



DCUSA Change Report

DCP 105 - FIXED BI-ANNUAL AMENDMENT OF DUoS TARIFFS

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 105 – Fixed Bi-Annual Amendment of DUoS Tariffs. 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.
- 1.2 Parties are invited to consider the proposed amendments (Appendix A) and submit their votes using the form attached as Appendix C to dcusa@electralink.co.uk by 03 February 2012.

2 SUMMARY

- 2.1 Under Clause 19.1 of the DCUSA, Distribution Network Operators (DNOs) are required to use reasonable endeavours not to vary their charges more than two times a year. DCP 105 has been raised by Npower seeks to restrict changes for DUoS tariffs to the 1st of April and the 1st of October only.
- 2.2 DCP 105 considers that uncertainty around the dates when DNOs can change their tariffs may make it difficult for Suppliers to forecast DUoS tariffs accurately. Ensuring that there are only two fixed dates where Distributors can change their DUoS tariffs will allow Suppliers to forecast and price customers more accurately.
- 2.3 DUoS tariffs are also of concern to large Industrial/Commercial customers as they are often on direct “pass through” contracts. DCP 105 will also allow Consumers on these contracts to forecast likely changes to their current costs.
- 2.4 Currently within the DCUSA, DNOs may vary their tariffs at any time, but must use reasonable endeavours to:
- (1) vary such charges no more than two times per year; and
 - (2) vary such charges from 1st April or 1st October.
- 2.5 This means that Distributors could alter their tariffs during any month of the year to account for movements within their expected revenue. DNOs are required to provide Suppliers with details on their revenue recovery position and costs in order to provide transparency and improve tariff predictability.

- 2.6 In practice to date, the majority of DNOs have made up to two price changes a year. Only in a small number of cases have changes to prices been made outside of the April and/or October guidelines.
- 2.7 DCP 105 does not seek to amend the current dates for price changes, and will have no impact on any conditions imposed by Licence Condition 14A such as notice periods.

3 DCP 105 – WORKING GROUP

- 3.1 The DCUSA Panel established a Working Group to assess and develop DCP 105. The Working Group consisted of representatives from DNOs, Suppliers and Ofgem.

4 DCP 105 CONSULTATION

- 4.1 A consultation was issued to Suppliers, DNOs, IDNOs and Consumers on the 07 October 2011 to determine whether parties were supportive of the intent of DCP 105 and the impact it would have on them if implemented.
- 4.2 All respondents to the consultation indicated that they understood the intent of the DCP 105. However the proposed solution was not supported by all Parties, as illustrated in the table below:

	Supportive	Not supportive	Undecided
Suppliers	8	1	1
DNOs	0	6	0
IDNOs	2	1	0
Consumers	2	0	0

- 4.3 Consultation respondents noted the following in relation to the DCUSA General Objectives:

- Objective 1¹ – One IDNO Party noted in its Consultation response that Objective 1 was facilitated as it would provide more efficient use of resources as changes to Charging Statements and systems will be limited to twice each year.

¹ The development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System

- Objective 2² – The majority of respondents agreed that DCUSA Objective 2 was better facilitated by the CP. The Working Group agreed that DCP 105 will result in more cost reflective tariffs, thereby improving competition in supply.
- Objective 3³ – DNO Parties noted in their consultation responses that the CP would be detrimental to DCUSA Objective 3, as it would affect DNOs' existing licence obligations in relation to use of system charge restrictions.
- Objective 4⁴ – A number of Parties noted in their consultation responses that DCP 105 would restrict the quantity and timing of distribution tariff changes. It would therefore reduce the workload associated with implementing these changes and increase efficiency.

4.4 A summary of the collated consultation responses and Working Group comments to the responses is attached as Appendix B.

5 WORKING GROUP CONSIDERATIONS

5.1 As part of its assessment of DCP 105, the Working Group considered other CPs that had previously been raised in relation to this issue. DCP 100 'Proposed move to Annual Amendment of DUoS Charges' was raised in November 2006 and sought to limit price changes to one amendment per annum. . An alternate CP (DCP 100A) was raised which allowed two changes a year (in April and October) with reasonable endeavours not to vary them more frequently.

5.2 DCP 001A was approved by Ofgem and was implemented in November 2007. Ofgem considered that by restricting the number of tariff changes and aligning the timing of those changes across Distributors would likely reduce costs to Suppliers and therefore reduce barriers to entry in the Supply Market. However, it also considered that allowing two changes instead of one would provide more flexibility in relation to tariff changes to ensure that DNOs meet their licence conditions.

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

³ The efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.

⁴ The promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it.

- 5.3 The Working Group considered that the solution proposed DCP 105 should reflect these principles highlighted by Ofgem in its determination on DCP 001/001A.
- 5.4 The Working Group considered whether DCP 105 relates to Licence Condition 14 Part A or Charge Restriction Condition 14. It concluded that the change relates to Licence conditions 14 14.1, 14.3 and 14.4 and does not relate to LC14 - Appendix 1 - Part A, which details the elements which the Charging Statement needs to include.
- 5.5 One DNO noted in its consultation response that the CP should consider rebates. The Working Group concluded that rebates only impact this CP to the extent that the DNO will need to include the detail of the rebate(s) in their LC14 Charging Statement for any Price Change. To the Working Groups knowledge no rebates have ever been sought in relation to this.
- 5.6 The DCP 105 Working Group considered that should the CP be implemented there will be certain periods within a year when DNOs would not be able to over/under recover their allowed revenues for that regulatory year and could possibly be in breach of their Licences.
- 5.7 The following timetable highlights what the impact would be for a change identified at certain points within the year:

Identification of Problem	Current Process	Changes due to DCP 105
April	A price change would need to be published on or before the 30 th April for a 1 st August effective date	Next price change date would be 1 st October instead of 1 st August and no change to regulatory year of recovery
May	A price change would need to be published on or before the 31 st May for a 1 st September effective date	Next price change date would be 1 st October instead of 1 st September and no change to regulatory year of recovery
June	A price change would need to be published on or before the 30 th June	No change and no change to regulatory year of recovery

	for a 1 st October effective date	
July	A price change would need to be published on or before the 31 July for a 1 November effective date	Next price change date would be 1 st April instead of 1st November and recovery in next regulatory year
August	A price change would need to be published on or before the 31 August for a 1 December effective date	Next price change date would be 1 st April instead of 1 st December and recovery in next regulatory year
September	A price change would need to be published on or before the 30 September for a 1 January effective date	Next price change date would be 1 st April instead of 1 st January and recovery in next regulatory year
October	A price change would need to be published on or before the 31 October for a 1 February effective date (only 2 months to recover the revenue within year)	Next price change date would be 1 st April instead of 1 st February and recovery in next regulatory year
November	A price change would need to be published on or before the 30 November for a 1 March effective date (only 1 month to recover the revenue within year).	Next price change date would be 1 st April instead of 1 st March and recovery in next regulatory year
1 December – Christmas	A price change would be possible with an effective date of three months from the publication date, but this would not be a 1st of the month change (however this is unlikely as you would have less than a calendar month to recover the revenue).	Next price change date would be 1 st April – no change if not a mid-month price change and no change to regulatory year of recovery
Christmas – Jan	Any price change would not be	Next price change date would be

	possible prior to the 1st April and thus outside of the current Regulatory year	1 st October no change to regulatory year of recovery
Feb	Any price change would not be possible prior to the 1st April and thus outside of the current Regulatory year	Next price change date would be 1 st October and no change to regulatory year of recovery
March	Any price change would not be possible prior to the 1st April and thus outside of the current Regulatory year	Next price change date would be 1 st October and no change to regulatory year of recovery

5.8 The DCP 105 Working Group has detailed the positive and negative impacts of the CP:

Impact on Suppliers:

5.9 Suppliers have indicated that the CP would reduce risk as it would remove uncertainty of UoS charges, allowing them to forecast tariffs with more accuracy. Suppliers argue that fixing the DUoS price changes to April and October will make it easier for them to forecast DUoS tariff changes since there will only be two months in the year where prices can change. This would result in more cost reflective tariffs for customers on 'non pass through' DUoS contracts as well as reducing risk margins which may be applied. The uncertainty faced by Suppliers may lead them to factor in a risk premium to cover unexpected changes in UoS charges and this is detrimental to customers. Both Suppliers and Customers could be subject to unexpected changes in cash flow as a result of ad-hoc UoS charge changes.

5.10 In response to the consultation, Suppliers indicated that there may be an issue if pass-through arrangements DUoS charges are not in place. They did note that the level of concern may be dependent on whether charges are increasing or decreasing. There is a potential that Suppliers with non pass through of DUoS charges in contracts that are in place with customers, potentially may under recover DUoS charges that are invoiced by Distributors.

- 5.11 Suppliers indicated that fixing the DUoS price changes to April and October will make it easier for them to forecast DUoS tariff changes since there are only 2 months in the year where prices can change. The CP will therefore result in more cost reflective tariffs for Customers on 'non pass through' DUoS contracts as well as reducing risk margins which may be applied.

Impact on DNOs:

- 5.12 DNOs recognised that the proposed change would deliver greater certainty for Suppliers, but consider that the current arrangements deliver a high degree of assurance while being consistent with DNO licence obligations.
- 5.13 DNOs indicated that should a price change be required due to an unforeseen revision of data being required (such as the correction of a data input error) this CP would limit the options available in order to correct it within a reasonable period. DNOs are able to set tariffs to recover allowed revenues. The control on this is the applicability of penalties if over/under-recovery goes outside defined limits. DCP 105 may impair DNOs ability to interact with this control and could impair their ability to balance revenue allowances. Should a price change be required due to an unforeseen revision of data being required (such as the correction of a data input error) then this change would limit the options available to correct it within a reasonable period. If a DNO is unable to adjust tariffs to target a zero recovery, outside the two proposed fixed change dates, Suppliers and their customers may have to bear tariff adjustments in year $t+1$.

Impact on IDNOs:

- 5.14 Under the terms of their current Charging Methodology, IDNOs currently 'mirror' the host DNOs charges. Any price changes made by the DNOs have to be reflected in the IDNOs own Charging Statements. Additional changes outside April and October would cause additional administration work for IDNOs to update their Charging Statements and apply tariff amendments in to their billing system and business quotation systems.
- 5.15 Restricting amendments to twice a year would ensure that there are static administration charges for departmental budget purposes and provide greater confidence in tenders quoted based on current and forecast prices.
- 5.16 One IDNO indicated that by limiting DUoS changes to April or October

restriction it could lead to delays in bringing about price changes that better meet the objectives and the requirements of Competition Law. The Working Group concluded that although there maybe margin squeezes as a result, it is not a fault with this CP but a system error. The group concluded that DCP 105 does not impact Competition law.

Impact on Consumers and Potential Tariff Volatility:

5.17 Consumers have indicated that limiting prices changes to twice a year will ensure price certainty, aid budgeting and result in a reduction in administration. Consumers also highlighted price changes outside of two fixed dates would mean they have the inability to accurately forecast and profile budget expenditure, accurately prepare for the negative impact of price change. Consumers highlighted that currently they continually check if DUoS charges have changed as they are not always notified by DNOs. Consumers also agreed that any price modelling and comparison is more effective if there are two fixed date changes per year.

5.18 Ofgem questioned whether restricting the ability of Distributors to make prices changes to only twice a year, April and October, could lead to greater volatility in the prices during those times. The Working Group discussed this point in detail and concluded that the volatility would likely not vary from the levels that already exist. However, it was noted that by allowing price changes only twice a year, the magnitude of the change could potentially be greater than those under the current system. Customers who responded to the Consultation expressed the view that this would be their preferred method, rather than having uncertainty around a potential price change at any point during the course of the year.

Impact on new Suppliers

5.19 The Working Group agreed that the potential tariff volatility that may result from a lack of change periods, especially on fixed business contracts and new Suppliers would be negligible. The CP may result in a difference in prices paid before a new Supplier enters the market, however there will be no effect on competition going forward.

General Impacts:

5.20 One DNO noted in its consultation response that it will not be able to comply with Licence Condition 38, covering a Supplier of Last Resort provision, if DCP 105 is implemented.

5.21 The Working Group concluded that a 'Valid Claim' is a defined term within clause 9 of the Supplier licence, however under clause 38 of the Distribution Licence the increase in the Use of System charges is to cover the event that Supplier has a claim '... to compensate for any additional costs that it has incurred as a result of complying with a direction from the Authority to supply electricity to premises in accordance with standard condition 8 (Obligations under Last Resort Supply Direction) of the Supply Licence'. The Working Group concluded that there is a potential risk that there could be a valid claim, but to date there have been no claims made and therefore the risk is minimal.

5.22 The CP does not seek to change arrangements under the price control. This CP addresses the point in time where price changes happen and not the total revenue that is recovered under the price control period, although the Regulatory Year when the revenue will be collected could be different.

Impact on charging methodology

5.23 The Working Group agreed that the CP does not impact the Charging Methodologies. It was the view of the group that the Common Distribution Charging Methodology (CDCM) model does not allow mid year price changes at present without adapting the inputs, and that a change was already in progress to change the charging model to allow mid year price changes.

Additional Request for Information

5.24 Ofgem issued a Request for Information to DCUSA Parties on 24 November 2011 asking them to provide:

- Information about the times that DNOs communicated changes of charges outside of April or October, over the past 3 years (since DCP001);
- The financial impacts associated with those change to prices, historical or potential; and
- Proposals for how DNOs could / should communicate any manifest error

or any other change due to other exceptional circumstances without breaching the licence; and the likely potential difference to the current arrangement.

5.25 The responses were issued to Ofgem for its consideration as part of its assessment of the CP. All responses were treated as confidential and have therefore not been published in this Change Report.

6 PROPOSED LEGAL DRAFTING

6.1 The proposed legal drafting of DCP 105 has been drafted by Wragge and Co and is attached as Appendix A.

6.2 The DCP 105 legal drafting will update DCUSA Clause 19.1. The change will mean that DNOs can only vary their charges on the 1st April or the 1st October of each year.

6.3 The CP does not make any changes to the requirement for DNOs to give written notice to Suppliers when they vary their charges.

7 EVALUATION AGAINST THE DCUSA OBJECTIVES

7.1 The Working Group considered the consultation responses regarding whether DCP 105 better facilitated each of the DCUSA General Objectives and determined:

- Objective 1⁵ – No Impact.
- Objective 2⁶ – Better facilitated. The Majority of the Working Group concluded that DCP 105 will result in more cost reflective tariffs, thereby improving competition in supply. The CP allows Suppliers to forecast and price customers more accurately, and provides confidence also to IDNOs when they are issuing quotes and forecasts to their own clients. The proposal will also ensure that competition will be promoted as it will reduce unexpected price changes for Suppliers and Consumers. This assists Suppliers offering contracts where DUoS charges are consolidated into the customers' overall rates since it allows them to reduce risk premium within their

⁵ The development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System

⁶ 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

contracts. Some Working Group members felt that the CP has a negative impact on this objective as it may impact markets by making prices more volatile.

- Objective 3⁷ – Not facilitated. The majority of the Working Group concluded that this CP may have a negative impact on this Objective, as it may have an impact on DNOs Licence Conditions. Other Working Group members felt that this Objective was not impacted by the CP as only one price change has been made outside of April or October and therefore the impact on Licence Conditions is minimal. The table in section 5.6 of this report outlines the potential impact the CP has on DNOs and their licence conditions.
- Objective 4⁸ – No Impact. The Working Group concluded that this Objective relates to the efficiency of the processes within the DCUSA agreement and not Parties individual processes. It was therefore agreed that this objective was not impacted by DCP 105.

8 IMPLEMENTATION

8.1 This CP is classified as a Part 1 in accordance with DCUSA Clause 9.5.2 as it seeks to amend Clause 19.1 of the DCUSA. The CP will therefore be issued to the Authority for determination.

8.2 The CP seeks to be implemented on 01 April 2012 to ensure it applies for the 2012/13 charging year.

9 PANEL RECOMMENDATION

9.1 The Panel approved this Change Report at its meeting on 18 January 2012. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 105.

⁷ The efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.

⁸ The promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it.

- 9.2 The DCP 105 Working Group and the DCUSA Panel agreed that the CP impacts all Parties and will therefore be issued to all DCUSA Parties for voting on the 20 January 2012.
- 9.3 The timetable for the progression of the Change Proposals is set out below:

Activity	Date
Change Report issued for voting	20 January 2012
Voting closes	03 February 2012
Change Declaration	07 February 2012
Authority Determination	14 March 2012
CP Implemented	01 April 2012

10 APPENDICES:

Appendix A – DCP 105 - Legal Drafting

Appendix B – Consultation Documents

Appendix C – DCP 105 - Voting Form