

DCUSA Panel, Parties to the  
DCUSA and other interested  
parties

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Date: 11 November 2016

Dear colleague

### **Decision on implementation date for Distribution Connection and Use of System Agreement change proposal 228 'Revenue Matching in the CDCM' ("DCP 228")**

This letter sets out our decision that the implementation date for DCP228 should be 1 April 2018.

#### **Background**

DCP228 changes the way certain distribution network charges are 'scaled'. Scaling is the process used to reconcile the difference between the total revenue from charges calculated under the CDCM model, and the allowed revenue we determine through price controls.

We approved DCP228 on 8 September 2016.<sup>1</sup> DCP228 initially proposed an implementation date of 1 April 2016. We considered it appropriate to consult before making our decision on the proposed change, and made our decision after the proposed implementation date had passed. Separately, as a result of DCP178<sup>2</sup>, DCUSA requires 15 months' notice of any change to charges. This means that the earliest DCP228 can now be implemented is 1 April 2018.

In our decision to approve DCP228, we therefore directed that the proposed implementation date be rejected and that an alternative implementation date be considered by the DCUSA Panel in accordance with clause 14.2 of Part 1C of DCUSA.

The Panel considered this at its meeting of 21 September 2016, and recommended an implementation date of 1 April 2018. In accordance with DCUSA change processes, the recommendation was issued to DCUSA parties to vote. The outcome of the vote was a recommendation that we should reject the proposed implementation date.<sup>3</sup>

#### **Our decision**

In our decision to accept DCP228 we considered the concerns raised in the consultation responses, in particular those consumers who may see a reduced benefit from their activities and investments in responding to current price signals and the need for suppliers to offer advance notice to their consumers to changes to charges.

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/09/dcp228\\_decison\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/09/dcp228_decison_letter.pdf)

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/distribution-connection-and-use-system-agreement-dcusa-dcp178-notification-period-change-use-system-charges>

<sup>3</sup> DNO and Supplier parties voted. While DNOs unanimously supported the proposed implementation date, less than 50% of Suppliers parties supported it. In accordance with the weighted vote procedure, the recommendation to the Authority is that proposed implementation date for DCP228 is rejected.

We stated that although DCP228 will increase charges for some consumers, red period charges will still be significantly higher than those for the amber and green periods. Activities and investments made to manage consumption away from the red periods are still likely to be financially beneficial to those consumers. We also stated that we expect suppliers to have taken into consideration the 15 month advance notice of changes to charges as provided by DCP178 in agreeing their contracts with customers and that they will also have been aware of this particular proposal for some time. As stipulated under DCUSA<sup>4</sup>, we expect implementation of the modification to occur as soon as practicable. We therefore concluded in our decision to approve DCP228 that insufficient evidence was provided to justify delaying implementation beyond 1 April 2018.

When voting on the proposed new DCP228 implementation date, two supplier parties set out that they have already entered into contracts with some customers for periods that extend beyond 1 April 2018. They also stated that the magnitude of the changes in charges resulting from this modification may have an impact on competition if it is implemented at short notice. They set out that those consumers with pass-through contracts will be affected by the change on the implementation date whereas those on fixed contracts that extend beyond 1 April 2018 will not.

One supplier stated that although this proposal has been known about for some time it would not be reasonable to expect suppliers to take a position on the outcome, including the implementation date, bearing in mind the DCUSA panel recommendation to reject and the lack of clarity on the timing of the decision on the proposed change.

We note that some suppliers may have entered into fixed agreements with some of their customers that extend beyond 1 April 2018. A postponement of the implementation date for the benefit of those suppliers that entered into such agreements would result in a postponement of the benefits that this change provides to many more consumers. In our decision to accept DCP228 we considered that on balance we agreed that DCP228 better facilitates charging objective three. On balance we consider that the earlier this change is implemented the earlier the benefits of improved cost reflectivity can be realised. We have not been presented with strong evidence and reasoning as to why a postponement of this change would improve the facilitation of this objective.

We do not believe that the impact this change will have on suppliers with fixed price contracts will have a material impact on competition. In our decision to accept DCP178, which provides for 15 months' notice for charges, we concluded that on balance such notice will facilitate better Charging Objective 3.2.2.<sup>5</sup> We do not believe that an implementation date of 1 April 2018, in accordance with DCP178, will, on balance, be contrary to this objective.

### **Decision notice**

In accordance with standard licence condition 22.11 of the Electricity Distribution Licence, the Authority hereby directs that the proposed alternative implementation date, 1 April 2018, is accepted.

### **Andrew Self**

#### **Head of Electricity Network Charging, Energy Systems**

Signed on behalf of the Authority and authorised for that purpose

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<sup>4</sup> DCUSA 1C (11.14.4 B): "the implementation date should be the date that enables the proposed variation to take effect as soon as practicable after the decision to implement has been reached".

<sup>5</sup> DCUSA Charging Objective 3.2.2 – that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)