DCUSA CHANGE REPORT

DCP 178 - Notification Period for Change to Use of System Charges

Executive Summary
DCP 178 seeks to increase the notice period for the publication of Distribution Use of System (DUoS) charges.

This document presents the Change Report for DCP 178 and invites respondents to vote on the proposed change.

1 PURPOSE

1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 178 - Notification Period for Change to Use of System Charges. The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.

1.2 Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by **4 July 2014.**

2 BACKGROUND

2.1 Distribution Network Operators (DNOs) are currently required to finalise and publish Distribution Use of System (DUoS) tariffs 40 days before they take effect. DCP 178 'Notification Period for Change to Use of System Charges' has been raised by Northern Powergrid and seeks to increase this notice period from 40 days to 15 months. This change would provide Suppliers and consumers with greater and earlier certainty of future DUoS charges they will face.

2.2 The CP has been raised following on from industry discussions on how to mitigate the impact of DUoS tariff volatility by giving users an earlier sight of that volatility and therefore a greater degree of price certainty. Ofgem, in their 2012 volatility paper[1], suggested bringing forward the notice period for the publication of tariffs and this idea has also been discussed at various industry forums.

2.3 DCP 178 applies to all CDCM and EDCM DUoS tariffs, i.e. extra-high voltage (EHV), high-voltage (HV) and low-voltage (LV) tariffs. Full details of the Change Proposal (CP) are provided in the CP form (Attachment 3).

3 THE DCP 178 WORKING GROUP

3.1 The DCUSA Panel established a Working Group to assess DCP 178. The group consists of Distributor, Supplier, Consumer and Ofgem representatives. Meetings were held in open

[1]https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf

session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

4 DCP 178 – CONSULTATION ONE

4.1 The Working Group carried out a consultation to give DCUSA Parties and other interested organisations an opportunity to review and comment on DCP 178.

4.2 There were 35 responses received, along with two letters. Each of the responses was reviewed and discussed by the Working Group. Five of the consultation responses were marked confidential and have not been published. All other consultation responses, along with the Working Group's comments and the consultation document can be found in Attachment 4.

4.3 The DCP 178 Working Group split the consultation questions into two parts. The first seven questions were directed towards consumers only, whilst the remaining eleven questions were for all interested parties. Consumers were invited to provide answers to either Part 1 only or both Part 1 and Part 2.

Part 1 – Questions for Consumers

4.4 Seventeen of the consultation respondents answered the part 1 questions which were targeted towards consumers. A summary of the responses received, along with the Working Group's comments, are set out below.

Question 1 - Do you support this change?

4.5 The Working Group noted that all respondents to this question supported the change. Although one customer highlighted that whilst they broadly support the change, they fix their budgets in September and therefore publishing DUoS tariffs in December does not work for them.

4.6 The following table provides summary of the responses received by respondent type.

Respondent Type	Response			
	Yes	No	No Response	Total
Customer	12			**12**

DNO			6	**6**
Generator	1			**1**
IDNO			2	**2**
Other	3		1	**4**
Supplier	1		9	**10**
Total	**17**	**0**	**18**	**35**

Question 2- What benefits do you believe it will bring to your organisation?

4.7 The Working Group noted that of the seventeen respondents to this question only one respondent (a generator party) did not believe that they would gain any benefit from the implementation of DCP 178.

4.8 The Working Group members observed that there were a number of positive themes repeated in the responses to this question, particularly around improved certainty and the benefits for customers in terms of improved budgeting. The various benefits listed by respondents included:

- Improved forecasting and increased budget certainty which will enable consumers to better manage their costs.
- The DUoS risk premium in all-inclusive Supplier contracts covering the period for which DUoS tariffs are published will be removed which should result in a lower price. Note, risk premium may still exist for other elements and there may still be some DUoS risk premium if the supply contract runs into a future period where DUoS tariffs have not yet been published.
- It will aid transparency and therefore comparison of supplier products, as an element of their individual risk policies will have been removed.
- The removal of the risk premium will provide greater transparency between the published DUoS charges and the associated cost recoveries included within the delivered energy price.
- Suppliers may introduce additional product options or offer existing product options to different consumer groups.
- This will improve competition between Suppliers by reducing the uncertainty around DUoS tariffs.
- The potential to know charges well in advance, may allow customers time to shop around for alternative agreements.
- It will enable customers to raise awareness around their companies as to energy saving opportunities in a timely fashion.
- It will allow more accurate data for Return on Investment (ROI) calculations on Energy Efficiency projects or Load / Triad Management type initiatives.

- This change will aid Suppliers ability to offer accurate, more competitive fixed contracts for customers.

Question 3 - Do you agree with the proposed implementation date of December 2014?

4.9 The Working Group noted that several respondents to this question would have preferred for DCP 178 to be implemented earlier than December 2014, however the publication date of RIIO-ED1 allowed revenues will not permit earlier implementation. The group noted that no respondents wished the change to be implemented later than 2014 and many would prefer it to be earlier.

Question 4 - Do you believe that the April 2015 tariffs published in December 2014 should be final tariffs, rather than indicative tariffs?

4.10 The Working Group noted that of the 16 respondents that provided an answer to this question 15 believe that the April 2015 tariffs published in December 2014 should be final tariffs. The other respondent suggested that ideally they would be final, however indicative tariffs could be acceptable, as long as the potential variance is capped in order for businesses to model this potential risk in their budget but still minimising their impact.

Question 5 - This Change Proposal proposes a 15 month notification period. Do you agree with this timescale or do you believe that an alternative should be considered?

4.11 The majority of respondents to this question agreed with the proposed 15 month notice period. One respondent suggested that the notice period should be a minimum of 12 months and another suggested that from a budgeting perspective 18 to 20 months would be more useful. The following table provides a summary of the responses by respondent type.

Respondent Type	**Response**					
	Agree with 15 months	**12 months minimum**	**18 to 20 months**	**No view**	**Did not respond to this Question**	**Total**
Customer	9		1		2	**12**
DNO					6	**6**
Generator	1					**1**
IDNO					2	**2**
Other	2			1	1	**4**
Supplier	1	1			8	**10**
Total	**13**	**1**	**1**	**1**	**19**	**35**

4.12 The Working Group noted that the response from customers did not indicate strongly that another time period should be used.

Question 6- Do you have any concerns about the change?

4.13 The Working Group noted that six respondents to this question did not have any concerns about DCP 178. The following table summarises the responses received.

Respondent Type	Response			
	Yes	No	Did not respond to this Question	Total
Customer	5	3	4	**12**
DNO			6	**6**
Generator		1		**1**
IDNO			2	**2**
Other	1	2	1	**4**
Supplier		2	8	**10**
Total	**6**	**8**	**21**	**35**

4.14 Of the six respondents that stated that they had concerns with the proposed change, three mentioned the impact of DNO under/over-recover on future years' tariffs.

4.15 One respondent suggested that in fixing costs for a longer period a "risk element" will be included by the DNOs to cover any unanticipated cost increases incurred by them. The Working Group discussed this point and noted that DNOs must aim to recover their allowed revenue and cannot include a risk element in their tariffs.

4.16 Another respondent suggested that a similar National Grid change should be raised to ensure that there is alignment between the DUoS and the Connection and Use of System Code (CUSC) charge notice periods. The Working Group noted that raising a CUSC change is outside the scope of the group, however, any CUSC party can raise such a change.

Question 7 - Please state any other comments or views on the Change Proposal.

4.17 Six respondents provided additional comments in response to this question. Two respondents stated their support for the proposal. Another suggested that concerns around DNO under/over-recover and cost of capital should not be a barrier for taking forward a proposal that clearly offers benefits for the consumer. The Working Group noted this support.

4.18 One respondent suggested that businesses should have confirmation of all non-energy costs for a minimum of 12 months prior to implementation. Another asked if the same methodology could be applied by DECC for Renewable Obligation Certificates and Feed In Tariffs. The Working Group agreed that non-DUoS elements were outside of the scope of the DCP 178 Working Group.

4.19 A consumer representative respondent highlighted that from the perspective of individual customers the signals produced by the CDCM seem strongly counter intuitive, noting that:

- There is no link between the behaviour of individual consumers and the costs they incur.
- Consumer behaviour does not, in effect, have an impact on the charges they pay, which can vary greatly between years even if individual consumers' consumption remains constant.
- Further, the vast majority of consumers have no option to change their DNO; stability of pricing is therefore more important to consumers than cost reflectivity in this case.

4.20 This respondent explained that they support DCP 178 as a proposal which addresses a symptom of the problem, while also highlighting the need to continue work to reduce the price volatility which is the core of the issue.

4.21 The Working Group noted this respondent's comments and agreed that it is a fair point that DCP 178 does not address price volatility issues, however, there are a number of other CPs seeking to address volatility.

Part 2 – Questions for all interested parties

4.22 The following questions were intended for all market participants. Twenty-five organisations answered these questions.

<u>Question 8 - Do you understand the intent of the CP?</u>

4.23 The Working Group noted that all those who responded to this question understood the intent of DCP 178.

4.24 One respondent stated that they understand that the principle of DCP 178 is "to transfer risk from suppliers to DNOs with the intent of reducing the overall risk premium factored into final customer bills; however we disagree with this logic and consider this to be an inefficient allocation of risks that would ultimately lead to higher charges to customers." The Working Group noted this respondent's view but felt the benefits outweighed the risks to DNOs.

Question 9 - Are you supportive of the principles established by this proposal?

4.25 It was noted that the majority of respondents to this question supported the principles established by DCP 178. The following table provides a summary of the responses.

Respondent Type	Response					
	Yes	No	Mixed/ Broadly	Undecided	Did not respond to this Question	Total
Customer	5				7	**12**
DNO	2	3		1		**6**
Generator	1					**1**
IDNO			1	1		**2**
Other			1		3	**4**
Supplier	9	1				**10**
Total	**17**	**4**	**2**	**2**	**10**	**35**

4.26 Respondents that supported the proposal suggested that there would be a number of benefits, including:

- Increased tariff predictability and transparency, with lower risk associated with forecasting tariffs.
- Potentially a reduction in the amount paid by customers due to lower DUoS risk premium.
- It will be positive for competition between Suppliers.
- This reduced risk around regulated charges may also allow suppliers to provide customers with a wider range of tariffs (e.g. EDCM – non-pass through contracts).

4.27 The Working Group noted that of the ten Suppliers to respond to this question, only one Supplier was not supportive of DCP 178. This Supplier stated that they believe the uncertainty that DCP 178 seeks to address will be significantly reduced once all the measures relating to Price Control related volatility and those related to CDCM volatility, have been fully implemented. This means the benefit to customers is highly unlikely to outweigh the detriment.

4.28 The three DNOs that are not supportive of the principles established by DCP 178 raised a number of concerns, including:

- The risk that tariffs are likely to become increasingly volatile over the longer term, as significant over- or under-recoveries would have to be corrected in the following year.
- The impact that DCP 178 will have on the cost reflectivity of tariffs.
- The potential increase in the under/over-recovery of revenue for DNOs and associated penalty costs.
- The risk that limiting DNOs' ability to recover costs may lead to increased variability in DNOs' cash-flows, which increases their financing costs, and potentially leads to higher overall network charges. The Working Group noted that with regards to this concern, no evidence of the impact has been provided to the Working Group by those DNOs who have raised this as a concern.

4.29 The Working Group noted that there is not a unanimous agreement amongst DNOs and Suppliers as to whether the DCP 178 is a good thing. However, customers are supportive of it and generally Suppliers are supportive of the CP. Support across DNOs was mixed, with some DNOs expressing concerns around the under/over-recovery limits and potential reduced cost reflectivity.

4.30 Only one DNO expressed significant concerns about cost of capital. Although no evidence was provided as to the magnitude of this issue, the DNO highlighted that Ofgem have already accepted that there is a potential cost of capital implication for DNOs in the Ofgem decision document on Charging volatility when considering implementing a cap and collar on charges. The cap and collar is relevant as this change proposal is proposing to fix charges 15 months ahead which is effectively setting a cap and collar at the same level. The Ofgem decision document stated:

"2.83. Our initial conclusion was that caps and collars would not be beneficial given our other proposed changes under options 1 to 4. We considered that there would be a cost involved both in terms of financing costs of delayed revenue collection for a NWO and the potential for investors to view NWOs as more risky investments. We were also concerned that the introduction of such a mechanism would introduce added complexity which could reduce the transparency of the price control framework and potentially diminish signals relating to a NWO‟s performance." (https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf)

4.31 The majority of Working Group members felt that a cap and collar was not relevant to DCP 178 as there is no proposed restriction on the amount by which tariffs can change by, only an increase in notification period of those tariffs becoming live.

4.32 The Working Group also acknowledged that two DNO businesses have stated that they do not perceive there to be an impact on cost of capital. In addition the Working Group noted that Ofgem had invited the industry to suggest changes if there was a material impact in the manner that Suppliers contract with customers as per the below paragraph in their Network Charging Volatility consultation:

"2.24. There were a number of comments made in relation to the 40 day notice period in electricity distribution that suggested this timescale is not adequate for suppliers to factor into contracts with consumers. We would urge the industry to consider changes to this notice period if this is the case."

4.33 The majority of the Working Group felt that this material impact had been demonstrated in the consultation responses given and as no alternatives had been forthcoming believe that DCP178 satisfied this consideration from Ofgem.

4.34 It was observed that the DNO under/over-recovery thresholds are set by Ofgem and could potentially be reviewed, although a licence change would be needed to amend them and thus it is outside of the scope of the DCP 178 Working Group. It was highlighted that there is an option of applying for a derogation, although derogations should be seen as the exception and not be seen as a solution. The Working Group noted that the under/over-recovery thresholds have been increased as a result of Ofgem's price control volatility consultation. The Working Group agreed that the levels of under/over-recovery should be kept under review and if seen to be an issue, a request to change the licence could be submitted.

Question 10 - Are there any unintended consequences of this proposal?

4.35 Eight respondents highlighted potentially unintended consequences of DCP 178 in response to this consultation question. These concerns are summarised below along with the Working Group's comments.

4.36 Four respondents expressed concerns that DCP 178 will potentially increase tariff volatility. Setting tariffs 15 months in advance will increase the number of unknowns at the point of tariff setting which may result in larger over/under-recoveries creating more volatile tariffs. The Working Group noted that there was the potential that tariff volatility could occur; however, it was difficult to say for sure whether it would. The group noted that under DCP 178 there would be increased notice of tariff changes and customers would benefit from this increased certainty of future charges.

4.37 Two respondents expressed concerns around the risk of errors occurring in the published tariffs. One of these respondents suggested that publishing forecast CDCM inputs for future years in the Annual Review Packs, before such inputs are used for charging, provides an additional level of protection against manifest errors occurring in charges and DCP 178 would remove this protection, especially in the year of implementation. The DCP 178 Working Group considered that DNOs making mistakes in the publication of their tariffs should not be a reason to reject DCP 178. It was also noted that published tariffs are checked extensively by DNOs. Parties will collectively look to review the ARP though the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG) and propose change proposals if appropriate. It is recognised that Suppliers do not wish to lose the information that they already receive through the ARP, however, some inputs may not be relevant due to timings and therefore the ARP will need to be reviewed. However, no structural changes will be necessary as a result of DCP 178.

4.38 Three respondents highlighted that the CP will increase the implementation notice period for future DCUSA Change Proposals, resulting in a delay for those who would see a benefit from the change from receiving it. It should also be noted that the opposite would apply where prices are increasing. Another respondent pointed out that for EDCM customers, the effect of a reduction in peak-time consumption on the notional asset and fixed adder elements of the tariffs would only feed into bills after three years. The Working Group noted these comments and observed that whilst the change would create a delay, customers should benefit from the increased certainty that the CP would bring.

4.39 One respondent suggested that the CP would incentivise DNOs to set prices at a level more likely to over recover. The Working Group noted that DNOs are not permitted to do this under their distribution licence. In RIIO-ED1 DNOs have an obligation to set charges to equal their forecast allowance, whereas in DPCR5 they have a requirement to set charges not to exceed their forecast allowances.

4.40 One respondent stated that the feedback they have received from stakeholders suggests that both suppliers and consumers would rather have advance notice of what the charges will be, so they can build them into their retail contact prices and budgeting assumptions. The respondent suggested that a potential risk is that there is no guarantee that suppliers will pass on the increased certainty that DCP 178 offers, to end users. The Working Group considered this comment and noted that in a competitive environment it would be expected that customers would benefit from the increased certainty provided by DCP 178.

4.41 Another respondent queried how new EDCM customers that apply to increase/decrease their capacity after charges have been set would be dealt with. The Working Group clarified that new EDCM customers would be added in the same way as they are now and any changes in agreed capacity would be reflected in the charges that the site pays, based on the published charges.

Question 11 - One DNO has expressed concern about the cost of capital and some DNOs have expressed concerns about under/over recovery thresholds (which are detailed in Ofgem's volatility paper - 2012).What are your views on these concerns?

4.42 Twenty respondents expressed views in relation to this question. Four DNO respondents highlighted their concerns regarding DCP 178, suggesting that there is an increased risk of over/under-recovery occurring. One of these respondents suggested that delaying DNO's cost recovery would increase their cash flow risk and could eventually translate into higher cost of capital and a higher allowed rate of return being set at a price review, and thus higher overall network charges. The Working Group noted that the risks are currently being borne by Suppliers and consumers.

4.43 Two consumer and two Supplier respondents suggested that the benefits for Suppliers and customers that DCP 178 would outweigh the potential concerns expressed by DNOs.

4.44 Five respondents suggested that amendments to the price control thresholds could potentially be progressed if required.

4.45 One respondent suggested that a seven month notice period should be introduced, rather than 15 months. The respondent suggested that this would provide increased predictability to Suppliers with no/minimal increase in risk to the DNO. The Working Group discussed this suggestion and noted that 15 months was a pragmatic choice, and some organisations would have preferred up to 27 months' notice, whilst others would like less than 15 months.

Question 12 - Do you consider that the proposal better facilitates the DCUSA objectives? Please give your rationale.

4.46 Twenty-four respondents answered this question, with nineteen agreeing that the proposal better facilitates the DCUSA objectives and five disagreeing. Of the respondents that agreed the following table lists the DCUSA Objectives that they specifically mentioned as being better facilitated.

DCUSA General Objectives	No. Of Respondents that agree it is better facilitated	DCUSA Charging Objectives	No. Of Respondents that agree it is better facilitated
Objective 1	0	**Objective 1**	0
Objective 2	15	**Objective 2**	15
Objective 3	0	**Objective 3**	1
Objective 4	0	**Objective 4**	0
Objective 5	0	**Objective 5**	0

4.47 The respondents that believe the DCUSA Objectives to be better facilitated by DCP 178 made a number of points, including:

- If DNO Parties are willing to take on more short-term risk then long-term cost reductions by the removal of Supplier risk premiums this will facilitate competition and costs will be more cost reflective.
- Suppliers will have greater certainty upon which to bring fixed and longer-term price products to market.
- More transparent DUoS charges better facilitates competition within the industry as it seems perverse to compete on a charge that is regulated and that Suppliers cannot accurately predict, control or hedge.

- DCP 178 will increase market confidence in the tariff setting regime and would result in earlier visibility of future tariffs, providing increased certainty over short-term DUoS charges.
- The proposal will improve all suppliers' ability to price contracts for consumers more effectively as there will be better information on future DUoS charges.
- The modification could lead to an increase in the range of products that can be offered to consumers and would therefore effectively promote competition in the supply of electricity.
- It will encourage competition by reducing price uncertainty for Suppliers (both new entrants and current participants) and consumers.
- Regulated charges should not be a source of uncertainty in Supplier pricing and DCP 178 effectively mitigates a large proportion of market risk in relation to DUoS pricing.
- It ensures increased stability within the Charging Methodology by locking it down for a longer period of time; in turn this should increase market confidence in the tariff setting regime and encourage competition by reducing price shocks for Suppliers and consumers. This will also mean that suppliers can be more competitive on fixed tenders due to the costs being fixed for a longer period.
- The change proposal will enable smaller companies or niche companies to compete better as larger companies will have more resource to predict DNO charges and spread the risk of inter tariff volatility.

4.48 The five respondents that did not agreed that the DCUSA Objectives are better facilitated raised a number of points including:

- Some forms of competition (based on competitors with a particular propensity to bear risks) might actually be deterred by greater certainty, since, with DCP 178, no supplier could really draw a competitive advantage from a willingness to bear short-term DUoS risk.
- Greater certainty (and the improvement in transparency that might also result from DCP 178) would probably be in the interests of customers, by facilitating their business planning and perhaps by reducing the margins that suppliers charge for taking DUoS risks. But unfortunately there is no DCUSA objective that refers to protecting the interests of customers.
- By effectively mandating a minimum lead time of 15 months for implementation of any charging proposal we believe the change would place excessive restrictions on the development of the charging methodologies which could adversely impact on the promotion of competition by delaying necessary developments in DUoS charging.
- The proposal reduces the ability of DNOs to finance the development and maintenance of their networks efficiently.

4.49 The Working Group noted that the majority of respondents agreed that the proposal better facilitates the DCUSA objectives.

Question 13 - Do you agree with the proposed implementation date of December 2014? Please provide your rationale.

4.50 Nineteen respondents to this question agreed with the proposed DCP 178 implementation date of December 2014 and five disagreed. The following table details the responses by organisation type.

Respondent Type	Response			
	Yes	No	Did not respond to this Question/ No Strong View	Total
Customer	4		8	**12**
DNO	4	2		**6**
Generator	1			**1**
IDNO	1	1		**2**
Other		1	3	**4**
Supplier	9	1		**10**
Total	**19**	**5**	**11**	**35**

4.51 The Working Group noted that a number of respondents highlighted that they would have preferred an earlier implementation date but they recognise that this is not feasible for the reasons set out in the consultation document.

Question 14 - Do you believe that the April 2015 tariffs published in December 2014 should be final tariffs, rather than indicative tariffs?

4.52 Twenty four respondents answered this question. The following table summarises the responses received.

Respondent Type	Response				
	Yes	No	Other	Did not respond to this Question	Total
Customer	5			7	**12**
DNO	4		2		**6**
Generator	1				**1**
IDNO	1		1		**2**
Other		1		3	**4**
Supplier	9			1	**10**
Total	**20**	**1**	**3**	**11**	**35**

4.53 The Working Group noted that the majority of respondents to this question supported the suggestion that the April 2015 tariffs published in December 2014 should be final tariffs, rather than indicative tariffs.

Question 15 - This Change Proposal proposes a 15 month notification period. Do you agree with this timescale or do you believe that an alternative should be considered? Please provide your rationale.

4.54 Of the 23 responses to this question, 14 agreed with the proposed 15 month notification period whilst 9 respondents believed that an alternative should be considered. The following table shows the responses by respondent type.

Respondent Type	Response			
	Agree with 15 Months	Would prefer alternative	Did not respond to this Question	Total
Customer	4		8	**12**
DNO	2	4		**6**
Generator	1			**1**
IDNO		2		**2**
Other		1	3	**4**
Supplier	7	2	1	**10**
Total	**14**	**9**	**12**	**35**

4.55 Those respondents that did not support the proposed 15 month notice period put forward a number of alternative proposals. These are detailed below and included:

- 3 months;
- 7 months;
- 16 months; and
- Fixing inputs rather than longer notice period.

4.56 One respondent suggested keeping the indicative/final tariffs distinction by having a 16 month notice period, followed by an opportunity for DNOs to publish a revision to the tariffs in the following two-month period. This would mean that tariffs would become certain at least 14 months in advance. It would also avoid 31 December deadlines. The Working Group discussed this suggestion and agreed that there may be some benefit in having an opportunity to revise tariffs. It was noted that there is nothing to stop DNOs from choosing to publish indicatives in advance of the final publication.

4.57 Another respondent suggesting having a seven month notice period (i.e. tariff publication by 31 August for the following regulatory year) as by 31 July of each year, there is a significant step change reduction in uncertainty in relation to allowed revenues for the following regulatory year. Supplier Working Group members highlighted that this length of notice period would not provide any real benefit due to the timing of the contract rounds for Suppliers.

4.58 A DNO respondent suggested providing three months' notice of final prices. It was the view of the majority of Working Group members that this proposal would not provide significant benefit.

4.59 Another suggestion was that rather than have a longer notice period inter tariff volatility could be reduced by fixing on a permanent basis some inputs to the CDCM. It was noted that this suggestion is outside of the scope of DCP 178 and that other CPs have sought to fix certain CDCM inputs and have not provided the certainty that customers and Suppliers would like.

4.60 The Working Group noted that a majority of respondents agreed with the 15 month notice period. No Working Group members chose to take forward a different timescale as an alternative to DCP 178.

Question 16 - A significant number of the CDCM inputs already require 15 months' notice to update them; DCP 178 would mean that this period would apply to all inputs to both the CDCM and EDCM model. The majority of the Working Group believe that the benefits of DCP 178 outweigh any potential delay in implementing other charging methodology changes, do you agree?

4.61 The Working Group noted that fifteen of the thirty five respondents to this question agreed that the benefits of DCP 178 outweigh any potential delay in implementing other charging methodology changes. Three respondents did not agree and a further two felt that more evidence would be needed of the benefits.

Question 17 - Do you have any comments on the proposed legal text?

4.62 Four respondents provided comments on the proposed DCP 178 legal text. The group noted the responses received and amended the legal text in light of these responses. The changes made included:

- The text was updated to say that IDNO tariff publication should be 14 months in advance rather than 15 months. IDNOs mirror DNO tariffs and this one month period allows the IDNO time to prepare its tariffs following publication of the DNO tariffs.

- Clause 19.1 was split out into two parts, as this Clause also relates to Meter Point Administration Service (MPAS) charges and DCP 178 does not seek to amend the notification period for MPAS charges.

- Clause 19.1 has was amended to state that a 3 month notice period will apply for charges set for the 2015/16 charging year. This is to ensure that the charges published in December 2014 are final tariffs rather than indicative tariffs, which will ensure that both 2015/16 and 2016/17 final tariffs are published in December 2014.

4.63 This updated version of the legal text was issued for further consultation to give respondents the opportunity to comment on the revised text.

<u>Question 18 - Do you have any further comments?</u>

4.64 In response to this question three Parties highlighted their support for the proposal, noting the benefits that it would have for Suppliers and customers.

4.65 A DNO respondent suggested that there are other CPs in progress which seek to reduce the volatility of DUoS tariffs. In light of this it is the respondent’s view that the enduring solution is not to implement DCP 178.

4.66 Another DNO respondent highlighted their concerns around the impact that DCP 178 would have on under/over-recovery of allowed revenue and whether the new +/- 6% tolerance levels would be sufficient.

4.67 An IDNO respondent suggested that the Working Group had not given sufficient consideration as to how DCP 178 would affect IDNOs. Following the close of the first consultation the DCP 178 legal text was amended to delay the publication timescales for IDNO tariff to enable them to mirror DNO tariffs.

4.68 A Supplier respondent suggested that "one has to balance the interests of the consumers against the requirement to adequately finance the distribution companies."

5 DCP 178 – CONSULTATION TWO

5.1 Having considered the initial consultation comments and updated the legal text accordingly, the Working Group agreed that the updated legal text should be issued for consultation so that market participants are given the opportunity to comment on this revised version. It was agreed that this second consultation should also seek information from respondents that would assist the Working Group in carrying out an impact assessment on DCP 178.

5.2 There were 17 responses received to the second DCP 178 consultation questions. Each of the responses was reviewed and discussed by the Working Group. Two of the consultation responses were marked confidential and have not been published. All other consultation responses, along with the Working Group's comments and the consultation document can be found in Attachment 5.

5.3 A summary of the responses received, along with the Working Group's comments, are set out below.

Question 1 - The Working Group is seeking information from respondents that would aid it in quantifying the benefits and dis-benefits of DCP 178, can you provide such information?

5.4 In response to this question, six respondents described the potential benefits that they believe DCP 178 will bring and a further three described the concerns that they had with regards to the proposal. Four respondents had no view on this question.

5.5 Two Supplier respondents noted that they had shared information directly with Ofgem, whilst another Supplier respondent stated that they could not provide such information as it is commercially sensitive.

5.6 One Supplier respondent provided a spreadsheet which showed the volatility in forecasted domestic tariffs based on DCUSA schedule 15 publications. The respondent asked that this spreadsheet be treated as confidential; therefore, it has not been published. However, a revised version of this spreadsheet produced by the Working Group is provided under Section 7 below.

Question 2 - Do you have any comments on the updated DCP 178 legal text?

5.7 Thirteen respondents to this question had no comments on the legal text.

5.8 One respondent suggested that paragraph 28A of schedule 16 should also be removed to be consistent with the removal of paragraphs 25A and 35A and 51A in the same schedule. These paragraphs were added by DCP 136[2] and DCP 150[3] to introduce 15 month notice periods for certain inputs into the calculation of DUoS tariffs. The Working Group agreed with this approach and the legal text was updated accordingly.

5.9 A DNO respondent provided some small further suggested changes as redlined tracked changes to the text as part of their consultation response (see Attachment 5). The Working Group agreed to apply these suggested changes.

5.10 Two respondents suggested that Clause 19.1 could be made clearer. The Working Group agreed with this suggestion and updated the legal text accordingly.

5.11 An IDNO respondent highlighted that the DCP 178 legal text makes the notice period a default position. DNOs could if they so wished, select an alternate notice period and publish it in their charging statement (unless revised dates become subject to a licence condition change). The Working Group considered this comment and members agreed that they were happy with the phrasing of the legal text.

Question 3 - As discussed in section 4 of the consultation document, do you agree with the view of the Working Group to maintain two separate versions of the charging methodologies in those instances where change(s) are approved but will not affect charges until after the next set of charges have been published?

[2]DCP 136 - Notice period for asset cost changes in the CDCM
[3]DCP 150 - Implementation of Notice in DCUSA for Changes to certain CDCM Inputs

5.12 As demonstrated in the attached table, the majority of respondents to this question agreed with the Working Group's suggestion.

Respondent Type	Response			
	Agree	**Disagree**	**Other**	**Total**
Customer	2			**2**
DNO	3	3		**6**
IDNO			1	**1**
Supplier	7	1		**8**
Total	**12**	**4**	**1**	**17**

5.13 One respondent suggested that there would be three separate versions of the methodology. The Working Group considered this suggestion and noted that there would be two versions, the current version and the version used to set future tariffs.

5.14 Of the respondents that disagreed with the Working Group's suggestion, three suggested that it would be too complicated. Another suggested that changes should be implemented as soon as possible.

5.15 The Working Group noted that there is a risk of confusion. To avoid this, the DCUSA website will need to be very clear on which methodology is to be used for each charging year.

Question 4 - Do you agree with the Working Group's view that DCP 178 does not conflict with Distribution Standard Licence Condition 13.2?

5.16 Twelve respondents to this question agreed that DCP 178 does not conflict with Distribution Standard Licence Condition 13.2, which states that:

"The licensee must, for the purpose of ensuring that the Charging Methodology continues to achieve the Relevant Objectives:

(a) review the methodology at least once every year;

(b) subject to paragraph 13.4, make such modifications (if any) of the methodology as are necessary for the purpose of better achieving the Relevant Objectives."

5.17 Three respondents had no view and two felt that there may be a conflict. The Working Group sought legal advice from the DCUSA lawyers on this matter and were advised that although DCP 178 does contradict the distribution licence (in that it introduces a longer notice period than required) there is no conflict and thus there is no legal reason for not progressing the CP.

Question 5 - Are you aware of any other Licence Conditions that DCP 178 either aids or is inconsistent with? If yes, please provide details.

5.18 Twelve respondents to this question did not identify any inconsistencies with Licence Conditions.

5.19 Two respondents highlighted that the CP may go against the DCUSA cost reflectivity Objectives. Working Group noted that there is a need to balance cost reflectivity against predictability.

5.20 One respondent suggested that a 15 month delay is not reasonable on the part of the DNO given that the licence only requires a 3 month notice period. The Working Group considered this comment and noted that currently DNOs could set charges 15 months in advance and this is not inconsistent with the licence.

5.21 Another respondent highlighted that draft RIIO ED1 Licence CRC 2A.2 states:

"The licensee, in setting Use of System Charges, must use its best endeavours to ensure that, in Regulatory Year t, Regulated Distribution Network Revenue is equal to its Allowed Distribution Network Revenue."

5.22 The respondent explained that it will be more difficult to meet this requirement and remain within the penalty interest caps, when setting charges based on forecasting a minimum of 28 months including 3 winters ahead as opposed to 16 months and 2 winters ahead.

5.23 The Working Group discussed this comment and noted the following points:

- Currently all forecasting risk is borne by the customer.
- It is unlikely that the DNO would use anything other than seasonal normal to calculate their winter forecasts.
- Licence derogations have been applied for and accepted in the past relating to revenue recovery bands (e.g. for extreme weather).
- If evidence shows that the Licence penalty bands need to be amended then a licence change could be proposed.

Question 6 - Do you believe that the illustrative tariffs published as part of DCUSA Schedule 15 and/or the Annual Review Pack (ARP) would no longer be necessary if DCP 178 is implemented?

5.24 The Working Group noted that the general response to this question was that this information would no longer be required. However, the majority of respondents would not wish to lose any of the information that they currently receive as a result of DCP 178.

Question 7 - Do you believe that the illustrative tariffs currently shown within the Annual Review Pack (ARP) would no longer be necessary if DCP 178 is implemented? Please indicate whether you feel that there is a need to continue to see years 2-5 even if you feel that those for year 1 are no longer necessary.

5.25 The Working Group noted that the majority of respondents to this question would not wish to lose any of the information that they currently receive as a result of DCP 178, i.e. they would like to continue to receive the APR. Although, several respondents did suggest that there may be merit in reviewing the ARP if DCP 178 is approved. It was the view of the Working Group that if changes are required to the ARP then this is outside of the scope of DCP 178.

5.26 An EDCM customer respondent to this question highlighted that to change consumption patterns, and behaviour, a 2-5 year trajectory of charges at constant consumption, and an understanding of how changing peak consumption affects the trajectory is required. Otherwise future benefits of actions today cannot be properly quantified. The Working Group considered this comment and noted that currently EDCM customers cannot see this information. There is not an ARP for the EDCM and changes to other EDCM customers' behaviour can have a significant effect thus making it difficult to provide ARP style data for the EDCM.

Question 8 - Do you agree with the Working Group's view that the three individual years data, which is smoothed as an input to the CDCM, needs to be shown and available either in the ARP or a similar communication? Please provide rationale.

5.27 Three respondents had no view on this question, whilst all other respondents agreed that the smoothed data should be made available. The majority of these respondents suggested that this data should be provided via the ARP, whilst two suggested that it could be provided in the CDCM model itself.

5.28 The Working Group agreed that any change to the publication of smoothed CDCM input data is outside of the scope of DCP 178.

Question 9 - Do you believe that DCUSA Schedule 15 and/or the requirement on DNOs to publish an ARP should be removed as part of DCP 178 or, alternatively, should removing these items be progressed as a separate Change Proposal?

5.29 Four respondents to this question had no view. A further four respondents suggested that changes to Schedule 15 and the ARP should be progressed as part of the CP as they are consequential changes resulting from DCP178. The remaining nine respondents suggested that any such changes should be progressed as a separate CP.

5.30 The Working Group noted that the preferred approach appears to be, to progress any required changes separately to DCP 178. It was agreed that this area should be raised with the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG).

Question 10 - Do you have any further comments?

5.31 Nine consultation respondents had no further comments and a further five respondents reiterated their support for the proposed change.

5.32 A DNO respondent highlighted that the benefits of the CP should be quantified by the group. The Working Group agreed with this point but noted that Suppliers would not be able to openly discuss their risk premiums, thus the benefits would need to be discussed with Ofgem in confidence.

5.33 Another DNO respondent expressed their concerns with regards to the impact of DCP 178 on DNO’s risk exposure. The Working Group noted that it had discussed the 6% penalty band threshold and based on historical data had not been able to prove that the 6% was insufficient. It was observed that if it is found to be insufficient then in the short term DNOs can apply for a derogation and in the long term a change to it can be raised.

5.34 A third DNO respondent suggested that DCP 178 would incentivise DNOs to set prices at a level more likely to over-recover so that their risk exposure is reduced. The Working Group observed that this would put DNOs in breach of their Licence.

5.35 This respondent also highlighted their agreement with the view expressed by Consumer Futures, in response to consultation one, that DCP 178 addresses the symptoms of price volatility rather than the cause. The Working Group noted this comment and observed that the key driver in the CDCM is volume of energy consumed/generated which creates volatility. The Working Group noted that this topic could be raised as a concern with the DCMF MIG should any party wish to pursue it further.

6 WORKING GROUP ASSESSMENT OF DCP 178

6.1 The DCP 178 Working Group discussed the proposal over a number of meetings, taking into account the responses received to the two DCP 178 industry consultations. The topics discussed by the Working Group and the group's conclusions are detailed below.

<u>Potential Benefits of the Change Proposal</u>

6.2 A majority of the Working Group members agree that increasing the notice period for DUoS tariffs from 40 days to 15 months may have significant benefits for Suppliers and Consumers. Tariffs will be more predictable and transparent and there will be improved certainty over future short-term DUoS charges. This could also lead to reductions in the charges some customers pay in their supply contract.

6.3 To illustrate, currently if a Supplier offers a two year contract to a customer in January of any year for a two year contract from the following April they run the risk of the charges changing 7 times through that period, in line with the indicative and final publication of DUoS tariffs. (Note: the number of changes to DUoS tariffs will reduce from April 2015 with the removal of within year price changes but this will still leave three possible price changes within the period of the contract). These changes can be significant.

6.4 There are two basic types of contract that a customer can enter into with the Supplier in relation to their DUoS charges. The first is an all-inclusive contract which will incorporate DUoS charges. The second is a pass-through contract where the DUoS charge is passed straight through to the customer by the Supplier.

6.5 For an all-inclusive, non-pass through customer contract (where the DUoS charge is fixed into the overall rates that the customer pays) the Supplier bears all the impact of the change to charges (unless the Supplier has a claw back clause in their terms and conditions).

- For example, the Supplier may charge the customer an additional premium to cover their risk around these changes to DUoS charges.

- Whereas, non-pass through customers are not impacted by any changes to DUoS charges, as the Supplier bears the risk but the customer may be paying more in risk premia to be protected from these changes.

6.6 For a pass-through customer contract (where the customer pays the actual DUoS charge) the customer bears the risk and the uncertainty of DUoS charges changing over the period of the contract.

6.7 It was noted that improved notice of DUoS tariffs will potentially enable Suppliers to:

- Introduce new products, in particular non-pass through of DUoS contracts for EHV consumers. Currently, it is unlikely that Suppliers offer such contracts as the risk associated with them is too high.

- Reduce the risk premium in existing DUoS non-pass through products, as there will be more certainty on the DUoS element of these charges.

- Improve their ability to forecast and budget for DUoS charges.

6.8 Consumers will benefit as:

- Non-pass through consumers will potentially face lower charges from Suppliers because Suppliers will not have to include such risk premiums into the DUoS element of their products.

- It may potentially widen the product range available to non-pass through consumers as they may be more willing to take pass through contracts.

- Improved notice of DUoS tariffs will enhance the ability of consumers on pass through contracts to forecast and budget for DUoS charges.

- EHV consumers will potentially be offered a greater range of products to choose from, as non-pass through of DUoS contracts may become available.

Impact on Recovery of Allowed Revenue

6.9 The method used to calculate DUoS tariffs is defined within DCUSA Schedule 16, Schedule 17 and Schedule 18. The method is intended to enable DNOs to recover their "allowed revenue" for the charging year in a cost reflective manner. The "allowed revenue" for all DNOs is set by Ofgem for a pre-determined period known as the Distribution Price Control Period. Currently this covers 5 years from 2010-2015, going forward allowed revenue will be known for 8 years from 2015-2023.

6.10 Two concerns were expressed by the group around this area:

- All DNO members of the Working Group highlighted concerns around the potential increased risk of large over/under-recovery of allowed revenue and the associated penalties; and
- One DNO member of the Working Group expressed concerns that this could also lead to an impact on the cost of capital for their business. This was not identified as an issue for rest of the DNOs. Further details on this concern are provided in Attachment 6.

6.11 A consumer representative on the Working Group suggested that the benefits of this modification to consumers were far greater than the dis-benefits to DNOs. A majority of consultation respondents also supported this view.

6.12 The increased risk of over/under-recovery was a concern raised by all DNOs. By bringing forward the publication date of final tariffs there is an increased risk that DNOs will not recover their allowed revenue for each charging year. This is because they will be forecasting their income recovery over a longer period of time, thus making them more exposed to unforeseen environmental (weather) and economic changes. This could result in increases in over/under-recovery of revenue which would then be recovered in future years, potentially making the year-on-year tariff movements more volatile.

6.13 However, DNOs are subject to licence conditions that penalise them for over/under-recovery of revenue outside of the tolerances determined in their licence.

6.14 The Working Group noted that the ability of DNOs to change their tariffs will be restricted to once a year from April 2015. In recognition that this will reduce DNOs' ability to recover their allowed revenue within the charging year, Ofgem has proposed that the penalty band thresholds within the distribution Licence be doubled. Some concerns still exist as to whether the increased thresholds are sufficient to include this change proposal.

DNO Risk Exposure

6.15 The Working Group notes that the distribution licence Charge Restriction Condition (CRC)14 details the bandwidths for over/under recovery and in simplistic terms penalty interest rates apply if the DNO is over or under recovered by 3% from their Allowed Revenue number for any given Regulatory Year (clause 14.2).

6.16 Having sought Ofgem's guidance, the group understand this clause will be revised to 6% under RIIO-ED1. This is to take account of the Ofgem decision to limit DNOs to one tariff change per year removing the ability to introduce a mid-year change.

6.17 The Working Group sought data from DNOs on their historic levels of over/under recovery of allowed revenue. This data is provided as Attachment 7. The historical over/under recovery values demonstrate that there are not many instances outside the +/-6% band, where DNOs were over/under-recovered by a significant value. Although, in this historical data DNOs had the ability to make mid-year price changes which would reduce the amount of over/under-recovery in each year.

6.18 When looking at the data for all DNOs since the start of Distribution Price Control Review (DCPR) 5, no party has been subject to any penalty interest payments, with the 3% band width in place. However, it needs to be considered whether or not doubling the band width (from 3% to 6%) will be sufficient when the charges are published fifteen months in advance.

6.19 As an example, if the charges for 2016/17 are set in December 2014, the first year when the DNO will be able to reflect the final recovery position for 2016/17 will be at the point when the charges for 2019/20 are being calculated (see table below). Note that in December 2014 final tariffs for the next two years would need to be produced, but only one set thereafter.

Charge Setting Date	Period Charges Published for	Period when Final Recovery Period known
December 2014	2015/16 and 2016/17	2013/14
December 2015	2017/18	2014/15
December 2016	2018/19	2015/16
December 2017	2019/20	2016/17

6.20 Ofgem has informed the Working Group that if the 6% threshold is seen to be insufficient then it would be for DNOs to seek a change, providing good justification as to why the thresholds should be further revised.

<u>What happens if there is an Error in Published Tariffs?</u>

6.21 The Working Group considered what would happen under DCP 178 should there be an error in the tariffs published by DNOs. The group noted that in the past errors have occurred which have resulted in changes to published tariffs. These errors occurred soon after the CDCM was introduced. It was observed that now that the CDCM has been in place for a number of years, DNOs are in a steady state with regards to the calculation of DUoS tariffs and increasingly robust error checking methods are being tried, tested and developed. The risk of errors occurring in the published tariffs has therefore reduced over time.

6.22 Where an error does occur, a DNO can request a derogation from Ofgem seeking permission to publish a revised set of tariffs, although the Working Group noted that the impact would need to be significant for Ofgem to approve such a change. With DCP 178 in place tariffs would be calculated and published sooner, therefore, increasing the likelihood that errors could be identified and rectified earlier rather than later.

6.23 The group noted that DCP 104 ‘Shared impact of manifest errors in DUoS charging’ was raised in 2011 seeking to put in place a framework for the correction of manifest errors in DUoS charging. This CP was rejected by Ofgem on the basis that it did not better facilitate the DCUSA Charging Objectives. The group agreed that a process for addressing manifest errors should not be incorporated into the DCP 178 legal text as this is outside of the scope of DCP 178.

The Rejection of DCP 164

6.24 The DCP 178 Working Group has been advised by Ofgem to consider the reasons for the rejection of DCP 164 'Review of the Change Process for Use of System Methodology Changes' and how these might apply to DCP 178. DCP 164 sought to introduce a managed change process for charging methodology related DCPs. The purpose of this managed change process was 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.

6.25 DCP 164 was unanimously approved by Industry parties but rejected by Ofgem. The reasons Ofgem gave for its decision to reject the CP are detailed in the table below, along with the DCP 178 Working Group's views on how these might apply to DCP 178.

Ofgem Comments on DCP 164	**Working Group's view on how this might apply to DCP 178**
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.	The view of the Working Group is that this does not apply to DCP 178 as there is no change to the timetable for tariffs going live from April 2015. Section 6.27 below provides additional detail on the other DCUSA CPs currently in progress and how DCP 178 might affect them.
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.	The Working Group discussed this point and concluded that the certainty that DCP 178 would bring to both Suppliers and consumers, even if it resulted in some changes not being implemented as early as they might otherwise be, would still be a benefit. The Working Group understands that the Licence would take precedence over the DCUSA and therefore Ofgem could direct an earlier implementation date for any DCUSA change if necessary.
Finally, there is a risk that a fixed, once a year timeframe for modelling changes will lead to	The Working Group noted that a deadline exists today and thus the situation would be

modifications being developed just before the effective deadline, potentially causing rushed development and placing pressure on the assessment process.	no different under DCP 178, i.e. there would still be a deadline. The purpose of DCP 164 was to avoid rushed development at the end of the year creating a bottleneck and to ensure that all Parties were aware of which changes were to be applied when setting charges. DCP 164 was raised as a lesson learnt from the late approval of DCP 130 in December 2012.

Implementation of Current DCUSA Change Proposals

6.26 Should DCP 178 be implemented, then the timeline for the implementation of future DCUSA CPs that affect DUoS tariffs will need to be extended to accommodate the requirement to give 15 months' notice of new tariffs.

6.27 The Working Group has considered each of the DCUSA Change Proposals that are currently in progress and identified the final point by which approval must be received for all open Charging Methodology CPs in order that they are not affected by DCP 178. This information is set out in the table below.

DCP No	CP Title	Working Group's Target Implementation Date (may be revised based on further work of each group)	Targeted DCUSA Panel for the Change Report	To avoid Impact from DCP 178 latest date Ofgem Approval Required by
DCP 117	Treatment of 'Load related new connections & reinforcement (net of contributions)' in the Price Control	1 April 2015	Not yet decided	n/a
DCP 123	Revenue Matching Methodology Change	1 April 2015	June 2014	1 December 2014
DCP 133	500 MW network common model for CDCM input	December 2014	July 2014	1 December 2014
DCP 137	Introduction of locational tariffs for the export from HV generators in areas identified as generation dominated.	1 April 2015	August 2014	1 December 2014
DCP 138	Implementation of alternative network use factor (NUF) calculation method in EDCM	On hold: waiting for Ofgem NUF decision	n/a	n/a
DCP 160	Non-Half Hourly (NHH) Notional Capacity	On hold: waiting for DCP 179 to progress	n/a	n/a

DCP 161	Excess Capacity Charges	1 April 2015	September 2014	1 December 2014
DCP 165	Voltage Level Approach to Unit Charges in the CDCM	On hold: waiting for DCP 179 to progress	n/a	n/a
DCP 169	Seasonal Time of Day (SToD) HH Metered Tariffs in the CDCM	On hold: waiting for DCP 123 to progress	n/a	n/a
DCP 179	Amending the CDCM tariff structure	1 April 2015	August 2014	1 December 2014
DCP 180	Further reduction in the volatility of Use of System Charges	On hold: waiting for DCP 178 to progress	n/a	
DCP 183	To Convert the super red KWH to KVA when calculating the EDCM tariffs	1 April 2015	August 2014	1 December 2014
DCP 185	LDNO discount on 20% of residual revenue	1 April 2015	June 2014	1 December 2014
DCP 189	Un-expired capitalised O&M	1 April 2015	August 2014	1 December 2014
DCP 198	Align the PCDM Model with the legal text	1 April 2015	July 2014	1 December 2014
DCP 203	The Rationalisation Of Discount Factors Used To Determine LDNO Use Of System Tariffs Relating To UMS Connections On Embedded Distribution Networks And The Associated LDNO Tariffs	1 April 2015	September 2014	1 December 2014
DCP 206	Removal of Charge One from the EDCM	1 April 2015	Not yet decided	1 December 2014

6.28 As demonstrated in the table above, there are currently several charging methodology changes in the development process and many of these are looking for an implementation date of April 2015. DCP 178 will not impact on any of these CPs, provided that they receive approval from Ofgem by 1 December 2014, at the latest.

6.29 For those CPs that do not receive approval prior to December 2014, the earliest date that these CPs could be applied to charges from if DCP 178 is approved is 1 April 2017 (i.e. in the charges that are published in December 2015).

Implementation of Future DCUSA Change Proposals

6.30 The Working Group notes that the aim of DCP 178 is not to stop any changes to the charging methodology being progressed in a timely manner. The intent is to provide some stability and predictability in the tariffs for the benefit of both suppliers and end customers. Under DCP 178 approved Charging Methodology Change Proposals will have a minimum notice period of 15 months, thus improving predictability for Suppliers and consumers.

6.31 For each charging year the Charging Methodology models will be published as a pre-release a minimum of 15 months before the charging year commences. This will enable DNOs to use the models to calculate tariffs for the charging year. A pre-release version of the DCUSA which incorporates all CPs, that are to take effect for the charging year will also be published at the same time as the pre-release models.

6.32 Whilst no changes will be made to the pre-release models or DCUSA Schedules 16, 17 and 18 over the 15 month notice period, there may be non-charging related CPs approved and implemented over this period meaning that other sections of the DCUSA may change. On the day that the charging year commences, i.e. on 1 April, the pre-release models will be renamed to reflect that they are the live models and will be published incorporating all approved CPs for the 1 April release. This is demonstrated in the diagram provided as Attachment 8.

7 IMPACT ASSESSMENT

7.1 The DCP 178 Working Group has sought to identify the impacts of DCP 178 but notes that this is a task that is difficult to achieve as Supplier risk premium data is confidential. Some Working Group members have shared such information directly with Ofgem, rather than discussing it within the group.

7.2 To demonstrate the difficulty that Suppliers have in predicting future tariffs, and thus the risk that they will need to include in the prices that are offered to customers, the Working Group has prepared the spreadsheet provided as Attachment 9. This spreadsheet shows the forecasted customer DUoS bill based on DNOs' Schedule 15 publications and estimated consumption volumes. The spreadsheet demonstrates the volatility in domestic DUoS tariffs predictions. Such volatility also exists in other DUoS tariffs too.

8 PROPOSED LEGAL TEXT

8.1 The draft legal text has been reviewed by the DCUSA Legal Advisor and is provided as Attachment 1.

8.2 The legal text amends the notice period for the publication of tariffs from 40 days to 15 months. This is achieved by amending the notice period specified in DCUSA Clause 19.1.

8.3 An amendment is also made to Schedule 16 paragraph 43 and paragraph 49 to clarify that when determining load characteristics for demand users and peaking probabilities, DNOs should seek to use data for the most recent 3 year period at the time of setting charges for the relevant charging year.

8.4 Legal text that was added by approved DCUSA CPs DCP 136[4] and DCP 150[5] this text is also removed in the DCP 178 legal text. The legal text associated with these two CPs, is as follows:

- DCP 136: DCUSA Schedule 16 - last two sentences of paragraphs 19 and 33
- DCP 150: DCUSA Schedule 16 paragraphs 25A, 28A, 35A and 51A

8.5 DCP 136 and DCP 150 introduced 15 month notice periods for certain inputs into the calculation of DUoS tariffs. If DCP 178 is approved these notice periods for certain CDCM inputs will no longer be required.

8.6 Working Group discussions identified other possible licence conditions which may cause a DNO to need to revise charges with 40 days' notice rather than 15 months notice, for example, Supplier of last resort (LC38). The legal text in 19.1A reflects how an application would need to be made to the Authority to make such as change and as a result not comply with the 15 month notice period.

9 EVALUATION AGAINST THE DCUSA OBJECTIVES

9.1 The Working Group has assessed the CP against the DCUSA objectives and believes that the following DCUSA Objectives are better facilitated by DCP 178.

General Objective 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

9.2 General Objective 2 is better facilitated by ensuring increased stability and transparency within the Charging Methodology. This in turn, should increase market confidence in the

[4] DCP 136 - Notice period for asset cost changes in the CDCM
[5] DCP 150 - Implementation of Notice in DCUSA for Changes to certain CDCM Inputs

tariff setting regime and encourage competition by reducing price shocks for Suppliers (both new entrants and current participants) and consumers.

Charging Objective 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)

9.3 Charging Objective 2 is better facilitated as the CP ensures increased stability and transparency within the Charging Methodology. This in turn, should increase market confidence in the tariff setting regime and encourage competition by reducing price shocks for Suppliers (both new entrants and current participants) and consumers.

10 IMPACT ON GREENHOUSE GAS EMISSIONS

10.1 In accordance with DCUSA clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP 178 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

11 ENGAGEMENT WITH THE AUTHORITY

11.1 Ofgem has been fully engaged throughout the development of DCP 178 as a member of the Working Group.

12 IMPLEMENTATION

12.1 The implementation date proposed for DCP 178 is 6 November 2014 such that the first set of tariffs for which there will be a 15 month notice period are those that take effect from 1 April 2016.

12.2 The expectation of the Working Group is that the final tariffs for April 2015 will be published 3 months in advance rather than 40 days (i.e. final tariffs will be published in December 2014 rather than February 2015). This would mean that both the April 2015 and April 2016 final tariffs would be published in December 2014. Attachment 8 provides a timeline which gives more detail on these timescales.

13 PANEL RECOMMENDATION

13.1 The Panel approved this Change Report on 21 May 2014. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 178.

13.2 The timetable for the progression of the Change Proposals is set out below:

Activity	**Date**
Change Report approved by DCUSA Panel	18 June 2014
Change Report issued for voting	20 June 2014
Voting closes	4 July 2014
Change Declaration	8 July 2014
Authority Decision	12 August 2014
DCP 178 Implemented	6 November 2014

14 NEXT STEPS

14.1 Parties are invited to consider the proposed amendment (Attachment 1), together with the Consultation documentation (Attachments 4 and 5) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by **4 July 2014.**

14.2 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 2842.

ATTACHMENTS

- Attachment 1– Legal Text
- Attachment 2– Voting Form
- Attachment 3 – DCP 178 CP Form
- Attachment 4 – Consultation One Documentation
- Attachment 5 – Consultation Two Documentation
- Attachment 6 – Impact on Cost of Capital
- Attachment 7 –DNO Over/Under Recovery Data

- Attachment 8 –Timeline Diagram
- Attachment 9 –Percentage Change to Tariffs Spreadsheet