DCUSA Change Report

DCP 086 - Introduction of the Annual Review Pack

1 PURPOSE

1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 086 – Introduction of the Annual Review Pack. The voting process for the proposed variation and the timetable of the progression of the CP through the DCUSA Change Control Process is set out in this document.

1.2 Parties are invited to consider the proposed amendments which are attached as Appendices A and B and submit their votes using the form attached as Appendix C to dcusa@electralink.co.uk by 15 September 2011.

2 SUMMARY

2.1 DCP 086 has been raised by CE Electric UK following discussions at Workstream C "Long-Term Products" of the Common Methodology Group (CMG) and the Distribution Charging Methodology Forum (DCMF).

2.2 Distribution Network Operators (DNOs) previously published an Annual Review Pack (ARP) on a voluntary basis alongside the December 2010 indicative Use of System charges. The ARP contains the details of historical and forecast Common Distribution Charging Methodology (CDCM) inputs and the forecast for the Use of System tariffs for the next 5 years.

2.3 The CP seeks to formalise the requirement and place an obligation on DNOs to produce an ARP with the indicative Distribution Use of System (DUoS) charges that are published in December of each year, and to resubmit the ARP if there are any changes to the tariffs in the formal contractual notification provided the following February.

2.4 It is considered that the additional information which is reported within the ARP will allow parties to better understand the levels of volatility, reduce uncertainty, and assist Customers, Suppliers and other stakeholders with forecasting long-term DUoS charges for high-voltage (HV) and low-voltage (LV) customers.

3 DCP 086 – WORKING GROUP

3.1 The DCUSA Panel established a Working Group to assess and develop DCP 086.

3.2 The Working Group identified two key matters for consideration:

- How should the requirement for an ARP be delivered; and
- How should the ARP template be maintained

3.3 The Working Group was fully supportive of the intent of DCP 086 and agreed that an obligation should be introduced to mandate the delivery by DNOs of an ARP by 31 December of each year. It was also agreed that DNOs be required to republish the ARP the following February, should there be any changes to the tariffs in the formal contractual notice of DUoS charges.

3.4 The Working Group supported the business and market justifications set out in DCP 086. They concluded that the additional information in the ARP will allow parties to better understand the levels of volatility and reduce uncertainty. The members of the Working Group agreed that the data provided should assist Customers, Suppliers and any other stakeholders in forecasting long-term DUoS charges for HV and LV Customers.

3.5 The Working Group considered whether the submission of the ARP was sufficient, or whether a set of minimum data items / standard reporting template should also be specified in the DCUSA. The Working Group agreed that any changes to the CDCM model would mean that the ARP template would need to be updated accordingly and made available to all DNOs. The Working Group agreed that standardisation was critical to ensure that Suppliers can compare the DNO submissions and that the ARP template should be located centrally – ideally on the DCUSA website. DNOs would be free to publish the ARP on their own websites if they wish.

3.6 The Working Group considered a number of options for the maintenance of the ARP template including:

- A collective obligation on DNOs to maintain the template (but not specifying the mechanism for doing so); and
- A Panel duty to maintain the template along with the CDCM model.

3.7 The Working Group considered and agreed a preference for publication of the completed ARPs in a public area on the DCUSA website. It was noted that the Secretariat would be obliged to publish the submitted ARP by the third Working Day of January in each year. This would not preclude the DNOs from publishing the information on their own websites.

3.8 The Working Group also considered in detail how changes to the template should be managed to ensure it remains aligned with the model. In particular the group considered instances where the model may be changed between indicative and final prices. Options which were considered included:

- 'Freezing' changes to the model (and therefore the template) if an Authority decision is made after an agreed date;
- Delaying the publication of the ARP if an Authority decision is made after an agreed date; or
- Not making any changes to the template if an Authority decision is made after an agreed date

3.9 The Working Group agreed to issue a consultation to address the above issues.

4 CONSULTATION

4.1 A Consultation was issued to give all Parties an opportunity to review and comment on the CP, the Working Groups' suggested delivery and maintenance mechanism, and to ensure that there will be no adverse impacts upon existing arrangements or unforeseen consequences if the CP is implemented.

4.2 The Working Group met to review the responses received from 11 Parties. The Consultation document and collated responses are attached as Appendix B, but a summary is provided below.

Question one: Do you understand the intent of the CP and are you supportive of its principles?

4.3 All respondents understood the intent of the CP.

Question two: Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.

4.4 All respondents agreed that DCUSA General Objective 2[1] is better facilitated.

[1] The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity.

4.5 5 respondents also agreed that DCUSA Charging Objective 2[2] is also facilitated.

Question three: Are you supportive of the timescales for the timing and frequency of submission/publication proposed by the CP? Please give supporting reasons.

4.6 10 respondents were generally supportive of the timing and frequency of submission/publication proposed by the CP and while 1 was not.

4.7 Of those in favour, 1 respondent indicated that they would need assurance that the modification will be implemented so that the ARP is produced for the indicative prices in December 2011 and therefore that the CP would be implemented on 01 November 2011 (rather than 01 April 2011 as stated in the Consultation). The Working Group noted that even if the implementation date was delayed, the DNOs would still submit the ARP in 2011 on a voluntary basis. They would also need to complete the ARP based on the most recent version of the CDCM.

4.8 Another respondent who was supportive of the timing and frequency for the CP noted that there are a number of Bank Holidays around the time of release which could potentially lead to the ARP being delayed and possibly not issued until the 6th January 2012. The respondent proposed that the publication date of the ARP be changed to 31st December 2011 and aligned with the release of indicative prices. The Working Group agreed that the 3 working days timetable that the change will impose on the DCUSA Secretariat to publish the ARP, following the 31st December 2011, will be appropriate to address the Parties' concerns.

4.9 A third respondent who was supportive of the timing and frequency for the CP indicated that DCP 088 proposes changes to the CDCM model which will more easily enable price changes at dates other than 1 April. They noted that should DCP 088 be approved, it may be appropriate for the ARP to reflect any changes to the CDCM and to be refreshed when a mid-year price change is implemented.

4.10 One respondent disagreed with the proposed timings. They noted that the clear priority for DNOs is to meet existing Licence and DCUSA obligations in relation to the publication of tariffs. The respondent considered that the

[2] that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution licence.)

additional task of ARP delivery should be set to meet a date in early January for indicative tariffs, and a date in early March for final tariffs. This would allow DNOs to manage the tariff activity more reasonably and still provide Suppliers with the information in a reasonable timescale. The Working Group noted that the majority of Parties have agreed with the original intention to publish the ARP with the indicatives prices on the 31 December 2011.

Question four: Which option for the maintenance of the template included is preferred, please give supporting reasons:

4.11 Four respondents preferred the option for a collective obligation for DNOs to maintain the template (but not specifying the mechanism for doing so).

4.12 Seven respondents preferred the Panel to have the duty to maintain the template along with the CDCM model.

4.13 The Working Group, following discussions with the DCUSA Panel, agreed to bring the ARP template into the governance of the DCUSA and that it would be the responsibility of CDCM Working Groups to maintain and update the ARP template. The DCUSA Panel have agreed to update all DCUSA Working Group Terms of Reference to ensure that when a working group reviews a change to the CDCM, they must also consider its impact on the ARP (this will ensure that the CDCM model and the ARP remain aligned). They will then incorporate any necessary changes to the ARP template as part of that change process.

Question five: Please indicate what your preferred option is to ensure that the ARP remains aligned with the charges model should it be changed. For example, these options may be used where the model is changed between indicative and final prices.

4.14 Four respondents preferred the option of 'freezing' changes to the model (and therefore the template) if an Authority decision is made after an agreed date.

4.15 Five preferred delaying the publication of the ARP if an Authority decision is made after a certain date.

4.16 One respondent preferred not to make any changes to the template if an Authority decision is made after an agreed date.

4.17 The Working Group agreed that its preference was that any changes to the CDCM model and template would need to be frozen at a certain date. However, it was agreed that it would be out of the scope of this CP to suggest a change to the CDCM implementation process.

Question six: Are you supportive of the ARPs being published in a public area on the DCUSA website?

4.18 Ten respondents were supportive of the ARP being published in the public area on the DCUSA website.

4.19 One respondent was not supportive of publishing of the ARPs on the DCUSA website.

4.20 The issues were examined by the work and that publishing the ARP was expectable.

Question seven: Do you have any comments on the proposed legal text?

4.21 One respondent noted that the legal drafting should ensure that a provision is made for the ARP and CDCM development to be linked. This is to ensure that parity in terms of the tariff results is maintained (i.e. changes to the CDCM should be rolled out to the ARP as appropriate). The Working Group agreed that the issue of the ARP and the CDCM's development being linked will be a duty by the Panel.

4.22 A second respondent stated that current version of the ARP has 7 years worth of data - 2 years worth of historical data, the current charging period and 4 years of forecast. The legal drafting states that there should be 8 years worth of data, made up of 3 years of history and 5 years of forecast.

5 PROPOSED LEGAL DRAFTING

5.1 The proposed legal drafting of DCP 086 has been drafted by Wragge and Co and is set out in Appendix A.

6 EVALUATION AGAINST THE DCUSA AND CHARGING OBJECTIVES

6.1 The Working Group considered each DCUSA General Objectives:

- Objective 1 – no impact identified.
- Objective 2 – better facilitated on the basis that the CP, if approved, will result in greater transparency over the breakdown and the drivers of use

of system charges for LV and HV connected customers. The CP will enable Suppliers to improve the accuracy of their forecasts and assessments. It will also potential reduce this risk exposure to unexpected changes and will provide a greater insight into the potential range of future charges, both within the current and future price controls. The CP should also allow Suppliers to run their own charging scenarios and make them less reliant on the DNOs. This should facilitate competition between Suppliers as it will enable them to compete more effectively due to this data provision.

- Objective 3 – no impact identified.
- Objective 4 – no impact identified.

6.2 It is considered that although not formally a CDCM Change Proposal, the CP is related to, and better facilitates CDCM Objective 2. This is because of the same principles set out for the facilitation of DCUSA General Objective 2 above. The Consultation respondents also agreed that CDCM Objective 2 was facilitated by this CP.

7 IMPLEMENTATION

7.1 The implementation date of DCP 086, once approved, will be 03 November 2011, with the first ARP to be published on 31 December 2011.

8 ENGAGEMENT WITH THE AUTHORITY

8.1 Ofgem has been fully engaged throughout the development of DCP 086 as a member of the Working Group.

8.2 The Authority have confirmed that DCP 086 will be treated as a Part 2 matter and as a non-CDCM change. The CP will therefore not require Authority consent.

9 PANEL RECOMMENDATION

9.1 The Panel approved this Change Report at its meeting on 31 August 2011. 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 the CP.

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

Activity	Date

Change Report issued for voting	31 August 2011
Voting closes	15 September 2011
Change Declaration	16 September 2011
CP Implemented	03 November 2011

10 APPENDICES:

Appendix A - DCP 086 - Legal Drafting

Appendix B - DCP 086 – Consultation Documents

Appendix C - DCP 086 - Voting Form