

## 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 178
Date of submission	11/06/2013
Attachments	None
<b>Originator Details</b>	
Company Name	Northern Powergrid
Originator Name	Pat Wormald
Category	DNO
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Phone Number	01977 605934 Mob 07894-399074
<b>Change Proposal Details</b>	
CP Title	Notification period for change to use of system charges
Impacted parties	DNOs, IDNOs, Suppliers and Generators
Impacted Clause(s)	Section 19.1 and paragraphs 43 and 49 of schedule 16 of the DCUSA
Part 1 / Part 2 Matter	Part 1
Related Change Proposals	None identified
<b>Change Proposal Intent</b>	
The intent of this change proposal is to amend the notice period in section 19.1 of DCUSA for finalising tariffs from 40 days to 15 months. Changes may also be required to schedules 16 to 18.	
<b>Business Justification and Market Benefits</b>	
<b>Background</b> Currently DNOs have to provide 3 months' notice of a change of charges under their licence and follow this with 40 days' notice under DCUSA. Ofgem stated in their decision on charging volatility (October 2012) changes to restrict the frequency of intra-year charges to once a year and recognised the risk on the DNOs under/over-recovery adjustment. They also suggested that parties may look to bring changes to the notice periods given to suppliers. Link to:- <a href="#">Ofgem decision on charging volatility</a> October 2012. One option would be to align the notice period in the licence and DCUSA to 3 months, meaning there would be no opportunity to change the charges published in December, where currently these can be updated with 40 days' notice in February.	

This proposal goes one step further and provides 15 months' notice.

This change proposal seeks to provide energy suppliers with more certainty over the future use of system (UoS) charges that they will face, by notifying UoS charges a year in advance of current timescales, thereby providing 15 months' notice, rather than the current 3 months, ahead of the date when the revised prices will take effect.

Suppliers have indicated that they typically offer 18 month to two year contacts (normally in October and [to some extent] April) and that they need to price some risk premiums into the products that they offer to end users to cover uncertainty.

In some cases, for larger end users, they deal with this is by including pass-through arrangements of UoS charges in their offering.

**Listed below are some of the potential benefits**

- Suppliers will have between 15 and 27 months certainty of what UoS charges will be, rather than the current 3 to 15 months;
- Tariffs will be locked down 15 months in advance;
- End Users will potentially face lower charges from suppliers, as the supplier would not have to include such high risk premiums into their products as there will be more certainty on the UoS element of their charge; and
- All DNO's have to adopt this approach, hence maintaining commonality.

**Listed below are some of the potential risks**

- The timeline for the implementation of future DCUSA change proposals will need to be extended and the implication on charging methodologies considered;
- The limits on over/under-recovery in the licence would need to be reviewed and the penalty interest calculations potentially removed, or at least reduced, before this can be implemented in order not to increase the risk exposure on the DNOs; and
- The DCUSA charging methodology needs to be reviewed to make sure that any reference to using input data from certain time periods is tied in to the date of publication of charges not the implementation of the prices.

Revising the DCUSA notice period for final charges maintains consistency amongst all DNOs and introduces a clear set of rules within DCUSA. In addition there have already been a number of changes to the DCUSA that require DNOs to provide 15 months' notice period for changes to certain methodology inputs so there is a precedent.

Previously DCPs 136 and 150 proposed locking down certain inputs and providing 15 months' notice of any such changes to the models. These were both approved by Ofgem, on the basis that the changes facilitate greater predictability of charges and the impact on cost reflectivity would be relatively minor. Ofgem further stated that these changes should improve the ability of suppliers to forecast changes in DUoS charges.

Given that many of the inputs are already locked down, there is potentially no further reduction in cost reflectivity. Suppliers would not have to include such high risk premiums into their products as there will be more certainty on the UoS element of their charge, meaning end users will potentially face lower charges.

Having considered a number of options (see the attached discussion paper), the proposed solution is to change the notice period in section 19.1 of DCUSA from the current 40 days to 15 months; this is by far the easiest and cleanest way of achieving the objective, and introducing a clear set of rules within DCUSA has the added advantage over the other options, considering that it would also maintain

consistency across the industry.

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

Proposed changes to the legal text attached to clause 19.1 and clauses 43 and 49 of schedule 16.

It would also be worth the working group considering whether an addition clause should be inserted at the beginning of Schedules 16, 17 and 18 along the lines of 'All inputs to this charging methodology need to be confirmed and used in the DUoS charges as published under clause 19.1'.

A further change could also be considered to schedule 16 to remove the additional wording which was made as a result of DCP136 and DCP150 being approved restricting the updating of certain inputs (but not others); this should avoid any unnecessary confusion.

#### **Proposed Implementation Date**

In December 2013 in order that suppliers can benefit from the first charging year under RIIO-ED1, as DNOs would publish both April 2014 and April 2015 charges in December 2013. Alternatively December 2014 for which DNOs would publish both April 2015 and April 2016 charges in December 2014.

#### **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"/>            |
| Other     | <input type="checkbox"/>            |
| None      | <input checked="" type="checkbox"/> |

If other please specify

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

Changes will be required to the over / under recovery positions defined in the Licence, to ensure that the penalty increase calculations do not significantly increase the risk exposure on DNOs as a result of this change.

#### **Environmental Impact**

None identified

#### **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.

**Rationale for better facilitation of the DCUSA Objectives identified above**

General Objectives:

Ensuring increased stability and transparency within the Charging Methodology should increase the market confidence in the tariff setting regime and encourages competition by reducing price shocks for both new entrants and current participants.

**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.

<b>Rationale for better facilitation of the DCUSA Objectives identified above</b>
<p><u>Charging Objectives:</u></p> <p>Ensuring increased stability and transparency within the Charging Methodology. This increases market confidence in the tariff setting regime and encourages competition by reducing price shocks for both new entrants and current participants.</p>
<b>Has this issue been discussed at any other industry forums? If so please specify and provide supporting documentation</b>
<p>Other options have been discussed at MIG resulting in a working group being established. A number of DNO's, including both Northern Power Grid and UK Power Networks have spoken about providing more notification to customers (suppliers) as part of the RIIO-ED1 supplier workshops.</p>

## **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)

<b>Ref</b>	<b>Data Field</b>	<b>Guidance</b>
<b>1</b>	<b>Attachments</b>	Append any proposed legal text or supporting documentation in order to better support / explain the CP.
<b>2</b>	<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.
<b>3</b>	<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. 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).</p>
<b>5</b>	<b>Proposed Implementation Date</b>	The Change can be implemented in February, June, and November of each year.
<b>6</b>	<b>Consideration of Wider Industry Impacts</b>	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.

<b>7</b>	<b>Environmental Impact</b>	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> .
<b>8</b>	<b>Confidentiality</b>	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
<b>9</b>	<b>DCUSA General Objectives</b>	Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.
<b>10</b>	<b>Rationale for DCUSA Objectives</b>	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.
<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.

## Appendix 1

### Propose draft legal text

1. In terms of changing the notice period in DCUSA it is section 19.1 that will need to be amended. A red lined version of the proposed changes is shown below - the original text is an extract from version 5.8 of DCUSA which was published on 1 April 2013.

*19.1 The User shall pay to the Company in respect of services provided under this Agreement (and under the agreements referred to in Clause 19.2) the charges set out in the Relevant Charging Statement (save where the Company is the Payor, in which case the Company shall pay such charges to the User). The Company may vary such charges at any time by giving the requisite period of written notice to the User (where the requisite period of notice is the period specified in the Company's Relevant Charging Statement or, where no such period is specified, ~~40 days~~ 15 months). Notwithstanding that the Company may vary such charges at any time the Company shall use reasonable endeavours to: (1) vary such charges no more than two times per year: and (2) vary such charges with effect from 1st April or 1st October. Such charges and any variations are and will be calculated in accordance with the provisions of the Relevant Charging Statement.*

The final sentence of the extract above will also need to be removed when Ofgem write into the licence that DNOs are limited to one tariff change per year.

2. In addition to the above the following paragraphs in schedule 16 of DCUSA also need to have changes considered in order to provide additional clarity.

*43. In determining the load characteristics of each category of demand user the DNO Party will use reasonable endeavours to analyse meter and profiling data received for the most recent 3 year period, ~~at the time of setting charges for the relevant charging year~~, for which data are available in time for use in the calculation of charges. The three elements of load characteristics – Load Factors, Coincidence Factors, and the estimated proportion of units recorded in each relevant time pattern regime that fall within each distribution time band – will be calculated individually for each of the 3 years and a simple arithmetic average will be calculated to be used in tariff setting.*

*49. The peaking probability represents the probability that an asset at that network level would experience maximum load during that distribution time band. In deriving peaking probabilities the DNO Party will use reasonable endeavours to use the most recent 3 year period, ~~at the time of setting charges for the relevant charging year~~, for which information is available in time for use in the calculation of charges. Peaking probabilities will be derived individually for each of the 3 years and a simple arithmetic average will be calculated to be used in tariff setting.*