



DCUSA Consultation

DCP 123 - Revenue Matching Methodology Change

1 PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distribution Network Operators (DNOs), 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 123.
- 1.3 Parties are invited to submit comments using the form provided in Attachment A to DCUSA@electralink.co.uk by Wednesday, 20 June 2012.

2 DCP 123 - REVENUE MATCHING METHODOLOGY CHANGE

- 2.1 DCP 123 has been raised by Western Power Distribution as a result of the work of the Distribution Charging Methodologies Forum (DCMF) Methodologies Issue Group (MIG). The CP seeks to change the way revenue matching (scaling) is achieved within the CDCM.
- 2.2 Currently revenue matching is achieved by a fixed adder approach applied, at the transmission exit level, in a manner which has the effect of raising only the day/red unit prices. By applying scaling to peak time band consumption only, it is believed that the current CDCM could be unjustifiably distorting the economic signals provided from the pre-scaled tariff rates and could be producing excessive charges in the red/day time band.
- 2.3 A revenue matching process is required because the allowed revenue under the regulatory price control and the revenue recovered from the charging methodology are not equal. This shortfall, or excess, is to a large extent unidentified and therefore unallocated allowed income within the CDCM. As such, it has not been identified that these costs relate to peak time band consumption.
- 2.4 The intent of the Change Proposal is to determine a more cost reflective and

less distortive approach to scaling and one which better facilitates the DCUSA CDCM Charging objectives.

3 WORKING GROUP ASSESSMENT

3.1 The DCUSA Panel has established a DCP 123 Working Group which consists of Supplier, DNO and Ofgem representatives. The Working Group has met on several occasions to discuss the Change Proposal. The group is considering two potential options for progression, which are as follows:

- **Option 1:** Take pre-scaled tariff prices and then either raise or reduce each of these individual prices by the same percentage such that allowed income is achieved.
- **Option 2:** Apply a fixed p/kWh to all pre-scaled unit rates (i.e. take pre-scaled tariff prices and either add or subtract a fixed amount (p/kWh) to all unit rates (day, night, red, amber, green, unrestricted) such that allowed income is achieved).

3.2 The Working Group has assessed the two options and believes that each has the following advantages and disadvantages **when compared to the baseline**, (i.e. the fixed £/kW/year adder currently applied at the transmission exit level, as detailed in paragraphs 92 to 93 of Schedule 16 of the DCUSA).

Option 1 – Percentage Scaler	
Advantages	<ul style="list-style-type: none"> • This option preserves the pre-scaling relative differentials between unit rates and the fixed elements within tariffs. • This approach will make the tariffs less volatile. • The pre-scaled cost signals/differential between unit rates and the fixed elements within tariffs are maintained in relative terms whatever the revenue allowances. • This approach reduces the amount of revenue recovered from the unit element of the charges, which is most susceptible to environmental and economic influence, hence means that levels of under/over-recovery should be more predictable.
Disadvantages	<ul style="list-style-type: none"> • This option does not maintain the cost differential between tariffs and voltage levels. • The level of distortion of the economic cost differential between

	<p>tariffs and voltage levels increases as the level of revenue reconciliation increases.</p> <ul style="list-style-type: none"> Ofgem has stated previously that a pence/kWh fixed adder was a preferred option for the CDCM and that a fixed multiplier only preserves the proportional relativity between tariffs and as such may distort the cost signals that customers see. Therefore, this option is not in line with guidance previously issued by Ofgem.
Option 2 – Fixed Adder	
Advantages	<ul style="list-style-type: none"> Ofgem has stated previously that a pence/kWh fixed adder was a preferred option for the CDCM. This approach maintains the economic cost differential between tariffs and voltage levels. This approach will make the tariffs less volatile. By applying revenue matching to all units rather than just the red timeband/day units this approach will be more predictable than the current approach. Therefore levels of under/over-recovery should be more predictable.
Disadvantages	The working group could not identify any disadvantages for option 2 in relation to the baseline.

3.3 It is the view of the Working Group that either of the proposed approaches would result in an improved scaling approach when compared to the baseline. In comparing the two options against each other, the initial thoughts of the Working Group were as follows:

- Option 1 will preserve the differential between unit rates and the fixed elements within tariffs more so than option 2;
- Whilst both options will make tariffs less volatile relative to the baseline, option 1 will make tariffs slightly less volatile than option 2; and
- Of the two options, Option 2 better maintains the economic cost differential.

3.4 As part of its assessment of DCP 123, the Working Group issued a Request for Information (RFI) to all DNOs. The responses to this RFI, which demonstrate the impact of each of the options on tariffs, are provided in Attachment B.

4 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

- 4.1 The Working Group has identified that either option in the Change Proposal better facilitates DCUSA Charging Objective 3¹ by not allotting unallocated allowed revenue into one time band and so ensuring that the unit costs in those peak time bands (day or Red unit rates) will better reflect the underlying cost message.

5 IMPLEMENTATION

- 5.1 DCP 123 has the potential to impact all charges, and therefore the proposed implementation date for the CP is for charges commencing 1 April 2013. If the target implementation date is not achieved, the proposer suggests that the CP should be implemented with effect from 1 April 2014. Due to the potential impact on final tariffs and in the interests of managing tariff volatility it is thought to be inappropriate to implement this CP with a mid-year price change.

6 CONSULTATION

- 6.1 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?
 - Do you consider that the proposal better facilitates the DCUSA objectives?
Please give supporting reasons.
 - Are there any alternative solutions or matters that should be considered by the Working Group?
 - 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 and whether the duration of the change is likely to be limited.

¹ 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.

- Are you supportive of the proposed implementation date of 1 April 2013?
- Do you agree that both options put forward by the Working Group are better than the baseline?
- Do you have a preference for Option 1 or Option 2? Please give supporting reasons.
- It is the view of the Working Group that Option 1 maintains the relative differential between fixed and variable elements within a tariff, whereas option 2 maintains the differential between tariffs and voltage levels. Which differential do you think it important to maintain when scaling tariffs to allowed revenue? Please give supporting reasons.
- The elements included within scaling could be changed, however, the Working Group felt that this was outside of the scope of this CP but could be considered at a later date, under a different change proposal. Do you agree?

6.2 Responses should be submitted using Attachment A to DCUSA@electralink.co.uk no later than **Wednesday 20 June 2012**.

6.3 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.

7 NEXT STEPS

7.1 Following the end of the consultation period the responses will be reviewed by the Working Group. The Working Group will then determine the progression route for the CP.

7.2 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.

8 ATTACHMENTS

Attachment A – Response form

Attachment B – RFI Responses

Attachment C – DCP 123 Change Proposal