



DCUSA Change Report

DCP 106 - Visibility to DCUSA Parties Regarding
Applications to the Authority by DNOs to
Change Allowed Revenue

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 106 – Visibility to DCUSA Parties Regarding Applications to the Authority by DNOs to Change Allowed Revenue.
- 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 legal drafting amendments (Appendix B) and submit their votes using the form attached as Appendix D to dcusa@electralink.co.uk no later than 10 August 2012.

2 BACKGROUND

- 2.1 The Proposer of the CP considers that currently Suppliers do not receive advance notice of applications by DNOs to Ofgem to increase/decrease their allowed revenue. These applications to Ofgem, if approved, may result in tariff changes. DCP 106 seeks to require DNOs to provide advanced information to DCUSA Parties of their application to Ofgem for extraordinary changes to revenue and the implementation dates that have been requested.
- 2.2 It is recognised that there may be information in the application to Ofgem that is confidential to the DNO. To avoid this conflict, DCP 106 only seeks to obtain key details of the applications to assist in their forecasting; not all of the detailed information contained within the application(s).
- 2.3 The Proposer highlights that in recent years, there has been a significant amount of work within the industry to improve the transparency of information to Suppliers through the DCP 066 reports. However, the DCP 066A – [Enhanced Provision of Cost Information](#), reports are only produced quarterly and may or may not include an allowance for additional funding the DNO may have requested from Ofgem. Without this understanding it is impossible Suppliers to be confident in using the numbers to forecast and predict future charges. The requirements set out in DCP 106 will give Suppliers the visibility needed on in a timelier basis.
- 2.4 The Proposer also notes that the implementation of DCP 106 will be beneficial to both Suppliers and Customers. The proposal will enable

Suppliers to offer more cost reflective consolidated contracts as greater visibility of potential revenue changes will allow them to reduce the risk premia within their tariffs.

- 2.5 The Proposer feels that this will result in more cost reflective charges which will improve competition in supply. It is noted that DCP 106 will also allow consumers on pass-through contracts to forecast likely changes to their current costs.
- 2.6 It is noted that changes to Suppliers' DUoS tariff forecasts as a result of receiving this additional information is at Suppliers' risk. The provision of this data enhances market data transparency which will allow Suppliers to take a more informed view of the risks involved and respond accordingly.

3 DCP 106 – WORKING GROUP

- 3.1 The DCUSA Panel established a Working Group to assess and refine DCP 106. The Working Group met on 7 occasions and was comprised of Supplier and DNO Parties, and also included representation from Ofgem. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

4 DCP 106 – CONSULTATION

- 4.1 The Working Group carried out a Consultation to give Parties an opportunity to review and comment on DCP 106. Eleven responses were received from Parties and are documented in full in Appendix C.
- 4.2 The responses to the consultation were mixed, and did not fall completely along Party lines. Most DNO respondents do not support the change, but one DNO respondent does generally support the principles of the change. The Working Group discussed each response and its comments are summarised alongside the Consultation responses in Appendix C. A summary of the responses received, and the Working Group's conclusions are set out below:
- 4.3 Question 1 - Do you understand the intent of DCP 106? All Respondents understood the intent of DCP 106. There was one Party which noted that they were unclear what sort of application by DNOs to Ofgem are being referred to that are not already dealt with via the Licence definitions of allowed revenue or Ofgem's consultation process. The Working Group

discussed this point, and it was confirmed by the Proposer that the intent of DCP 106 is to include all applications that could lead to a change in revenue.

- 4.4 Question 2 - Are you supportive of DCP 106's principles? The responses to this question were split on Party lines, with all Suppliers being supportive of the principles, while the majority of DNOs are not supportive. One DNO within this group stated that they were supportive of the principles of assisting Suppliers in better understanding the risks around future DUoS charges but that they did not feel that this additional step was necessary given the existing Ofgem consultation process for changes. The exception to the split on Party lines was one DNO which noted that they are generally supportive of DCP 106's principles.
- 4.5 One Supplier Party noted that Suppliers do not currently receive notice of DNO applications to Ofgem to increase/decrease their allowed revenue. They felt that there should be greater visibility for Suppliers in regard to potential extraordinary allowed revenue changes which may result in DUoS tariff changes.
- 4.6 It was further noted by another Supplier Party that DCP 106 will enable Suppliers to more accurately forecast DUoS tariffs, thereby reducing the risk margin for consumers on consolidated contracts. This Party also felt that DCP 106 will enable consumers on pass through DUoS contracts to forecast changes to their current costs more accurately.
- 4.7 DNO Parties noted whilst they are supportive of the principle of assisting Suppliers in better understanding the risks around future DUoS charges; the approach to addressing this needs to be proportionate. It was noted that there are currently existing License conditions and practices that are in place to address these issues and most DNOs do not feel this additional step is necessary given the existing Ofgem consultation process for changes to revenue.
- 4.8 One DNO Party provided a detailed response to this question and raised many issues which the Working Group discussed. The first point was that DCP 106 is based on a fundamental misunderstanding of how the Distribution Price Controls work in practice. The Respondent noted that they feel this CP confuses 'tariffs' with 'allowed income', and applies to allowed income something that properly relates to tariffs, namely

adequate notice of forthcoming price changes.

- 4.9 The Respondent also notes that DCP 106 is predicated on the notion that there is something called a 'revenue change request', which to its understanding there is no such thing. The Respondent further explained that the price controls work by determining 'Combined Allowed Distribution Network Revenue'. The Licensee is obliged to take all appropriate steps to ensure that, within any Regulatory Year, its charges will recover an amount of revenue that does not exceed this amount. The Respondent stressed that in their opinion the important point is that the allowed revenue is the product of a predetermined algebraic expression: no 'revenue change request' is made under the Licence. The licensee is entitled to set its charges to collect the revenue that the algebra, and the definitions that are necessary to give numerical meaning to that algebra, determines is the 'Combined Allowed Distribution Network Revenue'.
- 4.10 The respondent further noted that there are some components of Distribution Price Control conditions in respect of which the Authority may or must exercise a particular function that, once exercised, has an impact on one of the sub-components of the algebra.
- 4.11 They noted that however, this is simply the means by which the price controls complete the process that takes place at a Distribution Price Control Review for situations that cannot be resolved with full mechanistic effect in the Licence during the price-control review process itself due to timing issues. For example, a provision is made in Carbon Reduction Commitment (CRC) 18 for certain Price Control reopeners that cater for the recovery of uncertain costs. This condition stipulates that the Authority 'must consult with the licensee' before determining a 'relevant adjustment' under the condition. It makes no specific provision for the Authority to consult with anyone else, but Ofgem's practice has been to consult where it thinks that it is appropriate to do so. The Respondent noted that they believe that this is the correct approach to the issues about which the Proposers of this change are concerned.
- 4.12 The respondent further noted that the Distribution Price Controls are built around the premise that the Licensee deals with the Regulator, Ofgem, on matters relating to its Price Controls; whereas the Licensee deals with Suppliers and Generators with respect to the charges that it makes to

those Parties. The respondent noted that they feel that this distinction should be maintained. The respondent explained that in their opinion the Suppliers' and Generators' protection is (a) in the process by which the Distribution Price Controls are determined; (b) in the notice periods that a DNO has to recognise before it can change tariffs; and (c) the Authority's consultative process before it reaches any important decision.

4.13 The Working Group discussed the above points in great detail. The proposer noted that Ofgem are not obliged to consult on such issues and that there are examples of recent Ofgem decisions made without industry consultation which have allowed the collection of additional revenue. It was noted by the Proposer that these had come through with very little notice and, in some cases, shortly after Suppliers had set domestic tariffs and agreed commercial customer contracts based on information that did not include a provision for the change. It was further noted during the discussion that even if Ofgem do consult, this can take time between the original request and the consultation going out; and the Supplier Parties agree that DCP106 will give advance notice that these additional revenues are being considered which they consider will provide assistance in their forecasting.

4.14 It was also noted by the Proposer at a later stage in the Working Group that DCP 106 links in with Ofgem's proposals in their current consultation on "Mitigating network charging volatility arising from the price control settlement"¹. This consultation has arisen as a result of stakeholder engagement which forms a core part of the new RIIO Price Control framework; and one of the key issues raised through this engagement process is network charging volatility. In the consultation document Ofgem have noted that perceived volatility in network charges may act as a barrier to entry to the retail energy market, particularly for smaller suppliers who may be less able to absorb network charge fluctuations.

4.15 One Respondent noted that a number of the discussions between DNOs and Ofgem will be of a confidential nature and the proposal does not explain how these would be handled. The Working Group discussed this point and there were members of the Working Group that disagreed that the information is confidential and that it will be made available from

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=368&refer=Networks/Policy>

Ofgem at a later stage through a the Consultation process. Other Working Group members with a differing view noted that the information could be confidential in the earlier stages of the discussions with Ofgem; this includes not only the reasons for the application but also the values associated with this information. The Proposer and other members of the Working Group noted that DCP 106 does not intend to gather detailed information regarding the reasons for request, but the basic details behind the financial values of the application. This will assist in forecasting potential tariff changes. As a result, the Proposer believes that the issue of confidentiality has been addressed in the proposed solution.

4.16 The Respondent also noted that for formal reopener discussions, DNOs may request to be allowed to recover an amount, but Ofgem will review the supporting information and only allow a percentage of the request to be recovered. The Respondent therefore feels that this adds to the risk premium Suppliers may add into tariffs, not reduce it as stated within the Change Proposal.

4.17 The proposer recognises the risk that the value may change, and the Suppliers will decide how to manage this risk. However, it is the visibility of these requests that the Suppliers are requesting; and from this they will decide how to manage the risks associated with them.

4.18 Question 3 - Do you agree that DCP106 better meets the DCUSA General Objectives? Please provide supporting comments along with your assessment against the objectives. The responses to this question were split on Party lines, with the exception of one DNO, with all Suppliers being of the opinion that DCP 106 better facilitates DCUSA Objective 2², while the majority of DNOs felt that Objective 2 was not better facilitated.

4.19 A slight majority of the eleven consultation respondents agreed with the Working Group that DCUSA Objective 2 is better facilitated by the CP. The following table outlined the respondents' views on which Objectives are facilitated by the CP:

| | General Objective |
|-------------|-------------------|
| Objective 1 | 0 |
| Objective 2 | 6 |
| Objective 3 | 0 |

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

| | |
|-------------|---|
| Objective 4 | 0 |
| Objective 5 | 0 |

- 4.20 One Supplier Respondent noted that Objective 2 will be better facilitated as DCP 106 will facilitate effective competition by giving visibility to DCUSA Parties regarding applications to the Authority by DNOs to Change Allowed Revenue. It was explained that this will help Suppliers set their prices to customers more accurately by being able to take account of potential extraordinary changes to allowed revenues which may result in DUoS tariff changes.
- 4.21 Other Supplier Respondents noted that DCP106 would allow suppliers to plan for changes in distribution charges at an earlier stage in the process.
- 4.22 One DNO Respondent noted that in their opinion even if Suppliers had earlier sight of potential cost changes that may potentially enable better Supplier price forecasting, they were unconvinced that this would necessarily feed through into actual prices to customers any earlier than with current mechanisms that are in place. It was for that reason they were unconvinced that the change proposal better meets DCUSA General Objective 2 as suggested by the Proposer in the Change Proposal.
- 4.23 The Working Group discussed these points in detail. Within the Working Group, there was a difference of opinion on whether the respondent understood the intent of the CP, opposed to whether DCP 106 will actually facilitate competition within the Industry. The proposer reiterated that DCP 106 is related to risk management and forecasting and that these decisions could potentially turn into real prices in the market which will affect competition. However, another Working Group member noted that if this visibility actually did not result in a change in prices, competition is not facilitated and the DCUSA Objective 2 would not be facilitated.
- 4.24 Members of the Working Group further noted that there are potentially Suppliers that are in the market which may be reluctant to offer certain products due to unpredictability within the market. Should DCP 106 be implemented the visibility of these risks could enable them to participate more fully within the market. The more visibility of risks which you have information about can influence the products that are offered by all Suppliers.

- 4.25 Question 4 - Do you agree that the legal drafting meets the intent of DCP 106? Please provide supporting comments. The responses to this question once again were split along Party lines, with the exception of one DNO respondent, with Suppliers agreeing that the legal drafting meets the intent of DCP 106, whilst the DNOs do not think that it meets the intent.
- 4.26 One Party noted that whilst they support the wording of the legal text, it does not detail where within DCUSA the drafting would sit within the document. The Working Group noted this comment and agreed that once a final version of the legal drafting is agreed by the Working Group, it will be sent to the DCUSA Legal representatives and they will detail where the legal drafting will be inserted into the DCUSA. It was noted that the Working Group will have full input and visibility of this process.
- 4.27 Another Party noted that they do not agree that the legal drafting meets the intent of the CP as the change proposal specifically refers to visibility for Suppliers of potential extraordinary changes to revenues which may result in tariff changes. It was noted that in their opinion the legal drafting fails to capture this sufficiently. The Working Group noted this point, and will examine ways to make the legal drafting more robust to address these concerns in the final version.
- 4.28 One Party noted that they had concern whether the Working Group could develop legal drafting that totally met the intent of DCP 106, which is seeking information but also respecting confidentiality. It was noted that the solution only seems to permit the reason for the application to the Authority to remain confidential when the entirety of the detail of the application may be deemed confidential by the DNO. The Party also noted that the legal drafting allows for the reason for the "revenue change request" to remain confidential, and in it is their opinion that they believe this is flawed because if the reason for the approach to the Authority is confidential; then some, or indeed all of the sought-after information items as set out in the legal drafting, are highly likely to be confidential as well. In their opinion this can be interpreted to mean that the proposed solution does indeed seek potentially confidential information, which is in conflict with the stated intent of the change proposal.
- 4.29 All other comments from Respondents were discussed and where appropriate the Working Group agreed to amend the legal text to ensure

clarity and completeness.

- 4.30 Question 5 - Are there any alternative solutions that should be considered by the Working Group? There were only 2 Respondents who offered alternative methods to be considered by the Working Group, or offering their opinions on how the process should work; whilst the other 9 Respondents did not think that there were any other solutions that should be considered.
- 4.31 One DNO respondent noted that in their opinion the correct way to address this issue is for Ofgem to consult, where it deems it appropriate, before it exercises any discretion that would materially change allowed income. It was noted that Ofgem will likely do that anyway, but if some express commitment to this is necessary, the correct place to impose that is in the Distribution Price Control conditions themselves. It was further noted that if Suppliers require longer notice of changes in charges; this is best dealt with in the notice periods for changes in Use of System charges.
- 4.32 The Working Group discussed this comment, and although a valid point, it was agreed that this was outside the scope of this Working Group as it would not meet the intent of the change proposal.
- 4.33 Another DNO respondent noted that whilst they consider that the existing DCP 066A quarterly update process is sufficient for meeting suppliers' needs; should further steps be considered necessary an alternative approach might be for Ofgem to agree to publish a summary of relevant requests from DNOs.
- 4.34 The Working Group discussed this comment and agreed that this solution would not meet the intent of DCP 106.
- 4.35 Question 6 - Are there any items that are currently on the template which should be listed as optional or confidential? There were varying responses to this question from the Respondents. The Working Group agreed that discussions during previous questions addressed most comments submitted to this question as it was already previously agreed that all elements of the application could be deemed as confidential by the DNO.
- 4.36 One Respondent noted that as some of the table may be still under review, be an estimate, or have more than one option around it; the table needs to allow for the scope to add text to that effect if required. The Working Group

discussed this response and agreed to keep the table as has been presented in the Consultation document.

- 4.37 Question 7 - Are there any reasons that the DNOs should not supply this information to Supplier parties? The responses to this question were split along Party lines with Suppliers agreeing that there are no reasons for DNOs not to supply the information to Suppliers; while DNOs, with the exception of one DNO respondent, feeling that there are numerous reasons that this information could potentially not be supplied to Parties.
- 4.38 One DNO Respondent noted that informal discussion between DNOs and Ofgem should be confidential. If an application to change allowed revenue is made then this is governed by an open consultation process administered by Ofgem who also determine if and when any changes to allowed revenue should be made. The Respondent also highlighted that there are also significant restrictions on DNOs changing their tariffs currently in place.
- 4.39 Another DNO Respondent noted that the information concerned is highly likely to be both commercially confidential and market-sensitive information. It is therefore inappropriate to be published.
- 4.40 It was highlighted by another DNO respondent that there is no Licence requirement to make such a request public, or the details it contains, and that DCP 106 unreasonably encroaches on the relationship and interaction between DNOs/IDNOs and their Regulator, Ofgem. The Respondent further notes that in their opinion DCP 106 also encroaches upon normal business confidentiality rights and wider compliance obligations in relation to sensitive information. These are matters of considerable concern and should not be eroded on thinly -justified grounds.
- 4.41 It was noted that DNOs currently have existing Licence obligations which prohibit discrimination between any person or class or classes of persons. One respondent expressed concerned that the provision of the information proposed to be required by DCP 106, solely to Suppliers under DCUSA, may place DNOs in breach of this requirement.
- 4.42 The Respondent also noted that DNOs have a general obligation to comply with Competition Law and would recommend that the Working Group considers seeking legal opinion on this change proposal's compliance in that regard.

- 4.43 The DCUSA legal representative responded to the Working Group's queries and noted that there is no overriding legal reason why all such matters must be confidential. Case-by-case requirements for confidentiality may arise, and this possibility has been provided for in the legal text. It was further noted by the legal representative that the fact that there is no such legal reason does not mean, however, that this is necessarily the correct policy approach. The DNOs may believe, and Ofgem may agree that there are good policy reasons for not automatically publishing details of these requests. Ofgem currently consults on the request where it wishes to seek views; however, these are matters of policy not law.
- 4.44 The Working Group discussed and noted all points raised in this response and also agreed to ask the DCUSA Legal representatives about the confidentiality and other issues which have been raised by Parties within their consultation responses.
- 4.45 Question 8 - Do you feel that this information is currently available under any existing License conditions or other regulatory obligations which the Working Group has not considered? The responses to this question were largely split along Party lines, with all Suppliers and one DNO Party agreeing that this information is not available via any other existing License conditions or regulatory obligations.
- 4.46 DNOs generally felt that this information should be provided through the existing License conditions and obligations, and noted that Ofgem has the ability to consult or publish any information it deems necessary. One DNO Respondent noted that this type of information is currently provided into the public domain once the amount and recovery dates are agreed between the DNO and Ofgem.
- 4.47 Another DNO Respondent believes that Ofgem's existing consultation process for changes is sufficient for the purpose of providing information to Suppliers. The Respondent reiterated their opinion that the existing DCP066 quarterly update process is sufficient for meeting Suppliers' needs and there are no additional changes needed to this process.
- 4.48 The Working Group discussed these comments and noted that the intent of the change is to produce a new process for notifying Suppliers of these applications.

- 4.49 Question 9 - Does supplying this information conflict with any existing Licence condition or regulatory obligation? The responses to this question were largely split along Party lines, with all Suppliers and one DNO Party agreeing that this information does not conflict with any existing License condition or regulatory obligation.
- 4.50 One DNO Respondent noted that the Distribution Price Control conditions deal with the determination of allowed income. It was noted that if it is appropriate for Suppliers to participate in any consultation on the exercise of a power by the Authority that is a matter for the Authority and for the Licence rather than for DCUSA. It was further explained that if the purpose of DCP 106 is to give visibility of future charges, this matter is already dealt with in the existing provisions in the licence and in DCUSA on notice of changes to Use of System charges.
- 4.51 Another DNO Respondent reiterated that in their opinion the information concerned is highly likely to be both commercially confidential and market-sensitive, and therefore it is inappropriate to be published.
- 4.52 The Working Group discussed all the responses and agreed that these had been discussed in earlier questions and that the changes which are being suggested by DNOs would not meet the intent of DCP 106 as it seeks to establish a new procedure for giving Suppliers advance notice of this type of information.
- 4.53 Question 10 - Does supplying this information conflict with any company disclosure procedures/guidelines? The responses to this question were mixed with most of the Respondents who were against the Proposal citing reasons of confidentiality.
- 4.54 The Proposer, within their response, noted that the Working Group have addressed the confidentiality issue by allowing the reason for revenue change request to remain confidential. It was also noted that they do not perceive why there would be any reasons not to supply this information to Suppliers and Customers in the form that the template specifies.
- 4.55 It was noted by one DNO Party that the solution only seems to permit the reason for the application to the Authority to remain confidential when the entirety of the detail of the application may be deemed confidential by the

DNO. The Party also noted that the legal drafting allows for the reason for the “revenue change request” to remain confidential, and in it is their opinion that they believe this is flawed because if the reason for the approach to the Authority is confidential; then some, or indeed all of the sought-after information items as set out in the legal drafting, are highly likely to be confidential as well. In their opinion this can be interpreted to mean that the proposed solution does indeed seek potentially confidential information, which is in conflict with the stated intent of the change proposal.

- 4.56 Another DNO Party also noted that the requested information may be both commercially confidential and market-sensitive. The disclosure to other DCUSA Parties may clash with wider confidentiality obligations and practice in relation to the handling and dissemination of such information. The Working Group noted this point and agreed that it had been discussed and addressed within the other confidentiality concerns.
- 4.57 Question 11 - For DNOs: What is the average/expected time period between requesting a change in revenue from Ofgem and when the information is released publicly? The Working Group noted that no Parties offered an average time scale but rather generally explained that the information is dependent upon the specific circumstances of each application.
- 4.58 One DNO Party noted that in their opinion this question illustrates the misunderstanding they feel is happening with this CP. The Respondent explained that changes to allowed income feed through the price control formulae automatically. It was noted that Distributors do not go to Ofgem and ask for consent to change their tariffs from a particular date; they go to the Authority and ask the Authority to exercise a function that already exists under the Act or the licence and, if that function is exercised, it may impact on allowed income in the manner set out in the condition.
- 4.59 Question 12 - For Suppliers: Why is receiving this information beneficial to both your organisation and the Industry? Please provide information on how the benefits would affect your organisation, and how current procedures fail to provide adequate information about DNOs expected changes in revenue. The Proposer’s response to this question noted that the implementation of this proposal will be beneficial to Suppliers and Customers. DCP 106 assists Suppliers offering consolidated contracts as

greater visibility of potential revenue changes allows them to reduce risk margin within their tariffs. In their opinion, this will result in more cost reflective charges, thereby improving competition in supply. The proposal also allows consumers on pass through contracts to forecast likely changes to their current costs.

- 4.60 It was further noted that changes to Suppliers' DUoS tariff forecasts as a result of receiving this additional information is at the Suppliers' risk. In their opinion, the provision of this data enhances market data transparency allowing Suppliers to take a more informed view of the risks involved.
- 4.61 Another Respondent noted that as Suppliers do not currently receive notice of DNO applications to Ofgem to increase/decrease their allowed revenue; this information will help Suppliers set their prices to customers more accurately by being able to take account of potential extraordinary changes to allowed revenues which may result in DUoS tariff changes.
- 4.62 Another supplier noted that this would allow larger customers to be aware of potential DUoS changes. This was confirmed by the working group as an activity that can be provided by their suppliers.
- 4.63 Question 13 - Do you agree with the proposed implementation date for DCP 106? If not, please provide supporting comments and suggest an alternative. The responses to this question were mixed. The Respondents who did not agree with the implementation date noted that they did not think DCP 106 should be implemented at all, and therefore, they did not agree with the implementation date.
- 4.64 One DNO Respondent noted that the implementation date of "Immediately following approval" is impractical from a DCUSA publication perspective, and that "Next release after approval" is a more sensible approach. The Working Group noted this comment, and the Proposer agreed to take this into consideration.
- 4.65 Question 14 - Please state any other general comments or views on DCP 106. There were additional comments raised by Respondents, most of which were reiterations of points that were raised in previous questions which are used to validate their position on DCP 106.
- 4.66 The Proposer noted that Ofgem should consider if there is sufficient reason for DNOs to withhold this information from suppliers and customers. In their

opinion, if there is not sufficient reason to withhold information relating to these requests from the market, then it is their belief that DCP 106 should be approved.

4.67 A DNO Respondent reiterated that they do not believe that implementation of this Change Proposal would truly assist Users, as until Ofgem approve the change the revenue position is uncertain. In their opinion, Users benefit from data certainty rather than notification of possible changes which may or may not come into effect in the future.

4.68 The Respondent also noted that DNO/IDNO Parties should be entitled to maintain information confidentiality with their industry regulator, Ofgem, where they determine any information to be commercially confidential or market-sensitive. It was reiterated that this may extend to the entire application and that any other position is unreasonable and has potentially wide-ranging implications for a DNO/IDNO business and on wider compliance obligations.

5 DCP 106 – WORKING GROUP CONCLUSIONS

5.1 The Working Group's opinion, reflecting Party opinion as presented in the Consultation responses, is divided on the requirement for and the merits of DCP 106. However, Working Group members have concluded that the proposed drafting best meets the intent of DCP 106 and therefore should be issued for voting and Party determination.

6 PROPOSED LEGAL TEXT

6.1 The proposed legal drafting of DCP 106 has been considered by the Working Group, and reviewed by Wragge & Co, and is attached as Appendix B.

6.2 The DCP 106 legal drafting seeks to insert a new Clause and table into Schedule 15 of the DCUSA, while amending Paragraph 1.1 of Schedule 20. Within Schedule 15, the new clause will detail the requirements associated with Applications to the Authority to Change Allowed Revenue; whilst the amendment in Schedule 20 will update the Clause reference numbers to take into account the insertion of the new Clause associated with DCP 106.

7 EVALUATION AGAINST THE DCUSA OBJECTIVES

7.1 The majority of the Working Group considers that the following DCUSA Objective is better facilitated by DCP 106:

- Objective 2³ – Better Facilitated. Effective competition will be promoted by this modification as it will give Suppliers and consumers further transparency of future changes to revenues which could impact DUoS charges. This assists suppliers offering rolled up contracts as greater visibility allows them to reduce risk premia within their contracts and also allows consumers on pass through contracts to understand their costs. This will result in more cost reflective tariffs, thereby improving competition in supply.

7.2 The Working Group did not reach a unanimous agreement that DCP 106 better facilitates DCUSA General Objective 2, with the results being split along Party lines with Suppliers agreeing that the objective is better facilitated and the DNO Parties not agreeing with this assessment; the exception was one DNO who agreed with the Suppliers that Objective 2 is better facilitated.

8 IMPLEMENTATION

8.1 DCP 106 is classified as a Part 1 matter in accordance with Clause 9.4.2 (B) of the Agreement, and therefore will go to the Authority for determination after the voting process has completed.

8.2 The implementation date, subject to Authority approval, is the next DCUSA release following Authority consent.

9 ENGAGEMENT WITH THE AUTHORITY

9.1 Ofgem has been fully engaged throughout the development of DCP 106 as a member of the Working Group.

10 PANEL RECOMMENDATION

10.1 The Panel approved this Change Report by ex-Committee on 25 July 2012. The Panel considered that the Working Group had carried out the level of

³ 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

analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 106.

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

| Activity | Date |
|---------------------------------|--|
| Change Report issued for voting | 25 July 2012 |
| Voting closes | 10 August 2012 |
| Change Declaration | 14 August 2012 |
| Authority Decision | 19 September 2012 |
| CP Implemented | Next DCUSA release following Authority consent |

11 APPENDICES:

- Appendix A – DCP 106 Change Proposal
- Appendix B - Proposed Legal Drafting
- Appendix C – DCP 106 Consultation Documents
- Appendix D - DCP 106 Voting Form