









DCUSA Consultation		At what stage is this document in the process?
<h2>DCP 311</h2> <h3>Clarification of NUF cap and collar calculations</h3> <p><i>Date Raised: 10 October 2017</i></p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p><b>Purpose of Change Proposal:</b></p> <p>The intent of this Change Proposal is to modify schedules 17 and 18 to clarify which years should be used when determining Network Use Factor (NUF) caps and collars to be applied for each charging year, and to remove an additional year lag which has been built into the legal text for the cap and collar calculations for 2023/24 charges.</p>		
	<p>The Working Group recommends that this Change Proposal should:</p> <ul style="list-style-type: none"> <li>• Proceed to Consultation</li> </ul>	
	<p>Parties are invited to consider the questions set in Section 10 and submit comments using the form attached as Attachment 1 to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>05 March 2018</b></p> <p>The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the DCUSA Change Proposal.</p>	
	<p>Impacted Parties: DNOs</p>	
	<p>Impacted Clauses: Schedule 17 and 18, clause 18.6, 18.7 and 18.8</p>	

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Timetable		
The timetable for the progression of the Change Proposal (CP) is as follows:		
<b>Change Proposal timetable:</b>		
Activity	Date	
Initial Assessment Report Approved by Panel	13 September 2017	
First Consultation issued to Parties	12 February 2018	
Change Report issued to Panel	09 May 2018	
Change Report issued for Voting	18 May 2018	
Party Voting Ends	08 June 2018	
Change Declaration issued to Authority	12 June 2018	
Authority Decision	17 July 2018	
Implementation date	01 April 2020	

## 1. Summary

### What?

- 1.1 The existing legal text is not clear regarding which years of data should be used when calculating Network Use Factor (NUF) caps and collars for use in the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM).
- 1.2 There is also an additional year lag built into the three-year average used to calculate cap and collar NUFs for 2023/24 – 2025/26 charges over the preceding three-year period, which should be removed.

### Why?

- 1.3 As it stands, the legal text which determines which years' data should be used when calculating NUF caps and collars is not clear on whether the year being referenced is the charging year, the data year or the year in which the underlying NUFs were calculated, and in fact appears to be a mixture of the three. Clarity is required to ensure that all DNOs use the average of the same three years when caps and collars are calculated for 2020/21 charges (in 2018), and so to ensure that the intent of the methodology is reflected in the data used.
- 1.4 The latest available data should be used to ensure cost-reflectivity of charges, and hence the additional year lag for 2023/24 – 2025/26 charges should be removed to maintain cost-reflectivity.

### How?

- 1.5 Amend clauses in section 18 of both schedules 17 and 18 which deal with the calculation of NUF caps and collars to explicitly refer to charging years only.

## 2 Governance

### Justification for Part 1 Matter

- 2.1 The change is believed to be a Part 1 matter. The first part of DCP 311 is very much a clarification of what data is to be used (charging year data, actual NUF data, or NUFs calculated in that year), however the second part of DCP 311 changes the years used to calculate the tariffs associated with each charging year (three distinct years rather than the last year of a set of three being the first year of the next set of three) and as such impacts customers and competition (DCUSA Paragraph 9.4.1 and 9.4.2).

- 2.2 The Working Group will use the feedback provided as part of this Consultation to further develop the change in readiness for the Change Report stage.
- 2.3 See Attachment 2 for the Change Proposal Form.

### 3 Why Change?

- 3.1 This Change Proposal has been raised due to the potential to have differing interpretations of the table associated with clause 18.8 in both Schedule 17 and 18 of DCUSA when determining the average NUFs to be used. Below are examples of the Proposer's view associated with various year periods as presented in the original Change Proposal. Clarification of the legal text would be helpful to ensure consistency when determining the NUF cap and collar values.

#### **2014/15 – 2016/17**

- 3.2 The existing legal text states that for charging years 2014/15 – 2016/17, the average of 2011/12, 2012/13 and 2013/14 NUFs should be used. It is not clear whether this refers to NUFs calculated based on 2011/12, 2012/13 and 2013/14 data; or calculated based on NUFs used for 2011/12, 2012/13 and 2013/14 charges setting. However, given 2014/15 charges were set in December 2013 (i.e. partway through 2013/14), 2013/14 data would not have been available, and hence the proposal asserted that this legal text would only be feasible if it refers to NUFs used for 2011/12, 2012/13 and 2013/14 charges.

#### **2017/18 – 2019/20**

- 3.3 The existing legal states that for charging years 2017/18 – 2019/20, 2015/16 caps/collars as per table 6A or 22A (for schedule 17 and 18 respectively) should be used. The proposal asserts that this cannot refer to NUFs based on 2015/16 data, as 2017/18 charges were set in December 2015 (partway through 2015/16), but also does not refer to NUFs used for 2015/16 charges as these were based on the pre-DCP 138 NUF calculation methodology. The proposal recommends that legal text should be clarified to show that these NUFs are based on applying the post-DCP 138 methodology to data used for 2015/16 charges.

#### **2020/21 – 2022/23**

- 3.4 The existing legal text states that for charging years 2020/21 – 2022/23, the average of 2015/16, 2016/17 and 2017/18 NUFs should be used. If this were to follow the interpretation presented in the proposal in respect of 2014/15 – 2016/17, the caps and collars would be calculated on out of date data, and on a mixture of NUFs calculated based on the pre-DCP 138 (2015/16 and 2016/17) and

post-DCP 138 (2017/18) methodologies. Hence the proposal asserts that this intends to refer to NUFs calculated based on 2015/16, 2016/17 and 2017/18 data, which were/will be used for 2018/19, 2019/20 and 2020/21 charges respectively. The proposal recommends that legal text should be updated to ensure that this is not open to interpretation.

## **2023/24 – 2025/26**

- 3.5 The existing legal text states that for charging years 2023/24 – 2025/26, the average of 2017/18, 2018/19 and 2019/20 NUFs should be used. Following the interpretation presented in the proposal as established for 2020/21 – 2022/23, this would be interpreted as NUFs calculated based on 2017/18, 2018/19 and 2019/20 data, which will be used for 2020/21, 2021/22 and 2022/23 charges respectively. The proposal recommends that legal text should be updated to ensure that this is not open to interpretation. The proposal also recommends that additional year lag which has been built in for 2023/24 charges should also be removed, i.e. the caps and collars should be calculated based on NUFs used for 2021/22, 2022/23 and 2023/24 charges, which will be the most up to date data available at the time of setting charges.

## **4 Code Specific Matters**

### **Reference Documents**

- 4.1 DCP 138 ‘Implementation of alternative network use factor (NUF) calculation method in EDCM’ [documentation including the Authority decision and the Change Report.](#)
- 4.2 DCP 178 ‘Notification period for change to use of system charges’ [documentation including the Authority decision and the Change Report](#)
- 4.3 Both of these Change Proposals are discussed within section 5 of this document.

## **5 Working Group Assessment**

### **DCP 311 Working Group Assessment**

- 5.1 The DCUSA Panel agreed for DCP 311 to be considered by a Working Group. An open invitation was extended to all DCUSA Parties and to all other interested parties to participate in this Working Group. This invitation remains open for any interested parties.

### **Interpretation of existing legal text**

- 5.2 The Working Group discussed the two interpretations of the years presented in Schedule 17 table 7 and Schedule 18 table 23 for years 2020/21 onwards which the Proposer asserts could be applied

(namely that the years refer to the charging year to which the NUFs in question were applied, or the data year on which the NUFs calculated were based), and concluded that there is a third interpretation – that the years refer to the year in which the NUFs were calculated, i.e. that 2020/21 caps and collars should be based on the average of NUFs which were calculated in 2015/16, 2016/17 and 2017/18.

- 5.3 Whilst this may be a logical interpretation, it presents another flaw in the legal text as drafted, being that two sets of NUFs were calculated in 2015/16 (for 2016/17 charges providing three months' notice as required for a change to charges up to and including 2016/17, and for 2017/18 charges providing 15 months' notice as required for a change to charges from 2017/18 onwards) and it is not specified which should be used. The Working Group noted that a logical approach would be to use the latter set (i.e. those used for 2017/18 charges) as DCP 138 was implemented on 1 April 2017 and so this approach would ensure that NUFs were calculated on a consistent basis for the three years being used for the average.
- 5.4 A Working Group member expressed concern that if the Proposer's original preferred interpretation were taken forward, cap and collar NUFs to be used for (for example) 2020/21 charges could only be calculated once all DNOs had calculated their individual NUFs to apply to 2020/21 charges. The differing timescales to which each DNO works render this unfeasible, as some calculate NUFs late in the year and so do not leave time for the caps and collars to be calculated after the final DNO has submitted their data.
- 5.5 The Working Group discussed the three interpretations, and unanimously agreed that the additional interpretation not presented by the Proposer (i.e. NUFs calculated in that year) was the appropriate interpretation which enables caps and collars to be calculated in a timely manner on up to date data.
- 5.6 The legal text has been amended on this basis but clarified to refer to NUFs which were calculated for the charges which apply to a given year (to avoid the potential conflict where two set of NUFs were calculated in 2015/16), and so under DCP 311, caps and collars for 2020/21 will be calculated based on the NUFs used for 2017/18, 2018/19 and 2019/20 charges and so on every three years thereafter.

**1: - Do you understand the intent of DCP 311?**

**2: - Are you supportive of the principles of DCP 311? If not, why not?**

#### **Additional lag for 2023/24 charges onwards**

- 5.7 Regarding the caps and collars column in Schedule 17 table 7 and Schedule 18 table 23 of the DCUSA, one Working Group member questioned why there is only a two-year jump between the data to be

used for calculating NUF caps and collars for charging years 2020/21 – 2022/23 and 2023/24 – 2025/26 instead of a three-year jump. The Chair investigated the Change Proposal which last altered the table (DCP 138) to determine the rationale.

- 5.8 The legal text in the first consultation of DCP 138 initially had three years that had no overlap on the last three years and it was amended in the second consultation.
- 5.9 Neither the first consultation nor the minutes in between the first and second consultation indicated as to why the change was made, however it may well have been due to the fact that in the first consultation the legal text for the previous three years had fixed 2016/17 average NUFs, and then on the next three years used the average of 2016/17, 2017/18, 2018/19 NUFs. This created the use of the last year's data for the first year of the following three years. This was also the case earlier for 2014/15 which used 2011/12, 2012/13 and 2013/14 NUFs. However, it was not replicated for the final three years of the first consultation.
- 5.10 The first consultation also omitted 2015/16 completely. This was picked up in the second consultation and seems to have followed the last date of the previous year being the first of the next after the three years as a principle for the last three years in the table thereby following on from earlier years' precedent.
- 5.11 There were limited comments on the legal text on the second consultation.
- 5.12 DCP 178 which introduced the requirement to give 15 months' notice of a change to Use of System charges had been approved but not yet been implemented shortly before the finalisation of DCP 138. Implications of the 15-month notice period on the data to be used for various inputs was perhaps not fully appreciated, and parties (DNOs in particular) were still in the process of understanding the ramifications of having to publish two years of charges in one year (this was done in December 2015).
- 5.13 Both DCP 138 and DCP 178 are now in place and the requirement to give 15-months' notice is now fully understood which it wasn't at the time DCP 138 was being discussed. Therefore, the Working Group deems it appropriate to tighten up the legal text on which years should be used.

**3: - Are you aware of any reason why there is only a two-year jump between the charging years 2020/21 – 2022/23 and 2023/24 – 2025/26 instead of a three-year jump which was introduced by DCP 138? If yes, then please provide the rationale.**

#### **Amendments to legal text relating to prior years**

- 5.14 As part of the Working Group's assessment of the change, the group discussed whether it was appropriate to amend clauses which related to past charging years only. It was agreed that it would be more appropriate for the legal text to be explicitly clear on the requirements going forward, and

that in order to achieve this clarity, clauses which relate to previous years should be removed, i.e. tables 5 and 23 from Schedules 17 and 18 respectively. In addition, the Working Group agreed that the legal text adopted should implement the solution on an enduring basis, where at present the table included within the legal text ends with charges for 2025/26 and does not specify the requirements for future years.

- 5.15 The Working Group agreed that the amended solution should create a consistent approach for all years beyond 2020/21, which is the first year for which the clarification the Change Proposal looks to achieve is required. Hence it was agreed that all clauses relating to cap and collar calculations in respect of charging years up to and including 2019/20 will be removed. As a result, the proposed implementation date of the first release following Authority consent is no longer appropriate, and if approved, the change should be implemented to take effect when setting charges from 01 April 2020. The rationale for this being that charges for years up to and including 2019/20 have already been published, with the next publication being for charges effective from 01 April 2020.

4: - Do you agree with the Working Group decision to remove legal text clauses which relate to previous years (i.e. years up to and including charging year 2019/20)?

5: - Do you agree with the Working Group approach to implement an enduring solution in the legal text which doesn't refer to specific years?

6: - Do you agree with the overall solution proposed by the Working Group?

## 6 Relevant Objectives

### Assessment against the DCUSA Objectives

- 6.1 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 311.

Impact of the Change Proposal on the Relevant Charging Objectives:	
Relevant Charging Objective	Identified impact
<b>Charging Objective One:</b> 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	<i>Positive</i>
<b>Charging Objective Two:</b> 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)	<i>Neutral</i>



<b>Charging Objective Three:</b> 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	<i>Positive</i>
<b>Charging Objective Four:</b> that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	<i>Neutral</i>
<b>Charging Objective Five:</b> that compliance by each DNO Party with the Charging Methodologies facilitates 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.	<i>Neutral</i>
<b>Charging Objective Six:</b> that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	<i>Positive</i>

6.2 It was agreed that DCP 311 will better facilitate:

- Charging Objective One by ensuring that DNOs are able to comply with the legal text of the DCUSA;
- Charging Objective Three by removing an unnecessary year lag in the calculation of NUF caps and collars, and so ensure that the latest and most up to date available network data is used when setting charges; and
- Charging objective Six by ensuring that the legal text is unambiguous, and the calculation of caps and collars in 2018 for use in 2020/21 charges can be carried out efficiently.

**7: - Do you consider that the proposal better facilitates the DCUSA charging objectives? Please give reasons to support your answer.**

## 7 Impacts & Other Considerations

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

7.1 The Working Group believes that DCP 311 is not related to the Targeted Charging Review (TCR) SCR or other Change Proposals in other codes.

### Consumer Impacts

7.2 This Change Proposal will have no impact on charges up to and including 2022/23 charges, with the only change up to then being to clarify the legal text for which years of data should be used.

- 7.3 The Working Group's interpretation of the existing legal text for 2020/21 – 2022/23 charges results in NUFs used in charges for 2017/18, 2018/19 and 2019/20 being used to derive the caps and collars. The Working Group's interpretation of the existing legal text for 2023/24 – 2025/26 charges would result in NUFs used in charges for 2019/20, 2020/21 and 2021/22 being used to derive the caps and collars. Consequently, in the existing legal text, an additional year lag on data being used to calculate caps and collars is introduced between 2020/21 – 2022/23 charges and 2023/24 – 2025/26 charges.
- 7.4 This Change Proposal seeks to remove the additional year lag for 2023/24 onwards, and so caps and collars for 2023/24 – 2025/26 charges will be based on NUFs used in charges for 2020/21, 2021/22 and 2022/23.
- 7.5 The impact of this change will not be known until NUFs for all of 2019/20 – 2022/23 have been calculated. At present, only those for 2019/20 (being the latest year for which charges have been published) have been calculated, so a detailed impact analysis cannot be completed. It is the Working Group's understanding that the additional lag was not an intended consequence of DCP 138, and so arguably this change could be seen simply as a 'housekeeping' correction to legal text.
- 7.6 In general terms, the impact of a change to NUF caps and collars will impact customers in the following ways:
- Demand dominated customers with NUFs between the cap and collar values (which is by definition 70% of customers across GB, although this percentage will vary by DNO region) – no impact as the caps and collars only take effect in the calculation of demand tariffs if the site specific NUFs are outside of the cap and collar range.
  - Demand dominated customers with NUFs below the collar values – such sites will have collar NUFs assigned for the purpose of demand scaling. If the collars are lower as a result of this CP, demand scaling will be proportionally lower for these customers, and vice versa.
  - Demand dominated customers with NUFs above the collar values – such sites will have cap NUFs assigned for the purpose of demand scaling. If the caps are lower as a result of this CP, demand scaling will be proportionally lower for these customers, and vice versa.
  - Generation dominated customers – all generation dominated customers are assigned collar NUFs. This only impacts the demand charges for these customers, and so will have very little impact for a generator with a small import capacity (as their demand charges will be low) and a larger impact for a generator with a large import capacity. If the cap values are lower, demand charges for generators will be proportionally lower and vice versa.

## Environmental Impacts

- 7.7 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 311 was implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

### Engagement with the Authority

- 7.8 Ofgem has been fully engaged throughout the development of DCP 311 as an observer of the Working Group.

**8: - Are you aware of any wider industry developments that may impact upon or be impacted by this Change Proposal?**

## 8 Implementation

- 8.1 As part of the Working Group's assessment of the change, the group discussed whether it was appropriate to amend clauses which related to past charging years only. It was agreed that it would be more appropriate for the legal text to be explicitly clear on the requirements going forward, and that in order to achieve this clarity clauses which relate to previous years should be removed. Industry views are sought on this in question 4.
- 8.2 In addition, the Working Group agreed that the legal text adopted should implement the solution on an enduring basis, where at present the table included within the legal text ends with charges for 2025/26 and does not specify the requirements for future years. The proposed solution would create a consistent approach for all years beyond 2020/21, which is the first year for which the clarification which the Change Proposal looks to achieve is required. Industry views are sought on this in question 5.
- 8.3 The Working Group therefore agreed that all clauses relating to cap and collar calculations in respect of charging years up to and including 2019/20 should be removed, i.e. tables 5 and 23 from Schedules 17 and 18 respectively. As a result, the proposed implementation date of the first release following Authority consent suggested by the Proposer in the Change Proposal is no longer appropriate, and if approved, the change should be implemented on 01 April 2020.

**9: - The proposed implementation date is 01 April 2020. Do you agree this is appropriate? If not, why not?**

## 9 Legal Text

- 9.1 The legal text for DCP 311 has been provided as Attachment 3.
- 9.2 The attached draft legal text seeks to clarify the data which should be used when calculating cap and collar NUFs by referring to NUFs used for charging years only, as opposed to the existing legal text which seemed to mix charging years, data years, and calculation years.
- 9.3 The legal text to both Schedule 17 and 18 will amend clauses 18.6, 18.7 and 18.8.
- Clause 18.6 will be amended to remove references to old dates and create an enduring solution by stating that the caps and collars are to be calculated every three years. It will also indicate when the last time this was undertaken (December 2015). So the next time this will be undertaken will be in December 2018 to be applied in charging years 2020/21, 2021/22 and 2022/23.
  - Clause 18.7 existing text is replaced with the process to be followed when calculating the cap and collars by indicating where the information is to be taken from.
  - Clause 18.8 including the table is to be deleted completely and replaced with 'Not used'.

### 10: - Do you have any comments on the legal drafting?

## 10 Consultation Questions

- 10.1 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.
- 10.2 The Working Group is seeking industry views on the following consultation questions:

Question Number	Question
1.	Do you understand the intent of DCP 311?
2.	Are you supportive of the principles of DCP 311? If not, why not?

3.	Are you aware of any reason why there is only a two-year jump between the charging years 2020/21 – 2022/23 and 2023/24 – 2025/26 instead of a three-year jump which was introduced by DCP 138? If yes, then please provide your rationale.
4.	Do you agree with the Working Group decision to remove legal text clauses which relate to previous years (i.e. years up to and including charging year 2019/20)?
5.	Do you agree with the Working Group approach to implement an enduring solution in the legal text which doesn't refer to specific years?
6.	Do you agree with the overall solution proposed by the Working Group?
7.	Do you consider that the proposal better facilitates the DCUSA charging objectives? Please give reasons to support your answer.
8.	Are you aware of any wider industry developments that may impact upon or be impacted by this Change Proposal?
9.	The proposed implementation date is 01 April 2020. Do you agree this is appropriate? If not, why not?
10.	Do you have any comments on the legal drafting?

10.3 Responses should be submitted using Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than 05 March 2018.

### Attachments

- Attachment 1 – Response Form
- Attachment 2 – Change Proposal Form
- Attachment 3 – DCP 311 Legal Text