




DCUSA Consultation		At what stage is this document in the process?
<h2>DCP 450</h2> <h3>Managing the effects of surplus residual charge in the Common Distribution Charging Methodology (“CDCM”)</h3> <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> <p><b>Governance:</b> Part 1 Matter</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p><b>Purpose of Change Proposal</b></p> <p>The intent of this Change Proposal (“CP”) is to determine the appropriate arrangements for managing the effects of large residual values in the CDCM.</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 <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by 11 July 2025.</p>	
	<p><b>Impacted Parties</b></p> <p>CVA Registrants, DNOs, IDNOs and Suppliers</p>	
	<p><b>Impacted Clauses</b></p> <p><a href="#">Schedule 16</a></p>	

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Any questions?

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### Proposer

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## Timetable

Activity	Date
Initial Assessment Report	19 February 2025
Consultation Issued to Industry Participants	20 June 2025
Change Report Approved by Panel	20 August 2025
Change Report issued for Voting	21 August 2025
Party Voting Closes	12 September 2025
Change Declaration Issued	16 September 2025

## 1 Summary

### What?

- 1.1 For the charging years 2025/26 and 2026/27 some distribution network operators (“DNOs”) have experienced issues with the Distribution Use of System Charges (“DUoS”) Charging model for Low Voltage (“LV”) and High Voltage (“HV”) charges in the 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, the Authority produced some guidance (see Attachment 4) on the approach to be taken ([Managing the effects of surplus residual charges guidance | Ofgem](#)) which was utilised to deliver a solution for that charging year. It is proposed that this solution is used as an enduring solution, until such time that a wider review of the charging methodologies has taken place, either as a result of the DUoS Significant Code Review (“SCR”) or as part of a review of how costs are recovered within the methodologies.

## 2 Governance

- 2.1 This CP 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.
- 2.2 This consultation is issued for a period of 15 working days.

## 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 the CDCM and Extra-High Voltage Distribution Charging Methodology (“EDCM”), this change solely relates to the CDCM. A separate change would need to be brought forward for the EDCM.

## 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](http://www.dcusa.co.uk).

### Overview

- 4.2 The Proposer walked the Working Group through the change and explained that London Power Networks had had a negative residual since the CDCM was introduced due to the DRM model which calculates the cost of an additional 500MW to be put onto the network.
- 4.3 The Proposer explained that these costs are taken from the model that DNOs manage and are used in the CDCM. The Proposer also noted that, unlike other DNO regions, there are additional costs for the London region due to the dense population and infrastructure.
- 4.4 The Proposer explained that a negative residual typically occurs when the costs from the Distribution Reinforcement Model (“DRM”), also known as the 500MW model, calculates costs which, when scaled up, are greater than the allowed revenue which the DNO has agreed in its price control settlement with the Authority. This causes the CDCM methodology to scale back the calculated charges so that the DNO recovers only its allowed revenue, resulting in a negative residual.
- 4.5 The Proposer explained that the existing residual surplus adjustment mechanism is described in paragraphs 94 and 94A of [Schedule 16](#) of the DCUSA, included below for clarity (correct at the time of issuing this consultation):

*94 Where a residual surplus exists, and it is not possible to apply the charge from any charging band, as it reduces the fixed components of the relevant all-the-way tariff to less than zero (post allocation of pass-through costs in step 5), then the total fixed charge element of that all-the-way tariff will be capped at zero. The remaining residual surplus will be returned to all Final Demand Sites within that charging band by applying a fixed charge adder (p/kWh) across all unit rates. If this procedure would result in negative value for any tariff component, then that tariff component is set to zero, and the unit charge adder figure is modified to the extent necessary to match forecast and target revenue.*

*94A. Where Paragraph 94 applies and the basis for that all-the-way tariff is derived from more than one tariff before revenue matching and shares the same residual charge as described in Paragraph 92A, then the amount of residual charge to be applied will be set equal to the amount that applies to whichever tariff before revenue matching would first require a cap to be applied in accordance with Paragraph 94 (i.e. the lesser of the two). Where applicable, this applies to the fixed charge element of the*

*relevant all-the-way tariff and the fixed charge adder on unit rates of the relevant all-the-way tariff.*

- 4.6 The Proposer explained that this CP specifically addresses where these arrangements are exhausted and a residual surplus remains, resulting in the model used to calculate final tariffs presenting a reference error in the place of unit or fixed charges. This can be achieved using the gross asset cost (£) for each network level of the DRM and decreasing them uniformly, prior to these being entered into the CDCM Model as “Inputs by network level: DRM asset costs”, until no further errors are shown, and all tariffs are fully populated.
- 4.7 The Proposer explained that, as a result, London Power Networks charges have been unusual over the years, particularly with zero-unit rates for the amber and green rates, and with non-final demand (“NFD”) sometimes being a more expensive option for those eligible to submit a NFD certificate.
- 4.8 The Proposer explained that for the last two years, due of the size of the negative residual, there had been issues with the model not calculating the charges correctly or the model outputting errors in the calculation of charges, requiring manual intervention.
- 4.9 The Proposer explained that for charging year 2026/27, the Authority had produced guidance on the approach to be taken: [‘Managing the effects of surplus residual charges guidance | Ofgem’](#).

### **Impact Assessment**

- 4.10 The Working Group discussed whether there were impacts to other customers as a result of scaling the charges back until the error is resolved
- 4.11 The Working Group noted that the Proposer had explained that when the model produced errors, it was highly likely any charges it did produce are invalid, and that it would therefore not be possible to perform an impact assessment. It was noted that without the approach proposed by this changes proposal, a DNO would produce incomplete and invalid charges, whereas the result for customers of the proposed solution would be valid charges.
- 4.12 The Working Group discussed that it would be beneficial to have a worked example of the issue, so that it can assess whether it is possible to perform an impact assessment. This was provided to the Working Group on a confidential basis, and is therefore not included with this consultation, however the Working Group was able to note the following observations:
  - 4.12.1 as a result of reducing the asset costs used in the CDCM, the charges which are calculated largely decrease when compared with the model without the adjustment being made. However, that is not the case for all charges, as some do see increases, which is a result of the model adjusting the charges to recover the correct allowed revenue and looking to allocate the costs correctly,; and
  - 4.12.2 that it was not possible for the Working Group to determine which charges would increase or decrease first, as it was not clear in what order charges would be reallocated as the values are scaled down.

- 4.13 The Working Group noted that it lacked the expertise, as a group, to assess the impacts of the scaling of the values on the model itself and the charges for other customers as a result of scaling the values. The Working Group agreed to request support from [CEPA/TNEI](#), to provide expert knowledge to the Working Group to better understand how the models were impacted and whether it would be possible, feasible or necessary to conduct an impact assessment of the charges on other customers.
- 4.14 Following DCUSA Board approval for CEPA/TNEI to be engaged by the Working Group, a CEPA representative attended the third meeting of the Working Group and used a slide presentation (see Attachment 5) to explain how the scaling of the DRM asset costs would impact upon the model and other charges. The notable learnings captured were:
- 4.14.1 that it is not possible to specify the order in which tariffs are impacted by the scaling, as it depends on the headroom that is available in the fixed and unit rate charges for each customer category, with those closest to zero being impacted first;
  - 4.14.2 that scaling the DRM results in the scaling of the forward-looking charges;
  - 4.14.3 that increasing forward-looking charges would mean there is less need for residual charges, which could result in negative residual charges, and vice-versa;
  - 4.14.4 that some customers are being charged perfectly with no residual, raising the question of whether this is an error, and which was clarified that as being intentional;
  - 4.14.5 that gross asset costs influence the allocation of service model costs to fixed charges;
  - 4.14.6 that some customer categories are assigned specific assets used only by them, which incur operational and maintenance costs, but for which exact OpEx ("operating expenditure") for these assets isn't clear;
  - 4.14.7 that a standard OpEx rate is calculated by dividing total OpEx by total notional asset values, which is then applied to service model asset values, and, as a result, changing the gross asset costs affects the OpEx rate, which in turn impacts all customers, including those who don't pay a residual charge; and
  - 4.14.8 that tweaking actual costs for the purpose of tweaking notional costs would introduce distortions and should therefore not be done.
- 4.15 The Working Group discussed that, outside of the DUoS SCR, it would not be feasible to develop solutions that amend or unwind elements of the TCR in a more significant manner, and that the solution to be progressed will be the use of scaling values which is in line with the guidance from Ofgem and used for setting of the 2026/27 DUoS charges. At the June 2025 meeting of the Distribution Charging Methodologies Development Group ("DCMDG"), the Proposer explained that wider changes would remain outside of the scope of this CP but acknowledged that there was potential to develop an improved solution in the future.
- 4.16 The Working Group also considered whether it was feasible to perform an impact assessment of the impacts on customers' charges of using the scaling approach. It was discussed that without

scaling the DRM asset values, the model did not produce a full suite of valid charges that could be compared against and, as such, it would therefore not be feasible to perform an impact assessment (i.e., due to comparing invalid results to valid results.)

### **Scope of the CP**

- 4.17 The Proposer noted that some DNOs had suggested that this CP should address the reasons for the negative residual, which would lead to more logical charges, but that in discussion with the Authority prior to the guidance document being published this CP should seek to correct the errors without making larger scale changes to residual charging.
- 4.18 The Chair noted that while initial views on the approach may have been sought by the Proposer, from the Authority and other Parties, that it was ultimately for the Proposer to set the intent of the CP (and therefore, the scope) and for the Working Group to determine and develop the most appropriate solution(s) within that scope, whilst having regard to any current or pending significant code reviews ("SCRs"), such as the DUoS SCR.
- 4.19 The Proposer explained that the intent of this CP is to mirror the approach taken previously (option 1A of the above linked guidance document) and to codify this into the DCUSA, meaning that derogations and Authority interventions would not be required moving forward.

**Question 1 – Do you understand the intent of the CP?**

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

### **Proposed Solution**

- 4.20 The Working Group noted some feedback Ofgem had provided regarding the wording of the proposed legal text, and that the Proposer had addressed this during his consideration of the issue with a couple of amendments.
- 4.21 The Working Group also noted that the issue DCP 450 seeks to address is not a defect of the Distribution Reinforcement Model (DRM) and, as such, no amendments can be made to the model itself to correct this.
- 4.22 The resulting proposed legal text is attached to this consultation as attachment 1 and is consulted on under section 8 of this consultation.

## 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 checked="" 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	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

- 5.3 The Proposer believes that DCUSA Charging Objectives 1, 2, 3 and 6 are better facilitated by this CP as it delivers an enduring solution to the charging methodology which should avoid the need for future derogations in relation to an issue which has existed for some time. The Proposer believes this will also provide clarity for DNOs where such an issue is identified in the future.

**Question 3 – Do you consider that the proposal better facilitates the DCUSA Charging Objectives? Please give supporting reasons.**



## 6 Impacts & Other Considerations

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

- 6.1 This CP is not believed to 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.

### Consumer Impacts

- 6.2 If this change is not implemented, DNOs will, as on previous occasions, need to seek derogations from the Authority for future charging years in order for a full suite of charges to be calculated. Any future derogation would likely result in the proposed approach set out as part of this change being used. As a result, the approach proposed by this change would not impact consumers any more than if the derogation were to be granted.
- 6.3 The Working Group noted that this does result in the charges that are produced not always being logical. This can only be avoided if wider changes are considered. However, this would cross over into the work which is likely to be considered as part of the DUoS SCR and so is outside the scope of this change proposal.
- 6.4 The Working Group also noted that, as previously considered under paragraphs 4.10 to 4.16, it was not possible to perform an impact assessment of the proposed solution on end consumers, as this would be assessing an invalid suite of charges against a valid suite of charges.

### Environmental Impacts

- 6.5 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 4 – Are you aware of any wider industry developments that may impact upon or be impacted by this CP?**

## 7 Implementation

- 7.1 The proposed implementation date of this CP is by 1 April 2027, for which the charges will be published in December 2025 (or January 2026 if DCP 437 is approved).

**Question 5 – Are you supportive of the proposal to implement this CP by 1 April 2027?**

## 8 Legal Text Commentary

- 8.1 The legal text for this CP is provided as Attachment 1.
- 8.2 Paragraph 25A has been added to Schedule 16 of the DCUSA, under Network model asset values, to state that where the model produces errors, charges will be scaled back equally across all assets until the errors are resolved.

**Question 6 – 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 consider that the proposal better facilitates the DCUSA Charging Objectives? Please give supporting reasons.
4	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
5	Are you supportive of the proposal to implement this CP by 1 April 2027?
6	Do you have any comments on the draft legal text?

- 9.2 Responses should be submitted using Attachment 2 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by no later than 11 July 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 450 Legal Text
- Attachment 2 – DCP 450 Consultation Response Form
- Attachment 3 – DCP 450 Change Proposal Form
- Attachment 4 – Ofgem Guidance on Managing The Effects of Surplus Residual Charges
- Attachment 5 – Understanding DUoS Charge Movements 2026 to 2027