




DCUSA Change Report		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>Date Raised: 10/02/2025</p> <p>Proposer Name: Chris Ong</p> <p>Company Name: Eastern Power Networks</p> <p>Party Category: DNO</p> <p>Governance: Part 1 Matter</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p>Purpose of the Change Proposal (“CP”):</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 issued in accordance with Clause 11.20 of the DCUSA. Parties are invited to consider the proposed amendment and submit their votes using the voting form (attachment 4) to dcusa@electralink.co.uk by no later than 12 September 2025. Votes received after this date cannot be counted.</p> <p>The voting process for the proposed variation and the timetable of the progression of the CP through the DCUSA Change Control Process is set out in this document.</p> <p>If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3011.</p>	
	 <p>Impacted Parties</p> <p>CVA Registrants, DNOs, IDNOs and Suppliers</p>	
	 <p>Impacted Clauses</p> <p>Schedule 16</p>	

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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



Any questions?

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1. Executive 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 or 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 is classified as a Part 1 matter and will go to the Authority for determination, after the voting process has completed.

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, as referenced under paragraph 4.10. 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.

Overview

- 4.2 The Proposer walked the Working Group through the change and explained that for most charging years, London Power Networks had had a negative residual since the CDCM was introduced due to the Distribution Reinforcement Model (“DRM”), also known as the 500MW model, which calculates the cost of an additional 500MW to be put onto the network.
- 4.3 These costs are taken from the model (“the DRM”) that DNOs manage and are an input in the CDCM. Unlike other DNO regions, there are additional costs for the London region due to the dense population and infrastructure, which explains why this has been a long-standing issue within that region.
- 4.4 A negative residual typically occurs when the costs from the DRM 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 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 Change Report):
- 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 As a result of these arrangements, 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.

- 4.7 The impact of negative residual has also been seen in other DNO regions for the charging years 2025/26 and 2026/27.
- 4.8 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. The proposed solution is that tariffs with no reference errors 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.
- 4.9 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.
- 4.10 For charging year 2026/27, the Authority issued a Call for Input relating to this issue, and following review of the responses to this, produced guidance on the approach to be taken: [‘Managing the effects of surplus residual charges guidance | Ofgem’](#).

Impact Assessment

- 4.11 The Working Group discussed whether there were impacts to other customers as a result of scaling the charges back until the error is resolved.
- 4.12 The Working Group noted 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 change proposal, a DNO would produce incomplete and invalid charges, whereas the result for customers of the proposed solution would be valid charges.
- 4.13 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:
- 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 whilst attempting to recover the correct allowed revenue and looking to allocate the costs correctly; and
 - 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.

- 4.14 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.
- 4.15 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:
- 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;
 - that scaling the DRM results in the scaling of the forward-looking charges;
 - that increasing forward-looking charges would mean there is less need for residual charges, which could result in negative residual charges, and vice-versa;
 - that some customers are being charged with no residual, raising the question of whether this is an error, and which was clarified that as being intentional;
 - that gross asset costs influence the allocation of service model costs to fixed charges;
 - that some customer categories are assigned specific assets used only by them, which incur operational and maintenance costs, but for which exact operating expenditure (“OpEx”) for these assets isn’t clear;
 - 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
 - that tweaking actual costs for the purpose of tweaking notional costs would introduce distortions and should therefore not be done.
- 4.16 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 as used by impacted DNOs, for setting 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.

5. Consultation Working Group Review

Intent

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

5.1 The Working Group noted that all respondents understood the intent of the CP.

Support

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

5.2 The Working Group noted that 7 of the 9 respondents supported the principle of the CP.

5.3 One respondent stated that:

- they would have preferred the Working Group to have taken more time to explore other potential solutions in more detail;
- that they were concerned that it had been concluded by the Working Group that it was not possible to perform an impact assessment; and
- that they were concerned that many of the workings of the DRM are difficult to describe and understand and often appeared to be “random” in some parts, which “would not be in conformance with the legal framework that applies to GB electricity network charging”.

5.4 The respondent stated they considered more work was required by the Working Group to develop a full understanding of the impacts of the proposed solution, without which there is a risk of unknown and unintended consequential impacts from this reform to other elements of DUoS charges.

5.5 Working Group members discussed that it was not possible to perform an impact assessment as there is nothing valid that the solution can be compared against (as the model produces errors without the solution.) Further to a suggestion made by one of the respondents, the Proposer also noted that the Schedule 15 quarterly tariff projections (‘illustrative prices’) only update allowed revenues and incentives, and do not revise the full asset cost allocations, so they cannot be used for a ‘before’ vs ‘after’ tariff comparison which could have helped quantify the impacts of the proposal.

5.6 The respondent proposed that the solution should be time limited.

5.7 The Working Group discussed that the proposed solution could be time limited but would need to remain in place until another solution is developed (i.e., via the DUoS SCR.)

5.8 One respondent stated that:

- they did not consider it appropriate to encode a change in the DCUSA which was intended as an interim solution;
- the solution fails to address the root causes of the issue and instead adjusts the balance of unit rate and fixed charges until the model returns a valid output; and
- that the adjustments are “not based on first principles assessment of how costs should be allocated and therefore does so on an arbitrary basis”.

- 5.9 The respondent stated that changes to cost allocation needs to be considered as part of a wider review.
- 5.10 The Working Group acknowledged that this is an interim solution and noted that it would be beneficial for a solution to be developed by the DUoS SCR as soon as possible.

Objectives

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

- 5.11 The Working Group noted that 7 of the 9 respondents agree that the proposal better facilitates DCUSA Charging Objectives 1, 2, 3 and 6, as identified by the Proposer.
- 5.12 One of the respondents agreed that the proposal better facilitates DCUSA Charging Objectives 1 and 6, but did not agree that it better facilitated DCUSA Charging Objectives 2 and 3, stating that:
- in the case of DCUSA Charging Objective 2, it was not possible to fully assess the impacts of the solution on consumer tariffs and that many of the workings of the approach appear to be random, which they considered would result in a risk of unfair tariffs in some categories and which may, in turn, create distortions which could negatively affect competition in the generation and supply of electricity; and
 - in the case of DCUSA Charging Objective 3, it was not clear how the proposed solution results in charges which reflect the costs incurred.
- 5.13 One respondent did not believe that the proposal better facilitates any of the DCUSA Charging Objectives.

Other/Wider Impacts

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

- 5.14 The Working Group noted that the DUoS SCR had been identified by both Working Group members and respondents as the means for the development of a better solution, with one respondent stating this needed to include a review of the DRM. The Working Group noted the observation from one respondent that the DUoS SCR had been delayed pending a decision on the Government's [review of electricity market arrangements \("REMA"\)](#).
- 5.15 The Working Group noted that one respondent also highlighted that Ofgem would be publishing a call for input on its system cost recovery work, [which has now been issued](#).
- 5.16 The Working Group noted that one respondent stated a "fundamental review of the DUoS methodologies from the ground up should be prioritised by the Regulator urgently", stating that they believed "they [the DUoS methodologies] are no longer working as intended following the implementation of TCR".
- 5.17 One respondent noted that the proposed change would be positively complimented by [DCP 437 "To Shorten the DUoS Pricing Notice Periods"](#) (with Ofgem for decision at the time of writing) which would align the publication date for charges with the Ofgem Surplus Excess Residual guidance.

Implementation

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

- 5.18 The Working Group noted that 7 of the 9 respondents were supportive of the proposed implementation date.
- 5.19 One respondent stated that they did not agree with the principle of the CP overall and, as such, did not support the proposed implementation date.
- 5.20 One respondent reiterated the suggestion for the solution to be time limited.

Legal Text

Question 6 – Do you have any comments on the draft legal text?

- 5.21 The Working Group noted one respondent believed the new legal text should be an addition to paragraph 94 of Schedule 16 instead of clause 25A, as this is the part of the methodology that deals with residual charge calculations.
- 5.22 One respondent stated that the proposed legal text is high level and that the workings of the DRM are not set out in the DCUSA, which are both significant shortcomings, but recognised that resolving this would be outside the scope of the CP.
- 5.23 The respondent also noted that changes to the EDCM were outside the scope of the CP and queried whether a related CP would be raised.
- 5.24 The Working Group noted that only CDCM impacts had been observed by the Proposer, hence the reason for the CP being limited to the CDCM. The Working Group noted that should a DNO Party observe similar impacts in the EDCM, a separate CP would need to be raised.

6. Working Group Conclusions & Final Solution

- 6.1 The Working Group reviewed the responses and noted:
- the majority of consultation respondents supported the intent and the principle of the CP;
 - the majority of consultation respondents agreed that the proposed solution better facilitated the DCUSA Charging Objectives;
 - that the necessary amendments to the legal text had been made, including the “signalling” of the interim nature of the solution and the need for a SCR (or other change) to develop an enduring solution;
 - that the new legal text had been amended to be an addition to paragraph 94 of Schedule 16 of the DCUSA;
 - that DCP 437, if approved, would not impact upon this CP in either a positive or negative way;
 - that respondents had not identified any wider industry developments that impact upon this CP or are impacted upon by this CP, but that it would be beneficial for the DUoS SCR to review the DRM and develop a more suitable enduring solution; and

- the majority of respondents supported the proposed implementation timescales.

7. Relevant Objectives

7.1 For a CP to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. There are five general objectives and six charging objectives. The Working Group agreed that this CP should be assessed against the general objectives.

	DCUSA Charging Objectives	Identified impact
<input checked="" type="checkbox"/>	1. 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	None
<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	None
<input checked="" type="checkbox"/>	6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	Positive

7.2 A majority of Working Group members believe 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.

7.3 The Working Group noted that the majority of consultation respondents agreed that the CP better facilitates the DCUSA Charging Objectives, noting the feedback under paragraph 5.12.

8. Impacts & Other Considerations

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

- 8.1 The proposer and other Working Group members considered that there was no direct impact upon the current (albeit dormant) 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.
- 8.2 However, as set out in section 5 above, some consultation respondents considered that the issue being addressed by this Proposal was material (rather than a minor defect) and its root causes should be addressed by the DUoS SCR which would be a more appropriate vehicle for developing a long-term solution. The proposer stated that as a solution was likely needed to be in place for the setting of the 2027/28 charges later this year, there was not sufficient time in order to deliver the more significant changes which would likely need to be brought forward as part of the DUoS SCR. As a result, they were ruled out of scope of this change.
- 8.3 Respondents also identified links with the government's REMA decision and implementation, and Ofgem's Call for Input on energy system cost allocation and recovery.

Cross Code Impacts

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

Consumer Impacts

- 8.4 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 a derogation were to be granted, which would likely mirror the approach proposed as part of this change. However, due to the timing of the submission and approval of any derogations it could result in the delay of calculation and publication of charges for 2027/28 (and future years) if this change were not to be approved.
- 8.5 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.
- 8.6 The Working Group also noted that, as previously considered under paragraphs 4.11 to **Error! Reference source not found.**, 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

8.7 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 such material impact on greenhouse gas emissions arising from the implementation of this CP.

Interactions With Other DCUSA Change Proposals

8.8 The Working Group did not identify any interactions with other DCUSA Change Proposals.

Engagement with the Authority

8.9 This is a Part 1 Matter and meetings are conducted in open governance. The Authority has the opportunity to join the Working Group in its capacity as an observer.

9. Implementation

9.1 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).

10. Legal Text

10.1 The legal text for this CP is provided as Attachment 1. For convenience, since this is the addition of a single paragraph of legal text, the new paragraph is as follows:

94B As an interim solution until a long term solution is implemented (through a Significant Code Review or otherwise), where the application of paragraphs 94 and 94A fail to allow the production of a full suite of charges (which can include zero values), then the DRM Asset Costs will be multiplied across all assets by a single scaling percentage factor set at the largest value that allows a suite of charges to be produced. Where DRM Asset Costs have had to be scaled, the scaling percentage factor will be set out in the Relevant Charging Statement.

11. Code Specific Matters

Reference Documents

10.2 There are no additional reference documents included with this document.

12. Recommendations

- 11.1 The Panel approved this Change Report on 20 August 2025. The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on this CP.
- 11.2 The Panel has recommended that this report is issued for voting and DCUSA Parties should consider whether they wish to submit views regarding this CP.

13. Attachments

- Attachment 1 – DCP 450 Legal Text
- Attachment 2 – DCP 450 Voting Form
- Attachment 3 – DCP 450 Consultation Responses & Working Group Comments
- Attachment 4 – DCP 450 Change Proposal Form