



## **DCUSA Change Report**

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DCP 136 - NOTICE PERIOD FOR ASSET COST  
CHANGES IN THE CDCM

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 136 - Notice Period for Asset Cost Changes in the CDCM.
- 1.2 The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.3 Parties are invited to consider the proposed amendments (Appendix B) and submit their votes using the form attached as Appendix D to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **08 November 2012**.

## 2 BACKGROUND

- 2.1 DCP 136 has been raised by British Gas following the work of the DCMF MIG Supergroup. The CP seeks to improve the predictability of DUoS charges by introducing a requirement on DNOs to provide 15 months' notice of any change to the asset related cost tables of the Common Distribution Charging Methodology (CDCM). The proposal also intends to improve stability in DUoS charges by restricting any changes to the costs in these tables to a 1 April tariff change.
- 2.2 Prior to the submission of DCP 136, the DCMF MIG Supergroup performed analysis on the various items which this DCP now wishes to provide 15 months notice of change for. This analysis looked at how the actual costs of the 500MW model and service models have changed since the CDCM has been introduced and the impact this has had on tariffs and typical bills. The analysis also looked at how tariffs would change if the costs of the 500MW model and service models were held constant in real terms and only uplifted for inflation each year.
- 2.3 The conclusions reached by that analysis were that (1) these items can cause unpredictable volatility in tariffs and (2) whilst uplifting the costs by inflation each year might make that volatility more predictable, it was not clear that this would maintain an appropriate degree of cost reflectivity. Therefore the DCMF MIG Supergroup concluded that DCP 136 should be raised which allowed DNOs to update the asset costs each year but which obliged them to provide 15 months notice of any changes in these costs.

- 2.4 This would allow DNOs to capture the changes in costs on an annual basis whilst providing Suppliers and customers with 15 months notice of the impact of these changes in cost.
- 2.5 Appendix E contains the DCMF MIG Supergroup analysis for each DNO area.

### **3 DCP 136 – WORKING GROUP CONSIDERATIONS**

- 3.1 The DCUSA Panel established a Working Group to assess DCP 136. The group comprised of Supplier, Distributor and Ofgem representatives. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – [www.dcusa.co.uk](http://www.dcusa.co.uk).
- 3.2 The Working Group agreed that a consultation should be issued seeking industry feedback on the CP.

### **4 DCP 136 – CONSULTATION**

- 4.1 Eleven DCUSA Parties responded to the DCP 136 consultation. The Working Group reviewed each of the responses and concluded that all of the respondents understood the intent of DCP 136.
- 4.2 All respondents were supportive of the principles of the CP. However, one respondent noted that the CP would benefit from the inclusion of an exceptional circumstances clause. The working group noted that under any exceptional circumstances the DNO would be able to apply for a derogation from the DCUSA and believes that this provides a solution to the issue raised, therefore, an exceptional circumstances clause is not required.
- 4.3 The Working Group noted that the majority of respondents agreed that the CP would better facilitate the DCUSA General and Charging Objectives.
- 4.4 A summary of the collated consultation responses and the Working Group's comments to these responses is attached as Appendix C.

### **5 DCP 136 – WORKING GROUP CONCLUSIONS**

- 5.1 The Working Group concluded that all respondents to the consultation understood the intent and were supportive of the principles of DCP 136.
- 5.2 The Working Group noted that there was concern that the 15 month time period may be excessive and will prevent new data that becomes available

from being used which will reduce cost reflectivity. The majority of consultation respondents felt that 15 months was appropriate and the Working Group was in agreement with this.

- 5.3 The Working Group, following a review of the consultation comments discussed the addition of a clause which would allow changes to the asset costs between indicative and final tariff setting in the event of a “manifest error”. The group discussed the difficulties of defining manifest error. It was suggested that it may be more pragmatic not to include a manifest error clause in the legal text. In the circumstance where there was a manifest error, DNOs would be free to seek a derogation.
- 5.4 It was also noted that even if a clause on manifest errors was included to permit errors to be corrected between indicative and final tariff, if an error was identified after final tariffs the DNO would still need to go down the derogation route.
- 5.5 One consultation respondent had suggested that an exceptionality clause should be included. The Working Group concluded that an exceptionality clause would also be difficult to define and again, in the event of any such exceptional circumstance, the DNO would be free to seek a derogation.
- 5.6 A consultation respondent noted the potential for error with the step change in tariffs likely to occur when the new 500MW model is implemented (DCP 133). The group noted that DCP 133 will involve an impact assessment and consultation. Any errors are likely to be picked up during this period, therefore reducing the risk that tariffs will be impacted by an error.
- 5.7 The Working Group agreed that the legal text should not be updated to include either a manifest error clause or an exceptionality clause.

## **6 PROPOSED LEGAL TEXT**

- 6.1 The draft legal text has been reviewed by Wragge & Co and is attached as Appendix B.

## **7 EVALUATION AGAINST THE DCUSA OBJECTIVES**

- 7.1 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 136:

- DCUSA General Objective 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’. The CP will improve the predictability of important inputs to the CDCM and therefore improve the predictability of DUoS tariffs.
- DCUSA General Objective 3 – ‘The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences’. This issue was raised at the annual review meeting of the CDCM. Therefore the CP will satisfy the licence obligation on DNOs to review the charging methodology and bring about changes to improve the methodology.
- DCUSA Charging Objective 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.’ This issue was raised at the annual review meeting of the CDCM. Therefore the CP will satisfy the licence obligation on DNOs to review the charging methodology and bring about changes to improve the methodology.
- DCUSA Charging Objective 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).’ The CP better meets this objective by improving the predictability of important inputs to the CDCM and therefore improving the predictability of DUoS tariffs.

## 8 IMPLEMENTATION

- 8.1 Subject to Authority consent, DCP 136 will be implemented as soon reasonably practicable following Authority consent. This is to ensure that the CP is implemented before final charges in 2013.

## 9 PANEL RECOMMENDATION

- 9.1 The DCUSA Panel approved the DCP 136 Change Report at its meeting on 25 October 2012.
- 9.2 The timetable for the progression of the Change Proposals is set out below:

Activity	Date
Change Report issued for voting	25 October 2012
Voting closes	08 November 2012
Change Declaration	09 November 2012
Authority Consent	14 December 2012
CP Implemented	As soon as reasonable practicable following Authority consent.

## 10 APPENDICES:

- Appendix A – DCP 136 Change Proposal
- Appendix B - Proposed Legal Drafting
- Appendix C – DCP 136 Consultation Documents
- Appendix D - DCP 136 Voting Form
- Appendix E – DCP 136 Analysis performed by DNOs