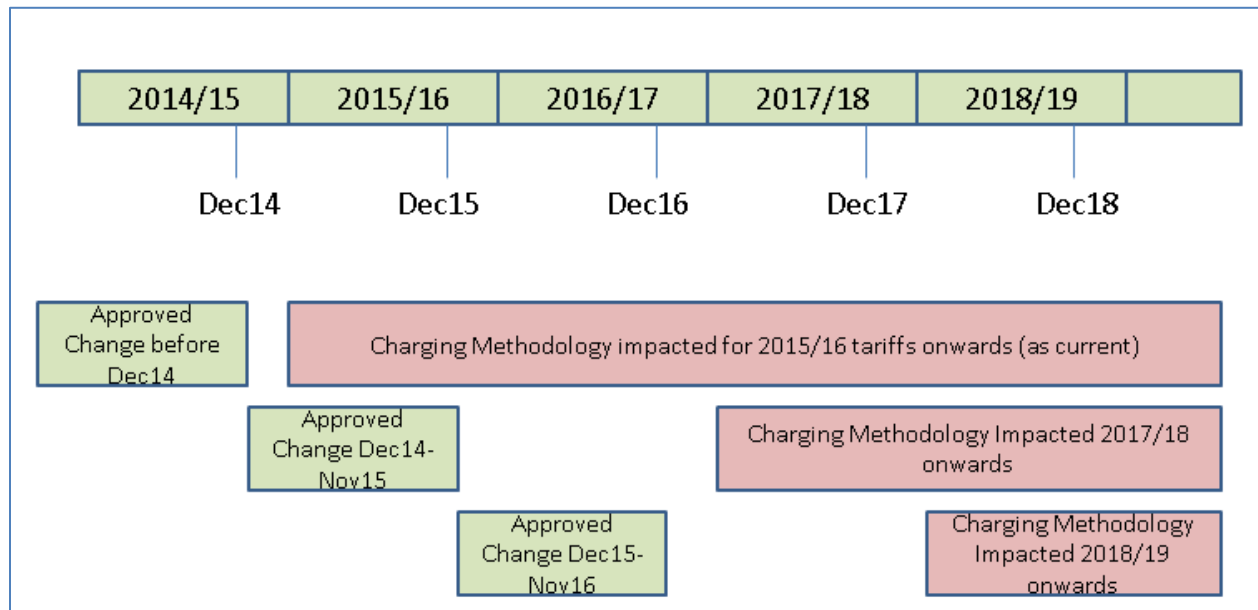
3 DCP 178 Impact Assessment

- 3.1 The decision as to whether or not DCP 178 is implemented sits with the industry regulator Ofgem. The DCP 178 Working Group has been advised by Ofgem to prepare an impact assessment that sets out the benefits and dis-benefits of implementing the proposed change.
- 3.2 The group discussed whether or not the benefits of DCP 178 are quantifiable and concluded that they were most likely not. This is in part because information that would support the assessment of the proposed change is commercially sensitive and for the group to discuss it would breach competition law. For example, the group considered gathering information on the risk premiums that Suppliers use when pricing DUoS into their contracts. However, it was agreed that it would be anti-competitive behaviour, if the information was even available to the group, to gather Supplier risk premium data and thus it was agreed that this information should not be discussed or shared within the group.
- 3.3 It was noted that such information could be provided by Suppliers directly to Ofgem. Although, the group notes that it could be potentially misleading to compare data on risk premiums, as a number of elements go in to the Suppliers' decision when they set their tariffs so you would not be comparing like with like across Suppliers. The Suppliers will take a view as to the risk associated with supply costs, distribution charges, transmission charges and other costs. The total risk premium will not be a simple additive of these individual elements.
- 3.4 As part of this consultation the Working Group is seeking information from respondents that would aid it in quantifying the benefits and dis-benefits of the proposal. This information can be provided directly to Ofgem rather than shared with the Working Group if you consider it to be commercially sensitive¹.

¹ You can send information directly to Ofgem using the following email address:
Distributionpolicy.chargingmailbox@ofgem.gov.uk

4 The DCP 178 Legal Drafting

- 4.1 The DCP 178 Working Group has reviewed the CP legal drafting in light of the responses to the first industry consultation and made a number of amendments including the following:
- The text has been updated to say that IDNO tariff publication should be 14 months in advance rather than 15 months. IDNOs mirror DNO tariffs and this one month period allows the IDNO time to prepare its tariffs following publication of the DNO tariffs.
 - Clause 19.1 has been split out into two parts, as this Clause also relates to Meter Point Administration Service (MPAS) charges and DCP 178 does not seek to amend the notification period for MPAS charges.
 - Clause 19.1 has also been amended to state that a 90 day notice period will apply for charges set for the 2015/16 charging year. This is to ensure that the charges published in December 2014 are final tariffs rather than indicative tariffs, which will ensure that both 2015/16 and 2016/17 final tariffs are published in December 2014.
- 4.2 The updated legal text is provided at Attachment D. You are invited to consider this text and provide comments on it.
- 4.3 The Working Group discussed how multiple versions of the charging methodologies would be managed where a notice period in excess of the fifteen months' is necessary for one or more changes which had been approved, but was not to be included in the upcoming requirement to calculate revised charges. This would result in needing to manage two versions on the charging methodologies at the same time, but to be used with effect from different dates.
- 4.4 As it is possible that numerous changes could be made throughout the charging methodologies for a single approved change proposal, it was felt that only those changes which would have an impact upon the next set of charges calculated would be included in the current version of DCUSA. Therefore any approved changes which do not take effect until after the next charge setting period would be held in a separate pre-release version of the charging methodologies for inclusion in the main document at the appropriate time. The following timeline diagram shows the impact of DCP 178 on the charging methodologies. (Note, in the diagram the first set of dates represent the charging year and the second set of dates relate to when charges would be published).



5 The Notice Period

- 5.1 DCP 178 proposes a 15 month notice period for the publication of DUoS tariffs. During the DCP 178 Working Group's discussions alternative notice periods were considered in light of the responses to the first DCP 178 consultation.
- 5.2 The Working Group noted that the longer the charges are locked down for the greater the step change will be when new tariffs are published and the greater the risk of over/under recovery for DNOs. The group felt that a 15 month notice period was a pragmatic solution that balanced the needs of Customers, Suppliers and DNOs. It was therefore decided that no alternative notice periods should be taken forward.

6 Interaction between DCP 178 and Industry Participant Licence Conditions

- 6.1 Paragraph 13.2 of the Standard Conditions of the Electricity Distribution Licence, which all DNOs (i.e. the licensee) must act in accordance with, states that:

"The licensee must, for the purpose of ensuring that the Charging Methodology continues to achieve the Relevant Objectives:

- (a) *review the methodology at least once every year;*
- (b) *subject to paragraph 13.4, make such modifications (if any) of the methodology as are necessary for the purpose of better achieving the Relevant Objectives.”*

(An extract from the standard licence conditions is provided as Attachment E.)

- 6.2 The Working Group considered whether DCP 178 would be inconsistent with this licence condition, both in terms of setting prices in advance and the fact that it will delay the implementation of any approved Change Proposals.
- 6.3 The Working Group noted that DCUSA Parties can raise a Change Proposal at any point during the year and the Distribution Charging Methodologies Forum (DCMF) hold an annual methodology review. DCP 178 will not impact upon this. The group also noted that there is no licence requirement to implement charging methodology changes within a certain timeframe.
- 6.4 For these reasons the view of the Working Group that DCP 178 is not inconsistent with Distribution Licence Condition 13.2. In addition, a Working Group member has suggested that that DCP 178 may support Government objectives to take all reasonable steps to ensure that domestic power price increases are kept to a minimum and to provide as much notice as possible of impending price changes.
- 6.5 As part of this consultation the Working Group is seeking your views on whether DCP 178 is inconsistent with any Licence Conditions.

7 Interaction between DCP 178 and other Charging Methodology CPs

- 7.1 A list of all current Charging Methodology CPs along with the Working Group’s view of how these will be impacted by DCP 178 is provided as Attachment F. It is the view of the Working Group that at this time no current DCUSA Use of System Charging Methodology CPs will be adversely affected by DCP 178.

8 Impact of DCP 178 on Existing DCUSA Requirements

- 8.1 The Working Group noted that the requirement in DCUSA Schedule 15 for DNOs to publish illustrative tariffs alongside the cost information as

implemented by DCP 126², may no longer be needed if DCP 178 is approved. This is because under DCP 178 Parties would have final tariffs 15 months in advance.

- 8.2 The Working Group also questioned whether the Annual Review Pack (ARP) would be required as it currently exists if DCP 178 is implemented. The ARP shows five years of tariffs, and is also used to formally communicate the CDCM inputs which require 15 months' notice. This notice would no longer be required should DCP178 be approved as all inputs would require it and these would be communicated using the CDCM, rather than the ARP. If the ARP is only showing the change of revenue for future years (years 2-5 under the current arrangements), and all other inputs would remain largely unchanged it could be questioned whether there is a benefit in maintaining the ARP model,
- 8.3 The alternative, if these obligations were to be removed from the DCUSA, is that the impact of a change of revenue for a future year could be seen by any party using the schedule 15 allowed revenue number(s) and the latest CDCM model. Instructions on how to achieve this could potentially be included within the DCUSA legal text.
- 8.4 The ARP is also currently used to communicate the three individual years worth of data for where the CDCM model input has been smoothed over a three year period, the Working Group felt that this would still be required.
- 8.5 As part of this consultation the Working Group is seeking your views on whether the illustrative tariffs within DCUSA Schedule 15 and ARP requirements should be amended under DCP 178.

9 DCP 178 – Consultation Questions

- 9.1 You are invited to respond to the following consultation questions.

No.	Question
1	The Working Group is seeking information from respondents that would aid

² DCP 126 - Require DNOs to publish and update year-ahead forecasts of DUoS tariffs

	it in quantifying the benefits and dis-benefits of DCP 178, can you provide such information? Note, this information can be provided directly to Ofgem rather than shared with the Working Group if you consider it to be commercially sensitive. ³
2	Do you have any comments on the updated DCP 178 legal text?
3	As discussed in section 4 of the consultation document, do you agree with the view of the Working Group to maintain two separate versions of the charging methodologies in those instances where change(s) are approved but will not affect charges until after the next set of charges have been published?
4	Do you agree with the Working Group's view that DCP 178 does not conflict with Distribution Standard Licence Condition 13.2?
5	Are you aware of any other Licence Conditions that DCP 178 either aids or is inconsistent with? If yes, please provide details.
6	Do you believe that the illustrative tariffs published as part of DCUSA Schedule 15 would no longer be necessary if DCP 178 is implemented? Please provide rationale.
7	Do you believe that the illustrative tariffs currently shown within the Annual Review Pack (ARP) would no longer be necessary if DCP 178 is implemented? Please indicate whether you feel that there is a need to continue to see years 2-5 even if you feel that those for year 1 are no longer necessary. Please provide rationale.
8	Do you agree with the Working Groups view that the three individual years data, which is smoothed as an input to the CDCM, needs to be shown and available either in the ARP or a similar communication? Please provide rationale.
9	Do you believe that changes to the requirements for either the illustrative tariffs as published as part of DCUSA Schedule 15 and/or the requirement on DNOs to publish an ARP, should be removed or revised as part of DCP 178 or, alternatively, should this be progressed as a separate Change Proposal?
10	Do you have any further comments?

9.2 Responses to this consultation should be submitted no later than **Tuesday, 11 March 2014.**

9.3 You can provide your response by sending the form provided as Attachment A to dcusa@electralink.co.uk. Alternatively, you can submit your responses using the online form which is available here:

https://www.surveymonkey.com/s/DCP_178

³ You can send information directly to Ofgem using the following email address:
Distributionpolicy.chargingmailbox@ofgem.gov.uk

- 9.4 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate an parts of a response that are to be treated confidentially.

10 Next Steps

- 10.1 Responses to the Consultation will be reviewed by the DCP 178 Working Group. The group will use the responses received to aid it in its development of the CP.
- 10.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 2842.

Attachments

- Attachment A – Response Form
- Attachment B – DCP 178 CP Form
- Attachment C – DCP 178 Consultation One
- Attachment D – Draft Legal Text v0.2
- Attachment E - Distribution Licence Extract
- Attachment F – Interaction of DCP 178 with Current Charging Methodology CPs