








| DCUSA Change Proposal (DCP)  |   | At what stage is this document in the process? |
|--|---|--|
| <h1>DCP 450:</h1> <h2>Managing the effects of surplus residual charge in the CDCM</h2> <p><b>Date Raised:</b> 10/02/2025</p> <p><b>Proposer Name:</b> Chris Ong</p> <p><b>Company Name:</b> Eastern Power Networks</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>To determine the appropriate arrangements for managing the effects of large residual values in the CDCM</p>   |   |  |
|   | <p><b>Governance:</b></p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> <li>• Treated as a Part 1 Matter</li> <li>• Treated as a Standard Change</li> <li>• Progressed to the Working Group phase</li> </ul> <p>The Panel will consider the proposer's recommendation and determine the appropriate route.</p> |  |
|   | <p><b>Impacted Parties:</b></p> <p>Suppliers/DNOs/IDNOs/CVA Registrants</p>   |  |
|   | <p><b>Impacted Clauses:</b> Schedule 16</p>   |  |

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| Indicative Timeline  |                                |  DCUSA@electralink.co.uk         |
| <b>The Secretariat recommends the following timetable:</b> |                                |  020 7432 3011                   |
| Initial Assessment Report                                  | 19 February 2025               | Proposer:   |
| Consultation Issued to Industry Participants               | TBC                            | Chris Ong   |
| Change Report Approved by Panel                            | 18 June 2025                   |  chris.ong@ukpowernetworks.co.uk |
| Change Report issued for Voting                            | 19 June 2025                   |   |
| Party Voting Closes  | 10 July 2025                   |   |
| Change Declaration Issued to Parties                       | 14 July 2025                   |   |
| Change Declaration Issued to Authority                     | 14 July 2025                   |   |
| Authority Decision   | Prior to 30 September 2025     |   |

## 1 Summary

### What?

- 1.1 For the charging years 2025/26 and 2026/27 some DNOs have experienced issues with the DUoS Charging model for LV and HV charges, the Common Distribution Charging Methodology (CDCM), which has resulted in a number of errors being seen in the calculation of charges, which required manual intervention.

### Why?

- 1.2 These issues have been caused by the large amount of residual (which can be either positive and negative) causing the models to not calculate all elements of all charges and as a result produce errors.

### How?

- 1.3 For 2026/27 Ofgem produced some guidance on the approach to be taken [Managing the effects of surplus residual charges guidance | Ofgem](#) which has been utilised to deliver an enduring solution for this change.

## 2 Governance

### Justification for Part 1 and Part 2 Matter

- 2.1 This Change Proposal should be treated as a Part 1 Matter as it is likely to have a significant impact on the interests of electricity consumers as it impacts the CDCM charges.

### Requested Next Steps

- 2.2 This Change Proposal should:
- Be treated as a Part 1 Matter;
  - Be treated as a Standard Change; and
  - Proceed to the Working Group phase.
- 2.3 This change needs to be developed promptly to allow a solution to be in place for the setting of the 2027/28 DUoS charges, in order to avoid a further series of derogations being required.

## 3 Why Change?

- 3.1 At the time of setting charges for 2025/26 in December 2023, some DNOs were only aware late in the process that when following the charging methodology, it was not possible to create a full set of charges without errors due to the size of the residual. This required last minute discussions with Ofgem, as well as for some, derogations being granted in order to be able to calculate charges.

- 3.2 Following this, early in 2024, discussions took place with Ofgem over a number of months to understand if the same problems were expected to be seen with the calculation of 2026/27 charges. This resulted in some guidance notes being issued by Ofgem for the calculation of the 2026/27 charges. The guidance can be accessed using the link in paragraph 1.3.
- 3.3 Although the guidance document relates to both Common Distribution Charging Methodology (CDCM) and Extra-High Voltage Distribution Charging Methodology (EDCM), this change solely relates to the CDCM. A separate change will be brought forward for the EDCMs.

## 4 Solution and Legal Text

### Legal Text

- 4.1 The existing residual surplus adjustment mechanism is described in paragraphs 94 and 94A of Schedule 16 of the DCUSA however specifically this change needs to address where the arrangements are exhausted and a residual surplus still remains, resulting in the model used to calculate final tariffs presenting a reference error in the place of unit and fixed charges.
- 4.2 This can be achieved using the gross asset cost (£) for each network level of the Distribution Reinforcement Model (DRM) uniformly by decreased by applying a scaler multiplier. In the CDCM Model this is "Inputs by network level: DRM asset costs".
- 4.3 The proposed additional text would be added as paragraph 25A of Schedule 16 and state '*Where the model is not able to produce charges for all elements of all tariffs, then the values will be scaled back by an equal percentage across all assets until all tariffs are fully populated.*'

### Text Commentary

- 4.4 It is believed that only one sentence of additional text is required to deliver an appropriate solution for this change which is shown in 4.3 above.

## 5 Code Specific Matters

### Reference Documents

- 5.1 This change is based upon the approach directed by Ofgem in their guidance note published on 14 November 2024 on the approach to dealing with residual surplus and does not look to alter or change the approach proposed as part of that note.

## 6 Relevant Objectives

|                          | DCUSA General Objectives   | Identified impact |
|--------------------------|--|-------------------|
| <input type="checkbox"/> | 1. The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks   | None              |
| <input type="checkbox"/> | 2. The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity | None              |
| <input type="checkbox"/> | 3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences   | None              |
| <input type="checkbox"/> | 4. The promotion of efficiency in the implementation and administration of the DCUSA   | None              |
| <input type="checkbox"/> | 5. Compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.                                  | None              |

|                                     | 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 checked="" 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) | Positive          |
| <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 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   | Neutral           |
| <input type="checkbox"/>            | 5. That compliance by each DNO Party with the Charging Methodologies facilitates compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators; and  | Neutral           |
| <input checked="" type="checkbox"/> | 6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.   | Positive          |

- 6.1 It is believed that DCUSA Charging Objective 1, 2, 3 and 6 are better facilitated by this change proposal in that it delivers an enduring solution to the changing methodology, which should avoid the need for future derogations in relation to an issue which has existed for some time. This will also provide clarity for DNOs where such an issue is identified in future.

## 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 It is not believed that this change will impact upon the current DUoS SCR as it relates to inputs derived from outside of the methodology and only seeks to scale those inputs where necessary in order for the current models to produce tariffs in circumstances where it otherwise wouldn't.

### Does this Change Proposal Impact Other Codes?

|                     |                          |           |                                     |
|---------------------|--------------------------|-----------|-------------------------------------|
| BSC.....            | <input type="checkbox"/> | SEC.....  | <input type="checkbox"/>            |
| CUSC.....           | <input type="checkbox"/> | REC.....  | <input type="checkbox"/>            |
| Grid Code.....      | <input type="checkbox"/> | None..... | <input checked="" type="checkbox"/> |
| Distribution Code.. | <input type="checkbox"/> |           |                                     |

### Consideration of Wider Industry Impacts

- 7.2 This issue has been discussed at length between Ofgem and all DNOs.

### Confidentiality

- 7.3 Not confidential.

## 8 Implementation

### Proposed Implementation Date

- 8.1 1 April 2027 to allow the change to take effect for the setting of charges for 2027/28

## 9 Recommendations

*The Code Administrator will provide a summary of any recommendations/determinations provided by the Panel in considering the initial Change Proposal. This will form part of a Final Change Report.*