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| Proposed variation: | Distribution Connection and Use of System Agreement (DCUSA) DCP150 – Implementation of notice in DCUSA for changes to specific CDCM inputs | | |
| Decision: | The Authority ¹ directs that proposal DCP150 be made ² | | |
| Target audience: | DCUSA Panel, parties to the DCUSA and other interested parties | | |
| Date of publication: | 18 April 2013 | Implementation Date: | to be confirmed by Electralink |

Background to the modification proposal

DCUSA Schedule 16 contains conditions³ for specific inputs to the Common Distribution Charging Methodology (CDCM) model. Distribution Network Operators (DNOs) must determine the values of these inputs which go into the CDCM model.

At present, DNOs are required by their licences to provide three months' notice of their indicative Distribution Use of System (DUoS) charges for the following year beginning 1 April, and are required by the DCUSA to provide 40 days' notice of their final DUoS charges for the following year beginning 1 April. Up until recently, the DCUSA did not generally provide for when changes to the inputs to the CDCM could be made, and so it would be possible for specific inputs to the CDCM to be changed at short notice. However, the timing of changes to inputs could generally be implied by the timing of when indicative and final DUoS charges are required to be published.

Suppliers typically offer consumers fixed term contracts of one, two or three years. Suppliers have raised concerns about potential short notice changes to the CDCM model. This has led to a variety of DCUSA modifications⁴ being raised so that changes to certain inputs can only be made on 1 April each year, and that notice must be given of any such changes. Suppliers believe that where changes to inputs to the CDCM model are made without sufficient transparency and notice, this can lead to sudden price movements, which can affect the charges to consumers based on the type of contract that they have with their supplier.

The modification proposal

DCP150 was raised by a supplier party to the DCUSA, NPower (the 'Proposer'). The change proposal requires DNOs to provide 15 months' notice for changes to the following inputs in the CDCM model -

- 1017 – diversity allowance between top and bottom of network level
- 1018 – proportion of relevant load going through 132kV/HV direct transformation
- 1019 – network model GSP⁵ peak demand (MWh)⁶
- 1025 – matrix of applicability of LV service models to tariffs with fixed charges
- 1026 – matrix of applicability of LV service models to unmetered tariffs
- 1028 – matrix of applicability of HV service models to tariffs with fixed charges
- 1092 – average kVAr by kVA, by network level⁷

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 Part 1- cost allocation

⁴ DCP 136, DCP 134, DCP 132, DCP 131

⁵ Grid supply point (GSP)

⁶ This was later excluded from the proposed changes, as explained later.

⁷ Relevant definitions of terms can be found in the glossary of terms to Schedule 16 of the DCUSA and in the CDCM user manual,

The purpose of this change is to provide increased certainty and predictability to changes within the CDCM model. This should allow suppliers to price distribution charges more accurately in a customer's bill and therefore mitigate the risk that changes in the model lead to windfall losses or gains to the supplier.

DCP150 proposes to insert obligations within Schedule 16 of the DCUSA (in paragraphs 25A, 28A, 35A and 51A) to specify a minimum of 15 months' notice ahead of any changes to the inputs set out under these specific paragraphs of Schedule 16. This is consistent with the approach taken in previous and current change proposals related to the setting of notice periods for inputs to the CDCM model.⁸ The Workgroup assessing DCP150 recommended that this change take effect as soon as reasonably practicable following Ofgem consent, though not before 1 April 2013. This is to ensure that the methodology will be in place prior to the calculation of indicative charges for 1 April 2014.

In line with previous modifications, the change report recommends that notice of changes to the specified input tables should be provided through the LC14 statement⁹, which is part of the Annual Review Pack (ARP)¹⁰. The Workgroup recommended that a line be added to the LC14 statement to indicate that notice of changes to these inputs be set out in the ARP. It noted that changes to this statement lay outside the DCUSA governance process and thus cannot be amended by DCP150.

In line with DCP134, the amended legal text to Schedule 16 of the DCUSA for DCP150 includes the provision that where changes to the CDCM inputs are as a result of changes to the CDCM, the 15 month notice period specified does not apply. The change report notes an inconsistency with DCP136 which did not provide this. However, the majority of the Workgroup concluded that this provision, as is the case with DCP134, should be included under DCP150. This was reflected in the final proposed legal text.

As highlighted by the consultation process, the CDCM input table 1019 relating to GSP demand was withdrawn from the change report and proposed legal text. This reflects the fact that paragraph 20 of Schedule 16 already mandates that this value should be 500MW. The change report acknowledges that the value for this input table can only be amended through a separate DCUSA change proposal.

The proposer considers that this change would better facilitate DCUSA General Objective 3.1.2 and DCUSA Charging Objective 3.2.2.

DCUSA Parties' recommendation

The Change Declaration for DCP150 states that DNO, IDNO/Offshore Transmission System Operator (OTSO), Supplier and Distributed Generation (DG) parties were eligible to vote on DCP150.

In each party category where votes were cast (no votes were cast in the DG party category), there was majority or unanimous support for the proposal and its proposed implementation date. In accordance with the weighted vote procedure, the

[http://www.energynetworks.org/modx/assets/files/electricity/regulation/CDCM/CDCM%20final%20charges%20April%202013-14/CDCM%20model%20user%20manual%20\(v102\)%20-%20Feb%202013.pdf](http://www.energynetworks.org/modx/assets/files/electricity/regulation/CDCM/CDCM%20final%20charges%20April%202013-14/CDCM%20model%20user%20manual%20(v102)%20-%20Feb%202013.pdf)

⁸ DCP134 notice in DCUSA for changes in distribution time bands and DCP 136 notice period for asset cost changes in CDCM, both of which were approved by Authority

⁹ <http://www.energynetworks.org/modx/assets/files/electricity/regulation/EDCM/7%20EDCM%20Deliverables/A ppendix%207%20Draft%20common%20LC14%20Charging%20Statement%20v3.4.pdf>

¹⁰ <http://www.energynetworks.org/electricity/regulation/commercial-operations-group/charging-structure/use-of-system/development/structure-of-charges-edcm/stakeholder-information-files/5.-cdcm-annual-review-packs-with-final-prices.html>

recommendation to us is that DCP150 is accepted. The outcome of the weighted vote is set out in the table below:

| DCP150 | WEIGHTED VOTING (%) | | | | | | | |
|---------------------|---------------------|--------|-----------|--------|----------|--------|--------|--------|
| | DNO | | IDNO/OTSO | | Supplier | | DG | |
| | Accept | Reject | Accept | Reject | Accept | Reject | Accept | Reject |
| CHANGE SOLUTION | 65 | 35 | 100 | 0 | 100 | 0 | n/a | n/a |
| IMPLEMENTATION DATE | 65 | 35 | 100 | 0 | 100 | 0 | n/a | n/a |

Our decision

We have considered the issues raised by the proposal and the Change Declaration issued 11 March 2013. We have considered and taken into account the vote of the DCUSA Parties on the proposal, which is attached to the Change Declaration. We have concluded that:

1. implementation of the change proposal DCP150 will better facilitate the achievement of the DCUSA Charging Objectives; and
2. directing that the change is approved is consistent with our principal objective and statutory duties.¹¹

Reasons for our decision

We note that this change proposal received majority support from voting parties in all party categories. We are also satisfied that the consultation was sent to the appropriate mix of relevant stakeholders and interest groups, including smaller suppliers for whom certainty and predictability in charges is important.

We appreciate that there needs to be a balance between predictability and cost reflectivity. We also note that there were several concerns raised through the consultation relating to the potential impact to cost reflectivity of the CDCM following the fixing of these input tables to the model. We consider that greater predictability for suppliers in anticipating their charges is important and that a clear expectation of when any changes will be made is reasonable and should provide greater planning certainty for DNOs.

We expect that having a known notification date for intended changes will provide DNOs with the opportunity to plan any changes further ahead and with greater certainty. We also note that as one DNO party and the Workgroup stated, the particular inputs in question rarely change. Therefore we consider there is a limited impact on cost reflectivity associated with setting notice period requirements for these inputs.

In line with DCP134 (but unlike DCP136) this modification proposes inserting a provision to allow that any changes made as a result of changes to the CDCM are not subject to the 15 month notice period. We consider that, in this case, this provision addresses some of the concerns raised by responses to the consultation on the negative effect that fixing of inputs may have on the cost-reflectivity of the methodology.

¹¹ 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.

We note the consultation responses that suggested consideration needed to be given to our recent decision¹² on measures to mitigate network charging volatility arising from price control settlement. We are aware of the cumulative effect of several similar modifications and other activity¹³ which seek to provide predictability to suppliers. We acknowledge that a high degree of activity in this area may have an impact on the timing of individual initiatives and changes. However, as noted above, in the case of the particular inputs affected by DCP150, they are rarely subject to change over short time frames and appear to be relatively stable. Therefore, we consider the impact to be relatively minor.

We note that DCP150 is consistent with previous related modifications, DCP134 and DCP136, in recommending notification of changes with 15 month notice and through the LC14 statement in the ARP. However, DCP134 included legal text to specify that the LC14 statement would be the document in which DNOs would signal notice to suppliers of any forthcoming changes. We note the inconsistencies between certain modifications mentioned in this decision. We consider that these should have been considered and better addressed by the working group and that DCUSA parties should seek to ensure consistency where appropriate. We consider for instance that greater certainty for prices would be provided by specifying the notice arrangements to inform suppliers.

We consider that the proposal better facilitates Charging Objective 3.2.2¹⁴. The change report considers that the proposal better facilitates General Objective 3.1.2¹⁵ and Charging Objective 3.2.2. As the proposed change is restricted to the CDCM, we have not considered the DCUSA General Objectives as relevant to our decision.

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 Licences)'

The Workgroup considered that the change proposal would ensure stability and transparency within the CDCM. This would increase market confidence for new entrants and existing participants in the tariff setting regime. This in turn provides a better forecast view of future prices which would help to mitigate against price shocks. The workgroup considered that this would help to facilitate competition in the supply market.

We acknowledge that suppliers would like certainty on tariff levels and that fixing a notice period ahead of any amendments being made to CDCM inputs to the model can help to provide this. We also acknowledge that this modification follows on from other similar modifications in seeking to provide pricing predictability by setting fixed notice periods within which DNOs must notify amendments. We agree that this change should provide greater certainty on when any potential changes to these inputs may take place.

We consider that the change will facilitate greater predictability of charges and that the impact on cost reflectivity will be relatively minor. Therefore, we consider the change should improve the ability of suppliers to forecast changes in DUoS charges. This in turn should better facilitate competition, including potentially by reducing barriers to entry to the supply market.

¹² http://www.ofgem.gov.uk/Networks/Policy/Documents1/CV_Decision.pdf

¹³ As per our decision on network charging volatility, see previous footnote.

¹⁴ 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...'

¹⁵ General Objective 3.1.2 – 'the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity'

Decision notice

In accordance with standard condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP150: *Implementation of notice in DCUSA for changes to certain CDCM inputs*, be made.

Andrew Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose