

### **DCUSA DCP 123 Consultation Responses – Collated Comments**

Question One	The principle that the group started with was to maintain the pre-scaled absolute differential between tariffs elements, do you agree that this is the principle that the group should take forward?	Working Group Comments
GTC	No. The principle should be to make tariffs more cost reflective, if satisfying this principle erodes differentials then so be it. We would not support dogmatic approach to maintain principles if this did not improve cost reflectivity.	<p>The Working Group noted that the differential is what is cost reflect about the tariffs. The current methodology does not meet the DCUSA objectives as well as the proposal under DCP 123, as the current methodology erodes the differential between tariffs. By not eroding the differential it makes tariffs more cost reflective.</p> <p>The group agreed that the argument for maintaining the differential needs to be clearly set out in the DCP 123 Change Report.</p>
SSE	This is a reasonable approach provided it produces sensible results for the calculated prices. It should not be pursued regardless of the consequences.	It was suggested that the outputs should not drive the solution, but rather the principles should drive the solution.
WPD	This is desirable but not essential. The current methodology does not maintain these.	Noted
SSEPD	Yes	Noted
ENWL	Yes, and this principle supports our response to Q3; however this should not be considered an absolute imperative. In particular it is appropriate to accept	Noted

	the small amount of distortion caused by the floor price calculation.	
Northern Powergrid	Yes	Noted
SP Distribution/ SP Manweb	Where possible, see Q2.	Noted
UK Power Networks	<p>This approach would be preferable, as this ensures that the cost reflective nature of the tariffs is not significantly reduced as a result of scaling unallocated revenue.</p> <p>However consideration does need to be given to the impact that this approach would have upon certain elements of specific tariffs, such as the unit rates for Generation tariffs which are currently credits, which should remain unaffected as a result of this change.</p>	It was noted that the principle should be determined first. The outcome on tariffs should not drive the result.
BG	Yes, it is important that scaling is applied in a way which does not distort the cost reflectivity of the calculated pre-scaled tariffs. This is best achieved using a fixed adder approach to scaling. The current method, by applying all of the scaling to primarily the red/day timeband can significantly distort the cost signals provided by the pre-scaled tariffs.	Noted
Reckon LLP	<p>No. The consultation does not provide any reasoning to back up this proposed principle. Some adverse effects of this misguided objective are covered in my answer to Q6.</p> <p>The logic of the working group's principle is that the only choices that should not be distorted are between consumption at different times or at different voltage levels within the same DNO area. The working group's principle would allow revenue matching to distort choices between consuming in different DNO areas, between an all-the-way supply and a supply involving a LDNO, or between consuming electricity (e.g. to recharge a fleet of electric vehicles) and not consuming electricity (e.g. by opting for diesel vehicles).</p> <p>The working group is trying to preserve cost signals that affect hypothetical choices of customers between using different products from the same</p>	<p>The Working Group noted that, from a customer perspective, they will be paying the same price whether connected to a DNO or LDNO.</p> <p>The comments made by the respondent could apply to the charging methodology as a whole or any of the Change Proposals. The nature of the methodology is such that there will be differentials between DNO areas and types of product. This enables consumers a choice of selecting products as an</p>

	<p>distributor, but does not seem to care whether it distorts the choices that the customer makes between using products from that incumbent distributor and using substitutable products from other people (such as LDNOs or diesel suppliers).</p> <p>I find it worrying to see an industry working group which is mostly made up of members employed by large incumbent companies is developing the industry charging arrangements by using a framework under which the only customer choices that warrant consideration are choices between different ways of receiving services from the same incumbent company.</p> <p>It might be wise for the working group to seek guidance on this point, perhaps from the competition law enforcement function of the European Commission, the Competition and Markets Authority or Ofgem.</p>	<p>alternative to using the distribution network. The Working Group observed that Ofgem has approved the charging methodologies and thus cannot be of the view that they are anti-competitive.</p> <p>It was noted that whilst Working Group members are employed by different companies, they do not represent the companies for which they work. All Working Group members must sign a letter agreeing to act independently to progress the Change. They must also familiarise themselves with and act in accordance with competition law in all Working Group discussions.</p> <p>The Ofgem representative on the group explained that, having reviewed the comment, Ofgem does not believe that DCP 123 is anti-competitive.</p> <p>It was agreed that the respondent's comment should be forwarded to the DCUSA Panel. The Panel confirmed that it is happy with the view of the Working Group that guidance on whether the CP acts against competition law is not</p>
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		required.
<b>General Comments</b>  <p>The Working Group noted that DCP 179 is seeking to remove the discrepancy between HH and NHH tariffs. Changing the approach to scaling may bring back this discrepancy.</p> <p>It was asked of attendees whether the decision on the DCP 123 solution would be easier to make after DCP 179 has been implemented. In response, it was noted that the solution chosen for DCP 123 may be different once DCP 179 has been applied. At present there are five different options under consideration for DCP 179.</p>		
<b>Question Two</b>	<b>With regards to the floor price in the CDCM, should:</b> <ul style="list-style-type: none"> <li>• the existing floor price of zero p/KWh be kept in place?</li> <li>• the floor price be removed, such that negative unit rates can occur where scaling is negative? Or;</li> <li>• the floor price be changed to an alternative value (either positive or negative)?</li> </ul> <b>Please provide your rationale.</b>	<b>Working Group Comments</b>
GTC	<p>A negative floor price assumes the customers use of system brings benefits i.e. reduces the DNO's costs of operation of the higher voltage tiers (I think the p/kWh charge relates to the higher network tiers?)</p> <p>The fact that negative prices can occur highlights a broader issue with the CDCM; Given that costs used for the model relate to</p> <ul style="list-style-type: none"> <li>(a) the notional asset costs derived from the 500MW model, and</li> <li>(b) historical opex and indirect costs (allocated using the 500MW model</li> </ul> <p>it would seem to us that the need for negative charges points to the 500MW model overstating the asset costs actually incurred by the DNO. This is more so the case when 40% of indirect costs are supposedly recovered through scaling as is general reinforcement.</p>	<p>The Working Group observed that incorporating more costs into the price model, particularly asset replacement, has been raised as an issue under the DCMF MIG. This is outside of the intent of DCP 123.</p>

	Therefore, we think work is required to address the root cause of the problem, not the symptoms. We can see no justification as to how moving from the current status quo to either of the options proposed can be demonstrated as better meeting the objectives.	
SSE	Zero prices are just about acceptable. Negative prices should be avoided as they are nonsensical and may cause the billing systems to fail. A positive floor price should be avoided because it would be an arbitrarily chosen number.	It was noted that it may not be nonsensical as there is a rationale behind it.  It was also observed that billing systems are able to deal with negative prices for generators.
WPD	If the pre-scaled differentials are to be maintained then the prices should be allowed to go negative.	The respondent further explained that if this maintains the pre-scaled differential then negative prices will be needed to fully apply the solution.  The Ofgem respondent noted that the Authority is not fully happy with negative prices, or positive for that matter, as that may be artificial. Zero prices are just about acceptable.  The Working Group observed that not permitting negative prices will invalidate the principle that they are working towards (i.e. maintaining the pre-scaled differential).  It was suggested that whilst it is very unlikely, negative prices could encourage customers to consume

		energy to earn money.
SSEPD	At this time we can't express a preference for any of the above options prior to further modelling analysis. Instinctively, a negative unit rate for demand customers is counter intuitive: it implies (a) the customer is providing a benefit to the network and no costs; and (b) if one customer group has benefits from negative tariffs, others may be subsidising these payments. Further consideration required for this question.	<p>The Working Group noted that the outputs should not drive the chosen solution.</p> <p>It was observed that it is inevitable that with any tariff that is cheaper than another there is a subsidy.</p>
ENWL	<p>The floor price should be set at zero. Allowing the floor price to become negative provides an incentive for customers to consume during these periods. Paying customers to consume electricity is contrary to the development of a low carbon economy and this was recognised in the EDCM where it was decided that demand sites should not receive credits even if situated in a generation dominated part of the network.</p> <p>A further consideration is that allowing a negative price does not take account of the costs that DNOs will still incur during these timebands. In particular, some O&amp;M costs can arise during off-peak times and indirect costs incurred by the DNO are not directly attributable to a timeband.</p> <p>There may be a case for setting a minimum price greater than zero. However, at present, the green time band in some DNO areas already has an extremely low price and moving to zero would not have a large impact. Consequently, it would not be sensible to introduce an arbitrary minimum price that would be hard to justify and have very little impact.</p>	The Working Group noted that these points had been discussed against earlier questions.
Northern Powergrid	<p>In order to uphold the guiding principal to maintain the pre-scaled absolute differential between tariffs elements the floor price needs to be removed, any other option is potentially in conflict with this.</p> <p>We accept that negative unit rates could be the outcome under a negative scaling scenario. Limiting these to zero would dull the price signal which should be avoided. At the moment this is unlikely to be an issue to Northern Powergrid but could be in the future – in general we would be happy to accept</p>	The respondent highlighted that it is highly unlikely that all three unit rates would become negative, however, it would be worth guarding against this.

	negative pricing but would be uncomfortable in the unlikely event that entire unit charges for a demand customer became negative. To counter this, a possible limit could be to cap the average p/kWh (across all applicable unit rates) to zero which could be achieved whilst remaining loyal to the guiding principal i.e. capping the aggregate unit rate to zero rather than the individual rates themselves.	
SP Distribution/ Manweb	<p>Our preference would be for the existing floor price of zero p/kWh to be kept in place:</p> <p>The pre-scaled tariffs resulted in a charge not a credit for the affected tariffs. Allowing scaling to change a charge to a credit rate conflicts with the intent of the model (had scaling not been required a credit would never have been calculated for the tariffs affected.)</p> <p>We consider allowing a charge to become a negative unit rate through the application of scaling sends customers the wrong signals.</p>	Noted
UK Power Networks	We believe that the floor price of zero p/kWh should be maintained, applying a 'false' floor price or allowing negative charges to be levied is not sending the right cost signal to Customers.	Noted
BG	<p>We are comfortable with the notion of prices becoming negative if it maintains the differential between the calculated pre-scaled tariffs which have been deemed to be cost reflective. However we are not convinced that changing the floor price in the CDCM is within the scope of this change and therefore it might be best dealt with via a separate modification if DCP 123 is implemented and if the issue becomes material in the future.</p> <p>We do not see a rationale for changing the floor to an alternative value and believe this option should be discounted.</p>	<p>The Working Group reviewed the intent of the CP and observed that in their view negative prices were not against the intent of the CP.</p> <p>The respondent highlighted that at no point in the CP form is there a proposal to remove the cap on tariffs. In response, a Working Group member explained that this does not preclude the cap being removed.</p>

Reckon LLP	Keep as is. No case for change in this respect has been made.	Noted
<p><b>Summary Comments:</b></p> <p>The Working Group noted that there was a slight majority in favour of not having negative prices. It was noted that Ofgem also had a preference for there not to be negative prices. Based on this the Working Group agreed to follow the majority view and make no change to the capping of tariffs at zero.</p> <p>It was noted that if a Party did not agree with this approach then a separate change could be raised.</p>		
<b>Question Three</b>	<b>The hybrid solution applies scaling to the fixed charge, the reactive charge and the capacity charge. As the current methodology calculates these from a bottom up approach, is it appropriate to apply scaling to these charges?</b>	<b>Working Group Comments</b>
GTC	Since the purpose of scaling is to match modelled revenue to allowed revenue it would appear logical to scale all elements of the tariff for all tariffs. To otherwise would introduce a distortion difficult to justify.	Noted
SSE	A question like this has no simple answer. If the method produces a reasonable answer then it can be used.	The group noted that the outcome on tariffs should not define the solution
WPD	Yes it is.	Noted
SSEPD	Yes, it is appropriate to apply scaling to all elements of a charge.	Noted
ENWL	Scaling is a method to match the costs recovered from the pricing model to the allowed revenue of the DNO. To enable this to be done effectively, the revenue matching process should not distort the pricing signal generated by the model. This should apply to all the pricing elements, not just the unit rates. The majority of the costs within the scaling element are for the replacement of existing assets. These assets could be sole use and therefore scaling should apply to fixed charges as well as the other elements of the charge. However, this could have some unintended consequences if DCP 179 is implemented which is addressing the discrepancy between HH and NHH tariffs in the CDCM. As DCP179 is addressing a more fundamental issue of the CDCM we believe that DCP123 should be placed on hold until Ofgem have	<p>The Working Group agreed to discuss this comment regarding DCP 179 against a later consultation question.</p> <p>It was observed that the DCP 179 Working Group has discussed DCP 123. Having certainty on the DCP 123 solution may aid the DCP 179 Working Group.</p>



	approved/rejected DCP179.	
Northern Powergrid	Based on the assumption that the pre-scaled tariff elements from the model are cost reflective it would distort this cost reflectivity to not scale these elements. This will also ensure that we remain consistent with the principal of the change.	Noted
SP Distribution/ SP Manweb	We believe it is appropriate to apply scaling to the charges mentioned.	Noted
UK Power Networks	In order to maintain the pre-scaled absolute differential between tariffs elements we believe that all elements of all tariffs (with the exception of those for generation) should be subject to scaling.	Noted
BG	We are comfortable with the proposed approach although we believe a simpler approach would be to apply the scaling purely on unit rates. The hybrid solution seems to us to add unnecessary complexity although we understand that the intention was to maintain the relative proportion of revenues recovered by DNOs through fixed and variable elements.	Noted
Reckon LLP	It is appropriate to include these charging components in the consideration of any revenue matching.  It is not true that the current methodology calculates these charging components from a bottom up approach — a significant part of the charge is a top-down allocation of direct and indirect costs.	Noted
<b>Summary:</b> The Working Group noted that the majority of respondents support applying scaling to fixed, reactive and capacity elements.		
<b>Question Four</b>	<b>Do you agree with the Working Group's proposal that the fixed and reactive elements of the Generation tariffs should be subject to scaling whilst the unit rates should not? Please provide your rationale.</b>	<b>Working Group Comments</b>
GTC	No. See response to Q3. To exclude scaling on p/kWh costs presumes that the higher network tiers bear no part in the scaling.	Noted

SSE	No comment.	Noted
WPD	The generation charges should either be scaled in its entirety or not at all.	<p>The Working Group noted that the view of other respondents was that the unit rates should not be scaled.</p> <p>The respondent explained that there should be consistency in the approach. In response, it was suggested that in this case there is justification for not being consistent.</p>
SSEPD	Yes – We agree that omitting the unit rates (credits) from scaling is a reasonable approach. Assuming that the costs associated with these customers are met through the fixed and reactive elements (notwithstanding the fact that reactive charges will only be incurred by customers when their power factor falls below 0.95), it would seem reasonable to vary them. The unit rates (credits) on the other hand recompense the generator for the benefit they provide to the network.	Noted
ENWL	We agree that unit rates for generation should not be scaled as this is a bottom up calculation of the credit based upon the cost to demand customers.	Noted
Northern Powergrid	We agree with the proposed approach to generation unit charges; these are designed to estimate the assumed benefit of localised DG and this is unlikely to change with revenue profiles.	Noted
SP Distribution/ Manweb	The scaling is in place to share the unallocated revenue based upon a customer's cost to the Distribution network, as such only the tariff elements that are in place to recover these costs should be included in the scaling method. Given that the Generation unit rates are currently in place to reward a customer, it would be inappropriate to apply scaling to these elements.	Noted
UK Power Networks	Although we do not wish to see any scaling applied to generation tariffs, if that is the chosen option then we believe that this should not impact upon the unit rates for Generation tariffs, as these are credits (which is in line with the current proposal).	Noted

BG	<p>If scaling is to be applied to fixed and reactive elements of the charges, as proposed in the hybrid solution, then we agree that the fixed and reactive elements of the Generation tariffs should be subject to scaling whilst the unit rates should not.</p> <p>The unit rate (credit) relates to a theoretical avoided cost and therefore should not be scaled whilst the fixed and reactive elements are associated with a real cost and should be treated in a similar manner to other costs (i.e. scaled to match allowed revenue).</p>	
Reckon LLP	No comments	Noted
<p>The Working Group noted that there is total support for not scaling the unit rates. The majority of respondents agree with the Working Group's proposal that fixed and reactive elements of the Generation tariffs should be subject to scaling whilst the unit rates should not.</p> <p>Noted</p>		
<b>Question Five</b>	<b>Do you agreed with the proposed implementation date of 1 April 2015?</b>	<b>Working Group Comments</b>
GTC	Only if a solution from the CP is approved in time for indicatives	It was observed that this will be a given.
SSE	<p>Yes, provided it doesn't conflict with any other government, OFGEM or DCUSA plans.</p> <p>Some consideration should be given to the consequences of increasing domestic night prices and heating prices (this CP increases night and off peak DUoS charges).</p>	It was noted that this is looking at the impact rather than the principles
WPD	The group needs to understand the true scale of the impacts on customers as these are very large changes.	<p>The respondent explained that a larger EDCM customer (a supermarket) did a trial based on the baking of their bread. This CP may impact the best time for this activity.</p> <p>The EDCM customer contracts need to be taken into account when the lead time for the CP is determined as some customers can be on two year</p>

		contracts.
SSEPD	Yes	Noted
ENWL	No, due to the potential conflict with DCP179 as described in Q8 below.	Noted
Northern Powergrid	Yes	Noted
SP Distribution/ SP Manweb	Yes	Noted
UK Power Networks	Yes	Noted
BG	We consider that the impact on some customer groups in some regions is significant and a longer notice period before implementation would therefore be sensible. We suggest 1 April 2016.	Noted
Reckon LLP	No comments	Noted
<p>The group also reviewed the response from Gazprom (see bottom of document).</p> <p>The Working Group noted that some respondents have asked that the wider impact be considered and that a longer notice period be provided to take into account this impact. However, the majority view was that the CP could be implemented for April 2015.</p> <p>It was observed that the consultation responses are to provide a view but that the group can choose a different date to that preferred by the majority of respondents. Given the big impact it was agreed that it would be preferable to propose an implementation date of April 2016.</p>		
<b>Question Six</b>	<b>Do you believe that DCP 123 better facilitates the DCUSA General and Charging Objectives? Please provide your rationale.</b>	<b>Working Group Comments</b>
GTC	The options in DCP 123 must clearly demonstrate that they are more cost reflective than the status quo. We are not convinced that the working group has demonstrated this. Therefore the case that any of the options better meets the objectives is unproven, moreover it is difficult to see how it can be. Changes that benefit one customer group are likely to bring a disbenefit to others	The Working Group noted that this comment was also made in response to question one.

SSE	The reasons given in the change proposal are correct.	Noted
WPD	Yes it is more cost reflective as it doesn't lump the recovery of most of the revenue matching in one time band.	Noted
SSEPD	We agree Charging Objective 3 is better met for the reasons specified in the consultation document.	Noted
ENWL	Yes. The allocation of scaling will be more cost reflective under DCP123 as it will maintain the pure price signal produced by the underlying pricing model by ensuring the differential between tariffs and charging elements remains constant. This change proposal therefore better meet Charging Objective 3.	Noted
Northern Powergrid	Yes. We agree with the working group's assessment against the relevant objectives.	<p>The respondent explained that they had not seen a case to suggest that the unscaled tariffs relate to peak demand, thus undue weight is currently being placed on the peak timeband.</p> <p>It was suggested that scaling is not actually all in the red but rather it is a fixed adder at the GSP level, which has the effect of being predominantly in the red. It was noted that at the time of developing the CDCM there was a lot of decisions made, and due to the time constraints analysis on all of these decisions may not have been extensive.</p>
SP Distribution/ SP Manweb	Yes, the change proposal facilitates Charging Objective three by increasing cost reflectivity in calculating the CDCM charges.	Noted
UK Power Networks	Yes, the scaling arrangements as currently detailed within the methodology puts the majority of the unallocated revenue onto the 'Red' or 'Unit 1' rate.	Noted

	However we believe that the pre-scaled absolute differential between tariffs elements should largely be maintained in order to not impact upon the cost reflectivity of the tariffs produced, which we believe that this proposal does.	
BG	Yes, Charging Objective 3 is better facilitated by allocating unallocated allowed revenue across each of the different charging elements of the tariff on a fixed adder basis, rather than primarily into one time band. This ensures that the unit costs in those peak time bands (day or Red unit rates) will better reflect the underlying cost message (by virtue of being distorted less than the current method of scaling). Cost reflectivity is also improved by maintaining the cost differential between unit rates across all tariffs and all timebands.	Noted
Reckon LLP	<p>No. The current DCP 123 solution would worsen the discrepancies between costs and prices. For example, for WPD East Midlands, DCP 123 would charge HV half hourly metered users £3.65/MWh for consumption in the green time band, when the corresponding distribution costs according to WPD's model are only £0.04/MWh (because almost none of the relevant parts of WPD's network peak during the green time band).</p> <p>An unjustified surcharge of £3.6/MWh on off-peak consumption would be material to facilities built (in response to CDCM price signals) to take advantage of spare capacity on distribution networks in the green time band; for example, a battery electric vehicle recharging facility.</p> <p>The consultation document does not explain how the proposed solution would better meet the objectives. The one sentence on the subject, paragraph 6.1, is manifest nonsense: charging a price of 90 times cost (my WPD East Midland example above) clearly does not reflect the underlying cost message. The working group's error here might have been caused by the error mentioned in my answer to Q1.</p> <p>As the consultation document says at paragraph 2.3, it has not been identified that revenue matching charges mainly relate to peak time band consumption, or indeed to anything else. In the absence of information about what the revenue matching charges are for, the complex scheme invented by the DCP</p>	<p>It was observed that whilst these values may be made up of scaling, that is the way that the model works. The Working Group expressed the view that by spreading scaling more evenly you are better preserving the cost message.</p> <p>It was noted that it is not a "surcharge" but rather a reallocation of the allowed revenue.</p> <p>The Ofgem representative suggested that the Working Group could provide more detail on why the particular solution has been chosen above all other solutions considered. In response, it was highlighted that DCUSA Change Reports seek to assess the chosen solution against how it better facilitates the DCUSA objectives. To go back and consider</p>

	<p>123 working group is devoid of any justification, particularly as it significantly and unreasonably penalises users who have invested in technologies (such as battery electric vehicles) which involve high levels of consumption in periods (e.g. the green time band) where relevant distribution costs are very small.</p>	<p>all other solutions discussed and discounted by the Working Group would be impracticable. The group agreed that the change report should capture the other solutions discussed and the reasons why they were rejected. The justification for the chosen solution against the charging objectives will need to be very clearly set out.</p> <p>The Group considered that the only way that this respondent's suggestion could be addressed would be to remove scaling completely which is outside of the scope of DCP 123.</p> <p>It was suggested that the effect on customer behaviour makes it more important that the differential between pre and post scaled tariffs be maintained. The customer behaviour is not currently occurring in an economically efficient way, i.e. the current scaling is leading to uneconomic outcomes. For example, if there is £3.50 p/KWh scaling then this should be socialised rather than being applied predominantly in the red period.</p>
<p>The group observed that currently scaling is predominantly positive. With RIIO and other changes scaling may become negative in the future.</p>		

The current approach to the allocation of scaling would reduce incentive for investment where scaling is negative.		
Question Seven	Do you have any comments on the proposed legal text?	Working Group Comments
GTC	We have not reviewed the legal text. We think further work on the principles is still required.	Noted
SSE	No.	Noted
WPD	No.	Noted
SSEPD	No	Noted
ENWL	No comments	Noted
Northern Powergrid	Not at this time	Noted
SP Distribution/ SP Manweb	No	Noted
UK Power Networks	No, we are in agreement with the WG on the changes to the legal text.	Noted
BG	The last bullet of new paragraph 92 could be made clearer as follows: <ul style="list-style-type: none"> <li>The reactive charge adder is applied to both demand and generation tariffs <b>with reactive power charges</b>.</li> </ul>	The legal text was updated accordingly.
Reckon LLP	No comments	Noted
Question Eight	Are there any alternative solutions or matters that should be considered by the Working Group?	Working Group Comments
GTC	As stated in responses above, issues with the scaling are as a consequence of more fundamental flaws, principally with the value of the CDCM.  We question whether the scaling should be carried out through scaling the 500 MW model post the treatment of 40% of indirect costs, actual reinforcement, incentives etc. This is because the latter components are actual, whereas the 500MW model is a hypothetical concept unrelated to	It was observed that this was quite different a change proposal to the intent of DCP 123. The Working Group did not believe that there is a fundamental flaw.



	actual work carried out by DNOs and recovered through the RAV.	
SSE	No.	Noted
WPD	Yes to apply scaling using a % would be a far fairer, simpler and more explainable method.	<p>It was suggested that if any Party felt that this was a sensible alternative, it could be progressed as an Alternative to DCP 123.</p> <p>The Working Group observed that this suggested approach had been dismissed following the previous DCP 123 consultation as it had the same effect as now (i.e. if you apply a percentage scaler to the red timeband then it has a significant impact whilst if you apply it to the green timeband it has a small impact due to the relative volumes, thus, the current issue is not addressed as the price signals are not maintained).</p> <p>A Working Group member observed that it has not been demonstrated that a percentage scaler would be fairer. In response, the respondent explained that they believe that it is fairer. It was observed that this is a subjective opinion.</p> <p>A Working Group member suggested that if people feel that certain costs should be allocated to the peak then</p>

		a CP should be raised to remove these costs from scaling and to have them allocated within the model.
SSEPD	Not at this time	Noted
ENWL	<p>An alternative to the proposed solution would be for each tariff to recover the same percentage share of the allowed revenue that is recovered by the un-scaled model. For example, if domestic customers account for 55% of total revenue before scaling is applied, then the domestic scaler would be derived as follows:</p> $= (\text{Total allowed revenue multiplied} * 0.55) - (\text{Un-scaled domestic revenue})$ <p>Although this introduces complexity, the benefit of this method of scaling is that when changes are made to the methodology, they are directly passed on to the customers affected. Where a tariff has no customers, it should be grouped with another tariff for deriving the scaling.</p>	<p>The respondent further explained that this suggestion came about from looking at DCP 179 and other change proposals. The issue found in these proposals is that you make a change to make costs more reflective and this pushes money in or out of scaling and this scaling then undoes the purpose of the change. The respondent's suggestion would address this issue.</p> <p>In response it was suggested that this could introduce a distortion between tariffs. The proposal is based on the assumption that unallocated costs should be allocated in the same proportion as allocated costs, which has not been proven.</p>
Northern Powergrid	Not at this time – we understand the working group has considered many solutions to date. We believe that this change supports the principal of the change and should result in more equitable and cost reflective charges.	Noted
SP Distribution/ SP Manweb	No	Noted
UK Power Networks	No	Noted

BG	We remain of the view that a single p/kWh would be a simpler method of achieving the intent of the change proposal, however the proposed approach is a reasonable compromise if maintaining the proportion of revenue recovered through fixed and variable elements is deemed important by DNOs.	Noted
Reckon LLP	<p>The fact that there is a large discrepancy between the results of costing (where costs include a reasonable return on assets) and allowed revenues suggest that there is a mistake somewhere. For example, the allowed revenues might be too high. This might be resolved in some DNO areas when the new price control comes into effect in 2015.</p> <p>To cover any discrepancy between costs and allowed revenues, an equiproportionate mark-up approach (i.e. the previous option 1) should be considered as a way of reconciling the two amounts with the least possible distortion: this amounts to attaching the unexplained additional charges to existing costs.</p> <p>I could find no good reason to dismiss option 1 entirely in either the body of the consultation document or its attachment B.</p>	<p>It was noted that the reasons for choosing not to progress other options will be expanded on further in the DCP 123 Change Report.</p> <p>It was observed that the first point, that all allowed revenue should not be automatically recovered, is not for the DCP 123 Working Group to consider. The allowed revenues are set using a completely different process.</p>
<b>Question Nine</b>	<b>Do you have any further comments?</b>	<b>Working Group Comments</b>
GTC	N/A	Noted
SSE	We should consider the impact on domestic retail prices given their high political profile at the moment. There's an increase of 0.97 p/kWh in the Swalec domestic off peak heating tariffs, which is difficult to reconcile with the government's policy of restraining domestic energy prices. There are many other unacceptably large price changes.	The Working Group noted that it is the principle not the result on prices that should drive the solution (i.e. is the solution more cost reflective?).
WPD	No.	Noted
SSEPD	Our comments on this DCP are based upon consideration of its potential impacts on CDCM Tariffs in isolation. The cumulative/net effect of those DCPs currently in progress that will affect CDCM charges has not been modelled i.e. DCP 179. This therefore makes an assessment of the combined impact on	The Working Group noted that Ofgem has always advised that changes should be considered in isolation.

	CDCM tariffs difficult.	
ENWL	DCP 179 amends the way which NHH tariffs are calculated by deriving them from the HH tariffs to remove the discrepancy between NHH and HH tariffs. Scaling the tariffs as specified in the hybrid solution could impact some tariffs more than others and increase the discrepancy between NHH and HH tariffs that DCP179 is trying to remove. The working group should consider placing change proposal DCP123 on hold pending the outcome of DCP179.	<p>The Working Group noted that there are other changes (e.g. DCP 169) that are on hold awaiting the outcome of DCP 123.</p> <p>Any DCUSA Party can raise a change and there is not a process that would allow those changes to be put on hold.</p> <p>It was observed that since the respondent had written this response DCP 179 had progressed and was now looking to use coincidence factors within the DCP 179 solution. The use of coincidence factors means that the impact of scaling will be lower.</p> <p>It was also noted that it is not guaranteed that DCP 179 will be implemented.</p> <p>The group agreed to proceed with DCP 123, rather than placing it on hold.</p>
Northern Powergrid	In general we are supportive of this change.	Noted
SP Distribution/ SP Manweb	Not at this time.	Noted

UK Power Networks	No	Noted
BG	No	Noted
Reckon LLP	No comments	Noted

**Gazprom Response Received:**

Gazprom Energy is not supportive of this modification.

The illustrative revenue analysis produced suggests that generally there will be a significant adjustment in the amount of revenue DNOs recover from individual tariffs. Notably, HH DUoS customers are set to see double digit percentage increases in the amount of revenue DNOs recover from them. We do not believe this is equitable, particularly in the timescales proposed.

Furthermore, the illustrative tariff analysis produced, indicates the modification would have a significant effect on different DUoS tariff elements, with generally large decreases in the red/day unit rate and decreases amongst other elements. The significant percentage and absolute changes to tariffs that are likely, means we do not support the modification or the currently proposed implementation date of 1st April 2015.

We believe there would need to be a much greater lead time should Ofgem decide to implement the change, as suppliers will be pricing contracts potentially three years ahead. Subsequently, April 2017 should be the very earliest implementation date to increase both suppliers and consumers certainty of future DUoS charges.