

DCUSA CHANGE DECLARATION

**DCP 130 – Remove the discrepancy between non-half hourly (NHH)
and half hourly (HH) Un-metered Supplies (UMS) tariffs**

VOTING DATE: 31 October 2012

DCP 130	WEIGHTED VOTING		
	DNO	IDNO	SUPPLIER
CHANGE SOLUTION	Accept	Accept	Accept
IMPLEMENTATION DATE	Accept	Accept	Accept
RECOMMENDATION	<p>Change Solution – ACCEPT 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 greater than 50% in all Categories.</p> <p>Implementation Date – ACCEPT 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 greater than 50% in all Categories.</p>		
PART ONE / PART TWO	Part One – Authority Determination Required		

PARTY	SOLUTION (A / R)	IMPLEMENTATION DATE (A/R)	COMMENTS
DNO PARTIES			
Eastern Power Networks	Accept	Accept	We agree with the aim of this change proposal, and believe that the application of STOD tariffs improves the DCUSA Charging Objective on cost reflectivity. However we understand that work is required on the EDCM model and ARP model as a consequence of this change and this should be done urgently if this change is approved.
London Power Networks	Accept	Accept	
South Eastern Power Networks	Accept	Accept	
Electricity North West Ltd	Accept	Accept	N/A
Northern PowerGrid (North East)	Accept	Accept	Northern Powergrid has been supportive of this process throughout the working group debates. Whilst the implementation date will be challenging it will ensure that more cost reflective charges are applied and the perceived overcharging of continuous load UMS customers will be addressed.
Northern PowerGrid (Yorkshire)	Accept	Accept	
SP Distribution	Accept	Accept	N/A
SP Manweb	Accept	Accept	N/A
SSE Power Distribution	Accept	Accept	N/A
Western Power Distribution (East Midlands) plc	Accept	Accept	N/A
Western Power Distribution (West Midlands) plc	Accept	Accept	N/A
Western Power Distribution (South	Accept	Accept	N/A

West) plc			
Western Power Distribution (South Wales) plc	Accept	Accept	N/A
IDNO PARTIES			
The Electricity Network Company	Accept	Accept	<p>On the balance of probabilities we think the change proposal better meets Objective 3.</p> <p>We agree that in principle the way suppliers trade energy (NHH or HH) should not influence use of system charges (except and only to the extent that the method of trading impacts on the distributors costs (e.g. billing, different UMSO costs).</p> <p>That principle applies to metered as well as unmetered connections.</p> <p>Use of system charges should be reflective of the costs; their intent should not be to encourage one method of trading over another (see 3rd sentence of paragraph 2.2 in change report). It is the role of the BSC and its subsidiary documents to prescribe the rules for trading. If settlement wants inventories to trade in the HH sector then it should mandate it through BSCP520. (We note this point is addressed in part in paragraph 2.7).</p> <p>We note that the CP identifies that the CDCM model recovers a large amount of revenue is recovered through the HH 'red' units. However, the CDCM does not identify whether charges allocated to the red time period are reflective of the costs incurred at peak. (The high</p>

			<p>revenues are also due to the way the CDCM scales prices in the red time period in order for the CDCM revenue to match price control allowed revenue)</p> <p>We agree with the overarching thrust of the methodology but note that the delivery of cost reflective tariffs is by and large dependent on a DNO’s selection of charging periods. The CP does not demonstrate where the right time periods have been selected by each DNO. However, we think this is probably out of scope of this CP and that it should be for each DNO to demonstrate that it has chosen the appropriate time periods. (as is the case with input data to the CDCM).</p> <p>Comment on better meeting Objectives.</p> <p>In summary we think that charging Objective 3 is met, but not for the reasons stated in the change report. We are less convinced that the CP better meets the other objectives.</p> <p>The Change Report states that DCUSA Charging Objective 1 is better met because “...DCP 130 reduces the differential between HH and NHH UMS tariffs and encouraging customers and suppliers to choose the appropriate settlement approach”. We fail to see how this better meets this objective:</p> <ol style="list-style-type: none"> 1. – Neither the Act, nor the licence place a requirement on the distributor to encourage customers and suppliers to choose an appropriate settlement approach. – Paragraph 2.7 of the change report recognises this.
--	--	--	--

			<p>2. In respect of the discrepancy between the NHH and HH charges, the test should be whether the proposed approach is more cost reflective. Removing the discrepancy between these charges but arriving at charges that are less cost reflective.</p> <p>We think this objective is probably better met because the CP facilitates charges that are more cost reflective, but the change report doesn't say so.</p> <p>Whilst we recognise the importance of cost reflective prices we do not understand why DCUSA Charging Objective 2, to facilitate competition is better met since charges to will be common to all suppliers. .The CP doesn't explain why competition is better facilitated.</p> <p>In respect of DCUSA Charging Objective 3 removing the differential between HH and NHH charges in its self doesn't improve cost reflectivity or better meet the objectives. We think this objective is probably better met because the CP facilitates charges that are more cost reflective, but the change report doesn't say so.</p> <p>We are not convinced that DCUSA Charging Objective 4 is met.</p>
SUPPLIER PARTIES			
ScottishPower Energy Retail Ltd	Accept	Accept	N/A
SSE Energy Supply Ltd	Accept	Accept	N/A

EDF Energy	Accept	Accept	N/A
British Gas	Reject	Reject	<p>We continue to believe that a 1 April 2013 implementation date is inappropriate given the poor consultation process followed by this DCP, however we also now believe that the solution should be rejected because changes have been made to the CDCM model calculations with no corresponding change to the legal text (and with no consultation on the changes).</p> <p>It is only when a detailed description of the changes made to the CDCM model was made available (after the consultation and only a few days prior to the DCUSA Panel meeting) that we were able to fully assess this change proposal. This late additional information identified further aspects of the proposal that were not consulted upon and which we are unable to agree with. We raised our concerns as soon as possible with the supplier representative of the DCUSA Panel, however with the change proposal progressing to the voting stage, this is now our only opportunity to express our views in these areas.</p> <p>In our consultation response for DCP 130 we stated our belief that it would be appropriate to delay any implementation of this change until 1 April 2014 to give time for a more informative consultation process and a more accurate impact assessment. The main reasons for this were:</p> <ul style="list-style-type: none"> the change represented a significant change to the CDCM model and the consultation had

			<p>provided very little detail on what had changed and why. We noted that in the absence of a full description of the changes to the CDCM model we were not able to fully check whether the changes made to legal text or the CDCM model were consistent with each other or with what was intended.</p> <ul style="list-style-type: none"> • we also highlighted concerns with the accuracy of the impact assessment (not performed on a like for like basis) • we noted that there was a lack of explanation provided on why revenues for UMS were reducing so much • we also disagreed with the working groups preference for option 2 (one of three options consulted upon regarding the treatment of coincidence factors) <p><u>Developments since the consultation:</u> Developments in this DCP since the consultation continue to cause us to question whether the change process for this DCP has been appropriate.</p> <ol style="list-style-type: none"> 1. We are glad to see that a detailed description of what has changed in the CDCM model has finally been provided (in appendix G of the change report), however from this detailed description we have identified 2 areas where we believe the methodology has changed but which have not been consulted upon or reflected in the legal text.
--	--	--	--

			<p>2. The impact assessment has not been updated to correct the inaccuracies we identified. The difference in UMS units (MWh) between the base tariffs and updated tariffs in the impact assessment is over 10% for some DNOs.</p> <p>3. The working group consulted on 3 options for the treatment of coincidence factors for NHH UMS tariffs and HH UMS tariffs. Coincidence factors are one of the most critical inputs to the CDCM.</p> <ul style="list-style-type: none"> • Option 1 was to set coincidence factors to 1 for both NHH and HH immediately • Option 2 was to set NHH coincidence factors to 1 immediately and to phase in over three years the setting of HH coincidence factors to 1 • Option 3 was to phase in over three years the setting of both NHH and HH coincidence factors to 1 <p>Following the consultation the group have decided on a new option, setting both the NHH and HH coincidence factors based on a 3 year average using profile data for NHH and settlement data for HH. This new option was not suggested in any consultation response and has arisen simply from further thought from within the working group. It has not been consulted upon and the working group justified this by stating that the impact assessment consulted upon was not materially affected. This is true,</p>
--	--	--	---

			<p>however only because the impact assessment consulted upon did not reflect the enduring impact of any of the original 3 options listed above. All 3 of the options consulted upon result in coincidence factors becoming 1 (either immediately or after 3 years) for HH UMS. The new proposal for coincidence factors is likely to result in a wide range of coincidence factors for HH UMS (currently these range from 0.698 to 0.973 with an average of 0.861). Clearly the incremental difference between using a coincidence factor of 1 and one between 0.698 and 0.973 is likely to be significant and this has not been identified in the change report.</p> <p>4. Since the consultation one DNO, SHEPD, has decided to change its UMS charging timeband. The original proposed solution contained in the submitted CP was that the UMS timeband would be identical to the EDCM super-red timeband. The timebands contained in the consultation were also identical to the EDCM super-red timeband but were called 'black' to allow for different notice periods for changes to the timebands – it was envisaged that if DCP 134 was approved any future changes to the UMS timebands would require 15 months notice. SHEPD's change to its UMS timeband has had a material effect on the resulting tariffs and has not been consulted upon, it also represents a much shorter notice period of timeband change</p>
--	--	--	---

			<p>than is proposed by DCP 134.</p> <p><u>Concerns with the proposed Solution</u></p> <p>Following a review of appendix G, there are two changes to the CDCM model which have not been consulted upon, nor mentioned in the main body of the change report and for which no change to the legal text has been proposed.</p> <ol style="list-style-type: none"> 1. Peaking probabilities. This is an important input to the CDCM model. The creation of a new timeband requires data to be input to the CDCM to represent the probability of the network peaking during that time band. The current CDCM requires values for the red, amber and green timebands and the proposed updated CDCM model adds an input for the new black timeband introduced by this CP. However, none of the 14 DNOs have populated this input and instead the proposed CDCM model has introduced a new calculation to estimate the black timeband peaking probability (if the DNO leaves the input blank) based on the existing values for red, amber and green. This may or may not produce a reasonable estimate of the peaking probability for the black timeband but it is a new method for calculating peaking probabilities, which is very different to the current practice for calculating peaking probabilities for the other timebands. This new method will produce different tariffs depending
--	--	--	---

			<p>on whether a DNO chooses to input a black timeband peaking probability or not. We believe that the introduction of a new timeband should require the DNO to calculate a peaking probability in the same way it has calculated peaking probabilities for the other timebands. The proposal to do otherwise should have been consulted upon and should have been accompanied by appropriate changes to the legal text to specify what the methodology is (we note that the proposed legal text does not change the wording for peaking probabilities). We do not support this change as it introduces a large degree on uncertainty to these tariffs depending on whether or not a DNO chooses to populate the peaking probability input. We also believe that the legal text should have been updated to be clear about how the proposed solution determines peaking probabilities for the black timeband.</p> <p>Service Models. The new CDCM model has merged the service models for all UMS tariffs so that there is just one service model. The current CDCM has two service models for UMS, one for NHH and one for HH. Once again the proposed legal text has not changed. We are concerned that once again this issue has not been consulted upon and furthermore we believe the new approach is likely to produce less cost reflective tariffs. The rationale provided in appendix G of the change report for the single UMS service model is that the</p>
--	--	--	---

			<p>existing service models for the NHH and HH UMS tariffs are identical for all DNO networks. However, since both of the current UMS tariffs (NHH and HH) represent a typical UMS customer we believe it is not surprising that the service models for the existing UMS tariffs are identical. However this DCP creates 4 NHH UMS tariffs for each of the different categories of un-metered supplies and it seems inappropriate to assume that each one of the 4 UMS categories uses the same service assets. It seems to us to be more probable than not that each of the 4 different categories of UMS will use different service assets, however even if we assume each uses the same service model assets, this would be unlikely to translate to the same service model costs for each tariff since the four different categories have very different consumption profiles (which are used to convert the costs of the service model assets for UMS into the p/kWh DUoS tariff). It may be that having a single UMS service model is favoured by the industry and will minimise differences between HH and NHH UMS DUoS costs, but the industry hasn't been consulted on this. Without understanding the degree of distortion that this new method is producing on the costs of each of the UMS categories we are not supportive of this change.</p>
--	--	--	--