




DCUSA Consultation		At what stage is this document in the process?
<h2>DCP 455:</h2> <h3>Align RAV price-inflation with that used in ED2</h3> <p>Date Raised: 22/05/2025</p> <p>Proposer Name: Mark Bellman</p> <p>Company Name: Electricity North West Limited</p> <p>Party Category: DNO</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p>Purpose of Change Proposal</p> <p>ED2 PCFM uses a combination of RPI and CPIH to uplift from 2020/21 to outturn prices. This change seeks to align the prescribed calculation of RAV in Schedule 1, to retain consistency of credit cover calculation with ED2 PCFM.</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 this CP.</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 2 to dcusa@electralink.co.uk by 29 August 2025.</p>	
	<p>Impacted Parties</p> <p>DNOs, IDNOs and Suppliers</p>	
	<p>Impacted Clauses</p> <p>Schedule 1</p>	

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Any questions?

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Timetable

Activity	Date
Initial Assessment Report	18 June 2025
Consultation Issued to Industry Participants	8 August 2025
Change Report Approved by Panel	17 September 2025
Change Report issued for Voting	18 September 2025
Party Voting Closes	09 October 2025
Change Declaration Issued to Parties	13 October 2025

1 Summary

What?

- 1.1 DCUSA's prescribed calculation for Credit Allowance is based on RAV from the Price Control Financial Model ("PCFM"). This value is stated in 20/21 prices and DCUSA specifies an uplift to outturn prices that is based on RPI, defined as *"the arithmetic average of the Office of National Statistics All Items Retail Prices Index (CHAW Series)."*
- 1.2 While this was consistent with the price basis used in ED1 PCFM it is no longer consistent with those used for ED2.
- 1.3 As a consequence, the Proposer believes that the definition of "RPI" in Schedule 1 should be updated to reflect the basis used in ED2.

Why?

- 1.4 The impact of using the present DCUSA price basis for inflating RAV compared to that used in ED2 is that RAV will diverge from that which would otherwise be calculated using the ED2 price inflation and this in turn means that Suppliers' Credit Allowances ("CA") will be larger or smaller than otherwise would have been the case.
- 1.5 Such a divergence in the two calculation bases for RAV and therefore CA could have the following impacts:
 - 1.5.1 it could change the balance of credit risk between DNO and Supplier, from that which pertained during ED1.
 - 1.5.2 it could distort competition. Two suppliers with the same credit rating would have the same CA. But if they have different Value At Risk ("VAR"), say one above and one

below their common CA, then they be subject to different collateral requirements than they would have been if the calculation of RAV was correctly aligned with PCFM.

- 1.6 However, the two series were running very closely at February 2025. For example, taking a RAV of £2,000m in 2020/21 prices and uplifting to current prices by:
 - 1.6.1 applying RPI as currently under DCUSA gives £2,664m
 - 1.6.2 applying the index used in PCFM (i.e. RPI then CPIH from Apr-23) gives £2,669m.
- 1.7 This would mean that, for example, a Supplier with an Experian Credit Score of 40 and a CAF of 13.33% would see their CA of £7.102m be higher or lower than otherwise by only £13k.
- 1.8 For this reason, the error will not have had any meaningful impact on Parties' RAV and CA and therefore is not yet impacting competition.
- 1.9 However, there is potential for the series to diverge considerably in a short period of time, particularly in volatile economic conditions such as those at present.
- 1.10 To illustrate this with an example, a divergence in bases causing £100m (say c. 5%) difference in RAV would result in a £400k difference in Credit Allowance. If the Supplier's VAR is greater than their Credit Allowance, then the Collateral they're required to place could be **different by £400k** for a supplier with a Credit Rating and a Credit Allowance Factor ("CAF") of 20%. For a (typically smaller) supplier with an Experian credit score of 40, and a CAF of 13.33% this difference in CA (and potentially in Collateral) could be **£267k**.

How?

- 1.11 The proposed solution is to replace the reference to *"the arithmetic average of the Office of National Statistics All Items Retail Prices Index (CHAW Series)."* with one that is consistent with the inflation basis now used in the PCFM.

2 Governance

Justification for Part 2 Matter

- 2.1 It is important that the basis for credit cover calculation remains aligned with the indexing used in the PCFM and the proposer believes the current Code text referring to RPI is simply an oversight.
- 2.2 The Proposer also believes that it's unlikely that differences in RAV are currently impacting competition due to the inflation bases having hardly diverged yet.
- 2.3 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, and that, if made before the next RAV is due to be notified (1st March 2026), the error, and the correction, will not adversely impact on competition.

- 2.4 For this reason, the Proposer considers this to be a Part 2 Matter. The Proposer believes this to be the most efficient approach to the change proposal.
- 2.5 The Panel agreed that this should be treated as a Part 2 matter.

3 Why Change?

- 3.1 ED2 Price Control Financial Model includes CPIH to index 2020/21 prices from (half-way through) April 2023.
- 3.2 However, this is different to the inflation basis prescribed for RAV in Schedule 1 of DCUSA, meaning that if a Party uses the value from PCFM they will be non-compliant with DCUSA which for the reasons stated above, is now (inadvertently) out-of-date and incorrect.

4 Working Group Assessment

- 4.1 The DCUSA Panel established a Working Group to assess this CP. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

Overview

- 4.2 The Proposer noted that prior to raising this CP they presented the subject, along with their proposed solution, at the 25th April Standing Issues Group (SIG). At this meeting, one viable alternative solution was presented, and the Proposer has considered this and decided for completeness, and to aid the working group, to also provide details of this solution.
- 4.3 The two solutions considered in determining the indexed value for RAV in outturn prices were:
 - A) Specify the location in PCFM from which the indices should be taken; and
 - B) Specify the basis for calculating the correct index.
- 4.4 At first glance, each has its merits.
 - A) Solution A requires only knowledge of where to get the latest updated PCFM (assuming it's already been updated and is the latest unadulterated version); and
 - B) Solution B requires knowledge of where to obtain CPIH but also shows how to calculate the index from prime sources (i.e. the ONS ("Office for National Statistics") published CPIH).
- 4.5 Both solutions start with replacing the references to RPI.
- 4.6 For info, when reviewing the below solutions, please refer to attachment 4 which has been provided for informational purposes.

4.7 Solution A

In Schedule 1, Clause 2.3:

Replace “ $RPI = RPI_{n-1} / RPI_{2020-21}$ ” with “ $PI = PI_{n-1} / RPI_{2020-21}$ ”

And replace

“ RPI_{n-1} = the arithmetic average of the Office of National Statistics RPI All Items Index published or determined with respect to the months of December and January most recently preceding the start of the Regulatory Year in which RAV is effective”

with

“ PI_{n-1} = the arithmetic average of the values:

- in Column N (headed PI_m) of the “Monthly Inflation” tab of the PCFM, updated with the latest actual values for CPIH in column L (headed CPIH) of the “Monthly Inflation” tab
- for the months of December and January most recently preceding the start of the Regulatory Year in which RAV is effective”

4.8 Solution B

Replace “ $RAV = RAV_{2020-21} \times RPI$ ” with “ $RAV = RAV_{2020-21} \times PI_{May-23} \times CPIH$ ”

Replace “ $RPI = RPI_{n-1} / RPI_{2020-21}$ ” with “ $PI_{May-23} = 1.273$ ”

- This inflates 2020/21 prices to May-23, using RPI up to Mar-23, the spliced RPI:CPIH for Apr-23 and CPIH for May-23. This is the movement in “ PI_m ” in Column N of the PCFM *Monthly Inflation* worksheet, from the average RPI for 2020/21 of 294.167 (i.e. the average of the 12 monthly RPI values in Column I of the PCFM *Monthly Inflation* worksheet) up to the May-23 spliced index value of 374.493 in Column N of the PCFM *Monthly Inflation* worksheet.

and “ $CPIH = CPIH_{n-1} / 129.1$ ”

- This allows the user (DNO, Supplier, etc) to calculate the index from May-23 simply using the widely accessible monthly CPIH index on ONS.

Replace

- “ RPI_{n-1} = the arithmetic average of the Office of National Statistics RPI All Items Index published or determined with respect to the months of December and January most recently preceding the start of the Regulatory Year in which RAV is effective”

with

- “ $CPIH_{n-1}$ = the arithmetic average of the Office for National Statistics CPIH INDEX 00: ALL ITEMS 2015=100, published or determined with respect to the months of December and January most recently preceding the start of the Regulatory Year to which RAV is to apply”.

4.9 It is also proposed to add the following definition:

“The value of 129.1 is the CPIH index factor for May-23 from the series L522 for mm23 ([CPIH INDEX 00: ALL ITEMS 2015=100 - Office for National Statistics](#)) which can be obtained from the ONS website”

4.10 In summary, the proposed solution is to replace the reference to “the arithmetic average of the Office for National Statistics All Items Retail Prices Index (CHAW Series).” with one that is consistent with the inflation basis now used in the PCFM.

Working Group Considerations

4.11 The Working Group firstly considered it would be useful to understand the rationale for Ofgem switching from RPI to CPIH. The following was concluded:

- In their document **RIIO-2 Sector Specific Methodology Decision – Finance (May 2019)** Ofgem state “We decided in the RIIO-ED2 SSMD to implement an immediate switch from RPI indexation to CPIH indexation.”
- An explicit rationale in the price control material was not found, but from other sources using CPIH was **aligned with other regulators’ price controls** (e.g. Ofwat, the CAA), **fairer for consumers and investors** (CPIH typically grows more slowly than RPI, which reduces risk of overcompensation of revenues overcharging of consumers), **better reflection of real-world costs** (CPIH includes housing costs).
- In addition, Government and ONS have indicated plans to phase out RPI due to statistical shortcomings.

4.12 The Working Group considered both solutions and noted that solution B can be easily calculated by third parties who might not be familiar with the PCFM, and it eliminates the risk of introducing errors from incorrect versions of the PCFM. It was also noted that solution A would be an opaque process for a third party unfamiliar with the PCFM and, in addition, requires the person calculating RAV to know that the PCFM they are using is up-to-date and correct (the PCFM can be edited and shared). It was further noted that the integrity of the approach relies on the DNO’s internal version and quality control with the possibility that multiple versions, some with forecast values and others with actual values, could inadvertently introduce potential error in the RAV calculation.

4.13 It was also noted that for solution A, the data they would need would not be available at the point it is needed in the PCFM. The group noted that there would be two options, the first being to use the values that are in the published PCFM which would be forecast values. The second option would be to take the actual December and January CPIH figures from the ONS and then adjust the published PCFM number, which would be complex.

4.14 Based on the above, the Working Group concluded that solution B would be the most appropriate solution to take forward.

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

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

Question 3 – Do you agree with the Working Group position of taking forward solution B? Please provide your rationale either way.

Question 4 – Do you have any other solutions you would like the Working Group to consider?

5 Relevant Objectives

Assessment Against the DCUSA Objectives

- 5.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. This CP is being assessed against the DCUSA Charging Objectives.
- 5.2 The Proposer considers that the following DCUSA Charging Objectives are better facilitated by this CP:

	DCUSA Charging Objectives	Identified impact
<input type="checkbox"/>	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	Neutral
<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)	Neutral
<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 type="checkbox"/>	6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	Neutral

- 5.3 The Working Group believe that Objective 3 is better facilitated as it aligns with Ofgem's switch from RPI indexation to CPIH indexation within the PCFM.

Question 5 – Do you consider that the proposal better facilitates the DCUSA Charging Objectives? Please give supporting reasons.

6 Impacts & Other Considerations

- 6.1 The current error in the basis for calculating RAV, and therefore in Credit Allowance ("CA"), affects Suppliers differently. For example, the error might mean lower or higher CAs than would otherwise be the case.
- 6.2 A Supplier whose CA remains above Value At Risk ("VAR") regardless of the error would have no Collateral to lodge and so be unaffected by the error or its correction. However, if the Supplier's VAR is close to or over the CA, an error in RAV could impact the amount of security required.
- 6.3 This could impact competition, putting such Suppliers at a relative advantage or disadvantage compared to other Suppliers whose VARs remain below the CA regardless of the RAV error.
- 6.4 It could also mean similar sized Suppliers with different VARs in different DNO areas could have different overall exposures to security requirements.

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

- 6.5 Not applicable.

Does this Change Proposal Impact Other Codes?

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

Consideration of Wider Industry Impacts

- 6.6 Not applicable.

Confidentiality

- 6.7 Not applicable.

Environmental Impacts

- 6.8 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.

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

7 Implementation

7.1 Implement in the 6 November 2025 DCUSA release.

Question 7 – Are you supportive of the proposal to implement this CP by 6 November 2025?

8 Legal Text Commentary

8.1 The legal text for this CP is provided as Attachment 1.

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

9 Consultation Questions

9.1 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 principle of the CP?
3	Do you agree with the Working Group position of taking forward solution B? Please provide your rationale either way.
4	Do you have any other solutions you would like the Working Group to consider?
5	Do you consider that the proposal better facilitates the DCUSA Charging 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 proposal to implement this CP by 6 November 2025?
8	Do you have any comments on the draft legal text?

9.2 Responses should be submitted using Attachment 2 to dcusa@electralink.co.uk by no later than 29 August 2025.

9.3 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.

10 Attachments

- Attachment 1 – DCP 455 Legal Text
- Attachment 2 – DCP 455 Consultation Response Form
- Attachment 3 – DCP 455 Change Proposal Form
- Attachment 4 – ED2 PCFM V4 Published 25 July 2025 (for info only)