




DCUSA Consultation		At what stage is this document in the process?
<h2>DCP 437</h2> <h3>To Shorten the DUoS Pricing Notice Periods</h3> <p><b>Date Raised:</b> 13/02/2024</p> <p><b>Proposer Name:</b> Dave Wornell</p> <p><b>Company Name:</b> National Grid Electricity Distribution</p> <p><b>Party Category:</b> DNO</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p><b>Purpose of Change Proposal:</b></p> <p>This change proposal aims to shorten the DUoS Pricing Notice Periods so there is a 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 a Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 437.</p> <p>The Working Group recommends that this Change Proposal should proceed to Consultation.</p> <p>Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 1 to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>02 July 2024</b>.</p> <p>The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the Change Proposal (CP).</p>	
	<p><b>Impacted Parties:</b></p> <p>Suppliers/ DNOs/ IDNOs</p>	
	<p><b>Impacted Clauses:</b></p> <p>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	17 July 2024
Change Report issued for Voting	18 July 2024
Party Voting Ends	08 August 2024
Change Declaration Issued to Parties	12 August 2024
Change Declaration issued to Authority	14 August 2024
Authority Decision	TBC

## 1 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 for implementation in April fifteen 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 did recommend but not mandate in December 2023 for tariffs from April 2025, when they expressed a wish for the SOLR final decision, published in December 2023, 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 DNOs Party's Distribution Service Area.

## 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 Following a review of the Consultation responses, the Working Group will work to agree the detail of the solution for DCP 437.

### 3 Why Change?

#### Background of DCP 437

- 3.1 Final DUoS Charges are set with a deadline of 31st December for the prices for implementation in April fifteen months later.
- 3.2 Prior to RIIO-ED2, 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. Ofgem had no advanced view of the allowed revenues used to calculate tariffs.
- 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
With 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 the tariffs, with this time frame 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 UoS Charges would give all DNOs more time to apply

their assurance processes and ensure that the tariffs are calculated correctly.

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

Question 2 - Are you supportive of the principle of the CP?

## 4 Code Specific Matters

4.1 N/A

## 5 Working Group Assessment

### DCP 437 Working Group Assessment

- 5.1 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](http://www.dcusa.co.uk).
- 5.2 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.
- 5.3 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.
- 5.4 The most common fixed term contract in the domestic market is a 12-month fix, 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. Moving it to 12 months would result in an increase to 50%.
- 5.5 The tables below show the 24-month uncertainty period depending on the month agreed and notice period provided.

### 15 months notice period

24-Month contract 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%

## 14 months notice period

24 Month contract 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%

5.6 After discussion, the Working Group agreed that reducing the notice period for DNOs to 14 months would be a reasonable compromise. It would allow DNOs an extra month to ensure appropriate checks are made and provide more certainty for Suppliers than reducing to 12 months.

**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.**

**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?**

5.7 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](#)

- 5.8 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.
- 5.9 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'](#)

- 5.10 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.
- 5.11 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.](#)

- 5.12 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.
- 5.13 Ofgem rejected this proposal on 03 May 2024 and the rationale for their decision can be found at the following link– [Decision](#).

## **6 Relevant Objectives**

### **Assessment Against the DCUSA Objectives**

- 6.1 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.
- 6.2 The Working Group considers that the following DCUSA 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

6.3 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..

6.4 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.

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

## 7 Impacts & Other Considerations

**Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?**

7.1 No.

**Does this Change Proposal Impact Other Codes?**

7.2 No.

**Consideration of Wider Industry Impacts**

7.3 N/A

**Confidentiality**

7.4 N/A

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

## 8 Implementation

8.1 The proposed implementation date for DCP 437 is the next issue of DCUSA following approval.

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

## 9 Legal Text

### Legal Text

9.1 It is proposed that the following legal text is amended:

Section 2A

#### Use of System Charges

19.1A The Company may vary the Use of System Charges at any time by giving the requisite period of written notice to the User. The requisite period of notice is (subject to Clause 19.1B):

19.1.1 where the Company is a DNO Party acting within that DNO Party's Distribution Services Area:

(A) in the case of the charges to apply from 1 April 2016 only, 3 months; or

(B) in the case of the charges to apply on or after 1 April 2017, ~~45~~ 14 months;

19.1.2 where the Company is an IDNO Party or a DNO Party acting outside of that DNO Party's Distribution Services Area:

(A) in the case of the charges to apply from 1 April 2016 only, 2 months; or

(B) in the case of the charges to apply on or after 1 April 2017, 44 **13** months.

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

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

## 10 Consultation Questions

10.1 The Working Group is seeking industry views on the following consultation questions:

No.	Questions
1	Do you understand the intent of the CP?
2	Are you supportive of the principles of the CP?
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.
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	Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.
6	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
7	Are you supportive of the proposed implementation date? (Next issue of DCUSA following approval)
8	Do you have any comments on the draft legal text?
9	Do you have any other comments on the DCP 437?

10.2 Responses should be submitted using Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than, 02 July 2024.

10.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

## 11 Attachments

- Attachment 1 – DCP 437 Consultation Response Form
- Attachment 2 – DCP 437 Change Proposal