DCUSA Issues Form (DIF)

This form should be used by parties to submit matters for consideration to DCUSA Standing Issues Group (SIG). The completed form should be issued to DCUSA@electralink.co.uk

Document Control	
Date Submitted:	28th Feb 2025
Issue Title:	Making RAV uplift consistent with PCFM inflation basis
Attachments:	
Issue Number*:	DIF 81
Meeting Reference*:	SIG 167

**Assigned by DCUSA Secretariat*

Originator Details	
Party Name:	ENWL
Originator Name:	Mark Bellman
Party Category:	DNO
Email Address:	Mark.bellman@enwl.co.uk
Telephone Number:	07385 009419

Nature of Issue
DCUSA Schedule 1 clause 2.3 defines the User's Credit Allowance, calculation of which uses Regulatory Asset Value (RAV) at current prices. RAV is taken from the DNO's latest published Price Control Financial Model (PCFM) in which it is expressed at 2020/21 prices. Under DCUSA Schedule 1 clause 2.3 this is then uplifted by RPI to current prices, using the average of the RPI All Index for December and January in the current Regulatory Year. However **i**nflation in the PCFM has used CPIH since April 2023. This means that RAV at current prices as calculated by DCUSA is now out of line with that which would be calculated if the inflation series (i.e. CPIH) used in the PCFM were to be used.

The consequence of using a significantly different RAV is to change the level of Credit Allowance and therefore the Collateral that might be required to maintain Indebtedness Ratio below the Indebtedness Ratio Limit

To quantify the difference, taking a RAV of for example £2,000m in 2020/21 prices and uplifting to current prices by:

- ⇨ applying RPI as currently under DCUSA gives £2,664m
- ⇨ applying the index used in PCFM (i.e. RPI then CPIH from Apr-23) gives £2,669m.

So currently the difference is small in its impact.

However if over time the RAV bases diverge and result in RAVs that are different by say 5% (e.g. £100m in this case) then the resulting difference in Credit Allowance would see *reduction* or *increase* in Collateral requirements of:

- ⇨ £400k to a Supplier with a Credit Rating and a Credit Allowance Factor (CAF) of 20%
- ⇨ £267k to a Supplier with an Experian credit score of 40, and a CAF of 13.33%

This could result in more or less collateral being required if a supplier's VAR is greater than their Credit Allowance than would be the cas if the correct RAV calculation was used. It would also mean that such a supplier could be at an advantage or disadvantage compared to another supplier with the same Credit Allowance but who's VAR is less than the CA. This could have an impact on fairness and therefore competition.

The proposer believes that it's important that the basis for credit cover calculation remains aligned with the basis used in the PCFM (As it was before the PCFM basis was changed) and that the current position is simply an oversight by industry. On this basis the Proposer believes the required action is to simply correct an error which arose from the change in PCFM basis not being contemporaneously reflected in DCUSA.

Solution Overview – If Known	
Solution Description	Replace the reference to "RPI All Index" with reference to "CPIH" Replace "$RPI_{2020-21}$ = 294.167 (the arithmetic average of the Office of National Statistics RPI All Items Index published or determined with respect to each of the twelve months from 1 April 2020 to 31 March 2021)" with two terms to take prices from ⇨ 2020/21 basis to Apr-23 at RPI (a fixed multiplier of 1.267), and ⇨ Apr-23 to Current at CPIH (with a fixed value for Apr-23 of 128.3)
Lead Time For Implementation	Proposed Part 2 Matter.

	Therefore implementation as soon after Approval (or Authority Consent if called in) as possible.