

DCUSA CHANGE DECLARATION

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

VOTING END DATE: 4 July 2014

DCP 178 - Notification Period for Change to use of System Charges	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	DISTRIBUTED GENERATOR	GAS SUPPLIER
CHANGE SOLUTION	Accept	Reject	Accept	n/a	n/a
IMPLEMENTATION DATE	Reject	Reject	Accept	n/a	n/a
RECOMMENDATION	<p>Change Solution – REJECT. In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the change solution was less than 50% in all Categories.</p> <p>Implementation Date – REJECT. In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was less than 50% in all Categories.</p>				
PART ONE / PART TWO	Part One – Authority Determination Required				

PARTY	SOLUTION (A / R)	IMPLEMENTATION DATE (A/R)	WHICH DCUSA OBJECTIVE(S) IS BETTER FACILITATED?	COMMENTS
DNO PARTIES				
Electricity North West Ltd	Reject	Reject	<p>We believe that this change proposal would reverse an Ofgem RIIO policy decision¹ which has been the basis for the submission of the DNO Well Justified Business Plans. Ofgem has already assessed and rejected an option to impose a cap and collar on allowed revenues. This change proposal imposes a zero cap and collar on charges and is thus more draconian than the cap/collar that has already been rejected by Ofgem.</p> <p>This change proposal does not better meet general objective 3 as it prevents the efficient discharge of DNO licence obligations. We have a major concern that the change proposal could result in higher financing costs for DNOs due to the uncertainty in the revenue recovered in each year. The risk of large under/over</p>	<p>We consider that this proposal is addressing the symptom of a problem rather than the cause. We support measures to reduce volatility and improve the predictability of the calculation of individual charges within the charging models. A number of proposals in this area are currently being implemented and we have not yet had the opportunity to see the benefits of these in practice.</p> <p>We also reject the implementation date of November 2014. There are a large number of change proposals that will be submitted to the Authority in 2014, and these need to be progressed as a matter of urgency. Implementing this change proposal in November 2014, will delay these changes to the detriment of our customers.</p>

¹ Ofgem Decision in relation to measures to mitigate network charging volatility arising from the price control settlement: <https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf>

			<p>recoveries will be substantially increased and this issue was cited by Ofgem in their decision document on charging volatility where they rejected the option to apply a cap/collar to allowed revenues:</p> <p><i>“We considered that there would be a cost involved both in terms of financing costs of delayed revenue collection for a NWO and the potential for investors to view NWOs as more risky investments.”</i></p> <p>There are three further fundamental issues with this change proposal:</p> <ol style="list-style-type: none"> 1. The transfer of risk from Suppliers to DNOs will lead to increased uncertainty in the revenue recovered by DNOs and could result in higher financing costs. This is contrary to General Objectives 1 & 3, and Charging Objectives 4. 2. The transfer of risk from suppliers to DNOs removes competitive 	
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			<p>pressure from this element of the risk premium and will ultimately lead to higher prices for customers. This is contrary to General Objectives 2 & 3 and Charging Objectives 1 & 2.</p> <p>3. The delay added into the charge modification process means that charges will be less cost reflective, distorting the economic signal passed to users of the network. This is contrary to General Objective 1, and Charging Objectives 3 & 4.</p> <p>The proposal is neutral in respect of General Objectives 4 & 5, and Charging Objective 5.</p>	
Northern Powergrid - Northern Electric Distribution Ltd	Accept	Accept	We agree with the working group's assessment.	As proposer of this change we recognise that there are some potential issues, however on balance we believe that all of these can be addressed and this change will provide a greater level of predictability for suppliers. All
Northern Powergrid - Yorkshire Electricity Distribution plc	Accept	Accept	General Objective 2 - The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the	

			<p>promotion of such competition in the sale, distribution and purchase of electricity</p> <p>General Objective 2 is better facilitated by ensuring increased stability and transparency within the Charging Methodology. This in turn, should increase market confidence in the tariff setting regime and encourage competition by reducing price shocks for Suppliers (both new entrants and current participants) and consumers.</p>	<p>suppliers have said that volatility can be managed if they are predictable and this change will provide that.</p>
Scottish Power - Manweb	Reject	Reject	<p>Whilst we recognise that the proposed 15 month notice period may assist suppliers, the proposal does not explicitly recognise the duty on DNOs to take all appropriate steps in setting use of system charges not to exceed allowed revenue.</p> <p>We remain concerned that there will be major risks for DNOs in fixing tariffs 15 months in advance.</p> <p>There is also a very real likelihood</p>	<p>Given the valid concerns raised by us, and other DNOs, we are concerned that the working group has not entered into more detailed dialogue with Ofgem regarding the 6% threshold.</p>
Scottish Power - Distribution	Reject	Reject		

			of wider movements in charges than where a 3 months' notice period applies, which could significantly add to year on year volatility.	
SSE - Scottish Hydro-Electric Power Distribution plc	Reject	Reject	We don't believe that DCP178 better facilitates DCUSA General Objective 2 and Charging Objective 2 because it does not address our concerns on under / over recovery of revenues and our Licence obligation to be cost reflective in setting charges. The change proposal will potentially increase volatility in tariffs and revenues, thereby increasing financial risks to SEPD/SHEPD.	DCP178, due to its notice period to effect changes, will delay the implementation of other change proposals currently in progress, and which may bring improvements to the charging methodologies.
SSE - Southern Electric Power Distribution plc	Reject	Reject		
UKPN - Eastern Power Networks	Accept	Reject	We would agree that DCUSA Objective 2 and Charging Objective 2 are both better facilitated by this proposal as it will increase short term stability in DUoS charges thereby better facilitating competition.	We propose an implementation date of 1 April 2015 for this DCP, as we have not accepted the stated implementation date due to the inconsistency with Ofgem's decision document on networks' revenue for 2015/16 (dated 19 December 2013). This document prescribes fixing of the 2015/16 revenue only at the minded to stage. Implementation of this DCP should be linked to consistency of revenue
UKPN - London Power Networks	Accept	Reject		
UKPN - South Eastern Power Networks	Accept	Reject		

				<p>finalisation for both 2015/16 and 2016/17. We believe that a sensible and timely implementation of this DCP would be 1 April 2015. This would see the 2016/17 prices set by 31 March 2015 (12 month notice) and then set prices for 2017/18 by 31 December 2015 thereby providing the 15 month notice.</p> <p>This implementation could be achieved if the DCP is given an implementation date of 1 April 2015 and Ofgem provide a direction to DNOs that 2016/17 prices must be published on or by 31 March 2015, thereby giving 12 months notice.</p>
Western Power Distribution - East Midlands plc	Accept	Accept	General Objective 2 & Charging Objective 2	n/a
Western Power Distribution - South Wales plc	Accept	Accept		
Western Power Distribution - South West plc	Accept	Accept		
Western Power Distribution - West Midlands plc	Accept	Accept		
IDNO PARTIES				

ESP Electricity Ltd	Reject	Reject	n/a	ESPE believe that this is an immature charging methodology and the number of DCPs being raised shows that there are numerous issues that need ironing out before it is in a position to be “locked down”. We are in favour of the model being locked down one day, but do not believe it is ready for that yet.
GTC	Reject	Reject	n/a	We do not believe it is acceptable that where a margin squeeze is identified that it should take such a long time for such changes to take effect.
SUPPLIER PARTIES				
RWE Npower	Accept	Accept	<p>RWE npower believe that Charging Objective 2 and General Objective 2 are better facilitated by the implementation of this change proposal and that all other objectives are neutral.</p> <p>This proposal introduces greater certainty to the market of DUoS tariffs leading to more transparency in the marketplace of costs - therefore further facilitating competition. The change proposal also protects consumers with pass-through</p>	We have written confidentially to Ofgem with further substantive detail on how DUoS is priced to customers as mentioned in the change report. We have asked them to take this into account in their decision making on DCP178.

			contracts who are otherwise exposed to the risk of substantial cost change by providing them with 15 months notice - allowing them more confidence and ability to understand the likely costs to their business.	
Scottish Power Energy Retail Ltd	Accept	Accept	DCUSA General Objectives – 2 DCUSA Charging Objectives - 2	Other than possible restricting the flow of change i.e. new tariffs, Scottish Power Energy Retail Ltd support the concept of having tariffs fixed for longer periods The proposed change will ensure more certainty over charges for a greater period for both the product valuation and budgeting/forecasting process and reduce the potential need for the internal risk premiums we currently include when evaluating product proposals. SPERL support the change and agree with the implementation date of November 2014.
SSE Energy Supply Ltd	Accept	Accept	Facilitates:- DCUSA General Objective 2 by providing better cost information. DCUSA Charging Objective 2 by providing better cost information.	n/a

GDF Suez Energy UK	Accept	Accept	No comment	None
Haven Power	Accept	Accept	<p>This CP is better facilitated by DCUSA General Objective 2; by allowing suppliers advanced notice that allows better control over their pricing decisions, which enables them to compete competitively in the market.</p> <p>This objective also enables suppliers to factor in price increases which limit mid-year price shocks to customers.</p>	n/a
Gazprom Energy	Accept	Accept	<p>Objective 2 of both the DCUSA General Objectives and the DCUSA Charging Objectives are better facilitated by this change. They will facilitate greater competition in the supply of electricity as suppliers will have greater certainty of DUoS costs. This will be of benefit to customers who in turn, can have greater certainty of their electricity costs.</p>	n/a
EDF Energy	Accept	Accept	<p>DCP178 better facilitates DCUSA General objective 2 and DCUSA charging objective 2 in that it encourages effective competition for Suppliers by setting out the</p>	<p>Suppliers have seen increased volatility in DUoS charges since the introduction of the CDCM charging methodology. DCP178 will provide certainty over DUoS charges for a 2</p>

			DUoS charges 15 months ahead of time. This enables Suppliers to compete on the elements of a supply contract that they can control rather than the element they cannot.	year period allowing suppliers to price contracts with confidence this in turn provides certainty to customers that their bills are not going to change within this period. EDCM customers are predominantly priced on a pass through basis. DCP178 will encourage all-inclusive contracts for these customers, which have not been available since prior to the introduction of the EDCM charging methodology.
DISTRIBUTED GENERATOR PARTIES				
N/A				
GAS SUPPLIER PARTIES				
N/A				