



DCUSA Change Report

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

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 126 - Require DNOs to publish and update year-ahead forecasts of DUoS tariffs.
- 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 no later than **11 January 2013**.

2 BACKGROUND

- 2.1 DCP 126 has been raised by Haven Power Limited. The CP seeks to introduce a requirement on DNOs to publish accurate year-ahead forecasts of DUoS charges, which would also be updated at regular intervals during the year. The proposer believes that this will provide network users with greater clarity over future DUoS charges.

3 DCP 126 – WORKING GROUP CONSIDERATIONS

- 3.1 The DCUSA Panel established a Working Group to assess DCP 126. 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.
- 3.2 The Working Group 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. It was concluded that only the Transmission Exit Charges and Total Allowed Revenue in the CDCM model could be reviewed and possibly updated more than annually.
- 3.3 The Working Group agreed that, whilst only the Transmission Exit Charges and Total Allowed Revenue could be reviewed and possibly updated more than annually, the legal text should be draft in such a way that it does not preclude DNOs from updating other inputs if appropriate. It was noted that changes in policy may be one reason why it may be appropriate to update

other inputs.

- 3.4 The group noted that variances in volume forecasts are one of the main drivers of volatility in the CDCM. However, it was 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.
- 3.4 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 Total 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 Total 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 digit % 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.

3.5 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 DCP 126 – CONSULTATION

4.1 The Working Group issued a consultation seeking industry views on DCP 126. Twelve DCUSA Parties responded to the consultation. The Working Group reviewed each of the responses and concluded that all of the respondents understood the intent of DCP 126.

4.2 The remainder of this section summarises the responses to the consultation questions.

Are you supportive of the principles of the CP?

4.3 Seven respondents were supportive of the principles of the CP, two were to some extent supportive and three were not supportive of the CP. The Working Group noted that the respondents were split broadly along Party lines, with Suppliers supportive of the proposal and DNOs not so.

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.

4.4 Similar to the previous question responses to this question were broadly split along Party lines, with Suppliers supportive of publishing the information as a full set of illustrative tariffs and DNOs not so.

4.5 The Working Group noted that a variety of views were expressed in response to this question, covering areas that had previously been identified and discussed by the Working Group regarding the benefits and drawbacks on publishing this 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.

- 4.6 The Working Group noted that Suppliers are broadly supportive of DNOs updating the CDCM model to obtain illustrative tariffs, whereas DNOs believe that it would be more appropriate for Suppliers to do this using the DCP066 data.

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.

- 4.7 The Working Group noted that the majority of respondents agreed with the views of the group that only Total Allowed Revenue and Transmission Exit Charges could practically be reviewed on a quarterly basis.
- 4.8 Those respondents that did not agree each mentioned volumes forecasts, which are discussed in a later consultation question.

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.

- 4.9 The estimated resource requirements ranged between two to five days for each DNO area. It was noted that extensive internal checks would be required before the information could be published. The Working Group noted that this would need to be weighed up against the time for Suppliers to produce this information for themselves.

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.

- 4.10 Only one respondent felt that volume forecasts would be better addressed through DCP 126. Other respondents were comfortable with volume forecasts being passed to the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG) for further debate. The MIG has

logged volume forecasts and their impact on CDCM volatility as an issue and plans to consider this in early 2013.

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?

4.11 The responses to this question were broadly split along party lines, with DNOs agreeing that confusion may be caused and Suppliers agreeing that the additional information would provide greater clarity.

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...

- 4.12 The majority of respondents agreed that the 2014/15 uplifted for RPI method was the preferable option. It was highlighted by a Working Group member that this may be the easiest rather than the most appropriate method.
- 4.13 It was noted that Suppliers do not currently have a view as to what future Total Allowed Revenue will be. It was the view of some Working Group members that each DNO's 'best view' would be preferable to an RPI derived value as it would provide Suppliers with a more valuable figure.
- 4.14 It was noted that Total Allowed Revenue is displayed in the DCP066 submissions and as such this question is applicable not only to DCP126 but is a wider issue.
- 4.15 The Working Group agreed that the question of how to derive the Total Allowed Revenue figure to be used in DCP066 statements (and consequently in the DCP 126 illustrative tariffs) should be passed to the DCMF MIG for wider discussion. The MIG agreed that a separate DCP would need to be raised to introduce an agreed method for use in the DCP066 and DCP 126 illustrative tariffs. It is for parties to decide whether they would like to raise such a DCP.

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?

- 4.16 Suppliers were broadly supportive of the inputs referred to in DCP 136 being considered under DCP 126 should DCP 136 not be implemented, whilst DNOs were not supportive.
- 4.17 The Working Group discussed the consultation comments and noted that the inputs under consideration by DCP 136 take a significant amount of resource to review and are currently reviewed by DNOs less than annually, therefore, there would be limited benefit in reviewing them on a quarterly basis. The group agreed that these inputs should not be considered under DCP 126.

In addition to those described in Section 4 of the consultation document, 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.

4.18 The majority of respondents did not identify any wider industry developments. The Working Group noted that there were a couple of comments regarding looking at the whole picture, but on the whole most respondents felt that the group had considered the other CPs that may impact or be impacted by DCP 126.

Do you consider that the proposal better facilitates the DCUSA Objectives?

4.19 Seven of the respondents agreed that DCP 126 better facilitates the DCUSA Objectives, four disagreed and one felt that it was questionable. The following tables outline the respondents' views on which Objectives are facilitated by the CP:

DCUSA General Objective	Number of Respondents who indicated it was facilitated
Objective #1	0
Objective #2	7
Objective #3	0
Objective #4	2
Objective #5	0

DCUSA Charging Objective	Number of Respondents who indicated it was facilitated
Objective #1	0
Objective #2	4
Objective #3	0
Objective #4	0
Objective #5	0

4.20 Those respondents that disagreed that the objectives are better facilitated noted that the change is likely to lead to increased confusion, would not improve the accuracy of likely final tariffs and noted that the information is already available via the DCP066 provision.

4.21 The Working Group noted that the responses were split along party lines with DNOs largely of the view that the objectives are not better facilitated and Suppliers of the view that they are better facilitated.

Do you have any comments on the proposed legal text?

4.22 No comments were received on the proposed legal text.

Are you supportive of the proposed implementation date of 31 January 2013?

4.23 Nine of the respondents agreed with the proposed implementation date. Those that did not agree felt that it coincided with a resource intensive time for DNOs.

4.24 The Working Group discussed this point and agreed that having the first illustrative tariff publication between indicative and final tariffs would not be ideal. It was agreed that the implementation date should be moved to 1 April 2013 so that the first set of illustrative tariffs would be published for May 2013.

Are there any alternative solutions or matters that should be considered by the Working Group?

4.25 No respondents raised any alternative solutions or matters.

Do you have any further comments on DCP 126?

4.26 One respondent suggested that the Ofgem review of volatility, current Change Proposals and MIG Issue 22 (Use of HH and NHH forecast data for costing) are all likely to substantially reduce the level of charging volatility and consequently reduce the underlying need for DCP 126. The Working Group discussed this comment and some members expressed the opinion that there is not yet enough data available to support the suggestion that charging volatility will be substantially reduced.

4.27 Another respondent noted that one of the main benefits of DCP 126 would be to report on the combined impact of multiple CPs that are being applied for the same implementation date or in quick succession.

4.28 A summary of the collated consultation responses and the Working Group's comments to these responses is attached as Appendix C.

5 DCP 126 – WORKING GROUP CONCLUSIONS

5.1 The Working Group noted that there are both arguments for and against the Change Proposal, as outlined in section 3.4 of this document.

5.2 The Working Group is broadly split in its views as to whether there is a benefit to this Change Proposal. Approximately half of the Working Group members agree that the provision of illustrative tariffs will provide a more consistent view to the market. The other members are concerned that the additional information will cause confusion for market participants and will not be representative of the tariffs that will be applied for the period in question.

6 THE CHANGE PROPOSAL FOLLOWING WORKING GROUP CONSIDERATION AND INDUSTRY CONSULTATION

6.1 DCP 126 was raised with the intent of requiring DNOs to publish an accurate year-ahead forecast of DUoS charges, which would be updated at regular intervals during the year. These forecasts would be specified to the same level of detail as current notifications of tariff charges, and each update would also set out a commentary on any noteworthy movements.

6.2 Having consulted the industry and discussed the Change Proposal it has been agreed by the Working Group that the illustrative tariffs should be published at the same time as the DCP066 provision, i.e. by the fifth working day of May, August, November and February in each year.

6.3 It was the conclusion of the Working Group that only the Transmission Exit Charges and Total Allowed Revenue could be reviewed and possibly updated more than annually, however the legal text has been drafted in such a way that it does not preclude DNOs from updating other inputs if appropriate.

6.4 The legal text has also been drafted to make clear that the allowed revenue as presented in the DCP066 submission should be used when calculating

illustrative tariffs through the use of the term Total Allowed Revenue.

7 PROPOSED LEGAL TEXT

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

8 EVALUATION AGAINST THE DCUSA OBJECTIVES

8.1 Those Working Group members that are supportive of the Change Proposal consider that the following DCUSA Objectives are better facilitated by DCP 126:

- 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 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. 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.
- 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 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. 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.

9 IMPLEMENTATION

9.1 Subject to Authority consent, DCP 126 will be implemented on 1 April 2013, so that the first set of illustrative tariffs would be published for May 2013, in line with the DCP066 timetable.

10 PANEL RECOMMENDATION

10.1 The DCUSA Panel approved the DCP 126 Change Report at its meeting on 19 December 2012.

10.2 The timetable for the progression of the Change Proposals is set out below:

Activity	Date
Change Report issued for voting	19 December 2012
Voting closes	11 January 2013
Change Declaration	15 January 2013
Authority Consent	19 February 2013
CP Implemented	1 April 2013

11 APPENDICES:

- Appendix A – DCP 126 Change Proposal
- Appendix B - Proposed Legal Drafting
- Appendix C – DCP 126 Consultation Documents
- Appendix D - DCP 126 Voting Form