

DCUSA Change Report		At what stage is this document in the process?
<h1 data-bbox="124 353 550 448">DCP 293</h1> <h2 data-bbox="124 504 1129 571">Charging Methodology Cut-off Date</h2> <p data-bbox="124 593 858 638"><i>Raised on 14 February 2017 as a Standard Change</i></p>		<div data-bbox="1185 344 1428 414">01 – Change Proposal</div> <div data-bbox="1185 470 1412 504">02 – Consultation</div> <div data-bbox="1185 560 1348 629">03 – Change Report</div> <div data-bbox="1185 672 1348 734">04 – Change Declaration</div>
<p data-bbox="124 784 582 824">Purpose of Change Proposal:</p> <p data-bbox="124 840 1436 1120">DCP 293 seeks to formalise an existing “gentleman’s agreement” that exists so that charging related DCPs are completed in time to enable the calculation of charges. This will be achieved by establishing a formal cut-off date for the finalisation of the charging methodologies at 17 months prior to the date that the methodology would become effective. Establishing this cut-off date will provide a 2-month time window for DCUSA to provide charging models, DNOs to test the new models and then to calculate, test and approve revised charges.</p>		
	<p data-bbox="231 1153 1428 1232">This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 293 – ‘Charging Methodology Cut-off Date’</p> <p data-bbox="231 1243 1412 1366">Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by 13 October 2017</p> <p data-bbox="231 1444 1428 1556">The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.</p> <p data-bbox="231 1579 1444 1646">If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3011.</p>	
	<p data-bbox="231 1691 1316 1769">Parties Impacted: Distribution Network Operators (DNOs), Independent Distribution Network Operators (IDNOs) and Suppliers</p>	
	<p data-bbox="231 1803 1404 1915">Impacted Clauses: Section 1C, Schedule 16, 17, 18, 20 and the PCDM schedule which is due to be introduced through the implementation of DCP 234 on 1 April 2018.</p>	

Contents

1 Summary	3
2 Governance	4
3 Why Change?	4
4 Solution	5
5 Relevant Objectives	10
6 Impacts & Other Considerations	11
7 Implementation	12
8 Legal Text	12
9 Code Specific Matters	12
10 Recommendations	12



Any questions?

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Timetable

The timetable for the progression of the CP is as follows:

Change Proposal timetable

Activity	Date
Initial Assessment Report Approved by Panel	15 February 2017
Consultation issued to Parties	26 June 2017
Change Report issued to Panel	19 September 2017
Change Report issued for Voting	22 September 2017
Party Voting Ends	13 October 2017
Change Declaration Issued to the Authority	17 October 2017
Authority Decision	21 November 2017
Implementation	01 April 2018

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 make a change to DCUSA that will formalise the implementation of charging methodology related DCPs. Currently there is no formal date that charging methodologies become final prior to the actual date that the methodology change becomes effective. DNOs rely on an unwritten “gentleman’s agreement” to complete DCPs in enough time to allow DNOs to calculate charges. (i.e. the implementation date). This lack of a formal date could cause a conflict with the DNOs obligation to provide 15 months’ notice of changes to charges, ahead of their implementation date. This conflict creates issues for DNOs to provide charges that are calculated and validated using the actual methodology that would be approved for use during the appropriate charging year, in a timely manner.
- 1.3 The change would enable DCUSA to confirm the final charging methodologies for the appropriate future charging year before DNOs have the obligation to provide notice to change charges for that year.
- 1.4 It would allow DCUSA sufficient time to obtain and test the full suite of charging models and then for DNOs to calculate, test and approve revised charges prior to the publication of these for the given charging year. The methodologies for the appropriate charging year would include all approved DCPs at the time of the cut-off date. Any DCPs approved after the cut-off date would not be implemented in that year and would be ‘rolled over’ to the next implementation date unless Ofgem decide to implement the process for an urgent change.

Why?

- 1.5 Currently there is an unnecessary risk, that due to short timeframes DNOs have insufficient time to understand the interaction of all the approved changes, test models and calculate charges before the 15-month notice period has to be provided. Appropriate time to enable delivery of tested models and subsequent charge calculation time is necessary to ensure that robust error checking and approval processes can be undertaken.
- 1.6 If there is not sufficient time, then DNOs may not have enough time to adequately ensure that they are compliant with the revised methodologies and indeed may not be able to meet the price change notice periods. This has the risk of putting DNOs in breach of their licence obligations.

How?

- 1.7 This change would establish a cut-off date at which DCUSA will finalise and publish the charging methodologies and associated models which will be applicable to use for the calculation of charges in a forthcoming year. This cut-off date was proposed in the change proposal to be 17 months prior to the date that the changes to the methodology becomes effective,. At that date, DCUSA would finalise the charging methodologies (Schedules 16, 17, 18, 20 and DCP 234 schedule) that will be effective for the relevant charging year.
- 1.8 Establishing this cut-off date will provide an appropriate window for DCUSA to provide the charging models, and for DNOs to test the new models and then calculate, test, approve and publish the revised charges.
- 1.9 This proposal would allow the development of Charging DCPs to continue, but any change to a charging methodology not approved (by the Authority for Part 1 and by DCUSA Parties for Part 2) or applied in that release of the methodology would not be included in that year's charge setting.

2 Governance

Justification for Part 1 Matter

- 2.1 DCP 293 has been designated as a Part 1 Matter as the proposed change impacts the change control arrangements under DCUSA.
- 2.2 This change will affect the deadline within which changes can be developed and as such the proposer believes that it is appropriate that the Authority ultimately make the decision on this change.

Requested Next Steps

- 2.3 The Panel considered that the Working Group have carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 293.
- 2.4 The DCUSA Panel recommends that this CP:
 - Be issued to Parties for Voting.

3 Why Change?

Background of DCP 293

- 3.1 Since the CDCM was introduced in 2010 and the EDCM in 2012 there have been a significant number of charging Change Proposals submitted, each of these take time to move through the open governance process, and as the majority are Part 1 Matters they ultimately require the approval of the Authority.

- 3.2 Each year, DCUSA Parties are faced with a challenge to ensure that a known and understood methodology and a full set of compliant and fully tested charging models are available to the DNOs for charge setting, enabling them to calculate and publish final charges at the end of each December. Currently DNOs are reliant on changes being approved within a reasonable time frame in advance of the end of the year so that a consolidated set of charging models can be obtained by the DCUSA Panel and tested prior to being used for charge setting. Since 2015 this has become even more important as charges are now set 15 months in advance and published as final rather than indicative.
- 3.3 If there is insufficient time to implement the revised methodologies (or indeed if methodologies are approved after the notice period) then DNOs would be faced with breaching licence obligations.
- 3.4 In order to avoid this situation in future, it is proposed that a change to the DCUSA timeline for charging related DCPs be made, to ensure there is sufficient time once approval by the Authority is granted, for DCUSA to confirm the charging methodology and make any changes to the charging model(s) as necessary to include any approved DCPs.
- 3.5 Currently charging related changes are developed throughout the year with no timescale or deadline before which they need to be approved by the Authority, prior to their use for the calculation of Distribution Use of System (DUoS) Charges.

4 Solution

DCP 293 Assessment

- 4.1 The DCUSA Panel established a Working Group to assess DCP 293. 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 The DCUSA requires DNOs to provide 15 months' notice of changes to DUoS charges. In order to meet this requirement DNOs need to have complete and final versions of the charging methodologies and a complete and final suite of fully tested charging models (CDCM, EDCM, PCDM and ARP) for the relevant charging year.
- 4.3 DCP 293 was raised by UK Power Networks to establish a cut-off date for the finalisation of the charging methodologies, 17 months prior to the date that the methodology would become effective. Establishing this cut-off date would provide a 2-month time window for DCUSA to provide charging models and for DNOs to test them and then to calculate, test, approve and publish the revised charges. However, given the DCUSA modelling support contract which provides for a six week delivery time for the charging models, the Working Group considered that a 18 month notification period may be more appropriate as otherwise there would be insufficient time for the DNOs to set charges.

4.4 The Working Group sought Parties views on whether a 17 month notification period (2-month time window) or 18 month notification period (3-month time window) for changes to the charging methodologies would be appropriate.

4.5 The DCUSA Panel directed that the Working Group undertake a review the DCP 164¹ Authority decision letter and to address the concerns raised by Ofgem in the letter. DCP 164 was raised to introduce a managed change process for charging methodology related DCUSA Change Proposals. The purpose of this managed change process was to make the implementation of charging related DCPs more effective by limiting the implementation of model changes (unless urgent) to one combined release each year and defining the timescales for the production of the models. The Working Group examined the three reasons given by Ofgem for not approving DCP 164. These reasons are set out below:

- *“For the current year, this proposal would prevent implementation from 1 April 2014 of further possible policy modifications. There are a number of live modifications which could not realistically be submitted to us and approved before 30 September 2013. This could prevent potentially beneficial changes currently being developed from being made. There is insufficient notice to those working on these proposed modifications of this effective deadline for them to react and process in a way that would achieve a decision on those proposed modifications in time.”*
- *“More generally (i.e. in all years), the proposal would produce a timetable that we would not be able to amend (under normal circumstances) even where we think such amendment would facilitate a modification that would better facilitate general and/or charging objectives and reflect our duties, including our principal objective. The proposal also prevents us from moving the timetable established here so that the start date is slightly earlier or later reflecting progress of modifications in the particular year.”*
- *“Finally, there is a risk that a fixed, once a year timeframe for modelling changes will lead to modifications being developed just before the effective deadline, potentially causing rushed development and placing pressure on the assessment process.”*

4.6 The Working Group agreed that since DCP 164 was rejected in 2013, the industry has moved forward and it is now time to review this process. The Working Group have addressed these points by:

- Adding legal text to Section 1C Clause 14 to introduce a robust notice period for legal text changes to the charging methodologies rather than referencing changes to the charging models and the obligations in the licence as per the DCP 164 draft legal text;
- Including in the implementation date clause the ability for the Authority to direct in accordance with clause 19.1B for a shorter price change notice period of 40 days, which would enable a reduced cut-off date of approximately 3 and a half months or 4 and a half months to enable urgent beneficial changes to be made.

¹ DCP 164 ‘Review of the Change Process for Use of System Methodology Changes’

- Agreeing that since the introduction of DCP 178 'Notification Period for Change to Use of System Charges', there has been no evidence that changes have been "developed just before the effective deadline, potentially causing rushed development and placing pressure on the assessment process". As a result, the legal text proposes that where a decision has not been made on a CP within the implementation window, it will be progressed under the next implementation window available. Under Ofgem's code governance review, it was noted code administrators will be designated as code managers and will have the option to set timetables for changes.

DCP 293 Consultation

4.7 The Working Group carried out a consultation (Attachment 4) to give DCUSA Parties and other interested organisations an opportunity to review and comment on the proposed DCP 293 solution. The Working Group issued the consultation to DCUSA Contract Managers and Ofgem on 26 June 2017 to determine whether Parties:

- Understood the intent of the change;
- Agreed with the potential impacts of having an implementation timescale that is too short to properly undertake the revised calculation of charges;
- Agreed that a 2 or 3 month time window for changes to the charging methodologies ahead of the 15 month price change notification period was sufficient;
- Agreed with the proposed legal text changes.

4.8 There were six responses received to the consultation. Four respondents were Distribution Networks Operators, one respondent was an Independent Distribution Network Operator and one respondent was a Supplier. The Working Group discussed each response and its comments are summarised alongside the collated consultation responses in Attachment 4.

4.9 A summary of the responses received, and the Working Group's conclusions are set out below:

Question 1: Do you understand the intent of DCP 293?

4.10 All respondents understood the intent of the CP.

Question 2: Do you agree that without a formal charging methodology cut-off date, DNOs could find themselves in the 'catch-22' position of having implementation timescales that are too short to properly undertake the revised calculation of charges and which could consequently put DNOs in breach of an approved methodology?

4.11 All respondents agree that there could be potential impacts on implementation timescales that are too short to properly undertake the revised calculation of charges which could consequently put DNOs in breach of an approved methodology. Although, there has not been an instance of this happening thus far.

Question 3: Do you consider a cut-off date providing either a 2 or 3 month time window for changes to the charging methodologies ahead of the 15 month price change notification period sufficient? Please provide any rationale.

- 4.12 The majority of respondents were happy to accept a cut-off date providing a three-month time window for changes to the charging methodologies ahead of the 15-month price change notification period.
- 4.13 This would allow for a six-week lead time for model to be sent to DCUSA and then a six-week window for the DNOs to accurately test the models and calculate charges.
- 4.14 Within the three-month window it will be possible to establish efficient working processes with realistic delivery timescales.

Question 4: Do you have any comments on the proposed legal text for DCP 293?

- 4.15 All respondents agreed that they are happy with the proposed legal text for DCP 293.
- 4.16 There were two minor edits that have been amended following review by the Working Group.

Question 5: Which DCUSA General Objectives does the CP better facilitate? Please provide supporting comments.

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
3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences
4. The promotion of efficiency in the implementation and administration of the DCUSA
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.

- 4.17 The respondents provided various responses to which DCUSA Objectives were better facilitated. A summary of the responses can be found in Section 5 of this Change Report.

Question 6: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

- 4.18 The respondents noted that there could be interactions with DCPs that are already progressing through the DCUSA Change Process and their implementation dates could be impacted.

4.19 The Working Group wish to highlight that due to the Change Proposal not progressing to its original timeline, the proposed implementation date has been updated. Due to this fact, the DCPs already progressing through the Change Process that were highlighted by respondents as possibly being impacted may no longer be impacted. Further information can be found in Section 6 below.

Question 7: Are there any alternative solutions or unintended consequences that should be considered by the Working Group?

4.20 Five respondents did not think that any alternative solutions or unintended consequences should be considered.

4.21 One respondent highlighted that an alternative solution looking at a one month window should be considered by the Working Group and have requested that the Working Group provide rationale to why a shorter notice period than that in which they are proposing is not sufficient for DCUSA and DNOs to complete the required activities. The Working group noted that a one month time window was not sufficient due to the lead time for the DCUSA modelling work and would not be sufficient to ensure a robust calculating and checking process.

Question 8: The proposed implementation date for DCP 293 is 01 October 2017. Do you agree with the proposed implementation date?

4.22 All respondents at the time of the consultation agreed with the proposed implementation date of 01 October 2017 for this CP.

4.23 The Working Group wish to highlight that due to the Change Proposal not progressing to its original timeline, the proposed implementation date has been updated. The Working Group proposes that DCP 293 be implemented on 01 April 2018 as the legal text for this change amends text to be introduced by DCP 234 '*Merging the PCDM and extended PCDM*' which will be implemented on 01 April 2018. Further information can be found in Section 7 below.

Working Group Conclusions

4.24 The Working Group reviewed each of the responses received to the consultation and concluded that all the respondents understood the intent of DCP 293.

4.25 The Working Group agreed that all respondents were supportive of the principle of the CP.

4.26 The Working Group concluded that the majority of respondents were in agreement that a three-month time window would be sufficient for DNOs to complete their appropriate activities ahead of the 15-month price change notification period. This is to allow for the six-week lead time for models to be provided to DCUSA and six weeks for accurately testing and calculating charges using the new models. A three-month window would allow DNOs to be able to establish efficient working processes with realistic delivery timescales.

- 4.27 The Working Group noted that there were some minor amendments to improve clarity to the legal text which the Working Group was happy to include subject to agreement from the legal advisors.
- 4.28 The Working Group highlighted that all respondents agree that there are no wider industry developments impacted by this changes, but there may be impact on some DCPs that are being progressed through the DCUSA change process. Feedback will be provided to any relevant Working Groups if needed.
- 4.29 The Working Group concluded that the majority of respondents believe that there are no alternative solutions or unintended consequences that should be considered.

5 Relevant Objectives

Assessment Against the DCUSA Objectives

- 5.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. The Working Group sought Parties views on which of the DCUSA General Objectives are better facilitated by this change.
- 5.2 The respondents provided various responses to which DCUSA Objectives were generally better facilitated. The table below showcases the responses received:

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	Identified impact
General Objective Two – 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	Positive
General Objective Three – The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	Positive and Negative
General Objective Four – The promotion of efficiency in the implementation and administration of this Agreement	Positive and Negative
Charging Objective One – that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	Positive
Charging Objective Two – 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	Positive

Interconnector (as defined in the Distribution Licences)	
Charging Objective Three – that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	Positive
Charging Objective Four – that, so far as is consistent with Clauses 3.2.1 to 3.2.1, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party’s Distribution Business	Positive

- 5.3 Having considered the views of all parties the Working Group concluded that DCUSA General Objective 3 and DCUSA Charging Objective 1 will be better facilitated with the implementation of this CP. Without this Change, there is the risk that late decisions on modifications could lead to DNOs being placed in a position of breaching their licence obligations. This would happen if the time to properly test and calculate charges was too short or even after a time that the charging change notice is required.
- 5.4 DNOs take their responsibilities to produce charges in line with the approved methodology very seriously, at present this is progressed informally on trust and this Change would formalise this process.

6 Impacts & Other Considerations

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

- 6.1 DCPs which are currently being progressed through the DCUSA Change Process may be impacted by this change. It is noted that DCP 293, if approved by the Authority, will be implemented on 01 April 2018 which will have the effect of introducing an 18-month cut-off date for the finalisation of any DCPs that change the Charging Methodologies. Working Groups that are currently progressing DCPs with an expected implementation date of 01 April 2020 should note the effect that this change will have and plan their work accordingly.

Consumer Impacts

- 6.2 No consumer impacts have been identified.

Environmental Impacts

- 6.3 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP 293 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

Engagement with the Authority

- 6.4 Ofgem has been fully engaged throughout the development of DCP 293 as an observer on the Working Group.

7 Implementation

- 7.1 Due to the intended timescales for the development of this change not being met, it is proposed that the implementation date for DCP 293 is moved back from 01 October 2017 to 01 April 2018.
- 7.2 It is noted that DCP 293, if approved by the Authority, even though it will be implemented on 01 April 2018, will only become effective as of 01 October 2018. This date will act as the formalised cut-off date for the finalisation of DCPs that change any of the charging methodologies and is 18 months prior to the date that the methodology would become effective i.e. 1 April in any given charging year.

8 Legal Text

- 8.1 The DCP 293 draft legal text acts as Attachment 1 to this Change Report.
- 8.2 The draft legal text amends Section 1C Clause 14 and introduces a robust notice period for legal text changes to the charging methodology Schedules within DCUSA rather than referencing changes to the charging models and the obligations under Licence Condition 14.12C.
- 8.3 The Proposer is satisfied that the legal text meets the intent of the change.

9 Code Specific Matters

Modelling Specification Documents

- 9.1 Not applicable.

Reference Documents

- 9.2 Not applicable.

10 Recommendations

Panel's Recommendation

- 10.1 The Panel approved this Change Report on 20 September 2017. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 293.
- 10.2 The Panel have recommended that this report is issued for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

Attachments

- Attachment 1 – DCP 293 Legal Text
- Attachment 2 – DCP 293 Voting Form
- Attachment 3 – DCP 293 Change Proposal
- Attachment 4 – DCP 293 Consultation and Collated Responses