

DCP 455 Working Group Meeting 01

23 July 2025 at 10:00 - Web-Conference

Attendee	Company
Working Group Members	
Dave Wornell [DW]	National Grid
Donald Preston [DP]	SSE
Mark Bellman [MB]	ENWL
Stephen Millar [SM]	SPEN
Code Administrator	
Richard Colwill [RC]	Chair
Hannah Proffitt [HP]	Secretariat

1. Administration

Recording

- 1.1 The Chair asked members if they were comfortable for this Working Group to be recorded. No members objected to this request. The purpose of this recording is purely to aid the Technical Secretariat in producing an accurate report of the meeting.

Apologies

- 1.2 No apologies were received ahead of the meeting.

Competition Law Guidance and Terms of Reference

- 1.3 The Working Group agreed to be bound by the Competition Law Guidance for the duration of the meeting.
- 1.4 The Chair advised that the DCUSA Panel had agreed for an updated version of the Working Group Terms of Reference to be implemented. The Chair noted that the updated version includes mention of the meetings being recorded and would be circulated with the Final Agenda of the next meeting.

2. Purpose of the Meeting

- 2.1 The Chair advised that the purpose of the meeting was to review DCP 455 and to consider the next steps.

3. Overview of DCP 455 'Align RAV price-inflation with that used in ED2'

3.1 The Proposer provided the following background information on the proposal.

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)."

While this was consistent with the price basis used in ED1 PCFM it is no longer consistent with those used for ED2.

As a consequence, the Proposer believes that the definition of "RPI" in Schedule 1 should be updated to reflect the basis used in ED2.

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.

Such a divergence in the two calculation bases for RAV and therefore CA could have the following impacts:

it could change the balance of credit risk between DNO and Supplier, from that which pertained during ED1.

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.

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:

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.

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.

For this reason, the error will not have had any meaningful impact on Parties' RAV and CA and therefore is not yet impacting competition.

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.

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.

4. Review and Discussion of Change Proposal

- 4.1 The Proposer advised that 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.
- 4.2 DW noted that when Ofgem moved from using RPI to CPI, they stopped recognising RPI. The Proposer agreed and advised that from April 2023, they used CPIH. The Proposer questioned whether it mattered what indexing was used.
- 4.3 DW suggested that the reasoning behind why Ofgem moved from using RPI to CPI, could help provide rationale for this change. The Proposer agreed to look into this.

Action 01/01 – MB to look into why Ofgem moved from using RPI to CPI.

- 4.4 The Proposer noted that they believe it is 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 an oversight.
- 4.5 The Proposer highlighted they believe it is unlikely that differences in RAV are currently impacting competition due the inflation bases having hardly diverged yet. The Proposer noted that they believe if the correction is made before the next RAV is due to be notified (1st March 2026), the error will not adversely impact on competition.
- 4.6 DW highlighted that there used to be a 1% difference and that historically CPIH was around 1% below. The Proposer agreed and noted that when CPIH was first introduced there was an RPI negative at one point relating to housing costs. The Proposer noted that the two have points at which they diverge and then come back together.
- 4.7 The Proposer noted that the DCUSA Panel agreed to treat the change as a Part 2 matter.
- 4.8 The Proposer advised that at the April Standing Issues Group (SIG) meeting, one viable alternative solution was suggested in addition to that proposed. The two solutions considered in determining the indexed value for RAV in outturn prices are:
 - A) Specify the location in PCFM from which the indices should be taken
 - B) Specify the basis for calculating the correct index
- 4.9 The Proposer added that one further solution was proposed (to take the RAV value out of the PCFM), however that they discounted this as they could not see anywhere where there was a RAV value in out turn prices for every year in the model. DW agreed noting that the calculations with RAV in, are all done in 2021 prices and the final value is then uplifted to nominal prices after those calculations have been done.
- 4.10 The Proposer summarised the benefits for each 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).
- 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)

- 4.11 The Proposer advised 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. The Proposer noted that 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 Proposer 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 others with actual values, could inadvertently introduce potential error in the RAV calculation.
- 4.12 The Proposer presented a version of the legal text which showed both possible solutions.
- 4.13 For solution A), the group identified that 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 The Proposer went on to present the proposed legal text relating to solution B). DW asked if this solution uses the forecast CPIH. Using DW's example of RAV effective from 1st April 2025, the Proposer clarified that it does not, and that in February 2025 it would be looking at the December 2024 and January 2025 CPIH numbers on the ONS website.
- 4.15 The Proposer agreed to add a note to the text to confirm that 129.1 is the May 23 CPIH figure.

Action 01/02 – MB to add a note to the legal text to confirm that the 129.1 is the May 23 CPIH figure.

- 4.16 The Proposer noted that a reference to the use of the average for the December and January figure from the CPIH series as the outer value for the index, was in the original CP form but not on the current version of the legal text. The Chair agreed to ensure this is updated to include that reference.
- 4.17 The Proposer questioned whether this could be January instead. DW suggested that the average may be used in case there was an anomaly in the previous year's January or the current year's January, in which case using an average would give a more consistent rate of change of inflation. The group agreed to leave this as an average of December and January.
- 4.18 The group considered which solution they felt was best and agreed that solution B should be progressed for the reasons discussed above. The Chair agreed to work with the Proposer to ensure the legal text is updated to reflect solution B).

Action 01/03 – MB to work with the Chair to ensure the legal text is updated to reflect solution B).

- 4.19 The Working Group discussed the Relevant Objectives. The Proposer suggested that Objective 2 is better facilitated as competition is more effective when the basis for credit is consistent across all DNOs, predictable and can be calculated unambiguously by Suppliers.
- 4.20 DW raised that if you look at the indexes of the percentage changes year on year, the CPIH is usually lower than the RPI which means that customers would have to have a smaller amount of credit allowance. The Proposer noted that this could mean they need to put in more security and could be a protection for consumers against the risk of socialised cost.
- 4.21 The Working Group agreed that Objective 3 was better facilitated by this change rather than 2 and 4 as included in the original CP form as it is related to the licence.
- 4.22 DP noted that in their experience the reliance on the RAV adjustment gives high credit allowances that in most cases do not bear any relationship to the Suppliers VAR. The Proposer agreed. The Proposer and DP agreed to discuss this matter further either at a SIG meeting or offline.

5. Review/Update Work Plan

- 5.1 The Working Group agreed on the following next steps.
- The Proposer and Chair to produce an updated version of the legal text.
 - The Chair to produce a draft consultation and issue to members.
 - The Working Group to meet again on 6 August at 10am to finalise the legal text and review the consultation.

6. Any Other Business

- 6.1 No other business was raised.

New and Open Actions

Action Ref.	Action	Owner	Update
01/01	MB to look into why Ofgem moved from using RPI to CPI.	MB	<p>New action.</p> <p><i>Post meeting note from MB –</i></p> <p><i>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.”</i></p> <p><i>I couldn’t find an explicit rationale in the price control material, 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).</i></p> <p><i>In addition HMG and ONS have indicated plans to phase out RPI due to statistical shortcomings.</i></p>
01/02	MB to add a note to the legal text to confirm that the 129.1 is the May 23 CPIH figure.	MB	<p>New action.</p> <p><i>Post meeting note from MB –</i></p> <p><i>Confirmed (see CPIH INDEX 00: ALL ITEMS 2015=100 - Office for National Statistics)</i></p> <p><i>I suggest adding the following definition in the legal draft:</i></p>

DCUSA

			<i>"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"</i>
01/03	MB to work with the Chair to ensure the legal text is updated to reflect solution B).	MB	New action.

Closed Actions

Action Ref.			Update