



DCUSA Consultation

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

1 PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors, 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) the Authority.
- 1.2 This document is a consultation issued to all DCUSA Parties and the Authority in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 126 'Require DNOs to publish and update year-ahead forecasts of DUoS tariffs'.
- 1.3 Parties are invited to consider the proposed drafting set out as Attachment A and submit comments using the form attached as Attachment B to DCUSA@electralink.co.uk by **17 August 2012**.

2 DCP 126 – REQUIRE DNOs TO PUBLISH AND UPDATE YEAR-AHEAD FORECASTS OF DUOS TARIFFS

- 2.1 DCP 126 has been raised by Haven Power Ltd and seeks to place an obligation on DNOs to publish year-ahead forecasts of DUoS charges on a quarterly basis. The forecasts would be specified to the same level of detail as current notifications of tariff charges, and each update would also set out commentary on any noteworthy movements.
- 2.2 The Change Proposal is provided as Attachment C to this document.

3 WORKING GROUP ASSESSMENT

- 3.1 The DCP 126 Working Group comprises Supplier and Distributor Parties. Meetings are held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.
- 3.2 The Working Group has reviewed each of the inputs to the Common Distribution Charging Methodology (CDCM) and EHV Distribution Charging Methodology (EDCM) and discussed whether there would be benefit in reviewing each on a quarterly basis. A list of the inputs along with the Working Group's observations is provided in Attachment D.

- 3.3 During its review of the CDCM inputs, the Working Group noted that some of the inputs had not changed in recent years and agreed that a Change Proposal should be raised seeking to introduce a 15 month minimum notice period for changes to them. The aim of this proposal would be to reduce future volatility and it is being progressed outside of the Working Group. Details of the impacted CDCM inputs can be found in Attachment D.
- 3.4 The Working Group also noted that variances in volume forecasts are one of the main drivers of volatility in the CDCM and one of the reasons why a mid-year price change might be considered. The group agreed that there would be limited merit in reviewing volume forecasts on a quarterly basis as the review would cover a period potentially up to 18 months in advance and volumes are closely linked to weather conditions, which would not be known so far in advance.
- 3.5 The Working Group agreed that the impact of volume forecasts on CDCM volatility should be considered by the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG). The DCMF MIG subsequently discussed volume forecasts at its meeting on 14 June 2012 and agreed that this area should be reviewed at a later stage in the year, following the work of the HH/NHH subgroup to develop changes to the CDCM Model.
- 3.6 After reviewing the CDCM and EDCM inputs, it was the view of the DCP 126 Working Group that only the Transmission Exit Charges and Allowed Revenue in the CDCM model could be reviewed and possibly updated more than annually.
- 3.7 The Working Group discussed whether it would be beneficial to publish a full set of illustrative tariffs on a quarterly basis using revised forecasts for Transmission Exit Charges and Allowed Revenue. The group noted the following arguments:

Arguments in Support of Publishing Quarterly Illustrative Tariffs

- Tariff information is important to all Suppliers and providing illustrative tariffs would be useful to Suppliers and other market participants as it would support them in determining likely charges;

- The information would provide the latest view (i.e. the DNO's) of future tariffs based on up to date information for Allowed Revenue and Transmission Exit charges;
- Tariff level information is important to all Suppliers, but particularly those not operating across all market sectors. There have been significant (double digit %) increases and decreases in individual charges which are masked by a single % increase / decrease at a more aggregated level;
- Additional information would support that already provided as part of the DCP066 quarterly statement;
- All market participants would have the same information;
- DCP126 would provide a framework for early indication of possible future charge levels and would increase the level of information shared by DNOs with Suppliers and other interested parties. This would support increased engagement between DNOs & Suppliers as part of RIIO; and
- The information could allow better identification of trends. For example, in movements in particular elements of DUoS charges for particular types of customer or in particular geographic areas.

Arguments against Publishing Quarterly Illustrative Tariffs

- The process of carrying out a quarterly review will be resource intensive for DNOs. Some members of the Working Group expressed concerns that the resources required by DNOs to produce illustrative tariffs may be greater than the benefits that will be seen as a result of them.
- For the EDCM, a significant proportion of the inputs are from the CDCM and for the remainder there is likely to be more impact if a customer connects in the same area than if any of the other inputs change. There would therefore be limited value in carrying out a quarterly review of the inputs.
- The quarterly illustrative tariffs will not resemble the prices published in the indicative and final tariffs, as other model inputs will be revised for the calculation of charges, which will not be known at an earlier point in time.

This could cause significant confusion for those using the illustrative tariffs.

- 3.8 The Working Group also expressed concerns that providing quarterly forecasts of inputs that could be revised along with sets of illustrative tariffs, alongside the usual October and April indicative and final tariffs might see too many possible charges published by DNOs and could in fact confuse parties instead of providing greater clarity.

4 Interaction with Other Industry Changes

- 4.1 The Working Group noted that DCP 126 is closely linked with a number of other potential industry changes. The CP seeks to limit unforeseen tariff volatility by providing more frequent information, whilst the DCMF MIG super group has raised a number of Change Proposals in relation to volatility, namely:

- DCP 131- Improving the predictability and transparency of CDCM inputs
- DCP 132 - Improving the transparency of CDCM target revenue
- DCP 134 - Implementation of notice in DCUSA for changes to distribution timebands
- DCP 135 - Clarification of CDCM Changes
- DCP 136 - Notice period for Asset Cost Changes in the CDCM

- 4.2 The Working Group also noted that a similar change has been raised with National Grid regarding Transmission Network Use of System (TNUoS) Charges. CMP 206 'Requirement for National Grid Electricity Transmission to provide and update year ahead TNUoS' is currently out for consultation, with responses requested by 27 July 2012. The National Grid consultation document can be found here:

<http://www.nationalgrid.com/NR/rdonlyres/CC7BD5E7-AF1F-4FEB-8AFB-1E12D1CCD493/54644/Stage02CMP206WorkgroupConsultationVersion10.pdf>

5 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

- 5.1 The Working Group has identified that DCUSA General Objective Two¹ and Charging Objective Two² are better facilitated by DCP 126, as the provision of illustrative tariffs on a quarterly basis will allow market participants to improve the accuracy of their own forecasting and assessments, which should lead in turn to more informed business plans and pricing strategies.
- 5.2 Users would also face less uncertainty with respect to future changes in use of system charges and so be exposed to reduced risk than at present.

6 LEGAL DRAFTING

- 6.1 The proposed legal drafting to clause 35A as well as the proposed changes to schedule 15 is attached as Appendix A.

7 IMPLEMENTATION

- 7.1 The proposed implementation date for DCP 126 is 31 January 2013, in order that the new requirement could be commenced with regard to forecasts for the 2014-15 charging year.

¹ 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.

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).

8 CONSULTATION

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

- Do you understand the intent of the CP?
- Are you supportive of the principles of the CP?
- It was the view of the Working Group that only the Transmission Exit Charges and Allowed Revenue can be reviewed and possibly updated more than annually. Do you see a benefit in seeing these shown as a full set of illustrative tariffs? If you do, please provide supporting information.
- The latest view of Allowed Revenue and Transmission Exit is already provided within DCP066, do you think it would be more appropriate for Suppliers to update the latest CDCM model as required to obtain tariffs or is it more appropriate for DNOs to calculate the tariffs? Please provide supporting information.
- The Working Group considered all of the inputs to the charging models, but concluded that it was only practical to review Allowed Revenue and Transmission Exit Charges on a quarterly basis for the purpose of this DCP. Do you believe that any other inputs should be considered? If so, please provide details of the inputs with supporting information.
- DNOs: Please can you provide an estimation of the likely resources required to review Transmission Exit Charges and Allowed Revenue and calculate illustrative tariffs on a quarterly basis.
- Although the Working Group considered volume forecasts, it was felt that at this time it could not be dealt with as part of the CP and instead is being considered at the DCMF MIG. Do you agree with this approach? Please provide supporting comments.
- Some of the Working Group considered that providing quarterly forecasts of inputs that could be revised along with sets of illustrative tariffs, alongside the usual October and April indicative and final tariffs might see too many possible

charges published by DNOs and could in fact confuse parties. Do you agree with this view? Please provide supporting information.

- The Working Group notes that RIIO final Allowed Revenues will not be known until November 2014. For the purposes of this DCP, what do you think would be the most appropriate means of forecasting Allowed Revenue prior to the RIIO Allowed Revenues being determined? For instance, latest internal view, 2014/15 uplifted by RPI or latest published business plan view, etc... Please provide supporting information.
- DCP 136 'Notice period for asset cost changes in the CDCM' has been raised seeking to require DNOs to provide fifteen months notice prior to any change of inputs before there is any impact upon DUoS Charges. If DCP 136 were not to be implemented do you believe that the inputs referred to in the change proposal should be considered as part of this DCP? Please provide relevant supporting information on how and why.
- In addition to those described in Section 4 above, are you aware of any wider industry developments that may impact upon or be impacted by this CP? If so, please give details, and comment on whether the benefit of the change may outweigh the potential impact.
- Do you consider that the proposal better facilitates the DCUSA Objectives? Please provide supporting information.
- Do you have any comments on the proposed legal text?
- Are you supportive of the proposed implementation date of 31 January 2013?
- Are there any alternative solutions or matters that should be considered by the Working Group?
- Do you have any further comments on DCP 126?

8.2 Responses should be submitted using Attachment B to DCUSA@electralink.co.uk no later than **17 August 2012**.

8.3 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.

9 NEXT STEPS

9.1 Following the end of the consultation period the responses will be reviewed by the Working Group. The Working Group will finalise the drafting of the CP and submit its final report to the Panel. Following Panel approval, the Change Proposal will be issued to all DCUSA Parties for voting and, following the vote, issued to Ofgem for final determination.

9.2 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 3011.

10 ATTACHMENTS

Attachment A – Proposed legal text

Attachment B – Response form

Attachment C – DCP 126

Attachment D – EDCM and CDCM inputs