Pants On Fire, episode 15 (revision 3)

16 January 2019, Franck Latrémolière

1. Pants On Fire is back after a 19-month hiatus, but only for an episode on the geeky topic of DNOs' compliance with their approved methodology for IDNO tariffs.

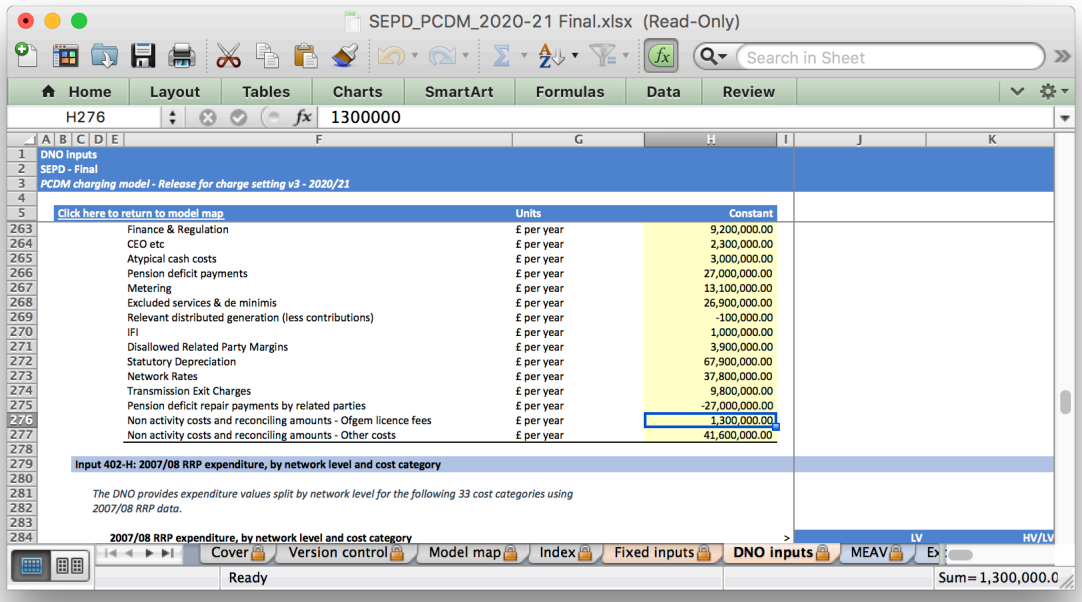
2. This episode is so stodgy that it needs a table of contents:

First compliance issue: failure to implement DCP 306

3. DCP 306 is a modification approved for implementation in the calculation of tariffs from 1 April 2020. It changes the treatment of Ofgem licence fees in the calculation of IDNO discount percentages.

4. Figure 1 shows how DCP 306 is implemented in the workbook that DNOs have used to calculate IDNO discount percentages.

Figure 1 A DNO that did not mess up DCP 306 implementation



5. The effect of DCP 306 is to increase the discounts that apply when an IDNO serves LV end users, and to decrease discounts in respect of LV Sub and HV end users.

6. It seems that Electricity North West (one DNO area) and UK Power Networks (three DNO areas) have failed to implement this element of the approved methodology. For these DNO areas, the published models have been wrongly populated in such a way as to prevent DCP 306 from taking effect. Figures 2 to 5 show what has happened.

Figure 2 How Electricity North West failed to implement DCP 306

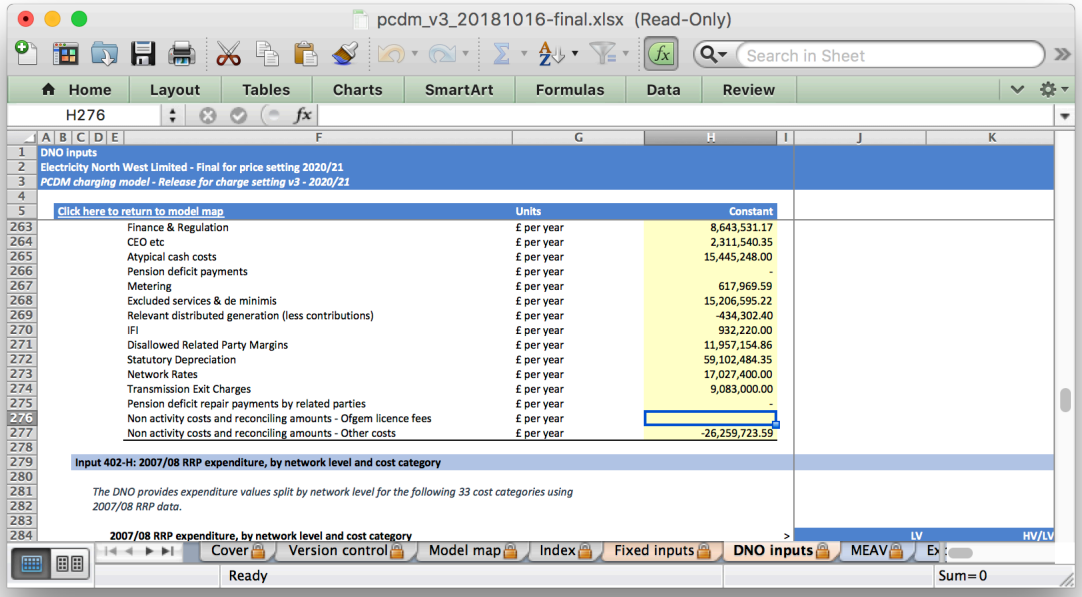


Figure 3 How Eastern Power Networks (UKPN) failed to implement DCP 306

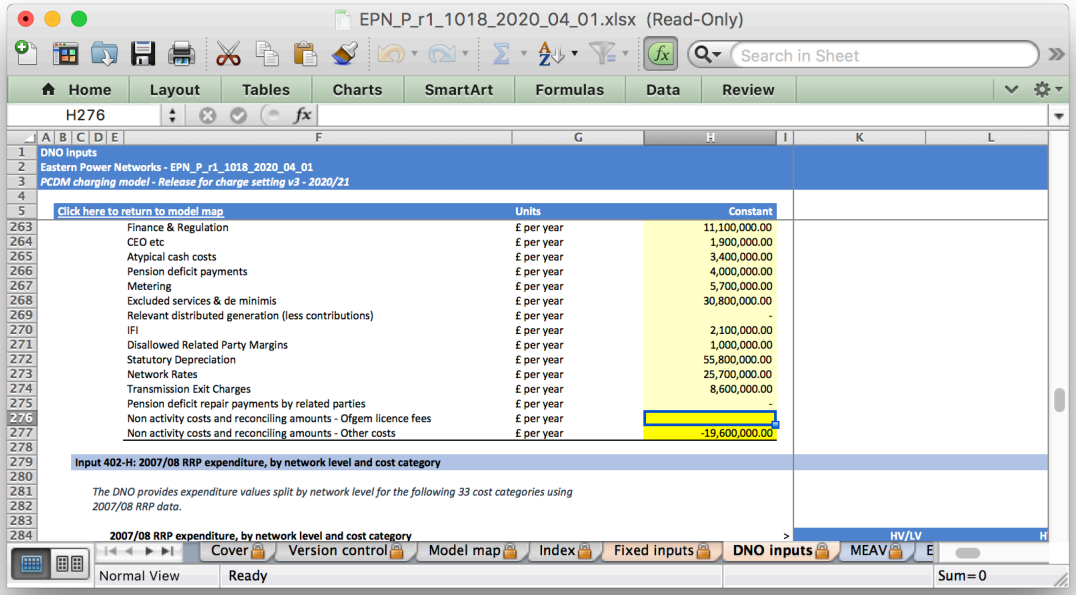


Figure 4 How London Power Networks (UKPN) failed to implement DCP 306

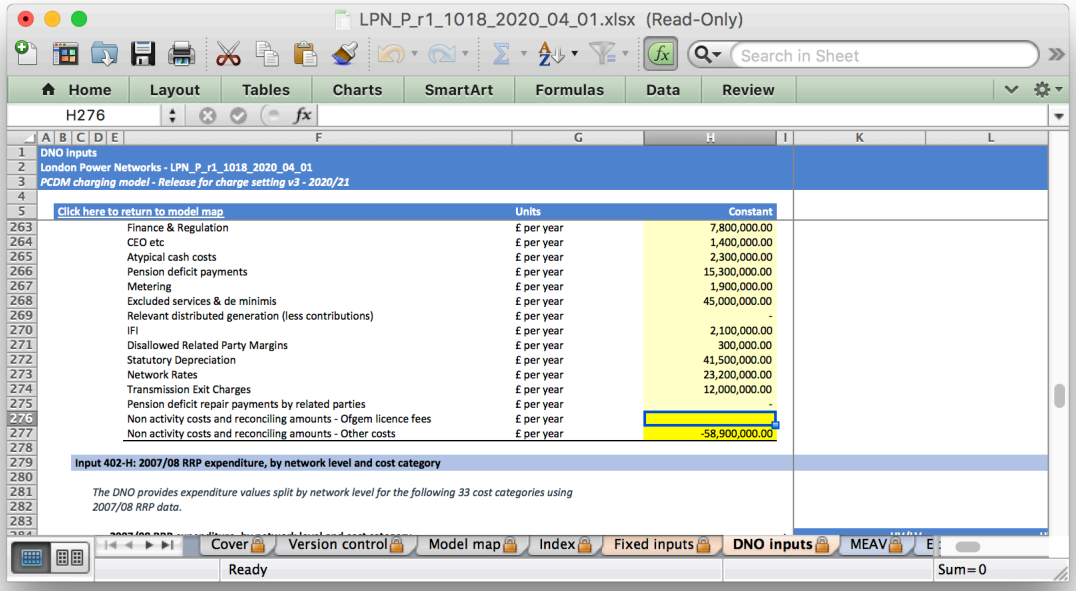
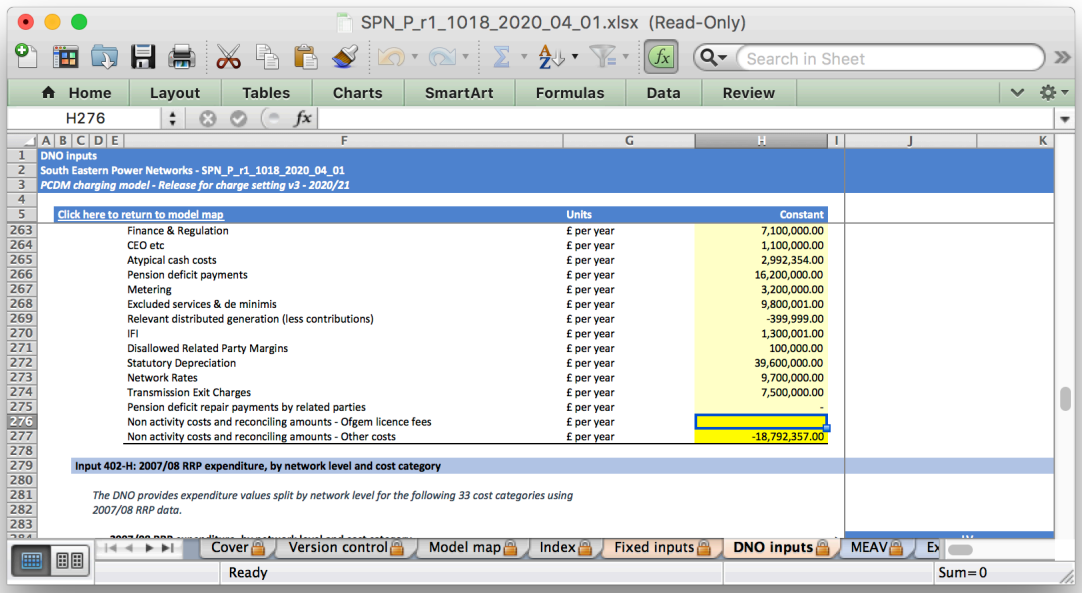


Figure 5 How South Eastern Power Networks (UKPN) failed to implement DCP 306



7. Table 1 shows the impact of these DNOs' failure to implement DCP 306 on IDNOs serving LV end users.

Table 1 Impact of failure to implement DCP 306 on IDNOs serving LV end users

	ENWL	UKPN EPN	UKPN LPN	UKPN SPN
Used discount for LV boundary	35.66%	31.19%	26.65%	31.34%
Correct discount for LV boundary	36.12%	31.51%	27.04%	31.78%
Percentage overcharge on LDNO LV: LV tariffs	0.73%	0.48%	0.54%	0.65%
Estimated overcharge on LDNO LV: LV tariffs	£18k	£11k	£7k	£13k
Used discount for HV boundary	56.43%	48.40%	44.89%	50.75%
Correct discount for HV boundary	56.70%	48.58%	45.13%	51.00%
Percentage overcharge on LDNO HV: LV tariffs	0.62%	0.35%	0.42%	0.49%
Estimated overcharge on LDNO HV: LV tariffs	£16k	£24k	£37k	£21k

8. In short, this error has a small but material impact on IDNO margins, and its overall financial impact is very small on the scale of these DNO businesses.

9. The greater importance of this error and of the way in which it is handled will be in answering the question of whether there is effective regulation in the market — or whether DNOs can ignore approved methodology changes with impunity.

10. I approached the DNOs involved ahead of publishing this article. UK Power Networks has told me that they are working on a correction. Electricity North West did not immediately respond to my request for comments.

Second compliance issue: failure to publish assumptions and workings

11. Episode 14 of Pants On Fire pointed out that SP Energy Networks (two DNO areas) did not comply with the obligation to publish spreadsheet models showing the assumptions and workings of their calculation of IDNO discounts.

12. Since then, the broken website links noted in episode 14 have been fixed, but the models are still not published.

13. SP Energy Networks' failure to publish its workings means that there could be undiscovered non-compliance with the approved methodology in the calculation of its IDNO discount percentages. (Whether the failure to publish constitutes non-compliance by itself is the subject of the final section in this episode.)

14. SP Energy Networks did not immediately respond to my request for comments sent during the preparation of this article.

Third compliance issue: unauthorised change to the methodology text

15. It looks like the obligation to publish spreadsheet models for the calculation of IDNO discount percentages has been removed when the text of methodology document (schedule 16 of the DCUSA document) was modified on 1 April 2018: see table 2.

Table 2 The changes that were made to paragraph 3 of schedule 16

DCUSA text version 9.6	3. In order to comply with this methodology statement when setting distribution Use of System Charges the DNO Party will populate and publish: (a) the CDCM model version 104 as issued by the Panel on 1 April 2017; and (b) the CDCM "Price Control Disaggregation" model version 3.0 as issued by the Panel on 1 April 2016.
DCUSA text version 10.0	3. In order to comply with this methodology statement when setting distribution Use of System Charges the DNO Party will populate and publish the CDCM model version 104 when issued by the Panel in accordance with Clause 14.5.3.

16. Did Ofgem approve this loss of transparency? Table 3 shows the relevant parts of the modifications implemented in the change from version 9.6 to version 10.0.

Table 3 The changes that were approved to paragraph 3 of schedule 16

DCP 234	Amend Schedule 16 (CDCM) as follows: … Paragraph 3(b): Update model version number and date.
DCP 290	In Schedule 16, amend Paragraph 3(b) as follows: (b) the ~~CDCM~~ "Price Control Disaggregation" model version ~~3.0~~ TBC as issued by the Panel on TBC ~~1 April 2016~~. Footnote: The model version number and date are to be added at the direction of the Panel on implementation, to refer to the version number and date of the model which reflects the changes approved by DCP 234.
DCP 293 legal text in the change report	Amend paragraph 3(a) of Schedule 16 as follows: 3. In order to comply with this methodology statement when setting distribution Use of System Charges the DNO Party will populate and publish: ~~(a)~~ the CDCM model version ~~103~~ xxx ~~as~~ when issued by the Panel ~~on 1 April 2015~~ in accordance with Clause 14.5.3~~; and (b) the CDCM "Price Control Disaggregation" model version 3.0 as issued by the Panel on 1 April 2016~~.
DCP 293 legal text from last working group meeting	Amend paragraph 3(a) of Schedule 16 as follows: 3. In order to comply with this methodology statement when setting distribution Use of System Charges the DNO Party will populate and publish: (a) the CDCM model version ~~103~~ xxx ~~as~~ when issued by the Panel ~~on 1 April 2015~~ in accordance with Clause 14.5.3; and (b) the CDCM "Price Control Disaggregation" model version 3.0 as issued by the Panel on 1 April 2016.

17. The DCUSA Secretariat very helpfully pointed me towards the DCP 293 legal text; I had initially neglected to review it because I had assumed that a proposal entitled "DCP 293 — Charging Methodology Cut-off Date" would not impact on transparency obligations. Clause 14.5.3 (created by DCP 293) applies "In respect of a Change Proposal which provides for a variation to Schedule 16, 17, 18, 20 and/or 29", which is to say that it covers all aspects of the CDCM and EDCM including the calculation of IDNO discount percentages.

18. The DCP 293 change report and the Ofgem decision on DCP 293 make no reference to any intention to vary publication obligations.

19. Here is my guess of what happened:

    (a) The DCP 293 working group produced legal text that reflected the intention of the change to preserve the publication obligation in paragraph 3(b), but failed to reflect the intention of the change to apply the clause 14.5.3 version control arrangements to the model to calculate IDNO discount percentages.

    (b) Someone in the DCUSA administrative machine, when finalising the DCP 293 change report, realised that the paragraph 3(b) quoted in the DCP 293 legal text would conflict with the paragraph 3(b) modified by DCP 234 and DCP 290, and given that DCP 293 purported only to change paragraph 3(a), decided that it would be best to omit the paragraph 3(b) words from the legal text. They failed to do a proper job, which would have involved amending paragraph 3(b) to refer to clause 14.5.3.

    (c) Someone else in the DCUSA administrative machine produced the DCP 293 legal text for the change report using Microsoft Word's "Compare Documents" feature, which showed the removal of the paragraph 3(b) words. (It is a sad truth that Microsoft Word's change tracking features are used in DCUSA legal text management even though I doubt that they are suitable.) They failed to do a proper job, which would have involved noticing the inconsistency between "Amend paragraph 3(a)" and the crossed-out text that was not in paragraph 3(a), as well as noticing that nothing in the DCP 293 intent justified the removal of the paragraph 3(b) text.

    (d) Someone else in the DCUSA administrative machine produced version 10.0 of the DCUSA text by implementing the removal of the crossed-out text in the DCP 293 legal text. They failed to do a proper job, which would have involved limiting the scope of their changes to "Amend paragraph 3(a)", and noticing that nothing in the DCP 293 intent or in Ofgem's approval of that change justified the removal of the paragraph 3(b) text.

20. The DCUSA Secretariat did not immediately respond to a request for comment in relation to my contention that it had implemented DCP 243, DCP 290 and DCP 293 erroneously in the preparation of the consolidated DCUSA legal text.