



DCUSA Consultation

DCP 251 – Clarification And Extension Of The
Application Of LDNO Tariffs Under The CDCM

And

DCP 252 – Clarification And Extension Of The
Application Of LDNO Tariffs Under The EDCM

PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between the classes of Parties described in the Introduction of DCUSA and sets out the arrangements under which those Parties can use the electricity distribution systems of DNO parties and IDNO Parties. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.
- 1.2 This document is a consultation issued to all DCUSA Parties, interested third parties, and the Authority in accordance with Clause 11.14 of the DCUSA seeking industry views on the following Change Proposals:
- DCP 251 'Clarification And Extension Of The Application Of LDNO Tariffs Under The CDCM'.
 - DCP 252 'Clarification and Extension Of The Application Of LDNO Tariffs Under The EDCM'.
- 1.3 Parties are invited to consider the Change Proposal as developed to date, the initial legal text being considered by the Working Group and the questions developed by the Working Group to seek answers that will assist it in the development of the Change Proposal and in its consideration of whether the Change Proposal better meets the relevant DCUSA objectives. Respondents are asked to submit comments using the response form provided as Attachment 1 to DCUSA@electralink.co.uk by **Friday, 3 June 2016**.
- 1.4 The Working Group has produced a paper, provided as Attachment 6, that assesses the application of the Licensed Distribution Network Operator (LDNO) tariffs and is intended to assist respondents in their consideration of the relevant issues.

2 BACKGROUND TO THE DEVELOPMENT OF THE CHANGE PROPOSAL

2.1 Currently, LDNO tariffs are only available to licensed distributors in respect of networks where they connect to a 'host' electricity distribution system. The tariffs are applied by the host licensee on a similar basis to how suppliers are charged i.e.:

- On a portfolio basis for Non-Half Hourly (NHH) and aggregated Half Hourly (HH) customers connected to LDNO owned distribution systems; and
- On a site specific basis for other HH customers connected to LDNO owned distribution systems.

2.2 An issue was raised at the Distribution Charging Methodology Forum (DCMF) Methodology Issues Group (MIG) on LDNO tariffs to determine whether:

- The current applicability was set out clearly enough in respect of licenced Distribution Network Operators (DNOs) who operate networks outside their distribution services area; and
- Separately, whether the LDNO tariffs should also apply to networks owned and operated under licence exemption.

2.3 The issue was developed after being initially discussed at the DCMF MIG in September 2014, before it was raised as a formal DCUSA change in October 2015.

2.4 The proposer of the original issue (raised as a Draft Change Proposal at the October DCMF MIG meeting) considered how the legal provisions are supposed to work in the case of unlicensed distribution networks that opt for "full settlement" metering [\[see Elexon's document on full settlement or difference metering\]](#) and use the Meter Point Registration Service (MPRS) from a licensed distributor.

2.5 DCP 251 was raised alongside DCP 252 to consider potential updates to both the Common Distribution Charging Methodology (CDCM) and the EHV Distribution Charging Methodology (EDCM). Due to the similar nature of these changes, the DCUSA Panel agreed for both DCPs to be considered by a single Working Group.

3 DCP 251 AND DCP 252

- 3.1 DCP 251 and DCP 252 were raised by The Electricity Network Company Limited so that the issues raised at the DCMF MIG could be considered under DCUSA's formal governance arrangement as the originator of the MIG issue is not a DCUSA party so could not raise the DCUSA changes on its own behalf.
- 3.2 In line with the duties of the Working Group to evaluate, develop and refine the solution, the intent of the change was amended to not include the restoration of the 50 per cent LDNO discount on indirect costs which was removed by the approved legal text for DCP 185 in cases where the fixed adder is negative. These amendments have been reflected in DCP 252. This amendment was agreed with the Panel.

Applicability of the CDCM

- 3.3 The CDCM currently applies the LDNO tariffs to Independent Distribution Network Operators (IDNO) Parties and DNO Parties (where a DNO Party operates network(s) outside its distribution service area). The CDCM does not apply LDNO tariffs to networks operated under licence exemption. This may result in undue discrimination if the networks and the way they are operated by a licensed operator and a licence exempt operator are equivalent. DCP 251 and DCP 252 would allow the application of LDNO tariffs to be extended to licence exempt networks, where the DNO provides use of system services that it would also provide to an IDNO in respect of end users connected to its network.

Applicability of the EDCM

- 3.4 In addition to the applicability matters highlighted in 3.3 above the current drafting of the EDCM legal text wrongly limits the application of LDNO tariffs to "IDNO Parties". This is viewed by the Working Group as an error in the drafting rather than a fundamental issue of applicability as, in practice, DNO companies are already operating outside of their distribution services area (mirroring IDNO activity) and it is understood current practice is to charge such DNOs on the same basis as LDNOs.

4 BACKGROUND TO THE CREATION OF THE LDNO TARIFFS

4.1 The common IDNO tariffs were established in 2010, following the introduction of the Common Distribution Charging Methodology (CDCM). Prior to this each DNO had their own approved methodology for charging IDNOs. These methodologies had been established and approved by Ofgem on an interim basis on the understanding that the introduction of the CDCM would ensure commonality across all DNOs.

4.2 The LDNO tariffs were developed and introduced in 2010 to recognise the particular features of IDNOs and their place in the market for competition of ownership of new networks: Those features were:

- IDNOs (or DNOs operating outside their distribution services area) provide, own and operate the “last mile” of network (i.e the network between a DNO’s existing distribution system and end customers), and in doing so substitute the activity that the DNO would otherwise provide.
- The PCDM allocates total DNO costs between the DNO’s existing network and the last mile network provided by the IDNO or DNO. These costs are allocated using the host DNO’s total average costs to serve an equivalent network. Such cost being dependent on:
 - The amount of last mile network provided by the IDNO or DNO in substitution of the host DNO. The level of substitution is determined from the point (e.g. voltage level) at which the last mile network connects to the DNO network and the network level (e.g. the voltage level) at which the last mile network connects to end customers.
- The PCDM developed for IDNOs and DNOs connecting to a host DNO’s distribution system apply to all such networks connected: The host IDNO/DNO cannot elect to choose to have some sites charged on LDNO tariffs and for other sites to be charged on tariffs designed for end consumers.

- This approach means that the IDNO/ DNO operating the network will typically receive the same margin as the host DNO's notional "equivalent" business does in operating the same "equivalent" network. This is because under IDNOs'/ DNOs' licence conditions they are required, in respect of domestic customers, to replicate the host DNOs tariff structure and to charge no more than the host DNO would charge.
- Where the IDNO/DNO procures services from the host DNO in respect of the last mile network it does so on separate contractual terms and charges; i.e. the cost of such services is not recovered through DUoS charges (for example emergency services).

4.3 The majority of the Working Group believes that, at the time of developing the LDNO tariffs under the CDCM, explicit consideration of the application of these tariffs to licence exempt networks did not occur.

5 WORKING GROUP ASSESSMENT

- 5.1 The DCUSA Panel has established a Working Group for DCP 251 and DCP 252, which consists of independent representatives from DNO and IDNO parties, an Ofgem observer and the raiser of the original DCMF MIG issue (a non DCUSA party). An open invitation was extended to all DCUSA Parties and to all other interested parties to participate in this Working Group and this invitation remains open for any interested parties.
- 5.2 The Working Group considered a number of elements with regard to DCPs 251 and 252, which have been summarised below:

Applicability Criteria

- 5.3 The Working Group discussed the concept of a new term in DCUSA i.e. a Qualifying Network Operator (QNO) in order to define and describe the types of network operator that would qualify for the LDNO tariffs. The term QNO is being used by the Working Group to help develop DCP 251 and 252 as the terms IDNO, DNO, LDNO and EDNO are already used in DCUSA to describe different aspects of the relationships between parties.

Unlicensed Distribution Systems

5.4 The Working Group discussed unlicensed distribution systems, noting that DNOs provide a number of additional services which are required by the industry including Suppliers in respect of metering points on unlicensed networks that are not provided to IDNOs such as managing what data is held within Market Domain Data (MDD). The change proposer suggested that IDNOs and unlicensed distribution systems would be treated on an equivalent basis and that additional services would be provided via bi-lateral agreements, separate from DCUSA. The Working Group explored this, noting that the provision of MPRS or billing services in respect to unlicensed networks could be arranged via bi-lateral agreements.

5.5 In order to address the difference between IDNOs and unlicensed distribution systems, the Working Group considered that:

- A new charging methodology and the associated model could be created, which was discounted due to the complexity and cost associated; or
- Mandate that ancillary services are out of the scope of DCUSA and should be considered outside of the charging methodologies.
- The above bullet points were agreed to be outside the scope of DCP251 and DCP252.

5.6 This CP has been designated as a Part 1 Matter as the proposed change impacts the charging methodology and the charges that may be levied on other parties. As such the Working Group agreed that the final decision with regard to the implementation of this change should be determined by the Authority.

Scenarios

5.7 The Working Group developed a number of scenarios that both the DCPs would need to adequately address. These have been provided within Attachment 6.

6 LEGAL DRAFTING

6.1 The proposed legal drafting has been provided as Attachments 2 and 3. Within these attachments, amendments have been drafted to:

- Address the drafting errors in the EDCM to ensure that DNO operating outside of their distribution service area are treated in the same manner as IDNOs;
- Introduce the term Qualifying Network Operator; and
- Introduce a definition for Qualifying Network Operator, which would allow unlicensed distributor to qualify for LDNO tariffs.

7 IMPLEMENTATION

7.1 The proposed implementation date for DCP 251 and DCP 252 is five working days following Authority Consent.

8 CONSULTATION

8.1 The Working Group is seeking views on the below questions:

1. Do you understand the intent of the DCP 251 and DCP 252?
2. Are you supportive of the principles of the DCP 251 and DCP 252?
3. Do you agree with the proposal to introduce the term “Qualifying Network Operator”?
4. Please can you provide details of your assessment of the implication of implementing DCP 251 and DCP 252, namely the extension of the tariffs to unlicensed networks. If possible, please can you quantify the number of networks and the volume of electricity which might qualify (preferable in megawatts).
5. Please can you confirm whether the background paper, Attachment 6 provided sufficient information?

6. Please can you confirm whether you agree with the Working Group assessments in the background paper provided as Attachment 6?
 7. Do you agree with the definition for a Qualifying Network Operator?
 8. Are there circumstances under which unlicensed distribution systems (private network operators) should be considered as qualifying for the LDNO tariffs? Please give supporting reasons. If you consider that there are circumstances that licence exempt distribution systems do qualify please also describe the circumstances.
 9. The Change Proposal refers to people who operate under licence exemption; however, the Working Group believes that there are individuals correctly operating outside of the allowed exemption and are therefore propose to use the term 'unlicensed' as opposed to 'licence exemption'. Do you agree with this?
 10. Do you agree that the proposal (as outlined so far) better facilitates the DCUSA objectives? Please give supporting reasons.
 11. Do you have any comments on the proposed legal text for DCP 251 and DCP 252?
 12. Please can you confirm the earliest date which you believe DCP 251 and DCP 252 can be implemented? Please provide your reasons why.
- 8.2 Responses should be submitted using Attachment 1 to DCUSA@electralink.co.uk no later than **Friday, 3 June 2016**
- 8.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

9 NEXT STEPS

- 9.1 Responses to the Consultation will be reviewed by the DCP 251 and DCP 252 Working Group. The Working Group will then determine the progression route for the CP.
- 9.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to DCUSA@electralink.co.uk or telephone 020 7432 3011.

10 ATTACHMENTS

- Attachment 1 – Response form
- Attachment 2 – DCP 251 Proposed Legal Text
- Attachment 3 – DCP 252 Proposed Legal Text
- Attachment 4 – DCP 251 Change Proposal
- Attachment 5 – DCP 252 Change Proposal
- Attachment 6 – Background Paper