

Question 1

Company	Confidential/ Anonymous	1. Do you understand the intent of this CP?	Working Group Comments
NPg	Non-confidential	Yes.	Noted
UKPN	Non-confidential	Yes.	Noted
SSEN	Non-confidential	Yes.	Noted
NGED	Non-confidential	Yes	Noted
ENWL	Non-confidential	Yes.	Noted
SPEN	Non-confidential	Yes	Noted
Working Group Conclusions		The Working Group noted that all respondents understood the intent of the CP.	

Question 2

Company	Confidential/ Anonymous	2. Are you supportive of the principles of this CP?	Working Group Comments
NPg	Non-confidential	Yes.	Noted
UKPN	Non-	Yes.	Noted

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SSEN	Non-confidential	Yes.	Noted
NGED	Non-confidential	Yes	Noted
ENWL	Non-confidential	Yes.	Noted
SPEN	Non-confidential	Yes	Noted
Working Group Conclusions		The Working Group noted that all respondents supported the principles of the CP.	

Question 3

Company	Confidential/ Anonymous	3. Are you aware of any other areas of the DCUSA that may need to be updated, within the scope of this CP? Please provide your rationale.	Working Group Comments
NPg	Non-confidential	No.	Noted
UKPN	Non-confidential	No, we believe that the working group have identified all the changes required in the draft legal text.	Noted
SSEN	Non-confidential	No.	Noted
NGED	Non-confidential	No	Noted

ENWL	Non-confidential	No.	Noted
SPEN	Non-confidential	No	Noted
Working Group Conclusions		The Working Group noted that no respondents identified any other areas of the DCUSA that would need to be updated.	

Question 4

Company	Confidential/ Anonymous	4. Does the reference in the proposed legal text to the latest version of the PCFM allow for the transition between price setting journeys from one price control period to the next? Please provide your rationale.	Working Group Comments
NPg	Non-confidential	Yes, assuming no change is made to the relevant terms.	Noted
UKPN	Non-confidential	Yes we believe that the approach taken by keeping the terms used to be generic and not referring to a specific Price Control is appropriate and should avoid the need for future changes.	Noted
SSEN	Non-confidential	It does on the assumption Ofgem will provide DNOs with a PCFM in November 2026 to be used for calculating final charges for the first year of RIIO-ED3 (assuming the 15 month notice requirement is maintained). It's unclear how likely this would be given DNOs would still be working on final business plan submissions.	There is a risk, based on previous experience, that there isn't a PCFM that captures the ED3 period for a period of time. The Working Group discussed that provisions in the legal text need to account for the potential lack of a PCFM.
NGED	Non-confidential	Yes. It removes references to any price control period and ensures that the individual components maintain their respective meaning	Noted

		within the scope of individual price control period.	
ENWL	Non-confidential	<p>No, we believe the legal text correctly identifies the PCFM versions and items to use during an established price control period, but we anticipate it may not adequately provide for the transition between price controls.</p> <p>It is possible that at the start of the new price control period a new PCFM will not be available and DNOs will need to forecast Allowed Revenue without a final PCFM as they did at the start of ED2. We expect that in such circumstances a DNO will not prepare a PCFM for publication as there will not be an official final version available. We also anticipate that the most recent available PCFM would end at the final year of the previous price control, and so would not include "<i>the regulatory year for which tariffs are being set</i>".</p> <p>Under these circumstances the most logical thing for a DNO to do is to use <i>the latest version of the PCFM on the DNO Party's website</i> but this would not be associated with the tariff setting year in this case (in the case of transition from ED2 to ED3, it would be the prior year's PCFM used for the final year of ED2), and using the values for the year previous to "<i>the regulatory year for which tariffs are being set</i>" (so, in this example the final year of ED2, rather than the first year of ED3).</p> <p>The current legal text would not support this approach, an alternative drafting might be as below (additions in red bold) in the case of Pre-tax Cost of Debt, with similar changes being made to the other items:</p> <p>Pre-Tax Cost of Debt is set to the 'Allowed return on debt' value for the regulatory year for which tariffs are being set, or most recent year if that year is not available, in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff</p>	The Working Group noted the response and that further clarity is to be found later in the response document, under which the conclusion to the legal text amendments are captured.

		<p>setting, or the latest published PCFM if no such PCFM is prepared, on the DNO Party's website;</p> <p>We have also identified an alternative more flexible approach which is set out in our response to Q8 which would also allow for changes to names in the PCFM and other events. Under this approach the text below would be added:</p> <p>In the event of any value not being available from the above data sources the DNO party will prepare a forecast of the value to be used in the CC formula instead.</p>	
SPEN	Non-confidential	Yes – by referring to the latest version of the PCFM for tariff setting instead of the value referred to in the ED1 Price Control Financial Handbook.	Noted
Working Group Conclusions		<p>The majority of respondents agreed that the proposed legal text to the latest version of the PCFM allowed for the transition between price setting journeys from one price control period to the next.</p> <p>Two respondents stated concerns around whether there would be an updated PCFM, with one respondent suggesting amended legal text to future-proof for this eventuality. The Working Group's assessment of the feedback on the legal text is captured under question 8, later in this document,</p>	

Question 5

Company	Confidential/Anonymous	5. Do you consider that this CP better facilitates the DCUSA Charging Objectives? Please give supporting reasons.	Working Group Comments
NPg	Non-confidential	Yes. We agree with the working group's assessment of the charging objectives.	Noted
UKPN	Non-confidential	We believe that the DCUSA Charging Objectives 1, 2, 3, 4 and 6 are better facilitated by this change by removing references to the ED1	Noted

		price control period, which is no longer relevant, and future proofs the legal text.	
SSEN	Non-confidential	Yes.	Noted
NGED	Non-confidential	Yes. It facilitates DCUSA charging objectives in the sense that it promotes efficiency in the implementation and administration of this Agreement and the arrangements under it.	Noted
ENWL	Non-confidential	Yes, we agree with the assessment against the DCUSA Charging Objectives provided in the consultation document.	Noted
SPEN	Non-confidential	Yes, charging objectives 1, 2, 3 4 and 6 are better facilitated by this CP as it removes references to the ED1 price control period, which is no longer relevant.	Noted
Working Group Conclusions		The Working Group noted that all respondents agreed that this CP better facilitates the DCUSA Charging Objectives.	

Question 6

Company	Confidential/ Anonymous	6. Are you aware of any wider industry developments that may impact upon or be impacted by this CP?	Working Group Comments
NPg	Non-confidential	No.	Noted
UKPN	Non-confidential	No.	Noted
SSEN	Non-confidential	Not at this time.	Noted

NGED	Non-confidential	No.	Noted
ENWL	Non-confidential	No.	Noted
SPEN	Non-confidential	No	Noted
Working Group Conclusions		The Working Group noted no respondents identified any wider industry developments as being impacted by this CP.	

Question 7

Company	Confidential/ Anonymous	7. Are you supportive of the proposal to implement this CP by no later than the November 2024 DCUSA standard release?	Working Group Comments
NPg	Non-confidential	Yes.	Noted
UKPN	Non-confidential	Yes we support this approach, this will avoid any issues when calculating the next set of charges for 2026/27 in December 2024.	Noted
SSEN	Non-confidential	Yes.	Noted
NGED	Non-confidential	Yes. This will ensure that the change proposal is applied and use in setting prices for the 2026/27 Charging year.	Noted
ENWL	Non-confidential	Yes.	Noted
SPEN	Non-confidential	Yes	Noted

Working Group Conclusions	The Working Group noted that all respondents supported the proposed implementation date.
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Question 8

Company	Confidential/ Anonymous	8. Do you have any comments on the draft legal text?	Working Group Comments
NPg	Non-confidential	<p><u>Schedule 1A</u></p> <p>The defined term 'Price Control Financial Handbook' is no longer used in the draft legal text proposed by the working group. There are no further instances of this defined term in the DCUSA, so it can be removed and replaced with 'Price Control Financial Model'. As this is also a term used within the charge restriction conditions, the same definition can be used.</p> <p><u>Schedule 16, 17, 18</u></p> <p>The abbreviation 'PCFM' is not established prior to use in any of these Schedules, therefore in the first reference (i.e. gearing assumption) it should state Price Control Financial Model (PCFM) in each Schedule.</p> <p>Amend "Corporation tax rate" to 'Corporation tax rate' (ie replace double quote marks with single quote marks).</p> <p>Amend 'notional Gearing' to 'Notional gearing' (ie align capitalisation to that in the PCFM).</p>	The Working Group agreed with the response and amended the legal text accordingly.
UKPN	Non-confidential	No we are comfortable with it as drafted.	Noted
SSEN	Non-	In order to ensure all DNOs are referencing the same PCFM cells	The Working Group noted that this

	confidential	<p>(without specifying these), the legal text could be amended to include the section to be referenced e.g.</p> <p>Notion Gearing: 'Finance Inputs - Vanilla allowed return on capital.'</p> <p>Allowed return on debt: 'Finance inputs - CAPM calculator tool: allowed return on debt'</p> <p>Allowed return on equity: 'Finance inputs - CAPM calculator tool: allowed return on equity'</p> <p>Corporation tax rate: 'Tax – Tax policy'</p>	could make it clearer but would require housekeeping changes to keep the legal text aligned with any future changes to the PCFM headings or labels. The amendments were made accordingly.
NGED	Non-confidential	No.	Noted
ENWL	Non-confidential	<p>Only as included in our response to question 4. The alternative proposed legal test is:</p> <p>Pre-Tax Cost of Debt is set to the 'Allowed return on debt' value for the regulatory year for which tariffs are being set, or most recent year if that year is not available, in the latest version of the PCFM prepared for the relevant DNO Party for publication with such tariff setting, or the latest published PCFM if no such PCFM is prepared, on the DNO Party's website;</p> <p>With similar changes to be made to Gearing, Cost of Equity and Corp Tax Rate.</p> <p>An alternative, less prescriptive approach would be to allow DNOs to use a "reasonable forecast" in the event of a PCFM value not being available. The legal text in this case might read as below:</p>	<p>The Working Group discussed the two options presented and noted the comments that, in the event of a change being made (e.g., the tax rate changing), that allowing more latitude would appear to be sensible, given that relying on a previous PCFM when a value is known to be changing would be counterintuitive.</p> <p>The legal text was updated accordingly, as per version 0.3 of the draft legal text.</p>

		<p>In the event of any value not being available from the above data sources the DNO party will prepare a forecast of the value to be used in the CC formula instead.</p> <p>This paragraph would go after the “Corporation Tax Rate...” paragraph, and before the “The CC value...” one.</p> <p>The working group may wish to consider which proposal has the most merit, which is largely a question of how much latitude it is prudent to provide to DNO parties in determining these values. In most cases we would expect DNOs to forecast on the basis of the most recent PCFM values. However, providing DNOs more latitude may allow them to, for example, anticipate changes to corporation tax if the government had announced such an intention, which would lead to a better outcome. Limiting DNOs to using the latest available year in the most recent PCFM would not allow this flexibility in approach but would ensure consistency.</p>	
SPEN	Non-confidential	No	Noted
Working Group Conclusions		<p>The Working Group noted the amendments suggested by Northern Powergrid and amended the legal text accordingly.</p> <p>The Working Group noted the two options for amendments suggested by Electricity North West:</p> <ul style="list-style-type: none"> • option 1 – specify the use of the most recent year and the latest published PCFM; or • option 2 – allow the DNO to prepare a forecast of the value to be used in the CC formula instead. <p>The Working Group agreed that its preferred approach was to allow the DNO to prepare a forecast of the value to be used in the CC formula instead and agreed the legal text accordingly. The Working Group discussed that the proposal lacks some transparency, but that the information could be made available to customers if requested.</p>	

	<p>The Working Group discussed SSEN's proposed legal text amendments to make it clearer where, in the PCFM, the legal text is referencing. The Working Group agreed to make the proposed amendments to the legal text, noting that any future changes to the PCFM would require housekeeping changes to the DCUSA to update the references accordingly.</p>
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