



DCUSA Consultation

DCP 169 - Seasonal Time of Day (SToD) HH Metered
Tariffs in the CDCM

1 PURPOSE

- 1.1 This document is a consultation issued to all Distribution Connection and Use of System Agreement (DCUSA) Parties, Ofgem and other interested parties seeking industry views on DCP 169 'Seasonal Time of Day (SToD) HH Metered Tariffs in the CDCM'.
- 1.2 Respondents are invited to consider the proposed drafting set out as Attachment 1 and submit comments using the form attached as Attachment 2 to DCUSA@electralink.co.uk by **9 September 2015**.
- 1.3 This is the second consultation to be issued in relation to DCP 169. The first consultation was issued in July 2013.

2 DCP 169 – 'Seasonal Time of Day (SToD) HH Metered Tariffs in the CDCM'

- 2.1 Currently the CDCM recovers the revenue for Half Hourly (HH) metered units through the use of three unit rates which are applied on a 'Time of Day' (ToD) basis. However the network peaks faced by Distribution Network Operators (DNOs) are dramatically impacted by the time of year as well as the time of day. As a result the use of ToD tariff structures could be seen by some DNOs as not fully reflecting the costs which they incur. Similarly customer's use of the network might be seasonal and their charges will not currently reflect the times that they use the network.
- 2.2 DCP 169 has been raised by UK Power Networks and seeks to introduce seasonal time of day (SToD) tariffs for HH customers. The Change Proposal (CP) form is provided as Attachment 3 to this document.
- 2.3 Since DCP 169 was originally raised a number of further changes to the charging methodologies have been approved and implemented. One of these, DCP 179 has introduced two new 'HH Aggregate' tariffs which introduce the potential for Red, Amber and Green time bands for all Customers (including Domestic), which widens the impact of this DCP from just traditional HH Customers as originally envisaged, to eventually all Customers, once the industry moves away from traditional SSC/TPR arrangements.

3 WORKING GROUP ASSESSMENT

- 3.1 The DCP 169 Working Group is comprised of representatives from Suppliers, Distributors and Ofgem. Meetings are held in open session and the documents of each meeting are available on the DCUSA website – www.dcusa.co.uk.

3.2 **Why Move to SToD Tariffs?**

- 3.2.1 The Working Group noted the proposer's view that the introduction of SToD tariffs will improve the cost reflectivity of Distribution Use of System (DUoS) tariffs. The majority of Working Group members agree that in principle the introduction of SToD tariffs should improve cost reflectivity. However, Working Group members expressed concern that the introduction of SToD tariffs for customers could increase volatility and cautioned that any increase in cost reflectivity needs to be balanced against this increase in volatility.
- 3.2.2 The use of SToD tariffs would benefit those customers that do not have their peak demand during the winter. For example, farmers using grain driers in the summer will currently attract the 'red' unit rate when they are not necessarily contributing to a network peak. As part of this consultation the Working Group is seeking views on whether there may also be an opportunity for customers to further demand manage as a result of the implementation of Seasonal Time of Day Tariffs.

3.3 **Interaction with other DCUSA Change Proposals**

- 3.3.1 There are several other CPs that interact with each other, however, this CP has been taken in isolation.
- 3.3.2 One CP which could have a significant impact would be DCP 228 (Revenue Matching in the CDCM), which proposes to apply the same absolute p/kWh to the calculated pre-scaled unit rates for the purposes of revenue matching. This would replace the existing approach where the majority of the scaling is applied to the red/day unit rate.
- 3.3.3 The Working Group noted that whilst they support the principle of introducing SToD tariffs, there may be merit in waiting until DCP 228 has been concluded before considering such a change.

- 3.3.4 As part of this consultation, you are invited to provide your views as to whether DCP 169 should be progressed regardless of the status of other DCUSA CPs.

3.4 Impact on the Annual Over/Under Recovery Position (K Factor)

- 3.4.1 Working Group members have expressed concerns that DCP 169 would result in an increased proportion of DNOs' revenue coming from the 'peak' time band over the months of the year when that rate would apply. There would therefore be a greater risk of over/under recovery of revenue. This over/under recovery of revenue would be recovered in future years which under RIIO-ED1¹ is now subject to a lag of two years, thus the K factor would become more volatile creating greater instability in the recovery of allowed revenue for future years.
- 3.4.2 This will potentially be the case regardless of whether or not DCP 169 is implemented in conjunction with DCP 228 or not. However, it is particularly of concern if DCP 228 is not implemented, as a larger proportion of DNOs' revenue would come in through the peak time band under the current methodology for revenue matching (scaling).

3.5 Application of SToD Tariffs

- 3.5.1 The Working Group discussed the CP and noted that the proposed DCP 169 legal text, as set out in the CP form, has been written in such a way that it would be optional for DNOs to implement the change.
- 3.5.2 The group discussed whether the implementation of SToD tariffs should be optional. Some Working Group members highlighted their concerns that it may cause confusion if there were different approaches across DNOs. It was also noted that it would go against the principle of the Common Distribution Charging Methodology (CDCM) if DNOs were to be permitted to use different approaches.
- 3.5.3 The group, therefore, agreed that DCP 169 should seek to make SToD tariffs mandatory for all DNOs. The DCP 169 legal text was updated accordingly and is provided as

¹ The RIIO (Revenue = Incentives + Innovation + Outputs) -ED1 price control sets incentives for providing a sustainable energy sector, deliver key outputs and innovate for the benefit of consumers and how the DNOs earn their associated revenue. RIIO-ED1 will run from the 01 April 2015 to 31 March 2023.

Attachment 1.

3.6 Whole Day or Whole Month Time bands

- 3.6.1 With regards to defining the time periods for which SToD tariffs would be applied, the Working Group considered whether 'whole months' or 'whole days' should be allowed. The main difference is that if 'Whole Days' were allowed then bank holidays could be excluded from the other rates which apply throughout December for that day of the week. This wouldn't be possible if ONLY whole months were allowed, as all days in a given month would be treated in the same way. As part of this consultation the Working Group is seeking views on whether the time-bands should be 'whole day' or 'whole month'.

4 IMPACT OF DCP 169 ON THE CDCM MODEL

- 4.1 It is the view of the Working Group that if the use of SToD tariffs is mandatory then no change to the CDCM model would be required. The model takes the number of hours in each time band as an input and if all DNOs apply the change then the current red, amber and green input fields could be used to enter this information into the model.

5 ENVIRONMENTAL IMPACT

- 5.1 The Working Group agrees that the environmental impact of DCP 169 is negligible and, therefore, no environmental impact analysis is required on the implementation of this CP.

6 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

- 6.1 The Working Group has discussed DCP 169 against the DCUSA Objectives and agreed that the following DCUSA Objectives are impacted by this CP.
- General Objective One - The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
 - General Objective Three - The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

- Charging Objective Three - 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
- Charging Objective Four - 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

6.2 The group agrees that in principle the introduction of SToD tariffs will improve cost reflectivity. However, in practice the group is concerned that the current method of revenue matching (scaling) within the CDCM model may result in less cost reflective tariffs should SToD tariffs be introduced without a revised approach to scaling.

6.3 The Working Group is of the opinion that DCP 169 would be more likely to better facilitate the DCUSA Objectives if it were to be implemented alongside or following DCP 228. The implementation of DCP 228 would spread scaling more appropriately across the tariff elements, thus ensuring that the tariff differential between the time bands is maintained when DCP 169 is implemented. However, the group has not provided an assessment of DCP 169 against the DCUSA Objectives on a combined DCP 169/DCP 228 basis as DCP 169 must be considered on its own merit.

6.4 The impact of DCP 169 will be assessed once the outcome of DCP 228 is known. A further DCP 169 consultation will then be issued inviting comments from industry participants on this impact. An Ofgem decision on DCP 228 is expected on 16 September 2015.

6.5 Some Working Group members felt that it was important for the proposer and other DNOs to demonstrate in a quantitative manner why DCP 169 provided a more effective cost reflective solution. In particular the Working Group want to understand what the benefits to the customer are from this change.

7 LEGAL DRAFTING

7.1 The proposed legal drafting for DCP 169 is provided as Attachment 1. This legal drafting would make it mandatory for DNOs to use SToD tariffs for HH customers.

8 IMPLEMENTATION

8.1 The proposed implementation date for DCP 169 is 1 April 2018.

9 CONSULTATION

9.1 The Working Group is seeking views on the below questions:

1. Do you understand the intent of the CP?
2. Are you supportive of the principles established by this proposal?
3. Are there any unintended consequences of this proposal?
4. Do you have any comments on the proposed legal text?
5. Do you agree that it should be mandatory for all DNOs to implement SToD tariffs should DCP 169 be approved?
6. Should DCP 169 adopt a 'whole day' or 'whole month' principle (i.e. can a time band end in the middle of the month or should it exist for whole months)?
7. Should the STOD period have to be consistent across all types of customers (EDCM and CDCM)?
8. Do you believe that DCP 169 should be progressed regardless of the status of DCP 228 or an alternative change to the revenue matching arrangements?
9. Do you believe that DCP 169 will make tariffs more cost reflective?
10. The Working Group believes no model amendments are required to implement DCP 169. Do you agree?
11. Do you believe that the implementation of DCP 169 will create greater instability in the recovery of allowed revenue and cash flow due to seasonality?
12. Do you believe that there is an opportunity for customers to further demand manage as a result of the implementation of SToD Tariffs?
13. Do you feel that Domestic customers should be exempt from the changes made by DCP 169?
14. What consumer benefits do you expect to occur as a result of DCP 169?
15. Are there any alternative solutions or matters that should be considered?
16. Are you supportive of the proposed implementation date of 1 April 2018?

17. Please state any other comments or views on the Change Proposal.

9.2 Responses should be submitted using Attachment 2 to DCUSA@electralink.co.uk no later than **9 September 2015**.

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

10 NEXT STEPS

10.1 Following the end of the consultation period the responses will be reviewed by the Working Group. The Working Group will then determine the next steps for the CP.

10.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to DCUSA@electralink.co.uk or telephone 020 7432 2842.

11 ATTACHMENTS

Attachment 1 – Proposed Legal Text

Attachment 2 – Response Form

Attachment 3 – DCP 169 Change Proposal Form