

Proposed variation:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP164: Review of the Change Process for Use of System Methodology Changes</b>		
Decision:	The Authority <sup>1</sup> has decided to reject proposal DCP164 <sup>2</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	17 September 2013	Implementation Date:	n/a

## Summary of our decision

We support the principle that the process of modifying the models underpinning charging methodologies should be completed in a timely and efficient way. This includes facilitating the provision of sufficiently advanced notice of the subsequent charging year's tariffs and avoiding inefficient duplication of work. However, we are unable to accept DCUSA Change Proposal (DCP) 164 for three reasons -<sup>3</sup>

- For the current year, this proposal would prevent implementation from 1 April 2014 of further possible policy modifications. There are a number of live modifications which could not realistically be submitted to us and approved before 30 September 2013. This could prevent potentially beneficial changes currently being developed from being made. There is insufficient notice to those working on these proposed modifications of this effective deadline for them to react and process in a way that would achieve a decision on those proposed modifications in time.
- More generally (i.e. in all years), the proposal would produce a timetable that we would not be able to amend (under normal circumstances) even where we think such amendment would facilitate a modification that would better facilitate general and/or charging objectives and reflect our duties, including our principal objective. The proposal also prevents us from moving the timetable established here so that the start date is slightly earlier or later reflecting progress of modifications in the particular year.
- Finally, there is a risk that a fixed, once a year timeframe for modelling changes will lead to modifications being developed just before the effective deadline, potentially causing rushed development and placing pressure on the assessment process.

We recognise the unanimous support for this modification and as above consider that the main principles behind this modification are valid. We would be sympathetic to a modification being proposed during the coming year that shares the aims of supporting an efficient calculation of modelling changes. However, it would need to address the three concerns above.

## Background to the modification proposal

Charging related modifications can involve significant modelling work. At present this can happen at any time during the year (subject to the limitation in terms of the point at which notice needs to be provided of the subsequent year's tariffs). Changes to the charging models could require separate modelling changes at different times through the year. In some cases this can lead to higher costs than would occur in a single change, where savings may be made from avoiding duplication.

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

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

<sup>3</sup> Further details of our reasoning is provided in the main sections of this decision.

## The modification proposal

Modification DCP 164 was raised by Northern Powergrid (“the Proposer”). It seeks to introduce a managed change process for charging methodology related DCPs. The purpose of this managed change process is to make the implementation of charging related DCPs more effective by limiting the implementation of model changes (unless urgent) to one combined release each year and defining the timescales for the production of the models. The modification would limit the implementation of model changes to the

- Common Distribution Charging Methodology (CDCM)
- EHV Distribution Charging Methodology (EDCM)
- CDCM price control disaggregation model (Method M)
- EDCM price control disaggregation model (Extended Method M).

It would also affect the Annual Review Pack prepared by the distribution network operators (DNOs) outside the DCUSA. A limit would be set of one combined annual release. This modification also seeks to define the timescale for such a release. The modification would apply to both the models and their inputs. This would enable models to be updated in time to inform indicative charge calculations in a timely way.

The proposed new timescale for the annual change to the models underpinning the charging methodologies is defined in relation to the licence requirements for the required period of notice to changes to Use of System Charges (ie 3 months) in 14.11 of the Standard Condition of the Electricity Distribution Licence.

The proposal sets out the following notice periods:

- **90 days plus the minimum period of notice required for amendments to Use of System Charges under standard licence condition 14 of the Distribution Licences (ie 90 days before the publication of indicative tariffs):** DCPs that receive our approval by this date and have an implementation date of the following April would be included in the methodologies and associated models to apply from that April. DCPs that do not receive approval by this date but are approved before the deadline for providing tariffs for the forthcoming year would not be applied to the methodologies for that April, but would instead be applied to the methodologies the subsequent April.
- **50 days plus the minimum period of notice required for amendments to Use of System Charges under standard licence condition 14 of the Distribution Licences (ie 50 days before the publication of indicative tariffs):** the DCUSA Panel would issue pre-release models incorporating all methodology changes approved by the Authority within the above timescale.

Figure 1 summarises the timetable implications of the proposal.

### Figure 1: Envisaged timeline

September	October	November	December
All methodology changes approved by Ofgem by end of September	DCUSA procure a new model if required to include all approved DCPs. DNOs carry out UAT testing	Mid-November Pre-release model released by DCUSA.	DNOs use latest version of models to calculate charges.

The working group supported this modification as better facilitating the following two general DCUSA objectives:

- 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<sup>4</sup>; and
- the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.<sup>5</sup>

In particular, respondents supporting the proposal considered that it would:

- facilitate clarity and advance notice of the methodology and charging changes impacting on the tariffs for the coming year;
- allow efficient modelling work to be carried out; and
- identify a the cutoff date beyond which model changes could not be considered (subject to the arrangements for urgent changes).

### DCUSA Parties' recommendation

The Change Declaration for DCP164 indicates that DNOs, IDNO/OTSOs,<sup>6</sup> Suppliers and distributed generation (DG) parties were eligible to vote on DCP164 (though no votes were received from the DG party category). In each party category where votes were cast, there was unanimous support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP164 is accepted. The outcome of the weighted vote is set out in the table below:

**Table 1: Voting results**

DCP164	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG <sup>7</sup>	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0	100	0	0	0
IMPLEMENTATION DATE	100	0	100	0	100	0	0	0

### Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 12 August 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 implementation of the change proposal DCP164 will not better facilitate the achievement of the General DCUSA objectives.<sup>8</sup>

### Reasons for our decision

We recognise and support the principle of timely and efficient changes to the charging models. This in part means being consistent with the deadline for producing tariffs for the next year. It also includes efficiently carrying out of necessary modelling work (e.g. avoiding expensive duplication). Potentially this latter point might be achieved through a single annual modelling change although this would depend on the timing and content of modifications developed during a particular year. We agree with the respondent to the

<sup>4</sup> General objective 3.1.2.

<sup>5</sup> General objective 3.1.3.

<sup>6</sup> Offshore Transmission System Operators.

<sup>7</sup> No votes were cast in this category.

<sup>8</sup> The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

consultation on this change who suggested that annual changes to the model might be better as guidance for this reason. We have decided to reject the current modification based on our assessment that it does not better facilitate the DCUSA General objectives. Our assessment has identified a number of concerns:

- its proposed implementation date of 1 October 2013 provides insufficient notice. If we were to approve the proposal this would effectively prevent April 2014 implementation for a number of modifications going through the development process. We recognise that a number of current proposed modifications have been identified as aiming for 2015 rather than 2014 implementation but are not aware that this is the case in relation to all the current live modifications. In our view, approval of this modification would provide insufficient notice to those involved in developing other modifications;
- insufficient flexibility for us and others under normal circumstances. This includes both dealing with meritorious change proposals that could be prevented from timely implementation. It could also include dealing with cases where the timing of a modelling calculation could actually be brought forward from the DCP164 timeframe - e.g. where no other modifications have been identified in August;
- the potential impact on quality of development of modifications and pressure on the assessment process at a specific point in time. The single timeline and annual modification of models underpinning the charging methodologies risks triggering modifications aimed at just making the required time. This could see a rushing of development of modifications. It could also result in us and industry assessing a large number of modifications at the same time during the year with some otherwise meritorious changes not being approved in time for implementation in the subsequent year.

We consider that the proposal affects the general objectives below, and is neutral with respect to the other objectives.

***DCUSA General Objective 3.1.1 – the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System***

A number of modifications that involve potential changes to the charging methodologies (including the modelling) are being discussed with potential submission for our approval shortly before or after the implementation date of DCP164. Were we to approve this modification, this would prevent April 2014 implementation for these potential modifications. These modifications may further the development, maintenance and operation of an efficient, co-ordinated, and economical Distribution System.

We also consider that there is still a potentially detrimental impact in relation to this objective in future years. This is because of the imposition of the timetable that DCP164 seeks to establish. We think this effect could have been mitigated through the inclusion of text, initially proposed, that gave us the right to amend the timescales. This could have allowed both a slight delay to the deadline for the modelling changes or in other cases the date could even be brought forward.

***DCUSA 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***

We agree with the working group view set out in the consultation that timely and efficient provision of charges in advance of the date that the new year's charges are to come into effect can facilitate effective competition in the generation and supply of electricity. At present, the DCUSA process allows charging modifications to be made that might support

or enhance that competition without the limitations proposed by DCP164. Such modifications might be due for submission after 1 October 2013 (or during September 2013, but too late for us to approve the change ahead of 1 October 2013). Our decision on this modification proposal comes too close to this implementation date to provide notice. It therefore may prevent changes that would otherwise better facilitate this objective.

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

We agree that the working group's interpretation that the modification proposal could better facilitate this objective in some cases.

Even then we consider that the possible negative impact on objective 3.1.1 and the ambiguous impact on 3.1.2 might well outweigh this potential benefit. We also consider that setting a rigid deadline for an annual change might potentially lead to inefficiency and poorer quality in modification development. We consider that the proposed modification's impact on this objective is again ambiguous. It might work well under certain circumstances but it might also have a negative effect.

***DCUSA General Objective 3.1.4 – The promotion of efficiency in the implementation and administration of this Agreement***

We accept that greater efficiency may be delivered through the proposed modification. However, the impact against this objective is dependent on whether the new single deadline becomes the focus for many proposed modifications in a way that shortens the time to discuss the changes before submission and puts pressure on the assessment process. In our view, unless measures are taken to address this point there is a risk of this occurring.

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has therefore decided that modification proposal DCP164: '*Review of the change process for Use of System methodology changes*' should not be made.

**Andrew Burgess**

**Associate Partner: Transmission and Distribution Policy**

Signed on behalf of the Authority and authorised for that purpose