





| DCUSA Change Proposal (DCP) | | At what stage is this document in the process? |
|---|---|--|
| <h1>DCP 455:</h1> <h2>Align RAV price-inflation with that used in ED2</h2> <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> | <p>01 – Change Proposal</p> | |
| | <p>02 – Consultation</p> | |
| | <p>03 – Change Report</p> | |
| | <p>04 – Change Declaration</p> | |
| <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>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Treated as a Part 2 Matter • Treated as a Standard Change • Progressed to the Working Group phase <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p> | |
|  | <p>Impacted Parties:</p> <p>Suppliers/DNOs/IDNOs</p> | |
|  | <p>Impacted Clauses:</p> <p>Schedule 1</p> | |

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| Indicative Timeline | | |
| The Secretariat recommends the following timetable: | | |
| Initial Assessment Report | 18 June 2025 | |
| Consultation Issued to Industry Participants | July 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 | |
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| | | |

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 (CA), 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 1 and Part 2 Matter

- 2.1 The proposer believes that it's important that the basis for credit cover calculation remains aligned with the indexing used in the PCFM and that 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 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. However although the Proposer believes there is not yet a competition impact, he has no objection if the Panel amends this to Part1 because there is sufficient time before an error might crystallise in the next RAV.

Requested Next Steps

- 2.5 This Change Proposal should:
- Be treated as a Part 2 Matter;
 - Be treated as a Standard Change; and
 - Proceed to the Working Group phase.
- 2.6 The next point at which the RAV value in DCUSA is used will be for the credit cover calculation due to be notified on 1st March 2026 for the year starting 1st April 2026. It is therefore important that this calculation is corrected by Feb-26 latest to prevent the risk that any significant divergence between RPI and CPIH causes differences in RAVs and therefore Credit Allowances.

3 Why Change?

- 3.1 The Proposer notes that the 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 Solution and Legal Text

Legal Text

- 4.1 At the 25th April Standing Issue Group, one viable alternative solution was proposed in addition to that proposed. The Proposer has considered this and decided for completeness, and to aid the working group, to outline each solution below.

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
- B) Specify the basis for calculating the correct index

- 4.2 Each has its merits.
 - A) requires only knowledge of where to get the latest updated PCFM (assuming it's already been updated and is the latest unadulterated version)
 - B) requires knowledge of where to obtain CPIH but also shows how to calculate the index from prime sources (i.e. the ONS published CPIH)
- 4.3 The Proposer prefers B) on the basis that, importantly, it can also be easily calculated by third parties who might not be familiar with the PCFM. It eliminates the risk of introducing errors from incorrect versions of the PCFM.
- 4.4 By contrast A) would be an opaque process for a third party unfamiliar with the PCFM. In addition, it 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). The integrity of this approach relies on the DNO's internal version and quality control with the attendant possibility that multiple versions, some with forecast values others with actual values, could inadvertently introduce potential error in the RAV calculation).
- 4.5 **Both solutions start with replacing the references to RPI**
In Schedule 1 clause 2.3:

Replace "RAV = RAV₂₀₂₀₋₂₁ x RPI" with "RAV = RAV₂₀₂₀₋₂₁ x PI"

4.6 Solution A)

In Schedule 1 clause 2.3:

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

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

4.7 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 O of the PCFM “MonthlyInflation” tab, from the average RPI for 2020/21 of 294.167 up to the May-23 spliced index value of 374.493.

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 of 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”

Text Commentary

- 4.8 The PCFM inflation index is made up of 3 elements:
- i) RPI index up to Mar-23,
 - ii) RPI and CPIH indices 50:50 to calculate Apr-23, and
 - iii) CPIH from May-23.
- 4.9 The reference currently in DCUSA to “RPI All Index” needs to be replaced with terms that reflect this indexing used in the PCFM.

5 Code Specific Matters

Reference Documents

- 5.1 Ofgem’s template for, and each DNO’s completed and up-to-date, Price Control Financial Model.

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 checked="" 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 | Positive |
| <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 checked="" type="checkbox"/> | 4. The promotion of efficiency in the implementation and administration of the DCUSA | Positive |
| <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 |

- 6.1 Competition is more effective when the basis for credit is consistent across all DNOs, predictable and can be calculated unambiguously by Suppliers. (see 7.1 & 7.2)
- 6.2 The implementation and administration of the DCUSA is more efficient when the basis for calculating credit cover is unambiguous and not open to challenge, thereby minimising the risk of burdensome queries and otherwise unnecessary disputes.

7 Impacts & Other Considerations

- 7.1 The current error in the basis for calculating RAV, and therefore in Credit Allowance, affects suppliers differently. For example, the error might mean lower or higher CAs than would otherwise be the case.
- 7.2 A supplier whose CA remains above Value At Risk 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.
- 7.3 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.
- 7.4 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?

7.5 Not applicable.

Does this Change Proposal Impact Other Codes?

- BSC.....
- CUSC..... SEC.....
- Grid Code..... REC.....
- Distribution Code.. None.....

Consideration of Wider Industry Impacts

7.6 Not applicable.

Confidentiality

7.7 Not applicable.

8 Implementation

Proposed Implementation Date

8.1 Implementation as soon after Approval (or Authority Consent if called in) as possible and preferably before February 2026.

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.