

DCUSA CHANGE DECLARATION

DCP 104 – Shared Impact of Manifest Errors in DUoS Charging

VOTING DATE: 02 March 2012

DCP 104	WEIGHTED VOTING		
	DNO	IDNO	SUPPLIER
CHANGE SOLUTION	Reject	Reject	Accept
IMPLEMENTATION DATE	Reject	Reject	Accept
RECOMMENDATION	<p>Change Solution – Reject.</p> <p>In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the Change Solution was not greater than 50% in all Categories that voted.</p> <p>Implementation Date – Reject.</p> <p>In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the Implementation Date was not greater than 50% in all Categories that voted.</p>		
PART ONE / PART TWO	Part One – Authority Determination Required.		

PARTY	SOLUTION (A / R)	IMPLEMENTATION DATE (A/R)	COMMENTS
DNO PARTIES			
Eastern Power Networks plc	Reject	Reject	<p>The Distribution Licence requires us to set charges not to over recover. This change could put us in breach of that condition. While we sympathise with the proposer's concerns, an error in the CDCM calculations may originate in a model which is under code governance and hence is introduced by factors outside of our control and which all parties to that code have an equal opportunity of noticing.</p> <p>We are also concerned about the impact of a scheme that is designed to continue to erroneously over-charge and/or under-charge customers for a three year period in the event of a manifest error. Manifest errors should be corrected as quickly as possible so that any potential cross-subsidisation of charges is not continued. Similarly new entrant suppliers will bear the cost/benefit of this scheme and we question the appropriateness of that.</p> <p>The change report mentions that there were different points of view regarding when the 3 year period in question commences but having asked this question in its consultation, the working group does not come to a conclusion on this in the change report nor does the legal drafting</p>

			<p>appear to address that matter. It is unclear how this change facilitates the charging objectives, which as it changes the methodology it must do. This was not consulted on because the part of DCUSA being varied appears to have changed during the course of the working group discussions. We do not believe that competition is improved by this change. Note that section 7 of the change report seems to muddle charging objectives and general objectives but our interpretation is that the working group did not conclude that this better facilitated the charging objectives. It is also unclear at this time whether the CDCM model would need to be changed in order to incorporate the smoothing of these errors, particularly as regards rebalancing of tariffs (and how it will manage the cumulative effects if there is more than one error over time)? Also note that there is a typo in 179(b) and the footnote should not be in the drafting being voted on.</p>
London Power Networks plc	Reject	Reject	As Eastern Power Networks plc
South Eastern Power Networks plc	Reject	Reject	As Eastern Power Networks plc
Electricity North West Ltd	Reject	Reject	N/A
Northern Powergrid (Northeast)	Reject	Reject	We as a DNO are authorised to set tariffs in

<p>Limited</p>			<p>order to recover allowed revenues and this is controlled by the application of penalties if over/under-recovery goes outside defined limits. Charge restriction condition 14 "Distribution charges: supplementary restrictions" defines the tolerances within which we set charges to recover our allowed revenue (namely not more than 5% over-recovered in any year; or not more than 10% under-recovered in two consecutive years). We think that DCP 104 would seriously impair our ability to interact with this control.</p> <p>Typically, if a manifest error occurs, DNOs would communicate with the regulator to explain the error; evaluate the impact and propose a way forward. Where the regulator deems it to be a material enough issue they have the option to consult with the industry before providing direction to the DNO. The suppliers are protected by the notice periods that DNOs have to recognize before we change tariffs (3 months' notice other than with the Authority's consent) and Ofgem's consultative process before it reaches any important decision. Where possible, any errors would be corrected as quickly as possible so as not to distort the market. In addition, the legal text does not meet</p>
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			<p>the proposal’s intent. The proposal talks about ‘manifest data input errors’ but the definition of a manifest error in the legal drafting refers to ‘an error in the data input into CDCM model or an error in the calculations within the CDCM model’.</p> <p>We disagree with the proposer that DCP 104 facilitates competition. In our opinion the proposal doesn’t spread the risk between parties, it simply spreads it over time, and that increases the risk of market distortion and any correction being applied to the wrong customers. We actually think that this proposal would distort competition in the supply market; if overcharging had occurred such that our charges were subsequently artificially low over the next couple of years, a supplier that had not had significant numbers of customers in the area when the error (and the overcharging) happened, would have an unfair advantage in coming into the area. By the same token, if undercharging had occurred, such that our charges were artificially high over the next couple of years, new entrants would be discouraged from entering the area.</p> <p>DNOs already endeavour not to introduce manifest errors into the charging models. Where they have occurred, they have been</p>
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			corrected as quickly as possible so as to not distort competition in the supply market, often in consultation with Ofgem and the industry. We continue to believe that, where possible, any errors should be corrected as quickly as is feasible and the DNO should endeavour to leave all customers in exactly the same position by the end of the year as they would have been in if the error had never occurred, rather than leaving them either better or worse off than they should be in the year of the error and then getting them back to the correct revenue recovery in future years.
Northern Powergrid (Yorkshire) plc	Reject	Reject	As Northern Powergrid (Northeast) Limited
Southern Electric Power Distribution plc	Reject	Reject	N/A
Scottish Hydro Electric Power Distribution plc	Reject	Reject	N/A
Western Power Distribution (East Midlands) plc	Reject	Reject	DCP104 would possibly make the administrative burden heavier for DNOs – as the change in prices would need to be monitored/reconciled in a separate process outside the cdc
Western Power Distribution (South Wales)	Reject	Reject	As Western Power Distribution (East Midlands) plc
Western Power Distribution (South West)	Reject	Reject	As Western Power Distribution (East Midlands) plc
Western Power Distribution (West)	Reject	Reject	As Western Power Distribution (East

Midlands) plc			Midlands) plc
IDNO PARTIES			
Independent Power Networks Limited	Reject	Reject	N/A
SUPPLIER PARTIES			
EDF Energy	Accept	Accept	Currently, Suppliers and Customers carry the risk resulting from manifest data input errors occurring within distribution network operator (DNO) charging methodology models since the DNO's must seek to recover these charges within a short timeframe. These recoveries can therefore result in large price changes for Suppliers and ultimately Customers. This proposal will help to mitigate the impact on Suppliers and Customers by spreading the risk of manifest data input errors across Suppliers, Customers and DNOs.
Haven Power	Accept	Accept	N/A
GDF Suez	Accept	Accept	N/A
Npower	Accept	Accept	There were 2 examples last year of manifest errors through incorrect data inputs (either directly or via cell lookups). On the first example, the result was that the majority of tariffs increased suddenly in

		<p>July, only 3 months after the April price change. On the second example, business tariffs generally went down, with domestic tariffs generally going up. <u>We believe there may be a further manifest error by SSE (Hydro area) in 2012/13 indicatives but this is yet to be confirmed.</u> HV indicative tariffs increased by 40% - but then decreased in the finals by 35%.</p> <p>On the first example, all customers on pass through DUoS would have suffered unexpected price increases. On the second example, while business consumers on pass through contracts may have seen a decrease in their charges, consumers on non-pass through contracts did not have seen this benefit since there was insufficient time for these changes to flow through into customer contracts. <u>For the SSE issue in 2012, if it is confirmed that an error did take place in the indicative charges, many HV consumers priced using these tariffs on consolidated deals will be paying significantly higher prices as a result of this error.</u></p> <p>It is important to recognise that under this CP, the DNOs will still recover the correct allowed revenue position by the end of the 3 year period. This is purely a delay</p>
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			<p>mechanism to smooth price shocks for both customers and suppliers.</p> <p>It is impossible for suppliers or consumers to predict when a manifest error will occur. This CP builds on the good work that has already taken place across the Industry to improve predictability and transparency of DUoS charging since the error is smoothed out over a longer time period.</p>
Scottish Power Energy Retail Ltd	Accept	Accept	We welcome any measure which would help reduce the impact of correcting errors in DUoS calculations
SSE Energy Supply Ltd	Accept	Accept	Further consideration should be given to the situation where the distributor has set their prices too high.