










| DCUSA Consultation | At what stage is this document in the process? |
|--|---|
| <h1>DCP 289 and DCP 289A</h1> <h2>Creation of Distribution Charging Methodology Development Group</h2> <p><i>Raised on the 16 December 2016 as an Urgent Change</i></p> | 01 – Change Proposal |
| | 02 – Consultation |
| | 03 – Change Report |
| | 04 – Change Declaration |
| <p>Purpose of Change Proposal:</p> <p>DCP 289 seeks to formalise the creation of a new single standing issues working group for the use of system charging methodologies and related topics within DCUSA.</p> <p>This document is a Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 289.</p> | |
|   | <p>The Workgroup recommends that this Change Proposal should: proceed to Consultation</p> <p>Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 1 to dcusa@electralink.co.uk by 27 March 2017.</p> <p>DCP 289 has been designated as a Part 1 Matter and an urgent change.</p> <p>The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the Change Proposal (CP).</p> |
|  | <p>Impacted Parties: DNOs, IDNOs and Suppliers</p> |
|  | <p>Impacted Clauses: Section 1A, Section 1B and new Schedule xx</p> |

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| Timetable | | |
| The timetable for the progression of the CP is as follows: | | |
| Change Proposal timetable | | |
| Change Proposal timetable: | | |
| Activity | Date | |
| Initial Assessment Report Approved by Panel | 16 December 2016 | |
| Consultation issued to Parties | 06 March 2017 | |
| Change Report issued to Panel | 17 May 2017 | |
| Change Report issued for Voting | 19 May 2017 | |
| Party Voting Ends | 09 June 2017 | |
| Change Declaration Issued to Parties | 13 June 2017 | |
| Authority Decision | 18 July 2017 | |
| Implementation | 5 Working Days After Approval | |

1. Summary

What?

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators. 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 Change Proposal (CP) seeks to formalise the creation of a new single standing issues working group for the use of system charging methodologies and related topics within DCUSA.
- 1.3 The creation of a DCUSA Charging Methodology Development Group (DCMDG), as a forum for discussion/development of Distribution Use of System (DUoS) related charging methodologies and their application. This will benefit industry participants including DCUSA Parties by creating a structured environment for the focused addressing of issues raised by either the DCUSA Panel, parties to the Agreement or other interested participants.

Why?

- 1.4 The new arrangements would better reflect Ofgem's views detailed in the Code Governance Review (Phase 3) (CGR3) Final Proposals which were published on 31 March 2016. In particular paragraph 5.7 which welcomed the strong support for the use of a pre-modifications process which would result in well-developed modifications and therefore reducing the time spent in the formal process. The establishment of this group will also facilitate the promotion of efficiency in the implementation and administration of the DCUSA Agreement.

How?

- 1.5 The new Working Group, the DCMDG will undertake the activities which were previously carried out by the Distribution Charging Methodology Forum (DCMF), the Methodologies Issues Group (MIG) and the Distribution Charging Managers (DCM) group. This will be undertaken as a single monthly meeting which any interested party is welcome to attend.

2 Governance

Justification for Part 1 Matter

- 2.1 This CP has been designated as a Part 1 Matter as the proposed change impacts the governance arrangements under DCUSA.
- 2.2 DCP 289 will be treated as an urgent change due to the timescales for implementation.

Requested Next Steps

Following a review of the Consultation responses, the Working Group will work to agree the detail of the solution for DCP 289 and DCP 289A.

3 Why Change?

Background of DCP 289

- 3.1 As part of the Code Governance Review 3 Phase 2 (CGR3), Final Proposals, Ofgem encouraged parties to look at the governance arrangements for any meeting which discussed charges and related to charge setting.
- 3.2 As a result, the work of the ENA Commercial Operations Group (COG) and its subgroup, Distribution Charging Managers (DCM), as well as the Distribution Charging Methodology Forum (DCMF) and the Methodologies Issues Group (MIG) were considered.
- 3.3 It was ultimately agreed that the COG was out of scope as it does not discuss DUoS charge setting. During November 2016, a consultation was issued by the ENA to all DCUSA Contract Managers and all participants of the DCMF, MIG and DCM. This sought feedback on the preferred approach to the three meetings and also gave an opportunity to raise any wider issues or concerns prior to this DCUSA change being raised. The consultation considered two options:
 - To place just the MIG under DCUSA (option 1); or
 - To place all three groups under DCUSA (option 2).
- 3.4 Feedback from parties was requested by Ofgem to assist them in making a decision. Parties were strongly in favour of moving the MIG and DCMF into DCUSA, but were split on the DCM, please see Attachment 6. Ofgem were however strongly in favour of Option 2, as they felt that all discussions relating to charges should take place under the open governance regime, so that the process is open to all. This approach would also see an independent chair appointed and the agenda, minutes and papers will be published on the DCUSA website.

4 Working Group Assessment

DCP 289and DCP 289A Working Group Assessment

- 4.1 The DCUSA Panel established a Working Group to assess DCP 289. This Working Group consists of DNO and Supplier representatives and an Ofgem observer. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

- 4.2 DCP 289 was raised by UK Power Networks and seeks to formalise the creation of a new single standing issues working group for the Use of System charging methodologies and related topics within DCUSA.
- 4.3 The DCMDG will provide a structured environment under which parties can discuss and address issues and develop solutions related to the charging methodologies. The DCMDG is a new group which will replace DCMF, MIG and DCM, and this change is not a case of merely moving those three existing groups across into DCUSA, but instead brings the work which they would have historically undertaken under a DCUSA open governance framework.
- 4.4 It is proposed to modify DCUSA Section 1A and Section 1B to accommodate the DCMDG in the governance arrangements and for a new Schedule to set out the structure and operation of the group. The high level objectives of the group are part of the drafting. The detailed Terms of Reference (ToR) will be developed separately to this DCUSA change to assist the group, giving flexibility.
- 4.5 The Working Group noted that there are differing views in regards to the funding arrangements for the DCMDG under this CP. Under the originating CP, the costs of this meeting are intended to be picked up by all DCUSA parties (in line with non-TRAS/ETTOS costs under the code). Please see DCP 289 which acts as Attachment 4.
- 4.6 DCP 289A was raised by British Gas which captures an alternative view that the activities carried out by the Distribution Charging Methodology Forum (DCMF), the Methodologies Issues Group (MIG) and the Distribution Charging Managers (DCM) group assist DNOs to discharge their licence obligation to keep the charging methodology under review and are 100% paid for by DNOs, funded through their price control revenue allowances. DCP 289A does not seek to change this arrangement and requires that the activities of the DCMDG be 100% funded by the DNOs. Please see DCP 289A which acts as Attachment 5.
- 4.7 It is noted that when the ENA consulted on bringing these matters under DCUSA governance, there were 21 responses. The ENA consultation did not seek views on funding arrangements however two response did raise concerns about who should pay the costs of this new Working Group, stating that in their view this should be solely paid for by DNOs. Please see the responses which act as Attachment 6.
- 4.8 The Working Group is interested in Parties views on whether the DCMDG should be funded by all DCUSA Parties or by DNOs.
- 4.9 This consultation document has been developed to gather information and feedback from market participants on this proposed change.

5 Legal Text

DCP 289 Proposed Legal Text

- 5.1 The following existing legal text has been modified to accommodate the DCUSA Charging Methodologies Development Group:
- Section 1A has been modified to add two new definitions; and
 - Section 1B has been modified in regards to the '*Establishing Working Groups*' under Clause 7.24 and 7.26, '*Membership of Working Groups*' under Clause 7.28 and '*Duties of those Serving on Working Groups*' under Clause 7.33 and 7.34. As a point of process, it is highlighted that in regards to those '*Serving on the Working Groups*' that persons attending the DCMDG will not be required to act independently or be required to sign a Working Group membership letter stating that they will comply with Clause 7.33.
- 5.2 This CP uses the existing Schedule 7 '*DCUSA Standing Issues Group*' structure as the basis for the new schedule setting out how the DCMDG will operate. The new Schedule sets out the:
- Scope
 - Objectives
 - Membership
 - Requirements of Members
 - Meeting Frequency
 - Secretariat
 - Summary of Process
 - Decision Making
 - Reporting
 - Funding
 - Other Matters
- 5.3 The DCP 289 draft legal text acts as Attachment 2.

DCP 289A Proposed Legal Text

- 5.4 DCP 289A proposed legal text differs from the DCP 289 legal text by making amendments to Clause 8 (Cost of the DCUSA) so that the funding of the activities of the DCMDG is 100% paid for by DNOs and introduces a DCMDG liabilities definition.
- 5.5 Another Working Group Member felt that this approach reflects the fact that the activities of the DCMF, DCMF MIG and DCM are currently 100% paid for by DNOs, funded, to some extent, through their RIIO-ED1 price control allowances, albeit this is subject to the Annual Iteration Process and therefore totex cost variations to allowances would be shared with customers via DUoS. The proposed mechanism is based on the existing mechanism in place for the Theft Risk Assessment Service Arrangements and/or the Energy Theft Tip-Off Service (which are 100% funded by Suppliers).
- 5.6 The DCP 289A draft legal text acts as Attachment 3.

6 Relevant Objectives

Assessment Against the DCUSA Objectives

- 6.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. There are five General DCUSA Objectives. The full list of objectives is documented in the CP form provided as Attachment 4.
- 6.2 The proposer of DCP 289 considers that the DCUSA Objective 4 is better facilitated by DCP 289. The reasoning against this objective is set out in the table below:

| Impact of the Change Proposal on the Relevant Objectives: | |
|--|---|
| Relevant Objective | Identified impact |
| General Objective 4 - The promotion of efficiency in the implementation and administration of the DCUSA | This objective will be better facilitated as a result of this change as it will ensure that current discussions and debates relating to Use of System Charge setting will be open to all. |

- 6.3 The proposer of DCP 289A considers that the DCUSA Objectives 3 and 4 are better facilitated by DCP 289A. The reasoning against this objective is set out in the table below:

| Impact of the Change Proposal on the Relevant Objectives: | |
|---|---|
| Relevant Objective | Identified impact |
| General Objective 3 - The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences. General Objective 4 - The promotion of efficiency in the implementation and administration of the DCUSA | DNOs have licence obligations to keep the charging methodology under review to ensure that it continues to achieve the Relevant Objectives. General Objectives three and four are better facilitated as a result of this change as it will reduce fragmentation and ensure that current discussions and debates relating to Use of System Charge setting will be open to all. |

7 Impacts & Other Considerations

- 7.1 This change impacts all Parties as it modifies the governance arrangements that sit under DCUSA. It will cause additional costs to be incurred by DCUSA that will be recharged to all Parties or DNOs only.

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

7.2 This change has been submitted as a result of Code Governance Review 3 recommendations.

Consumer Impacts

- 7.3 The proposer of the alternate CP considers that should the DCMDG be funded by all Parties through DCUSA then the consumer would be adversely affected. This is because DNOs will have been funded through their price control for the activities of the DCMF, DCMF MIG and the DCM and whilst efficiencies should be achievable by bringing these activities under DCUSA, to change the funding arrangements would result in customers paying more than they should (as supplier industry costs would increase with no full corresponding reduction in DNO allowed revenues).
- 7.4 A number of potential consumer impacts were identified by members of the Working Group, as highlighted below:

DCP 289

- DNOs will have been provided an allowance for funding activities such as the DCMF, DCMF MIG and DCM. With costs spread across all DCUSA parties their actual expenditure should therefore be less than the allowance. However, it should be noted that any cost savings will be shared (relative to whatever the DNO totex incentive strength rate is) between DNOs and suppliers via DUoS charges. This will be reflected in the Ofgem directed MOD terms which are as a result of the Annual Iteration Process (note: there is a two year lag on when this impacts revenue allowances i.e. the true-up of cost v allowances in 2015/16 impacted 2017/18 allowances). DNOs would therefore retain some cost saving relative to their allowances and this would continue for the remainder of RIIO-ED1; and
- DNO business plans for RIIO-ED2 will not need to include these costs, to the same extent, with the forums funded by all DCUSA parties.

DCP 289A

- DNOs have an allowance for funding the activities and would continue to fund them;
- Any difference (greater or less) in cost to what has already been allowed will be shared between DNOs and suppliers via DUoS charges (this only goes away if the cost and allowance match); and
- DNOs would retain some cost savings and bear some cost increases relative to their allowances and this would continue until the arrangement was changed. Therefore, DNO business plans for RIIO-ED2 and beyond will need to include a view of these costs.

Environmental Impacts

- 7.5 In accordance with DCUSA Clause 11.14.6, the proposer assessed whether there would be a material impact on greenhouse gas emissions if DCP 289 or DCP 289A were implemented. The proposer did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

Engagement with the Authority

- 7.6 Ofgem has been fully engaged throughout the development of DCP 289 and DCP 289A as an observer on the Working Group.

8 Implementation

- 8.1 The proposed implementation date for DCP 289 and DCP 289A is 5 Working Days following Approval. Respondents are invited to consider whether they require any lead time to comply with this change.

9 Consultation Questions

- 9.1 The Working Group is seeking industry views on the following consultation questions:

| Number | Questions |
|--------|---|
| 1 | Do you understand the intent of DCP 289? |
| 2 | Do you understand the intent of DCP 289A? |
| 3 | Do you agree with the principle that these groups (DCMF, DCMF MIG and DCM) should be consolidated and brought under DCUSA? |
| 4 | Do you have any comments on the proposed legal text for DCP 289? |
| 5 | Do Parties have a view on whether the DCMDG should be funded by all DCUSA Parties or by DNOs? |
| 6 | Do you have any comments on the proposed legal text for DCP 289A? |
| 7 | <p>Which DCUSA General Objectives does the CP better facilitate? Please provide supporting comments.</p> <ol style="list-style-type: none"> 1. The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks 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 |

| | |
|----|--|
| | <p>3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences</p> <p>4. The promotion of efficiency in the implementation and administration of this Agreement</p> <p>5. Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.</p> |
| 8 | Are you aware of any wider industry developments that may impact upon or be impacted by this CP? |
| 9 | Are there any alternative solutions or unintended consequences that should be considered by the Working Group? |
| 10 | The proposed implementation date for both variations (DCP 289/DCP289A) is 5 Working Days after Approval. Do you agree with the proposed implementation date? |

9.2 Responses should be submitted using Attachment 1 to dcusa@electralink.co.uk no later than, **27 March 2017**.

9.3 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.

Attachments

- Attachment 1 – DCP 289 and DCP 289A Consultation Response Form
- Attachment 2 – DCP 289 Draft Legal Text
- Attachment 3 – DCP 289A Draft Legal Text
- Attachment 4 – DCP 289 Change Proposal
- Attachment 5 – DCP 289A Change Proposal
- Attachment 6 – DCMF MIG Consultation Responses