



Making a positive difference
for energy consumers

Ms Donna Townsend
DCUSA Panel Chair
Grafton House
2-3 Golden Square
London
W1F 9HR

Date: 24 October 2014

Dear Ms Townsend

Our decision to direct that DCUSA modification proposal DCP178 'Notification Period for Change to Use of System Charges' is revised and resubmitted

On 8 July 2014, the DCUSA¹ Panel submitted a Final Modification Report (FMR) for DCUSA modification proposal DCP178 'Notification Period for Change to Use of System Charges'. We² issued a consultation on 8 August 2014³ to ensure all affected parties were aware of the proposed change and had time to submit any extra evidence to us before we made our decision.

We have considered the responses to our consultation, as well as those submitted to the working group during development of the final proposal. Subject to the issues discussed below being resolved, we are minded to approve DCP178, as we consider that it better facilitates the second Applicable Charging Objective⁴ by reducing the forecasting risk suppliers take into account when setting their contracts. Greater certainty of charges should assist smaller suppliers who are less able to manage changes.

We also consider that approving the proposal is consistent with us acting in accordance with our principal objective of protecting the interests of consumers. This is because it potentially provides greater budgeting certainty to larger customers, who are currently on pass through contracts. Suppliers have indicated that DCP178 should enable them to reduce the risk premium they currently price into contracts to account for uncertainty in the level of distribution charges. Therefore, we expect that approving this proposal should result in a reduction in the charges customers pay. We also recognise that in exceptional circumstances the notice period for a change to Use of System Charges could be different where we see overriding benefits to consumers.

In reaching our minded to position, we have also considered evidence from parties who do not support DCP178. One respondent expressed concern that DCP178 might discriminate against the independent distribution network operators (IDNOs). We recognise that there is at least one modification currently being developed by a working group, which, if approved, might have an impact on the margin IDNOs are able to earn and which could in turn be affected by the longer notice period which DCP178 introduces.

¹ Distribution Connection and Use of System Agreement (DCUSA).

² The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

³ <https://www.ofgem.gov.uk/ofgem-publications/89247/consultationdcp17808082014.pdf>

⁴ That compliance with the Relevant Charging Methodology 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.

A number of respondents to our consultation also said that DCP178 would transfer forecasting risk from suppliers to the distribution network operators (DNOs). In particular, because the 2016-17 allowed revenues have not been determined, it would increase the difficulty the DNOs have in forecasting 2016-17 charges. We also note that the current price control⁵ does not end until 31 March 2015 and we need to complete the final close out after this.

We do not consider that there are material risks to DNOs in the long term. However, in light of the issues raised, we do not consider that the proposed implementation date of 5 November 2014 is feasible, nor do we consider it to be desirable, as it will mean the DNOs have to provide final charging statements for 2016-17 by 31 December 2014 when there is still a significant amount of uncertainty around final revenues.

We therefore consider that further assessment of the best implementation date is required in order for us to form a final opinion on DCP178. We consider that the DCUSA Panel, in consultation with industry, as appropriate, should undertake further analysis to determine an appropriate implementation date. This should be set out in a revised FMR and resubmitted to us for a decision on the proposal.

Whilst this is a matter for the industry to consider when revising the FMR, we suggest that an implementation date of 1 April 2016 would strike the right balance between the time before benefits of the proposal can be realised and that needed by the DNOs to forecast two years of charges as accurately as possible. A delayed implementation date would also provide additional time for the issues with regards to IDNOs' margins to be considered further by industry and any resulting changes to be implemented.

We also consider that the drafting of the proposed legal text in clause 19.1 may need to be clarified. Because clause 19.1.1 does not specify an end date for the period to which the three-month notice period should apply, it could be interpreted as being ongoing.

In accordance with clause 13.11A of the DCUSA, we direct the DCUSA Panel to undertake further work to identify a suitable implementation date for DCP178 and consider the possible drafting issues with the current legal text. The Panel should then update the legal text and FMR and submit them to us for decision. If practicable, we would expect this to be by mid-December 2014. A copy of this letter will be published on our website.

Yours sincerely,

Andrew Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose

⁵ Distribution Price Control Review 5 (2010-2015).