










DCUSA Consultation	At what stage is this document in the process?
<h1>DCP 340</h1> <h2>Notice period required to recover approved last resort supply payment claims which breach the materiality threshold</h2> <p><i>Raised on the 01 February 2019 as a Standard Change</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 remove the need for the Authority to direct that the periods of notice described in Clause 19.1A need not apply where the DNO Party has given notice to the Authority under new distribution licence standard condition 38B ‘<i>Treatment of payment claims for last resort supply where Valid Claim is received on or after 01 April 2019</i>’, in respect of Last Resort Supply Payment claims which result in breach of a DNO Party’s Materiality Threshold; and define how DNOs should calculate the change to previously published use of system charges required by that licence condition when the Materiality Threshold is breached.</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 <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>21 May 2019</b>.</p> <p>DCP 340 has been designated as a Part 1 Matter and a standard 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:</p> <p>Section 19, Clause 19.1B plus one new Clause 19.1E</p> <p>Schedule 16, one new paragraph 7a</p> <p>Schedules 17 and 18, one new paragraph 1.3a</p>

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Timetable		 02074323000
The timetable for the progression of the CP is as follows:		Contact: <b>Code Administrator</b>
<b>Change Proposal timetable</b>		 <b>DCUSA@electralink.co.uk</b>
<b>Change Proposal timetable:</b>		 <b>andrew.enzor@northernpowergrid.com</b>
Activity	Date	 <b>07834 618994</b>
Initial Assessment Report Approved by Panel	20 February 2019	
Consultation issued to Parties	29 April 2019	
Change Report issued to Panel	12 June 2019	
Change Report issued for Voting	21 June 2019	
Party Voting Ends	12 July 2019	
Change Declaration Issued to Parties	16 July 2019	
Authority Decision	20 August 2019	
Implementation	First DCUSA Release following Authority approval	

## 1 Summary

### What?

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity distributors, 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 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.
- 1.3 The SoLR may make a claim for a Last Resort Supply Payment (LRSP), primarily to cover the costs associated with customer credit balances for which it has become liable. An approved claim (i.e. a 'Valid Claim') may then be made to Distribution Network Operators (DNOs), with DNOs in turn recovering the costs from customers via Use of System charges.

### **Modifications to the electricity distribution licence**

- 1.4 Standard condition 38 '*Treatment of payment claims for last-resort supply*' of the distribution licence ('the licence') currently requires DNOs to increase Use of System charges in the regulatory year after a Valid Claim is received (provided the claim is made at least 60 days before the start of that year). This creates conflict between the DCUSA requirement for DNOs and Licenced Distribution Network Operators (LDNOs) to provide 15 and 14-months' notice of a change to Use of System charges respectively, with the licence requiring changes with shorter notice.
- 1.5 On 28 January 2019 Ofgem published its statutory consultation on modifications to the licence to recover the costs associated with appointing a SoLR<sup>1</sup>, and its final decision is expected imminently. Following the decision and a standard 56 day cooling off period the licence changes will be implemented. The changes seek to resolve the conflict between the DCUSA and the licence by requiring DNOs to pay the SoLR and recover the funds through increased allowances two years later, enabling the 15 months' notice of changes to Use of System charges to be preserved.
- 1.6 But the licence changes introduce a Materiality Threshold to mitigate the risk DNOs take in incurring material costs at relatively short notice and not recovering these costs until at least two years later. A claim from a SoLR which breaches the Materiality Threshold may result in a DNO paying and

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-modification-electricity-distribution-licence-recover-costs-associated-appointing-supplier-last-resort>

recovering the claim in the regulatory year which follows that in which the claim was received under the licence, requiring a change to Use of System charges with less than 15 months' notice.

- 1.7 The licence review group, which was convened by and included Ofgem, agreed that a change to the DCUSA would be beneficial to resolve this potential remaining conflict.

## Why?

- 1.8 Without changes to the DCUSA, conflict between the DCUSA and the licence will remain and DNOs will only be able to deliver the intent of the new licence conditions in respect of a Valid Claim which breaches the Materiality Threshold if the Authority provides consent that certain elements of DCUSA need not apply.
- 1.9 The changes will maximise the notice period given by DNOs and LDNOs of a change to use of system charges by removing the time consuming step of DNOs and LDNOs requesting derogation from the requirement to provide 15 months' notice of a change to charges.

## How?

- 1.10 The proposed solution is to include a conditional need to not provide the notice periods described in Clause 19.1A where the licence allows a DNO to recover Valid Claims without the two-year lag between paying the SoLR and increasing its Use of System charges.
- 1.11 Schedules 16, 17 and 18 require changes to ensure that, where a DNO is not providing 15 months' notice of a change to Use of System charges, the only change to previously published charges for the period is an increase in the relevant pass-through term.
- 1.12 Whilst this CP reflects the current proposed licence drafting, any solution implemented should represent the licence changes approved by the Authority following its final decision and cooling off period.
- 1.13 The licence review group agreed that changes to the DCUSA should progress in parallel to the review of the licence to ensure an efficient and coordinated implementation. The proposed changes under this CP should not be implemented if the associated changes to the licence are not approved.

## 2 Governance

### Justification for Part 1 Matter

- 2.1 This CP will have an impact on the efficiency of how DNOs discharge and comply with their licence obligations, by removing the need for the Authority to consent to not providing the notice periods described in Clause 19.1A in relation to the recovery of the Valid Claims which have breached a DNO Materiality Threshold and therefore is considered a Part 1 Matter.

### Current Next Steps

- 2.2 This Consultation will be issued for a period of three weeks.

### 3 Why Change?

#### Background of DCP 340

- 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 Standard conditions eight and nine of the electricity supply licence<sup>2</sup> make provision for the Authority to issue a Last Resort Supply Direction, i.e. to appoint a SoLR. Since November 2016 there have been 11 instances of supply licences being revoked (seven being in 2018 alone) and the subsequent appointment of a SoLR:
- GB Energy Supply Ltd ceased trading in November 2016<sup>3</sup>, with Co-operative Energy Limited appointed as the SoLR<sup>4</sup>;
  - Future Energy Supply Limited ceased trading in January 2018<sup>5</sup>, with Green Star Energy (a subsidiary of Hudson Energy Supply UK Limited) appointed as the SoLR<sup>6</sup>;
  - Iresa Limited ceased trading in July 2018<sup>7</sup>, with Octopus Energy Limited appointed as the SoLR<sup>8</sup>;
  - Gen4U ceased trading in September 2018<sup>9</sup>, with October Energy Limited appointed as the SoLR<sup>10</sup>;
  - Usio Energy Supply Limited ceased trading in October 2018<sup>11</sup>, with First Utility Limited appointed as the SoLR<sup>12</sup>;
  - Extra Energy Supply Limited ceased trading in November 2018<sup>13</sup>, with Scottish Power Energy Retail Limited appointed as the SoLR<sup>14</sup>;

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<sup>2</sup>

<https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Supply%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

<sup>3</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/11/electricity\\_supply\\_revocation\\_2.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/11/electricity_supply_revocation_2.pdf)

<sup>4</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/11/last\\_resort\\_direction\\_template\\_electricity.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/11/last_resort_direction_template_electricity.pdf)

<sup>5</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/01/fe\\_elec\\_revocation\\_002.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/01/fe_elec_revocation_002.pdf)

<sup>6</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/01/electricity\\_solr\\_direction.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/01/electricity_solr_direction.pdf)

<sup>7</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/08/notice\\_of\\_revocation\\_of\\_electricity\\_licence\\_-\\_iresa.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/08/notice_of_revocation_of_electricity_licence_-_iresa.pdf)

<sup>8</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/07/last\\_resort\\_supply\\_direction\\_-\\_electricity.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/07/last_resort_supply_direction_-_electricity.pdf)

<sup>9</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/09/gen4u\\_electricity\\_supply\\_revocation.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/09/gen4u_electricity_supply_revocation.pdf)

<sup>10</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/09/lrsd\\_electricity.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/09/lrsd_electricity.pdf)

<sup>11</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/10/electricity\\_supply\\_revocation\\_-\\_usio\\_energy.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/10/electricity_supply_revocation_-_usio_energy.pdf)

<sup>12</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/10/last\\_resort\\_supply\\_direction\\_electricity.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/10/last_resort_supply_direction_electricity.pdf)

<sup>13</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/11/extra\\_energ\\_20181123\\_revocation\\_notice\\_-\\_elec.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/11/extra_energ_20181123_revocation_notice_-_elec.pdf)

<sup>14</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/11/extra\\_solr\\_direction\\_-\\_elec.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/11/extra_solr_direction_-_elec.pdf)

- Spark Energy Supply Limited ceased trading in November 2018<sup>15</sup>, with Ovo Electricity Ltd appointed as SoLR<sup>16</sup>;
- Oneselect Limited ceased trading in December 2018<sup>17</sup>, with Eddington Energy Supply Limited appointed as the SoLR<sup>18</sup>;
- Economy Energy Trading Limited ceased trading in January 2019<sup>19</sup>, with Ovo Electricity Ltd appointed as the SoLR<sup>20</sup>;
- Our Power Energy Supply Limited ceased trading in January 2019<sup>21</sup>, with Utilita Energy Limited appointed as the SoLR<sup>22</sup>; and
- Brilliant Energy Supply Limited ceased trading in March 2019<sup>23</sup>, with SSE Electricity Limited appointed as the SoLR<sup>24</sup>.

3.3 Alongside these, recent headlines have suggested that other ‘small’ suppliers are in financial difficulty.

3.4 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 the 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.

3.5 Of the instances noted above, LRSP claims have only been made by:

- Co-operative Energy Limited, in January 2018, in respect of its activities as SoLR for the former customers of GB Energy Supply Ltd; and
- Octopus Energy Limited, in January 2019, in respect of its activities as SoLR for the former customers of Iresa Limited.

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<sup>15</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/11/spark\\_energy\\_20181126\\_revocation\\_notice\\_-\\_elec\\_003.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/11/spark_energy_20181126_revocation_notice_-_elec_003.pdf)

<sup>16</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/11/20181126\\_solr\\_direction\\_-\\_elec.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/11/20181126_solr_direction_-_elec.pdf)

<sup>17</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/12/oneselect\\_20181212\\_revocation\\_notice\\_-\\_elec.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/12/oneselect_20181212_revocation_notice_-_elec.pdf)

<sup>18</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/12/20181212\\_solr\\_direction\\_-\\_elec.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/12/20181212_solr_direction_-_elec.pdf)

<sup>19</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/01/20190110\\_economy\\_revocation\\_notice\\_-\\_electricity\\_unsigned.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/20190110_economy_revocation_notice_-_electricity_unsigned.pdf)

<sup>20</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/01/20190110\\_ovo\\_solr\\_direction\\_-\\_elec\\_unsigned.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/20190110_ovo_solr_direction_-_elec_unsigned.pdf)

<sup>21</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/01/our\\_power\\_-\\_20190118\\_-\\_revocation\\_notice\\_-\\_electricity.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/our_power_-_20190118_-_revocation_notice_-_electricity.pdf)

<sup>22</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/01/20190118\\_jim\\_solr\\_direction\\_-\\_elec.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/01/20190118_jim_solr_direction_-_elec.pdf)

<sup>23</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/03/20190312\\_revocation\\_notice\\_-\\_electricity.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/03/20190312_revocation_notice_-_electricity.pdf)

<sup>24</sup> <https://www.ofgem.gov.uk/publications-and-updates/sse-electricity-limited-electricity-supplier-last-resort>

- 3.6 Claims could yet be made by all of the other SoLRs other than Green Star Energy<sup>25</sup>, but the Working Group understands that Ovo Electricity Ltd (as SoLR to the former customers of Economy Energy Supply Limited) and Utilita Energy Limited (as SoLR to the former customer of Our Power Energy Supply Limited) will both absorb the costs and therefore will not make a LRSP claim.

### **Modifications to the electricity distribution licence**

- 3.7 On 28 January 2019, Ofgem published its statutory consultation on modifications to the licence to recover the costs associated with appointing a SoLR<sup>26</sup>, and following its final decision and standard 56-day cooling off period the changes to the licence will be implemented.
- 3.8 Under the proposals, each DNO will be required to add the costs associated with a Valid Claim to its revenue allowances using a new pass-through term. The proposed standard condition 38B ‘Treatment of payment claims for last-resort supply where Valid Claim is received on or after 1 April 2019’ (‘SLC38B’) sets out how this works. Under SLC38B payments made by a DNO to a SoLR will be reflected in revenue allowances two years later e.g. costs incurred in 2019/20 will be recoverable in 2021/22. As a result, DNOs, and therefore LDNOs, will provide the respective 15 and 14 months’ notice of changes to Use of System charges to recover a Valid Claim.
- 3.9 SLC38B introduces a Materiality Threshold to mitigate the risk DNOs take in incurring material costs at relatively short notice and not recovering these costs until two years later. A Valid Claim which breaches the Materiality Threshold may result in a DNO providing notice to the Authority of its intent to both pay and recover the Valid Claim in the next regulatory year (provided the claim is at least three months from the start of that year).
- 3.10 The licence review group, which was convened by and included Ofgem, agreed that a change to the DCUSA would be beneficial to remove the potential conflict between DCUSA and the licence. This would only apply in the event a DNO’s Materiality Threshold is breached and where the DNO has provided notice to the Authority of its intent to pay and recover the Valid Claim in the same regulatory year.
- 3.11 Without a DCUSA change, DNOs will only be able to deliver the intent of the new SLC38B in respect of a Valid Claim which breaches the Materiality Threshold if the Authority provides the necessary consent that the notice periods required by DCUSA need not apply. This does not present an efficient solution and is likely to lead to an additional delay between receipt of a Valid Claim and DNOs publishing revised charges, further shortening the notice given.
- 3.12 The proposed SLC38B will require DNOs to follow their approved Use of System charging methodologies when calculating the increase in charges to recover a Valid Claim which breaches the Materiality Threshold. Without changes to Schedules 16, 17 and 18, compliance with this

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<sup>25</sup> Green Star Energy, a subsidiary of Hudson Energy Supply UK Limited, was appointed SoLR on 31 January 2018. The Last Resort Supply Direction expired on 31 July 2018. A LRSP claim must have been made within six months of the expiry of the Last Resort Supply Direction, therefore by 31 January 2019.

<sup>26</sup> <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-modification-electricity-distribution-licence-recover-costs-associated-appointing-supplier-last-resort>



requirement would require DNOs to update all inputs to the charging models at the time of republishing. In order to minimise the impact on the industry, the Proposer asserts that inputs should be held at the values used when charges were first published for the year in question wherever possible. The proposed changes to Schedules 16, 17 and 18 seek to ensure that the changes to the Use of System charges are purely driven by an increase in the proposed pass-through elements of revenue allowances for SoLR costs as a result of Valid Claims which have breached the Materiality Threshold only.

- 3.13 DCP 332 '*Appropriate Treatment and allocation of Last Resort Supply Payment claim costs*' is considering which customers should contribute to the recovery of costs associated with the appointment of a SoLR. Business customers do not benefit from the SoLR 'safety net' on credit balances, to which Valid Claims primarily relate; hence DCP 332 proposes recovering the associated costs from domestic customers only, including those connected to LDNO networks. Whilst the calculation of charges for domestic customers is predominantly carried out in accordance with Schedule 16, tariffs which are applied to LDNOs in respect of domestic end customers where the DNO to LDNO boundary is at EHV or 132kV are carried out in accordance with Schedules 17 and 18. Hence changes are needed to all of Schedules 16, 17 and 18 to ensure that the appropriate tariffs are updated whilst no other changes are made to previously published charges calculated in accordance with those schedules. The changes proposed to the legal text also cater for a scenario in which DCP 332 is not approved (in which case the additional revenue allowances would be recovered through the standard 'scaling' process, potentially impacting all demand tariffs calculated in accordance with Schedules 16, 17 and 18) or for an alternative solution to DCP 332 should one be developed.
- 3.14 This CP will maximise the notice period given by DNOs and LDNOs of a change in Use of System charges, by removing the need to request the necessary consent from Ofgem to not apply the periods of notice described in Clause 19.1A. Unlike the current arrangements the need for DNOs to provide less than the periods of notice described in Clause 19.1A will be the exception to the norm, and therefore this CP will result in a better position than current arrangements. Maximising the notice period in such circumstances will also enable Ofgem to include necessary changes in the calculation of electricity price caps which it publishes in February of each year.
- 3.15 The licence review group consisting of Ofgem and DNOs agreed that changes to the DCUSA should progress in parallel to the review of the licence to ensure an efficient and coordinated implementation. The proposed changes under this CP should not be implemented if the associated changes to the licence are not approved. This follows precedent set in other codes such as the Uniform Network Code (UNC) and the other associated DCUSA Change Proposals. As such, with this being a Part 1 Matter, it is anticipated that the Authority would only approve this CP subject to its approval of consistent changes to the licence.
- 3.16 Whilst this CP reflects the current proposed licence drafting, any solution implemented should represent the licence changes approved by the Authority.

#### Q1: Do you understand the intent of DCP 340?



## Q2: Are you supportive of the principles of DCP 340?

## 4 Working Group Assessment

### DCP 340 Working Group Assessment

- 4.1 The DCUSA Panel established a Working Group to assess DCP 340. This Working Group consists of DNO, IDNO and supplier representatives, with 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](http://www.dcusa.co.uk).
- 4.2 The Working Group reviewed the proposed solution for this CP and agreed that a consultation was needed to obtain industry views.

## Q3: Are you supportive of the proposed solution for DCP 340? Please provide your rationale.

- 4.3 Where the notice periods described in Clause 19.1A do not apply, DNOs and LDNOs are required to provide no less than 40 days' notice of a change in Use of System charges. Otherwise, DNOs and LDNOs are required to provide 15 months' and 14 months' notice respectively of a change in Use of System charges. LDNOs operate under a relative price control, requiring that an LDNO does not charge more than the host DNO would charge for a domestic customer. The differential in notice required between the DNO and LDNO publication timescales ensures that LDNOs have one month to publish their charges following publication of the host DNO's charges, and so can comply with the relative price control requirements.
- 4.4 In the event of a breach of the Materiality Threshold there will be a minimum of three months' before charges need to be implemented to recover the costs, based on a Valid Claim made on 31 December in a given year which breaches the Materiality Threshold. Under this scenario, DNOs have approximately 50 days before the charges must be published, in order to provide the minimum 40 days' notice. In that period, a DNO would be required to:
- assess the impact of the claim to determine whether payments, when considered alongside any other Valid Claims which it has already received, will result in a breach of the Materiality Threshold in any regulatory year;
  - decide whether it wishes to treat the claim as a 'standard' claim and recover the costs two years after paying the SoLR or to recover the costs and pay the SoLR in the next regulatory year;

- if it does decide to recover costs and pay the SoLR in the next regulatory year, provide notice to the Authority of its intention to increase Use of System charges at short notice;
- satisfy internal assurance and approval requirements;
- publish and communicate the revised use of system charges; and
- in the absence of the successful implementation of this CP, request and receive consent from the Authority to not provide 15 months' notice of a change to Use of System charges.

4.5 By removing the final step above, this CP will facilitate DNOs completing this process in less time, providing greater notice of the change to charges than would otherwise have been the case. An additional benefit of DNOs publishing revised charges sooner will be that it will provide LDNOs additional time to publish their own revised charges.

4.6 The Proposer of the change suggested that where practical it would be beneficial to ensure that a DNO is required to publish revised Use of System charges and in doing so give an LDNO Party sufficient time to publish revised Use of System charges whilst providing the requisite 40 days' notice. Therefore, it may be that a DNO Party is required to provide more than 40 days' notice where modifications to the licence facilitate this. For example, of the minimum circa 50 days that a DNO will have to publish revised Use of System charges from receipt of the Valid Claim which breaches the Materiality Threshold, it may be appropriate that a DNO has 30 days to publish, and an LDNO 20 days.

4.7 The proposed legal text (provided in as attachment 2 and described in section 5 below) retains the requirement for a DNO Party to provide the minimum of 40 days' notice.

**Q4: Do you believe 40 days' notice is an adequate notice period for DNOs updating published Use of System Charges in the event of a LRSP Claim breaching the Materiality Threshold? Please provide your rationale.**

**Q5: Is there an alternative approach that you believe the Working Group should consider? Please provide comments.**

## 5 Legal Text

### DCP 340 Proposed Legal Text

5.1 The proposed changes to the DCUSA legal text can be found as attachment 2.

5.2 Changes are needed to Section 19, both to amend an existing clause and insert an additional clause, and introduce new paragraphs to Schedules 16, 17 and 18.

- 5.3 The approach taken to Section 19 in relation to the notice period of changes to Use of System charges is to amend Clause 19.1B and add an additional step as 19.1E. The amendments to clause 19.1B are to give effect to new clause 19.1E, and where 19.1E sets out that a DNO needs to provide a minimum of 40 days' notice where a Valid Claim has exceeded the Materiality Threshold in accordance with the new SLC38B.
- 5.4 The change made to the CDCM legal text in Schedule 16 is to add a new clause 7a, which requires a DNO to only update revenue allowances and specifically the SoLR pass-through costs adjustment, where a Valid Claim has breached the Materiality Threshold in accordance with the new SLC38B.
- 5.5 The changes made to the EDCM legal text in Schedule 17 and 18 is to add a new clause 1.3a, which requires a DNO to only update revenue allowances and specifically the SoLR pass-through cost adjustment, where a Valid Claim has breached the Materiality Threshold in accordance with the new SLC38B. The proposed solution to DCP 332 will result in the SoLR pass-through cost adjustment only impacting charges for domestic customers, therefore this change will have no impact on site-specific charges calculated in accordance with the EDCM but will impact on charges to LDNOs in respect of domestic customers connected to LDNO networks where the DNO to LDNO boundary is at EHV or 132kV.
- 5.6 The changes being made to Schedules 16, 17 and 18 are necessary to ensure that no other charges are made to previously published charges.

**Q6: Do you have any comments on the proposed legal text for DCP 340? Please provide your rationale.**

## 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.
- 6.2 The Proposer of DCP 340 believes that the proposed solution for DCP 340 will better facilitate DCUSA Charging Objectives one and four with no other impact on the other Objectives.
- 6.3 DCUSA Charging Objective one will be better facilitated by the implementation of this change as it will improve efficiency in a DNO discharging its licence obligations and by ensuring SLC38B can be compiled with in relation to the requirement to recover a Valid Claim which has breached the Materiality Threshold using approved Use of System charging methodologies, as the licence intends it to do so i.e. by only change charges to recover SoLR pass-through costs.

- 6.4 DCUSA Charging Objective four will be better facilitated by the implementation of this change by ensuring that a DNO can efficiently recover costs incurred at relatively short notice relating to the appointment of a SoLR in accordance with the licence.

DCUSA Charging Objectives	Identified impact
<input checked="" 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)	No Impact
<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	No Impact
<input checked="" 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

**Q7: Which of the DCUSA Charging Objectives does this CP better facilitate? Please provide supporting comments.**

## 7 Impacts & Other Considerations

- 7.1 This change will have an impact on DNOs, LDNOs and Suppliers. No system impacts are anticipated as the change does not impact tariff structures and will only impact notice period of changes to use of system charges.

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

- 7.2 There is no impact on any existing or anticipated SCR.
- 7.3 As detailed throughout, changes are in progress for the licence. These licence changes are the driver for this DCUSA change which has been discussed with Ofgem as part of the review of licencing arrangements.

### Consumer Impact

- 7.4 N/A

### 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 340 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 340 as an observer on the Working Group.

**Q8: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?**

## 8 Implementation

- 8.1 The proposed implementation date for DCP 340 is the 01 April 2020. It should be noted that it will be possible, once implemented, that the licence modifications may require a DNO Party to increase its use of system charges effective from 01 April 2020 to recover Valid Claims which have breached the Materiality Threshold. Respondents are invited to consider whether they agree with the proposed implementation date.

**Q9: The proposed implementation date for DCP 340 is 01 April 2020. Do you agree with the proposed implementation date?**

## 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 340?
2	Are you supportive of the principles of DCP 340?
3	Are you supportive of the proposed solution for DCP 340? Please provide your rationale.
4	Do you believe 40 days' notice is an adequate notice period for DNOs updating published Use of System Charges in the event of a LRSP Claim breaching the Materiality Threshold? Please provide your rationale.
5	Is there an alternative approach that you believe the Working Group should consider? Please provide comments.
6	Do you have any comments on the proposed legal text for DCP 340? Please provide your rationale.
7	Which of the DCUSA Charging Objectives does this CP better facilitate? Please provide supporting comments.
8	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
9	The proposed implementation date for DCP 340 is 01 April 2020. Do you agree with the proposed implementation date?

9.2 Responses should be submitted using Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than, **21 May 2019**.

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 340 Consultation Response Form
- Attachment 2 – DCP 340 Proposed Legal Text
- Attachment 3 – DCP 340 Change Proposal