




DCUSA Change Report		At what stage is this document in the process?
<h1>DCP 437</h1> <h2>To Shorten the DUoS Pricing Notice Periods</h2> <p>Date Raised: 13/02/2024</p> <p>Proposer Name: Dave Wornell</p> <p>Company Name: National Grid Electricity Distribution</p> <p>Party Category: DNO</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p>Purpose of Change Proposal:</p> <p>This change proposal aims to shorten the DUoS Pricing Notice Periods so there is longer period between the publication of the PCFM, where OFGEM have the option to make changes to our allowed revenue at short notice, and the setting of the prices.</p>		
	<p>This document is issued in accordance with Clause 11.20 of the DCUSA. Parties are invited to consider the proposed amendment and submit their votes using the Voting form (Attachment 1) to dcusa@electralink.co.uk by 10 October 2024.</p> <p>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.</p> <p>If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3011.</p>	
	<p> Parties Impacted:</p> <p>Suppliers / DNOs / IDNOs</p>	
	<p> Impacted Clauses:</p> <p>Clause 19.1A in Section 2A</p>	

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Any questions?

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Timetable

The timetable for the progression of the CP is as follows:

Change Proposal timetable

Activity	Date
Initial Assessment Report Approved by Panel	21 February 2024
Consultation issued to Parties	11 June 2024
Change Report issued to Panel	18 September 2024
Change Report issued for Voting	19 September 2024
Party Voting Ends	03 October 2024
Change Declaration Issued to Parties	07 October 2024
Change Declaration issued to Authority	07 October 2024
Authority Decision	TBC
Implementation	If approved, 1 Working Day after Authority approval

1 Executive Summary

What?

- 1.1 This change proposal aims to shorten the DUoS Pricing Notice Periods from 15 to 14 months, for DNOs, and from 14 to 13 months, for IDNOs and LDNOs, so there is a longer period between the submission of the Price Control Financial Model (PCFM), where Ofgem have the option to make changes to DNOs' allowed revenue at short notice, and the publication of the prices.

Why?

- 1.2 Final DUoS Charges are set with a deadline of 31st December for the prices due for implementation in April 15 months later. New license conditions introduced for [RIIO-ED2](#) mean that DNOs receive the PCFM, which determines the allowed revenue and the rate of return for the EDCM and CDCM prices, at the end of November. DNOs check this PCFM, complete their inputs into the model, and return to it to Ofgem, who have 14 days to decide if they would like to make further changes. If Ofgem do decide to make changes, DNOs will have minimal time to apply any changes and the tariff assurance process could be compromised. Ofgem recommended but did not mandate that they expressed a wish for the SOLR final decision, published in December 2023, to be reflected in final charges for tariffs from April 2025, to be reflected in final charges. Delaying the publication of DUoS charges will allow DNOs more time to apply their assurance processes.

How?

- 1.3 Change the wording in DCUSA in section 2A 19.1.1 (Distributor to Supplier/ Generator relationship) to state a notice period of 14 months for DNOs, and change the wording in section 2A 19.1.2 to state a notice period of 13 months for IDNOs and DNOs acting outside of that DNO Party's Distribution Service Area.
- 1.4 The Working Group noted an interaction with Clause 14.2 of Section 2A. This section currently stipulates that should a change that impacts Schedules 16, 17, 18, 20 or 29 be approved by Ofgem less than 3 months before the current notice period then the change should be implemented the year after. Whilst no changes are needed to this section, it was acknowledged that the cut-off date would be 01 November rather than 01 October each year.

2 Governance

Justification for Part 1 Or Part 2 Matter

- 2.1 DCP 437 is classified as a Part 1 matter and therefore will go to the Authority for determination after the voting process has completed.

Requested Next Steps

- 2.2 The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 437.
- 2.3 The DCUSA Panel recommends that this CP:
 - be issued to Parties for voting.

3 Why Change?

Background of DCP 437

- 3.1 Final DUoS Charges are set with a deadline of 31st December for the prices due for implementation in April 15 months later.
- 3.2 Prior to RIIO-ED2, Ofgem had no advance view of the allowed revenues used to calculate tariffs. Therefore, DNOs could calculate their allowed revenues once they had all inputs ready and could sign these off in their own timeframes, with some signing these off in November and others in early December.
- 3.3 [New license conditions introduced for RIIO-ED2](#) require DNOs to use the PCFM models published by Ofgem at the end of November to calculate their allowed revenues and the rate of return needed for the CDCM and EDCM and to submit a version of the PCFM model with their proposed allowed revenue to Ofgem in early December, no less than 14 days before they publish their tariffs. Ofgem then review the models and may direct DNOs to alter their inputs, which will impact the calculated allowed revenue. DNOs are obligated to reflect any changes required to the PCFM in their tariff calculations.
- 3.4 In the [current version of the PCFM Guidance](#) and the Electricity Distribution Special Licence Conditions the following timeline is stipulated:

Date	Step	Last possible date
By 30 November	Ofgem provide updated PCFM to DNOs	30 November
Within 1 week	DNO submit completed PCFM to Ofgem	7 December
Within 14 days	Ofgem reply with any required changes to PCFM inputs	21 December
By 31 December	DNOs fully affirm and publish tariffs along with the PCFM	31 December

- 3.5 If Ofgem were to respond on the 21 December with updates required then, considering weekends and bank holidays, in 2024 this would leave DNOs with 5 working days to fully recalculate, affirm, prepare documentation, sign off and publish their tariffs, with this timeframe spanning the period between Christmas and New Year. This process currently takes most of December.
- 3.6 Additionally, DNOs cannot sign off their inputs until Ofgem have confirmed whether they require any changes, meaning that even if no changes are required DNOs are still working with shortened timescales than prior to RIIO-ED2.
- 3.7 Keeping the submission date for the PCFM the same and retaining Ofgem's 14 day review period, but delaying the publication date of DUoS Charges would give all DNOs more time to apply their assurance processes and ensure that the tariffs are calculated correctly.

4 Initial Working Group Analysis – Pre-Consultation

DCP 437 Working Group Assessment – Pre-Consultation

- 4.1 The DCUSA Panel established a Working Group to assess DCP 437. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.
- 4.2 Members discussed the license conditions introduced for RIIO-ED2 by Ofgem, and DNO members advised that they had raised their concerns during the consultation for this, however the changes had gone ahead.
- 4.3 The Working Group considered the impacts on Suppliers, and consequently customers, of amending the notice period. A Supplier representative highlighted that when offering customers a fixed price contract, Suppliers look to fix the costs they are exposed to as well. Wholesale energy costs can be hedged to provide certainty, but industry costs, such as network charges, cannot. To account for uncertain costs Suppliers may choose to apply a risk premium to account for this uncertainty, which will depend on the size of the cost and the level of uncertainty of that cost. Higher risk premiums due to high uncertainty pass through a higher cost to the consumer.
- 4.4 The most common fixed term contract in the domestic market is a 12-month fixed contract, although 24 months and longer are also common. Under current 15-month arrangements, the range of time for which DUoS charges are known is between 27 months (12+15) and 15 months. A Supplier looking to price a 24-month contract would therefore have uncertain DUoS costs for up to 9 months of the fixed term contract, or 38% of the period. Moving this to 14 months would result in a 10-month uncertain period, or 42% of the contract length. For 12-month fixed term contracts there will be no impacts.
- 4.5 The tables below show the 24-month uncertainty period depending on the month agreed and notice period provided.

24-Month contract with 15-months notice (assuming 1 month to agree contract)

Start date of contract	Months Known	Months Unknown	% of contract
Jan	15	9	38%
Feb	26	0	0%
Mar	25	0	0%
Apr	24	0	0%
May	23	1	4%
Jun	22	2	8%
Jul	21	3	13%
Aug	20	4	17%
Sep	19	5	21%
Oct	18	6	25%
Nov	17	7	29%
Dec	16	8	33%

24-Month contract with 14-months notice (assuming 1 month to agree contract)

Start date of contract	Months Known	Months Unknown	% of contract
Jan	15	9	38%
Feb	14	10	42%
Mar	25	0	0%
Apr	24	0	0%
May	23	1	4%
Jun	22	2	8%
Jul	21	3	13%
Aug	20	4	17%
Sep	19	5	21%
Oct	18	6	25%
Nov	17	7	29%
Dec	16	8	33%

4.6 The Working Group asked industry the following questions regarding the above. Full consultation responses and Working Group responses are set out in Section 5 of this Change Report.

- *Do you agree with the Working Group's approach of amending the notice period to 14 months for DNOs and 13 months for IDNOs and out of area DNOs? Please provide your rationale either way*
- *To Suppliers, how would amending the notice period to 14 months for DNOs and 13 months for IDNOs and out of area DNOs impact Suppliers and consequently customers?*

4.7 The Working Group considered why the notice period was set to 15 months in the first place. Members highlighted three previous changes within this area, DCP 178, CPM 244 and CMP 286.

Summary of changes

DCP 178 - Notification period for change to use of system charges

4.8 Prior to this modification, Distribution Network Operators (DNOs) were required to finalise and publish Distribution Use of System (DUoS) tariffs 40 days before they take effect. DCP 178 'Notification Period for Change to Use of System Charges' was raised by Northern Powergrid and sought to increase this notice period from 40 days to 15 months.

4.9 This change was approved in February 2015 and implemented in November 2015, and provided Suppliers and consumers with greater and earlier certainty of future DUoS charges.

CMP244 - Set final TNUoS tariffs at least 15 months ahead of each charging year' and CMP256 'Potential consequential changes to the CUSC as a result of CMP244'

4.10 CMP244 sought to increase the length of the notice period for TNUoS tariffs of two months to 15 months. This was subsequently changed by the Proposer to a notice period of 200 calendar days. CMP256 sought to introduce consequential changes to Section 3 and 11 of the CUSC, as a result of charging modification CMP244.

4.11 Ofgem rejected both proposals on 15 July 2016 and the rationale for their decision can be found at the following link– [Decision](#).

CMP 286 - Improving TNUoS Predictability Through Increased Notice of the Target Revenue used in the TNUoS Tariff Setting Process.

- 4.12 CMP286 sought to increase the notice period of the Target Revenue component of the TNUoS tariff setting process from two months to 15 months, in turn requiring earlier forecasts by NGESO and the TOs of the components which make up this input to the methodology.
- 4.13 Ofgem rejected this proposal on 03 May 2024 and the rationale for their decision can be found at the following link– [Decision](#).
- 4.14 It was noted that at present it is only electricity distribution that requires a 15 months' notice period. The TNUoS notice period is currently set at 2-months.

5 DCP 437 Consultation Responses Review

DCP 437 Consultation

- 5.1 The Working Group issued a consultation to gather information and feedback from market participants.
- 5.2 The DCP 437 consultation was issued on 11 June 2024 and there were 13 responses received.

DCP 437 Consultation Responses

- 5.3 A summary of the responses received, and the Working Group's conclusions are set out below. The full set of responses and the Working Group's comments are provided in Attachment 3.

Question 1 - Do you understand the intent of the CP?

- 5.4 The Working Group noted that all consultation respondents understood the intent of the CP.

Question 2 – Are you supportive of the principles of this CP?

- 5.5 The Working Group noted that responses to this question were mixed, with some responders supporting the principles and some not.
- 5.6 One response suggested a dual approach, that the current notice period should remain in place as a default, and that a reduced period should only be applied on occasions where Ofgem make changes to the Price Control Financial Model.

Question 3 - Do you agree with the Working Group's approach of amending the notice period to 14 months for DNOs and 13 months for IDNOs and out of area DNOs? Please provide your rationale either way.

- 5.7 The Working Group noted that responses to this question were mixed, with some responses stating that they agree with the approach, and some noting that they do not.
- 5.8 Several responses outlined that the current notice period is necessary due to the volatility of the market and benefits for consumers by allowing Suppliers predictability, reducing the need to add risk premia which increases the cost to consumers.
- 5.9 One response suggested that the probability of Ofgem mandating amendments to the PCFM at this advanced stage is minimal. The Working Group noted that this would be difficult to predict as 2024

is only the second year of the new arrangements and Ofgem recommended but did not mandate a change to the PCFM in 2023. The Working Group asked that Ofgem consider this when reviewing the Change Report.

Question 4 – To Suppliers, how would amending the notice period to 14 months for DNOs and 13 months for IDNOs and out of area DNOs impact Suppliers and consequently customers?

- 5.10 The Working Group noted that the responses included themes surrounding consumer choice being impacted and an increase in prices through the addition of risk premia.

Question 5 - Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.

- 5.11 The Working Group noted that responses were mixed.
- 5.12 Two responses indicated that they consider the proposal generally better facilitates the DCUSA Charging objectives.
- 5.13 Eight responses indicated that they agree with the Working Group's assessment that Charging Objectives 1, 3, 4 and 6 are better facilitated by the proposal.
- 5.14 One response outlined that they felt that General Objectives 1 and 3 are better facilitated and Charging Objectives 1, 3 and 4 are better facilitated by the proposal.
- 5.15 Two responses noted that they feel the proposal has a negative impact on Charging Objective 2.

Question 6 – Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

- 5.16 The Working Group noted the suggestions received, however agreed that there are no interactions that would halt the progress of the CP.

Question 7 - Are you supportive of the proposed implementation date? (Next issue of DCUSA following approval)

- 5.17 The Working Group noted that all responses except for two agreed with the implementation date, with one stating they do not support the change, and the other requesting two full charging years after the decision.

Question 8 – Do you have any comments on the draft legal text?

- 5.18 The Working Group noted that one response provided an amended version of the legal text, in line with their suggestion of a dual approach.
- 5.19 Another response highlighted legacy references around the timescales of the production of the rates in 2016. The response noted that the opportunity should be taken to remove these references for efficiency in the code.

Question 9 - Do you have any other comments on DCP 437?

- 5.20 The Working Group acknowledged the comments provided.

- 5.21 One response suggested that the approaches taken in different utilities could be considered.
- 5.22 Another response outlined that they consider the change would be detrimental to consumers and believe the DNO obligations agreed as part of the RIIO price control process should not result in an amendment to DNO obligations at the expense of consumers or suppliers.
- 5.23 Another response suggested that rather than changing the notice periods permanently to 14 months, Ofgem should be given the ability to direct a reasonable reduction to the notice period should their intervention cause a material change to the PCFM. The Working Group acknowledged that Ofgem can consider this whilst reviewing the Change Report, however that it is outside the scope of this change.
- 5.24 Another response outlined that they believe the notice periods proposed by DCP 437 are required at a minimum at this time due to the RIIO-ED2 licence condition amendments. However, that it would be worth exploring the benefits of shortening the DUoS notice periods even further in the future to minimise year on year volatility.

6 Working Group Conclusions and Final Solution

Working Group Conclusions

- 6.1 Following review of the consultation responses, the Working Group identified the following areas for further consideration:
- Further consideration of consumer impacts
 - Consideration on whether the proposed dual approach should be taken forward
 - Consider updating legal text to remove legacy references

Consumer impacts and dual approach

- 6.2 The Working Group discussed further the impacts this CP would have on consumers if approved. As initially discussed, pre-consultation, members noted that the most common fixed term contract in the domestic market is a 12-month fixed, although 24 months and longer are also common. Under current 15-month arrangements, the range of time for which DUoS charges are known is between 27 months (12+15) and 15 months. A Supplier looking to price a 24-month contract would therefore have uncertain DUoS costs for up to 9 months of the fixed term contract, or 38% of the period. Moving this to 14 months would result in a 10-month uncertain period, or 42% of the contract length. For 12-month fixed term contracts there will be no impacts.
- 6.3 Members noted that originally the CP suggested to reduce the DNO notice period to 12 months and the IDNO and out of area DNOs notice to 11 months. However, after Working Group discussions and understanding further the consumer impacts it was agreed to alter this to 14 and 13 months' notice respectively. This reduced the impact on consumers compared to the original proposal but still gave DNOs, IDNOs and out of area DNOs an extra month to ensure accuracy following the change in underlying timelines from the start of RIIO-ED2 and especially if Ofgem did direct changes.

- 6.4 Further to the above, the Working Group also considered the proposed dual approach where the current notice period remains in place as a default and that a reduced period is only applied on occasions where Ofgem do make changes to the PCFM.
- 6.5 There were mixed views from Working Group members on this approach with some supportive and others believing this would over complicate an otherwise simple solution (the latter being the proposers view). One issue identified with the dual approach is that if even one DNO had to change and therefore publish at the end of January then all IDNOs could be impacted and would need to publish with 13 months' notice. It could also introduce complications for DNOs with more than one licence where they could be publishing one or more areas with 14 months' notice and the remainder of their areas with 15 months' notice, which would effectively double the sign off procedures needed.
- 6.6 Unable to reach a unanimous decision the Working Group agreed to move forward with the proposers preferred approach, whilst acknowledging that if a Party felt strongly about the dual approach, they had the opportunity to raise an alternative to DCP 437.

Removal of legacy references in legal text

- 6.7 The Working Group considered the consultation response around legacy references in Section 2A around the timescales of the production of the rates in 2016. They agreed that this was a good opportunity to remove these references and have updated the legal text accordingly (Attachment 2).

7 Relevant Objectives

Assessment Against the DCUSA Objectives

- 7.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. There are five General Objectives and six Charging Objectives. This CP has been measured against the DCUSA Charging Objectives.
- 7.2 The Working Group considers that the following DCUSA Charging Objectives are better facilitated by DCP 437.

DCUSA Charging Objectives	Identified impact
<input checked="" type="checkbox"/> 1 that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	Positive
<input type="checkbox"/> 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 Licences)	None

<input checked="" type="checkbox"/> 3 that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	Positive
<input checked="" type="checkbox"/> 4 that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	Positive
<input type="checkbox"/> 5 that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
<input checked="" type="checkbox"/> 6 that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	Positive

7.3 As described in section 3 above, revisions to licence conditions for RIIO-ED2 mean that the timescales for DNOs assuring, signing off and publishing tariffs are significantly shortened compared to prior price control periods. Delaying the publication of DUoS charges will allow DNOs more time to apply their assurance processes.

7.4 The Working Group therefore believe that by allowing the DNOs an extra month to ensure accuracy of their publications, DCUSA Charging Objectives 1, 3, 4 and 6 are better facilitated.

8 Impacts & Other Considerations

Significant Code Review (SCR) Impacts

8.1 Although Ofgem considered that the defect that DCP 437 is trying to address falls within the scope of their DUoS SCR, they were content to allow it to progress. However, due to its interaction with the DUoS SCR concerning 'DUoS Pricing Notice Periods' they stated they cannot discount taking any action in the future in this area.

Impacts on other Industry Codes

8.2 The Working Group does not consider that there are any impacts to any other Industry Codes as a result of the implementation of this CP.

Consumer Impacts

8.3 As detailed in Paragraphs 6.2 to 6.6 above, the Working Group considered the consumer impacts of this CP.

Consideration of Wider Industry Impacts

8.4 The Working Group have not identified any other wider industry impacts as a result of the implementation of this CP.

Environmental Impacts

- 8.5 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if this CP was implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

9 Implementation

- 9.1 The proposed implementation date for DCP 437 is 1 Working Day after Authority approval.

10 Legal Text

- 10.1 The legal text for DCP 437 has been reviewed by the DCUSA legal advisors and is provided as Attachment 2.
- 10.2 The Working Group has considered the legal text and is satisfied that it meets the intent of the solution.

11 Recommendations

Panel's Recommendation

- 11.1 The Panel approved this Change Report on 18 September 2024. The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 437.
- 11.2 The Panel have recommended that this report is issued for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

12 Attachments

- Attachment 1: DCP 437 Voting Form
- Attachment 2: DCP 437 Legal Text
- Attachment 3: DCP 437 Consultation, Consolidated Responses and Working Group Comments
- Attachment 4: DCP 437 Change Proposal