










DCUSA Change Declaration		At what stage is this document in the process?
<div>DCP 339</div> <div>Amend definition of ‘Other Charges’ in Clause 19.2.1 to exclude the recovery of approved Last Resort Supply Payment claims</div> <div>Raised on 01 February 2019</div> <div>As a Standard Change</div>	01 – Change Proposal	
	02 – Consultation	
	03 – Change Report	
	04 – Change Declaration	
<div>Purpose of Change Proposal:</div> <div>The intent of DCP 339 is to remove a contradiction between the electricity distribution licence and the Distribution Connection and Use of System Agreement (DCUSA) by amending Clause 19.2.1 to remove any reference to DNO Party obligations in relation to Last Resort Supply Payments.</div>		
	<div>DCUSA Parties have voted on DCUSA Change Proposal (DCP) 339 with the outcome being a decision on whether or not the Change Proposal (CP) is to be accepted and the proposed variation to the DCUSA made accordingly.</div> <div>The DCUSA Parties consolidated votes are provided as Attachment 1.</div>	
	<div>For DCP 339, DCUSA Parties have voted to:</div> <div><ul style="list-style-type: none"><li>Accept the proposed variation (solution); and</li><li>Accept the implementation date of DCP 339</li></ul></div>	
	<div>Impacted Parties: <b>DNOs</b></div>	
	<div>Impacted Clauses: <b>Section 19, Clause 19.2.1</b></div>	

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Timeline

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

Change Proposal timetable

Activity	Date
Initial Assessment Report Approved by Panel	20 February 2019
Change Report Approved by Panel	20 March 2019
Change Report issued for Voting	22 March 2019
Party Voting Closes	12 April 2019
Change Declaration Issued to Parties	16 April 2019
Implementation	First DCUSA Release following Party approval

## 1 Summary

### What?

- 1.1 From time-to-time, an electricity Supplier operating in the competitive retail market may have its Supply licence revoked by the Authority. When this occurs, Ofgem may appoint a Supplier of Last Resort (SoLR), with all customers of the insolvent Supplier then being supplied by the SoLR.
- 1.2 The SoLR may make a claim for a Last Resort Supply Payment (LRSP). Where applicable, an approved claim is made to Distribution Network Operators (DNOs), with DNOs in turn recovering the costs from customers via Use of System charges.
- 1.3 The distribution licence ("the licence") specifies that DNOs must recover the costs associated with an LRSP through Use of System charges, whilst the DCUSA include such costs in the definition of 'Other Charges'. The licence and DCUSA are therefore contradictory, and DNOs are required to seek Authority derogation from the DCUSA requirement to recover LRSP costs via 'Other Charges' in order to comply with the licence requirement to recover LRSP costs through Use of System charges.
- 1.4 This change seeks to resolve this contradiction by amending the DCUSA definition of 'Other Charges'.

### Why?

- 1.5 DNOs are obligated by the existing licence to recover LRSP costs via Use of System charges. The licence and the DCUSA should be consistent in the treatment of LRSP costs to remove any ambiguity and contradictions.

### How?

- 1.6 Clause 19.2.1 should be amended to remove any reference to LRSPs.
- 1.7 Ofgem has recently launched a statutory consultation on changes to the licence to improve arrangements associated with LRSPs<sup>1</sup>. This Change Proposal (CP) is not conditional on the implementation of modifications to the licence as the contradiction exists in both the existing licence and that which will be in force should the proposed licence changes be made.

## 2 Governance

### Justification for Part 2 Matter

- 2.1 The Panel reviewed DCP 339 and noted that the Proposer's opinion was that the change should

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/01/solr - statutory consultation.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/solr_-_statutory_consultation.pdf)

be treated as a Part 2 matter. The Panel agreed that Authority Consent would not be necessary for this CP as the CP does not meet any of the criteria for a Part 1 Matter, as it is simply ensuring alignment between the licence and the DCUSA.

### 3 Why Change?

#### Background of DCP 339

- 3.1 From time-to-time, an electricity Supplier operating in the competitive retail market may have its Supply licence revoked by the Authority. When this occurs, Ofgem may appoint a SoLR, with all customers of the insolvent Supplier then being supplied by the SoLR.
- 3.2 The SoLR may make a claim for an LRSP, primarily to cover the costs associated with customer credit balances for which it has become liable, but also to recover other costs associated with its appointment as a SoLR (e.g. exposure to short term wholesale energy costs to supply additional customers, and financing costs to fund repayment of credit balances). Where applicable, the costs are split between gas and electricity customers (typically based on customer numbers), and a 'Valid Claim' is made to Gas Distribution Networks (GDNs) and DNOs, with the GDNs and DNOs in turn recovering the costs from customers via Use of System charges.
- 3.3 Standard condition 38 '*Treatment of payment claims for last-resort supply*' of the licence ('SLC38') sets out the requirements of a DNO to recover a Valid Claim, and paragraph two (emphasis added) specifies:

*"Where the licensee receives a Valid Claim, it must, during the Relevant Regulatory Year, make an increase to its **Use of System Charges** relating to the distribution of electricity to premises in respect of that year to such an extent as it reasonably estimates is appropriate to ensure that the consequential increase in its Use of System revenue will equal the Specified Amount."*

- 3.4 However, Clause 19.2.1 specifies that '**Other Charges**' are defined (emphasis added) as:

*"the charges for (i) the provision of MPAS, (ii) (where applicable) the provision of Legacy Meter Asset Provision and of Data Services, and (iii) **(where applicable) the provision of last resort supply payments (all pursuant to the Company's obligations under, respectively, Condition 18, Condition 36, and Condition 38 of its Distribution Licence).**"*

- 3.5 Therefore, a contradiction exists between the licence and the DCUSA, where the licence requires LRSP costs to be recovered via Use of System Charges, but the DCUSA requires those costs to be recovered as Other Charges.
- 3.6 On 28 January 2019, Ofgem published its statutory consultation on modifications to the electricity distribution licence to recover the costs associated with appointing a SoLR and following its final decision and standard 56 day cooling off period the licence changes will be implemented. The requirement to recover LRSP costs via Use of System Charges remains unaltered as a result of

these proposed modifications, and indeed it is essential that Use of System Charges and not 'Other Charges' recover LRSP costs to deliver the intent of the modifications to the licence.

## 4 Solution

### DCP 339 Assessment

- 4.1 The solution for this CP is to simply amend the DCUSA legal text Clause 19.2.1 to remove any reference to a Last Resort Supply Payment.

## 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 CP form provided as Attachment 3, details which of the DCUSA Objectives the Proposer considers DCP 339 better facilitates.

#### Impact of the Change Proposal on the Relevant Objectives:

Relevant Objective	Identified impact
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 it's Distribution Licence	Positive
Charging Objective Four – 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

- 5.2 DCUSA Charging Objective One is better facilitated by this CP by ensuring a DNO is compliant with both the licence and the DCUSA, where at present it cannot be compliant with both and therefore is in breach of the licence as a result.
- 5.3 DCUSA Charging Objective Four is better facilitated by this CP by removing the contradiction and ensuring Valid Claims are recovered via Use of System Charges which is essential to deliver the intent of the proposed modifications to the licence.
- 5.4 There would be no other impact on the four other DCUSA Charging Objectives if the CP is implemented.

## 6 Impacts & Other Considerations

- 6.1 This CP should have no impact on charges or on Parties (other than removing the need for DNOs to request derogations) as the amendment to Clause 19.2.1 will bring the DCUSA in line with the licence conditions with which DNOs are complying when recovering LRSP costs. No system impacts are anticipated, as the CP does not impact tariff structures or the rates calculated, nor indeed does it impact notice periods of changes to Use of System charges.
- 6.2 This CP has also been discussed as part of the distribution licence review group consisting of DNOs and Ofgem.

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

- 6.3 There is no impact on any existing or anticipated SCR.
- 6.4 As detailed throughout, changes are in progress to the licence. This CP will ensure the intent of the proposed modifications to the licence can be delivered without the existing contradiction complicating matters.

### Consumer Impacts

- 6.5 No consumer impacts have been identified.

### Environmental Impacts

- 6.6 In accordance with DCUSA Clause 11.14.6, the Proposer assessed whether there would be a material impact on greenhouse gas emissions if DCP 339 were implemented. The Proposer did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

## 7 Implementation

- 7.1 This CP will be implemented as soon as possible and does not need to be implemented from the beginning of a regulatory year.
- 7.2 Therefore, this CP will be implemented in the next DCUSA Release on 27 June 2019.

## 8 Legal Text

- 8.1 The legal text for DCP 339 has been recommended by the Proposer and reviewed by the DCUSA legal advisor and is provided as Attachment 2.
- 8.2 The legal text change simply removes any reference to LRSP in clause 19.2.1.
- 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 Voting

10.1 DCP 339 Change Report was issued to DCUSA Parties for Voting on 22 March 2019.

### Part 2 Matter: Authority Decision Not Required

#### DCP 339 Proposed Variation (Solution) Decision

10.2 For the majority of the Party Categories that were eligible to vote:

- the number of groups in each Party Category which voted to accept the proposed variation was more than 65% of the total number of Groups in that Party Category which voted; and
- the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the proposed variation was more than 65%

10.3 DCUSA Parties have voted to **accept** the proposed variation (solution) of DCP 339.

#### DCP 339 Implementation Date Decision

10.4 For the majority of the Party Categories that were eligible to vote:

- the number of groups in each Party Category which voted to accept the implementation date was more than 65% of the total number of groups in that Party Category which voted; and
- the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the implementation date was more than 65%.

10.5 DCUSA Parties have voted to **accept** the implementation date of DCP 339.

The table below sets out the outcome of the votes that were received in respect of the DCP 339 Change Report that was issued on 22 March 2019 for a period of 15 working days.

DCP 339	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	DISTRIBUTED GENERATOR	GAS SUPPLIER
CHANGE SOLUTION	Accept	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	Accept	n/a	n/a	n/a	n/a

## 11 Recommendations

### DCUSA Parties

11.1 DCUSA Parties have voted on DCP 339, with the outcome being a decision to accept the Change Proposal and thus the proposed variation to the DCUSA will be made accordingly.

### Attachments

- Attachment 1 – DCP 339 Consolidated Party Votes
- Attachment 2 – DCP 339 Legal Text
- Attachment 3 – DCP 339 Change Proposal