

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP132: Improving the transparency of CDCM target revenue		
Decision:	The Authority ¹ directs that proposal DCP132 be made ²		
Target audience:	DCUSA Panel, parties to the DCUSA and other interested parties		
Date of publication:	13 November 2012	Implementation Date:	Next DCUSA release

Background to the modification proposal

It is helpful for suppliers to be able to forecast their costs in order to plan various aspects of their business (pricing strategies, cash management, etc). One of these costs is distribution use of system (DUoS) charges made by Distribution Network Operators (DNOs). DUoS charges account for around a fifth of the average domestic customers' electricity bill. It is therefore important that suppliers understand the drivers of changes to DUoS charges so that they can forecast such changes better when incorporating these into the contracts that they offer their customers.

One of the drivers of amendments to DUoS charges is a change in a Distribution Network Operator's (DNO's) allowed revenue. DNOs are best placed to forecast their allowed revenue as they hold the most information on the potential for revenues to change. Changes to allowed revenue occur for a number of reasons including to reflect a DNO's performance and to fund additional investment.

There have been a number of DCUSA change proposals aimed at improving the information that suppliers and users of the distribution network receive in order to help them forecast changes in allowed revenues. One such change proposal, which we approved in January 2011, was DCP066A.³ This proposal introduced changes to the information that DNOs were required to provide through Clause 35A (and associated tables in Schedule 15) of the DCUSA.⁴

The change proposal

DCP132 was raised by British Gas (the proposer) on 9 May 2012. The proposer considers that further improvements can be made to the information that DNOs provide through the provisions of Clause 35A by disaggregating the information included. The intention is also to link more clearly this information and the allowed revenue used in the Common Distribution Charging Methodology (CDCM)⁵ to calculate DUoS charges.

The change proposal seeks to amend the format of Table 1 of Schedule 15 of the DCUSA and to add an additional table into the CDCM. The intention of this change proposal is to ensure that the information that DNOs provide on actual and expected allowed revenue can be more clearly interpreted by suppliers and network users. It seeks to do this by requiring a more detailed breakdown of actual and forecast allowed revenue in Table 1 of Schedule 15. It also proposes to introduce a new table into the CDCM in an identical format and to ensure that allowed revenue in this table is used to calculate DUoS charges.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ The Authority's decision is available on the Ofgem website:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=52&refer=Licensing/ElecCodes/DCUSA/Changes>

⁴ A copy of the DCUSA can be found on Electralink's website:

<http://www.dcusa.co.uk/Public/DCUSADocuments.aspx?s=c>

⁵ The CDCM is set out in Schedule 16 of DCUSA.

The proposer considers that this change proposal improves the transparency of the DUoS charge setting process, ensures that a consistent approach is taken by all DNOs and improves the predictability of DUoS charges. The proposer considers that the proposed change would better facilitate the achievement of DCUSA General Objectives 3.1.2 and 3.1.3,⁶ and DCUSA Charging Objectives 3.2.1 and 3.2.2.⁷

A working group was established to develop and assess the change proposal. It issued a consultation in August 2012 to determine whether parties understood and supported the intent of DCP132. It also asked for views on any alternative solutions or further issues that should be considered. All respondents to the consultation indicated that they understood the intent of the proposal and supported the proposed solution. Respondents' unanimously agreed that the proposal would better facilitate DCUSA General Objectives 3.1.2 and 3.1.3, and DCUSA Charging Objectives 3.2.1 and 3.2.2.

DCUSA Parties' recommendation

The Change Declaration for DCP132 indicates that DNO, IDNO/OTSO,⁸ suppliers and DG parties were eligible to vote on DCP132. In each party category where votes were cast (no votes were cast in the IDNO/OTSO and DG party category), the sum of the weighted votes was greater than 50 per cent. In accordance with the weighted vote procedure, the recommendation to us is that DCP132 be accepted. The outcome of the weighted vote is set out in the table below:

DCP132	Weighted voting (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
Change solution (%)	72	28	NA	NA	100	0	NA	NA
Implementation date (%)	72	28	NA	NA	100	0	NA	NA

Our decision

We have considered the issues raised by the proposal and the Change Declaration of 9 October 2012. We have also taken into account the vote of the DCUSA Parties on the proposal set out in the Change Declaration. We have concluded that:

- implementation of the change proposal DCP132 will better facilitate the achievement of the DCUSA General Objectives and DCUSA Charging Objectives; and
- directing that the change is approved is consistent with our principal objective and statutory duties.⁹

Reasons for our decision

This section provides our reasons for approving the change proposal against the DCUSA General Objectives and DCUSA Charging Objectives which, in our view, are relevant to our decision.

⁶ The DCUSA General Objectives are set out in Part A of standard licence condition 22 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

⁷ The DCUSA Charging Objectives are set out in Part B of standard licence condition 22A of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

⁸ IDNO means an Independent Distribution Network Operator, and OTSO means the National Electricity Transmission System Operator in its capacity as the operator of Offshore Transmission Systems.

⁹ The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

DCUSA General Objective 3.1.2: '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'; and

DCUSA Charging Objective 3.2.2: '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 Licence)'

We consider that DCP132 results in an improvement to the information that DNOs provide to suppliers and network users in relation to allowed revenues recovered through DUoS charges. It achieves this by providing a more granular level of information in Table 1 of Schedule 15. It also ensures that the information provided in this table can be clearly linked to the allowed revenue used for calculating DUoS charges. We consider this to be an improvement to the information provided currently.

We consider that this will improve suppliers' ability to forecast changes in DUoS charges. This should reduce costs imposed on suppliers and in turn reduce any potential barrier to entry to the supply market, enhancing competition and bringing benefits for customers.

DCUSA General Objective 3.1.3: 'the efficient discharge by each DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences'; and

DCUSA Charging Objective 3.2.1: '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'

The workgroup considered that the change proposal furthers these objectives on the basis that this proposal came out of industry discussions as part of the annual review of the CDCM. Standard licence condition (SLC) 13 states that the licensee must review the charging methodology at least once every year and propose modifications where it will result in a methodology that better meets the relevant objectives.

We welcome the industry working together to propose changes to the charging methodology intended to improve suppliers' and users' knowledge of how DUoS charges are calculated. Whilst the requirement to review the CDCM is a licence obligation, it is not clear to us that this particular change better enables the efficient discharge of that licence obligation. We therefore consider that this change proposal is neutral in relation to this objective.

DCUSA Charging Objective 3.2.3: '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'

One DCUSA Party voted to reject the change proposal on the grounds that this objective could not be met were DCP132 to be approved because it would undermine cost reflectivity. We note that this issue had not been raised in the development of the change proposal. We do not agree with this view as we consider that this change proposal has no impact on the cost reflectivity of the DUoS charges calculated in the CDCM. We therefore consider that this change proposal is neutral in relation to this objective.

Decision Notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that change proposal DCP132: *Improving the transparency of CDCM target revenue* be made.

Andy Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose