









Part A: Generic

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1>DCP 321:</h1> <h2>Removal of residual charging for embedded generators in the EDCM</h2> <p><i>Date raised: 12 June 2018</i></p> <p><i>Proposer Name: Andrew Enzor</i></p> <p><i>Company Name: Northern Powergrid</i></p> <p><i>Company Category: DNO</i></p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p>Purpose of Change Proposal:</p> <p>The intent of this Change Proposal is to amend the application of residual charging in respect of embedded generators in the EDCM.</p>		
	<p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Treated as a Part 1 Matter • Treated as a Standard Change • Proceed to a Working Group <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p>	
	<p> Impacted Parties: Distribution Network Operators, embedded generators, Suppliers, demand consumers to the extent that any revenue shortfall will be reflected as an increase to demand tariffs.</p>	
	<p> Impacted Clauses: Section 18 of DCUSA Schedules 17 and 18</p>	

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Indicative Timeline		
The Secretariat recommends the following timetable:		
Initial Assessment Report	13 June 2018	
Consultation Issued to Industry Participants	TBC	
Change Report Approved by Panel	15 August 2018	
Change Report issued for Voting	17 August 2018	
Party Voting Closes	10 September 2018	
Change Declaration Issued to Authority	12 September 2018	
Authority Decision	17 October 2018	
Implementation	01 April 2021	

1 Summary

What?

Changes are required to the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM) to ensure that embedded generators (including storage sites) are not subject to residual charges for either demand or generation.

Why?

Residual charges exist to ensure that distributors recover their allowed revenue. They generally recover sunk costs in respect of historic investments into network infrastructure for the purpose of serving demand customers. Embedded generators can provide a benefit to DNOs by offsetting demand and so reducing the loading on, and subsequently deferring the need for reinforcement of, upstream assets. Embedded generators have an import capacity which ranges from a small capacity for start-up (of, for example, a wind turbine) through to a larger import capacity for the import element of a battery storage facility. The current charging regime whereby the charges for the import element of an embedded generation connection include an element of residual charging exposes embedded generators to disproportionate costs in respect of residual charging for assets which the DNO has invested in predominantly for the purpose of serving demand customers, not embedded generators.

How?

The detail for the solution should be developed by a working group, but it is initially envisaged that this change will be implemented by making changes to section 18 of DCUSA Schedules 17 and 18 (clauses 18.18 to 18.21) to amend the application of residual charging for embedded generators.

2 Governance

Justification for Part 1 Matter

This Change Proposal (CP) should be considered as a Part 1 Matter as it will impact embedded generators, suppliers and demand consumers to the extent that any revenue shortfall will be reflected as an increase to demand tariffs.

Requested Next Steps

This Change Proposal should:

- Be treated as a Part 1 Matter
- Be treated as a Standard Change
- Proceed to a Working Group

3 Why Change?

Each embedded generator with charges calculated in the EDCM has an associated import capacity, with an import tariff calculated in respect of that import capacity. The export tariff for embedded generators does not attract any element of residual charging, whilst the associated import tariff attracts residual charging in the same way as the charges for a demand only customer. As a result, EDCM embedded generators are paying residual charges for import, with the level of residual charge paid varying dependent on:

- the size of the import;
- the unit volume expected to be imported by the customer in the relevant DNO's peak super-red period (the forecast of which is used in the calculation of residual charges); and
- the level of residual revenue of the DNO licensee to whose network the generator is connected.

Although the identified defect in the EDCM impacts all embedded generators, it has come to light primarily as a result of increased interest in connections for battery storage. More traditional forms of embedded generation generally have small import capacities, and so residual charging on the demand element is relatively small. Storage facilities have a much higher import capacity (generally equal to their export capacity) and so residual charging on the demand element represents a significant charge.

If the change were not made, traditional forms of embedded generation will continue to be exposed to small demand residual charges as a result of their small import connections to the DNO network, whilst storage operators will face higher demand residual charges as a result of their much larger import connections to the DNO network. As a result, storage would not be competing on a level playing field with other forms of embedded generation.

The solution developed will need to consider the impact on demand dominated customers with a small export capacity. If such customers were treated as embedded generators this would result in a distortion, with equivalent demand sites, one of which has a small onsite generator (and so not being subject to residual charging) and one which does not (and so is subject to residual charging), facing materially different charges. One option could be to remove residual charging on import capacities up to the level of any export capacity, with import capacity in excess of the export capacity still subject to residual charging. This would result in:

- a windfarm with, for example, 20,000kVA export capacity and 100kVA import capacity paying no residual charges (as the import capacity does not exceed the export capacity);
- a storage operator with, for example, 20,000kVA export capacity and 20,000kVA import capacity paying no residual charges (as the import capacity does not exceed the export capacity)
- an industrial site with onsite generation with, for example, 5,000kVA export capacity and 20,000kVA import capacity paying residual charges in respect of 15,000kVA of import capacity (the extent to which the import capacity exceeds the export capacity); and
- an industrial site with no onsite generation with, for example, 0kVA export capacity and 20,000kVA import capacity paying residual charges in respect of the full 20,000kVA import capacity.

Any reduction in residual charges paid by EDCM embedded generators will be recovered from the remainder of EDCM demand customers.

Part B: Code Specific Details

4 Solution and Legal Text

Changes will be required to Schedules 17 and 18 of DCUSA, which detail the Forward Cost Pricing (FCP) and Long Run Incremental Cost (LRIC) variants of the EDCM respectively. The treatment of residual charging is dealt with in clauses 18.18 to 18.21.

Legal Text

The Working Group should draft legal text appropriate for the solution developed.

5 Code Specific Matters

Reference Documents

A Working Group has recently been established to address the equivalent issue in the Common Distribution Charging Methodology (CDCM) under DCP 319¹.

Connection and Use of System Code (CUSC) modification CMP 280 – ‘Creation of a New Generator TNUoS Demand Tariff which Removes Liability for TNUoS Demand Residual Charges from Generation and Storage Users’² is currently progressing through the CUSC modification process to address the same issue in the Transmission Network Use of System (TNUoS) charging framework.

On 29 September 2017 Ofgem consulted on its proposed approach to providing regulatory clarity on the treatment of electricity storage by making amendments to the electricity generation licence to make it fit for storage³. This consultation is now closed, and is awaiting an Ofgem decision.

¹<https://www.dcusa.co.uk/Lists/Change%20Proposal%20Register/DispForm.aspx?ID=346&Source=https%3A%2F%2Fwww%2Edcusa%2Eco%2Euk%2FSitePages%2FActivities%2FChange-Proposal-Register%2Easpx&ContentTypeld=0x0100684A1DE09E1F9740A444434CF581D435>

² <https://www.nationalgrid.com/uk/electricity/codes/connection-and-use-system-code/modifications/creation-new-generator-tnuos>

³ <https://www.ofgem.gov.uk/publications-and-updates/clarifying-regulatory-framework-electricity-storage-licensing>

6 Relevant Objectives

DCUSA Charging Objectives	Identified impact
<input type="checkbox"/> 1 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
<input type="checkbox"/> 2 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)	Positive
<input type="checkbox"/> 3 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
<input type="checkbox"/> 4 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	Positive
<input type="checkbox"/> 5 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.	None
<input type="checkbox"/> 6 that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration..	None

Charging Objective One: Standard Licence Condition four of the electricity distribution licence requires that distributors operate their businesses in a way that does not distort competition in the generation of electricity. This change will ensure that battery storage operators connected EHV are able to compete on a level playing field with traditional embedded generation technologies, and so will avoid a distortion to competition in the generation of electricity.

Charging Objective Two: This change will ensure that battery storage operators connected at EHV are able to compete on a level playing field with traditional embedded generation technologies, and so will avoid a distortion to competition in the generation of electricity.

Charging Objective Three: This change will increase the cost-reflectivity of tariffs for embedded generators by ensuring they are not exposed to residual charges.

Charging Objective Four: DNOs are seeing an increase in the number of applications for the connection of battery storage facilities to their networks. This change will ensure that such battery operators can compete on a level playing field with other embedded generators.

7 Impacts & Other Considerations

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

This change proposal has a significant crossover with Targeted Charging Review (TCR) Significant Code Review (SCR) which is currently being progressed by Ofgem, which is looking at residual charging more generally. Ofgem has indicated that it views this change as a 'quick win' which can be progressed in isolation whilst the TCR looks at the issue of residual charging more fundamentally.

Does this Change Proposal Impact Other Codes?

- BSC
- CUSC
- Grid Code
- MRA
- SEC
- Other
- None

Consideration of Wider Industry Impacts

The issue was initially discussed at the December 2017 Distribution Charging Methodology Development Group (DCMDG) meeting, where Ofgem indicated its preference for industry to raise a modification to look at this issue, specifically in relation to battery storage. It was formally raised as a DCMDG issue at the January 2018 meeting, with a draft change proposal to resolve the issue in the CDCM presented to the February DCMDG meeting. Concerns were raised at this meeting regarding the interaction with the TCR and agreement that further discussion with Ofgem was required to confirm that this change is compatible with the TCR. Ofgem has subsequently confirmed that it wishes this change to progress through the DCUSA process. DCP 319 was raised at the DCUSA Panel in May 2018, with this change having been discussed at the June 2018 DCMDG meeting prior to being raised.

Confidentiality

Non-confidential

8 Implementation

This change should be implemented as soon as possible. Use of System charges were published for 2019/20 in December 2017; hence the earliest a change to Use of System charges can be made is 1 April 2020. Charges for 2020/21 will be published in December 2018, so in order to achieve this, an Ofgem decision will be required by 31 October 2018 in order to comply with DCP 293 – 'Charging Methodology Cut-Off Date'. Timescales for progressing previous changes suggest this will not be achievable; hence the proposed implementation date is 1 April 2021.

In order to avoid a distortion between the CDCM and EDCM, it would be preferable if the implementation date of this change were to align with that of DCP 319. DCP 319 was raised with a proposed implementation date of 1 April 2020, but this is now also unlikely to be achievable and so the implementation date of DCP 319 will also be 1 April 2021 at the earliest.

Proposed Implementation Date

The proposed implementation date for this CP is 1 April 2021.

9 Recommendations

Part C: Guidance Notes for Completing the Form

Ref	Section	Guidance
1	Attachments	Append any proposed legal text or supporting documentation in order to better support / explain the CP.
2	Governance	<p>A CP must be categorised as a Part 1 or Part 2 matter in accordance with Clause 10.4.7 of the DCUSA. All Part 1 matters require Authority Consent.</p> <p>Part 1 Matter</p> <p>A change Proposal is considered a Part 1 Matter if it satisfies one or more of the following criteria:</p> <p>a) it is likely to have a significant impact on the interests of electricity consumers;</p> <p>b) it is likely to have a significant impact on competition in one or more of:</p> <ul style="list-style-type: none"> i. the generation of electricity; ii. the distribution of electricity; iii. the supply of electricity; and iv. any commercial activities connected with the generation, distribution or supply of electricity; <p>c) it is likely to discriminate in its effects between one Party (or class of Parties) and another Party (or class of Parties);</p> <ul style="list-style-type: none"> i. it is directly related to the safety or security of the Distribution Network; and ii. it concerns the governance or the change control arrangements applying to the DCUSA; and iii. it has been raised by the Authority or a DNO/IDNO Party pursuant to Clause 10.2.5, and/or the Authority has made

		<p>one or more directions in relation to it in accordance with Clause 11.9A.</p> <p>Part 2 Matter</p> <p>A CP is considered a Part 2 Matter if it is proposing to change any actual or potential provisions of the DCUSA which does not satisfy one or more of the criteria set out above.</p>
3	Related Change Proposals	Indicate if the CP is related to or impacts any CP already in the DCUSA or other industry change process.
4	Proposed Solution and Draft Legal Text	<p>Outline the proposed solution for addressing the stated intent of the CP. The Change Proposal Intent will take precedence in the event of any inconsistency. A DCUSA Working Group may develop alternative solutions.</p> <p>The plain English description of the proposed solution should include the changes or additions to existing DCUSA Clauses (including Clause numbers).</p> <p>Insert proposed legal drafting (change marked against any existing DCUSA drafting) which enacts the intent of the solution. The legal text will be reviewed by the Working Group (if convened) and is likely to be subject to legal review as part of its progress through the DCUSA change process.</p>
5	Proposed Implementation Date	<p>The Change can be implemented in February, June, and November of each year or as an extraordinary release. For Charging Methodology CPs, select an implementation date which takes into consideration the minimum notice periods for publishing tariffs. These are:</p> <ul style="list-style-type: none"> • 15 months, for DNOs acting within their Distribution Services Areas; or • 14 months, for IDNOs and DNOs acting outside their Distribution Services Area. <p>Please select an implementation date that provides sufficient time for the Change to be incorporated into the appropriate charging model and the DCUSA in order to be reflected in future tariffs.</p> <p>Contact the DCUSA helpdesk for any further information on the releases dcusa@electralink.co.uk.</p>
6	Impacts & Other Considerations	Indicate whether this Change Proposal will be impacted by or have an impact upon wider industry developments. If an impact is identified, explain why the benefit of the Change Proposal may outweigh the potential impact and indicate the likely duration of the Change.
7	Environmental Impact	Indicate whether it is likely that there would be a material impact on greenhouse gas emissions as a result of the proposed variation being made. Please see Ofgem Guidance .

8	Confidentiality	Clearly indicate if any parts of this Change Proposal Form are to remain confidential to DCUSA Panel (and any subsequent DCUSA Working Group) and Ofgem
9	DCUSA General Objectives	Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.
10	Detailed Rationale for DCUSA Objectives	Provide detailed supporting reasons and information (including any initial analysis that supports your views) to demonstrate why the CP will better facilitate each of the DCUSA Objectives identified.
11	DCUSA Charging Objectives	Indicate which of the DCUSA Charging Objectives will be better facilitated by the Change Proposal. Please note that a CDCM or EDCM change may also facilitate the DCUSA General objectives.