DCUSA

DCUSA Change Declaration	At what stage is this document in the process?
# DCP 332 ## Appropriate Treatment and Allocation of Last Resort Supply Payment Claim Costs *Raised on 20 February 2019 as a Standard Change*	**01 – Change Proposal** **02 – Consultation** **03 – Change Report** **04 – Change Declaration**

Purpose of Change Proposal:

DCP 332 seeks to ensure that associated costs are recovered fairly and equitably from customers where a DNO Party received a claim from a Supplier of Last Resort Supply Payment claim.

✓	DCUSA Parties have voted on DCUSA Change Proposal (DCP) 332 with the outcome being a recommendation to the Authority on whether the Change Proposal (CP) should be accepted or rejected. The DCUSA Parties consolidated votes are provided as Attachment 1.
✓	**For DCP 332, DCUSA Parties have voted and recommended to the Authority to determine that:** • **the proposed variation (solution) should be accepted; and** • **the implementation date should be accepted**
!	**Impacted Parties:** Distribution Network Operators (DNOs), Independent Distribution Network Operators (IDNOs) and Suppliers
!	**Impacted Clauses:** Schedule 16, multiple paragraphs; and Schedule 17 and Schedule 18, paragraph 13, 16, 24 and 25.

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Any questions?

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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
Consultation issued to Parties	29 April 2019
Change Report issued to Panel	10 July 2019
Change Report issued for Voting	19 July 2019
Party Voting Ends	09 August 2019
Change Declaration issued to Authority	13 August 2019
Authority Decision	18 September 2019
Implementation Date	01 April 2020

1 Summary

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What?

1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.

1.2 From time-to-time, an electricity supplier operating in the competitive retail market may have its supply licence revoked by the Authority.

1.3 When a supply licence is revoked, Ofgem may appoint a Supplier of Last Resort (SoLR), with all customers of the insolvent supplier then being supplies by the SoLR. Any credit balances held by 'non-business' customers of the insolvent supplier at the time of its supply licence being revoked are protected by Ofgem's Safety Net[1] - in effect, the SoLR becomes liable for any credit balances for non-business customers held by the insolvent supplier at the time of its supply licence being revoked. The SoLR may make a claim for a Last Resort Supply Payment (LRSP) to recover such costs, which is split between Gas Distribution Networks (GDNs) and Distribution Network Operators (DNOs), with the GDNs and DNOs in turn recovering the costs from customers via Use of System charges.

1.4 In May 2019, Ofgem confirmed its decision to make changes to the distribution licence to allow DNOs to recover the costs associated with appointing a Supplier of Last Resort[2]. Once these changes have taken effect on 28 June 2019, each DNO will be required to add the costs associated with the appointment of a SoLR and any bad debts to its revenue allowances using new pass-through terms.

1.5 DCP 332 is concerned with the way in which those additional pass-through costs are recovered, i.e. through which tariff element(s) and from which customer group(s). It has been progressed in parallel to the review of the licence to ensure an efficient and coordinated implementation and is consistent with the approved licence changes.

Why?

1.6 The costs of LRSP claims do not relate to customers' future use of the distribution system. LRSP costs are incurred by DNOs in order to facilitate an equitable apportionment to customers of the costs associated with the protection which customers receive should their supplier have its licence revoked.

1.7 Without changes to Schedule 16, 17 and 18, all customers would contribute to the recovery of LRSP claims, with unit charges increasing via revenue matching (i.e. 'scaling' or the 'residual'). This does not present an appropriate means of apportioning LRSP costs to customers.

[1] https://www.ofgem.gov.uk/consumers/household-gas-and-electricity-guide/extra-help-energy-services/ofgem-safety-net-if-your-energy-supplier-goes-out-business

[2] https://www.ofgem.gov.uk/publications-and-updates/decision-modifications-electricity-distribution-licence-recover-costs-associated-appointing-supplier-last-resort

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How?

1.8 The proposed solution is to exclude revenue relating to the appointment of a SoLR when carrying out the 'revenue matching' step in the Common Distribution Charging Methodology (CDCM) and when calculating charges in the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM). Licenced Distribution Network Operator (LDNO) discounts would be applied to CDCM tariffs (including those for LDNOs).

2 Governance

Justification for Part 1 Matter

2.1 DCP 332 is classified as a Part 1 Matter and therefore it will be necessary for the changes to be progressed to the Authority for determination following the voting process. This is due to there being an impact on competition in the distribution of electricity, by removing the potential for a distortion caused by the recovery of the costs by distributors associated with the appointment of a SoLR.

2.2 DCP 332 has been designated as a standard change.

3 Why Change?

Background of DCP 332

3.1 Standard conditions eight and nine of the electricity supply licence make provisions for Ofgem to issue a Last Resort Supply Direction, and for a supplier with a Last Resort Supply Direction to make an LRSP claim to GDNs and DNOs. Following recent modifications[3] to the electricity supply licence, a SoLR is required to make the electricity proportion of its approved LRSP claim from each DNO.

3.2 Over the past three years, there have been 11 instances of supply licences being revoked (nine being in the last 12 months) and the subsequent appointment of a SoLR;

- GB Energy Supply Ltd ceased trading in November 2016;
- Future Energy Supply Limited ceased trading in January 2018;
- Iresa Limited ceased trading in July 2018;
- Gen4U ceased trading in September 2018;
- Usio Energy Supply Limited ceased trading in October 2018;
- Extra Energy Limited ceased trading in November 2018;
- Spark Energy Supply Limited ceased trading in November 2018;

[3] https://www.ofgem.gov.uk/publications-and-updates/decision-modify-solr-supply-licence-conditions

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- One Select Limited ceased trading in December 2018;
- Economy Energy Limited ceased trading in January 2019;
- Our Power ceased trading in January 2019; and
- Brilliant Energy Supply Ltd ceased trading in March 2019.

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

3.4 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.

3.5 With the exception of Green Star Energy (a subsidiary of Hudson Energy Supply UK Limited), in respect of its activities as SoLR for the former customers of Future Energy Supply Limited, LRSP claims could yet be made in respect of the remainder of supplier failures listed in paragraph 3.2. However, 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 customers of Our Power Energy Supply Limited) will both absorb the costs and therefore will not make an LRSP claim.

3.6 From the two LRSP claims made, >90% relates to credit balances (including the financing costs ~10%), and the remaining ~10% relates to costs which could be recovered via the levy for non-business customers (albeit in the instances to date costs would almost entirely relate to domestic customers regardless):

LRSP claim breakdown (£m)	Co-operative Energy Limited	Octopus Energy Limited	Total	%
Credit balances	11.0	11.5	22.5	80.7%
Cost of capital to fund credit balances	1.3	1.6	2.9	10.4%
Emergency wholesale procurement	1.8	-	1.8	6.4%
Transitional Costs	-	0.7	0.7	2.4%
Total	14.0	13.8	27.8	100.0%

Distribution licence issues

3.7 In order to comply with standard condition 38 '*Treatment of payment claims for last-resort supply*' ('SLC38') of the electricity distribution licence in respect of the Co-operative Energy LRP claim, each DNO was required to increase its Use of System charges in 2018/19. 2018/19 charges had

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been published in December 2016, in line with the DCUSA requirement to give 15 months' notice of a change to Use of System charges. Hence, in order to comply with the distribution licence, DNOs requested and were granted derogation from the requirement to provide 15 months' notice when changing their 2018/19 charges to recover the LRSP claim costs. A consistent process was followed in respect of the Octopus Energy Limited LRSP claim which impact 2019/20 charges.

3.8 The need for derogation highlighted flaws with the distribution licence, which have been addressed by Ofgem's decision to implement changes to the distribution licence on 28 June 2019. Under those licence changes, each DNO will be required to add SoLR costs to its revenue allowances as a pass-through item.

3.9 For the majority of pass-through items in revenue allowances, DNOs recover revenue two years after incurring costs. This will be the case for the SoLR costs, with the exception of costs which breach a defined materiality threshold. Where the materiality threshold is breached, DNOs can give notice to Ofgem for their intent to recover the costs in the next regulatory year if a claim which breaches the materiality threshold is received more than three months from the start of that regulatory year, or the following regulatory year if less than three months.

3.10 If the materiality threshold is breached, the modified licence allows DNOs to change charges without giving 15 months' notice. Under the current arrangements DNOs would be required to request derogation from the DCUSA requirements to provide 15 months' notice of a change to charges in this circumstance. A separate DCUSA change[4] is progressing which seeks to conditionally remove the requirement to give 15 months' notice of a change to charges in these circumstances.

3.11 If the materiality threshold is breached and charges are changed at short notice, the mechanism introduced by DCP 332 for the recovery of SoLR costs should also apply. Hence a simple mechanism of cost recover will minimise the level of change to charges previously published as final.

Treatment of costs

3.12 The costs which will be included in the new pass-through terms do not relate to customers' future use of the distribution system. The costs are incurred by DNOs in order to facilitate an equitable apportionment to customers of the costs associated with the protection which customers received should their supplier have its licence revoked. Without changes to Schedules 16, 17 and 18, the proposed changes to the electricity distribution licence would result in all customers contributing to these costs, with unit charges increasing via revenue matching. This does not present an appropriate means of apportioning such costs to customers.

3.13 Consideration I needed as to which customer groups should contribute to the recovery of SoLR pass-through costs, and through which tariff element. This should be considered in the context of the ongoing Ofgem-led Targeted Charging Review (TCR), launched via a Significant Code Review (SCR). The current methodologies would result in the recovery of these costs manifesting as a stronger price signal for reduced overall consumption via an increased unit charge. This creates risks that users who are able to reduce overall consumption contribute less to cost recovery, resulting in additional costs being borne by other users. This is in contradiction to the principles of the TCR. The treatment and allocation of these costs should be considered on individual merits,

[4] DCP 340

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but Ofgem's minded to decision[5] on the TCR is to recover the residual via fixed charges, which aligns to the proposed solution for DCP 332.

3.14 Careful consideration is also needed for the calculation of tariffs for LDNOs. If the costs associated with the appointment of a SoLR are simply recovered through revenue matching (as would be the case if these changes were not made), an LDNO would benefit from higher potential revenue under its relative price control. This is because the host DNO's charges would increase but the LDNO's costs would not increase proportionally as the increase in the host DNO's tariff for customers connected to its network would be discounted when calculating tariffs applicable to the LDNO; hence the LDNO would be a net beneficiary of the process whereby a DNO is primarily, if not entirely, seeking to recover costs for the SoLR only.

3.15 This issue has been avoided in the two instances of LRSP claims made to date by only applying an increase in Use of System charges to customers connected to DNO networks. However, this effectively exempts customers connected to LDNO networks from contributing to the costs, despite LDNO connected customers received the benefits of the safety net in the same way as DNO connected customers.

3.16 DCP 332 is seeking to ensure that an appropriate mechanism is in place which ensures that customers contribute to the recovery of the costs without distorting the underlying costs signals generated by the existing charging methodologies, and without distorting LDNO margins.

4 Solution

DCP 332 Working Group Assessment

4.1 The DCUSA Panel established a Joint Working Group to assess DCP 332 and DCP 333 ('Appropriate treatment and allocation of eligible use of system bad debt costs'). This Working Group consisted of DNO, IDNO and Supplier representatives and Ofgem observers. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

4.2 The Working Group conclusions for the solution for DCP 332 can be found within this Change Declaration and a separate Change Declaration will be published for the solution for DCP 333.

Original Solution Options

4.3 There were four possible solutions initially presented for these issues, all of which are variations on the same theme, being that the new pass-through costs are excluded from both the calculation of revenue matching in the CDCM and the calculation of EDCM tariffs. A subsequent adjustment is then made to (a subset of) tariffs, with the same absolute adjustment being made to the tariff for end customers connected to a DNO network and end customers connected to LDNO networks. This ensures that LDNOs are neutral to the recovery of costs whilst ensuring that customers connected to LDNO networks contribute to the same level as customers connected to DNO networks.

[5] https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-minded-decision-and-draft-impact-assessment

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4.4 Customers who:

- Are connected to LDNO networks where the DNO to LDNO is at the HV Substation network level or above; and
- Meet the definition of 'Designated Properties' are defined in the distribution licence, i.e. those who would be treated as CDCM customers if they were connected to a DNO network

have tariffs calculated in the EDCM, by applying discount to CDCM tariffs. In order to ensure consistent treatment of such customers, these tariffs must also be increased by the same adjustment as is being made to DNO end customer tariffs, hence it will be necessary to create a link between the CDCM and EDCM to ensure that:

- Tariffs for Designated Properties connected to LDNO networks which are calculated in the EDCM are subject to the same adjustment as tariffs for customers connected to DNO networks calculated in the CDCM; and
- The adjustment to tariffs (calculated in the CDCM) takes into account revenue will be derived in the EDCM from the application of step 1, to avoid over-recovery of the new pass-through costs.

4.5 all four original solution options involve excluding any revenue relating to the new pass-through costs from the existing calculation for tariffs for users connected to DNO networks and tariffs for LDNOs in both the CDCM and EDCM, with the costs recovered through a subsequent adjustment, as follows:

- Option A – adjustment to all unit rates of all tariffs for all demand customers which are Designated Properties (including those calculated in the EDCM), with the same p/kWh adjustment being made to all tariffs (including those for LDNOs);
- Option B – adjustment to the unit rates of tariffs for domestic customers (including those calculated in the EDCM), with the same p/kWh adjustment being made to all tariffs for domestic customers (including those for LDNOs);
- Option C – adjustment to the fixed charges of tariffs for all demand customers which are Designated Properties (including those calculated in the EDCM), with the same p/day adjustment being made to all tariffs for all customers who receive a fixed charge (i.e. all except unmetered supplies and 'related MPAN' tariffs); or
- Option D – adjustment to the fixed charges of tariffs for domestic customers (including those calculated in the EDCM), with the same p/day adjustment being made to all tariffs for domestic customers (including those for LDNOs).

4.6 The following table details the Working Group's initial view of the pros and cons of each option.

Option	Pros	Cons
A – unit rates for all demand customers	Maintains the principle by which revenue matching is achieved in the CDCM.	Results in higher unit rates, giving stronger cost signal to customers to reduce overall usage of the network. The costs associated with the new pass-through terms cannot be reduced through reduced network usage,

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		and so this stronger cost signal is not appropriate and contradicts the principles set out in Ofgem's TCR. Results in all customers contributing to the costs associated with the appointment of SoLR, where only 'non-business' customers benefit from the safety net which protects credit balance; hence arguably creates a cross-study from industrial and commercial to domestic customers. If the materiality threshold is breached, charges for all customers could change at short notice.
B – unit rates for domestic customers	Maintains the principle by which revenue matching is achieved in the CDCM, albeit applied to a restricted group of customers. Domestic customers are considered to represent the primary beneficiaries of the protection which the safety net provides. This option ensures that only domestic customers contribute to the costs associated with the appointment of a SoLR. If the materiality threshold is breached, only a small number of tariffs would change at short notice.	Results in higher unit rates, giving stronger cost signals to customers to reduce overall usage of the network. The costs associated with the new pass-through terms cannot be reduced through reduced network usages, and so this stronger cost signal is not appropriate and contradicts the principles set out in Ofgem's TCR.
C – fixed charges for all demand customers	The costs associated cannot be reduced through reduced network usage; hence a fixed charge is arguably the most appropriate means of recovery.	Deviates from the underlying principle by which revenue matching is achieved in the CDCM. Results in all customers contributing to the costs associated with the appointment of a SoLR, where only 'non-business' customers benefit from the safety net which protects credit balances; hence arguably creates a cross-subsidy from industrial and commercial to domestic customers. If the materiality threshold is breached, charges for all customers could change at short notice.
D – fixed charges for all domestic	The costs associated with the new pass-through terms cannot be reduced through reduced network usage;	Deviates from the underlying principle by which revenue matching is achieved in the CDCM.

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customers	hence a fixed charge is arguable the most appropriate means of recovery. Domestic customers are considered to represent the primary beneficiaries of the protection which the safety net provides. This option ensures that only domestic customers contribute to the costs associated with the appointment of a SoLR. If the materiality threshold is breached, only a small number of tariffs would change at short notice.	

Options progressed to consultation

4.7 The Working Group discussed the four original solution options presented in the Change Proposal. There was unanimous agreement that recovery of these pass-through costs through unit charges was not appropriate. Hence the Working Group decided to not progress Option A or Option B any further.

4.8 The Working Group also unanimously agreed that Option D was the only appropriate option for the recovery of SoLR costs, because those costs primarily relate to the credit balances of domestic customers. Hence the Working Group did not consider Option C any further for DCP 332.

DCP 332 Consultation

4.9 To aid further development of the solution for this CP, the Working Group issued a consultation to Parties on 29 April 2019. The aim of the consultation was to ask industry for views on the proposed solution for the CP. There were twelve respondents to the consultation comprising of five DNOs, three IDNOs, three Suppliers and one Party who wished to remain anonymous. A copy of the consultation and Working Group conclusions can be found as Attachment 4.

Q1: Do you understand the intent of DCP 332?

4.10 All respondents to the consultation agree that they understood the intent of DCP 332.

Q2: Do you agree with the principles of DCP 332? If not, please provide your rationale.

4.11 All respondents to the consultation agree with the principles of DCP 332. However, one respondent highlighted that they believe that the SoLR process is out of alignment with wider financial administration processes and that these should be looked at holistically. They believe that more work is needed to signpost potential costs either from the SoLR, the DNOs or the Authority on the magnitude of upcoming, but not yet submitted, claims so that Suppliers can track them.

Q3: Do you agree with the Working Group that Option D is appropriate for DCP 332? If not, which

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option do you consider to be more appropriate? Please provide your rationale.

4.12 There was a mixed response to this question of the consultation with eight respondents being wholly supportive of the Working Group's decision to progress with Option D for DCP 332.

4.13 One respondent did not believe that Option C or Option D was appropriate for DCP 332. They believe that under both options, the costs for a SoLR would not be recovered against the appropriate consumer groups given exclusions detailed under option c, combined with the costs to be recovered also being hidden in the existing fixed charge per day. The respondent believes that under Option D, if a non-domestic supplier wen tout of business and claimed through the SoLR process, domestic customers would have to foot the bill.

4.14 One respondent highlighted that they weren't certain whether Option D is more appropriate than Option C as it is their view that SoLR arrangements benefit all users of the electricity system and in particular would be likely to benefit small non-domestic customers in a similar way to domestic customers.

4.15 Two respondents explained that although they understand the Working Group's reasoning for choosing option D, they believe that it would be more appropriate to recover the shortfall from the customers in the market where the shortfall has arisen and not an adjacent market. However, if their suggested is not practicable, they support Option D as the domestic market makes up the vast majority of failed supplier portfolios.

Q4: DO you agree with the Working Group that Option C or D is appropriate for DCP 333? If so, which option would be your preference? If not, which option do you consider to be more appropriate? Please provide your rationale.

4.16 This question of the consultation document was focussed on DCP 333 and therefore the Working Group comments and conclusions can be found in the DCP 333 Change Declaration.

Q5: Which of the DCUSA Objectives does the implementation of DCP 332 better facilitate? Please provide your rationale.

4.17 Eleven of the twelve respondents believe that DCUSA Charging Objectives 3 and 4 would be better facilitated by the implementation of DCP 332. Nine respondents believe that DCUSA Objective 2 would be better facilitated and one respondent believes that DCUSA General Objective 1 would be better facilitated.

4.18 The Working Group conclusions in this area can be found in section 5 below.

Q6: Are you aware of any wider industry developments that may impact upon or be impacted by DCP 332? Please provide your rationale.

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4.19 The majority of respondents did not believe that the Working Group needed to consider any wider industry developments, however, two respondents believe that consideration should be given to the Uniform Network Code (UNC) Change Proposals that are looking at the recovery of SoLR costs within the gas market and the implementation of these should be aligned.

Q7: Do you have any comments on the proposed legal text for DCP 332? Please provide your rationale.

4.20 The Working Group noted all responses to this question and highlighted that there were no comments or amendments on the current proposed legal text.

4.21 More information regarding the finalised legal text can be found in section 8 below.

Q8: The proposed implementation date for DCP 332 is 01 April 2020. Do you agree with the proposed implementation date?

4.22 All respondents to the consultation were comfortable with the proposed implementation for DCP 332.

Working Group Conclusions and next steps

4.23 Following review of the consultation responses the Working Group agreed that they were happy to progress with Option D for DCP 332.

4.24 Although a couple of respondents to the consultation raised concerns regarding the SoLR claims being dominated by costs for domestic customers, this may not be the case in the future and there could be cases where non-domestic customers are primarily affected by a SoLR being introduced. The Working Group recognise this concern but believe that although non-domestic customers are a risk, but these costs would be sufficiently small to justify the proposed recovery of costs.

4.25 It was noted by one respondent to the consultation that more signposting needs to be conducted to allow Suppliers to be able to track the SoLR claims. The Working Group agree with this and believe that the Authority should take this into consideration as part of their ongoing work in this area. This includes earlier visibility of a SoLR's intent to make a LRSP claim and therefore consideration of, as a minimum, which regulatory year DNOs will recover the costs. It should also include full transparency as to how LRSP claims are split between GDNs and DNOs.

5 Relevant Objectives

Assessment Against the DCUSA Objectives

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5.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. There are five DCUSA General Objectives and six DCUSA Charging Objectives. This Change Proposal impacts the DCUSA Charging Objectives.

5.2 The Proposer of DCP 332 believes that the proposed solution of DCP 332 will better facilitate DCUSA Charging Objectives two, three and four with no impact on the other Objectives.

5.3 DCUSA Charging Objective two will be better facilitated by the implementation of this change as it will avoid the distortions which would occur in tariffs for LDNOs if the change were not made.

5.4 DCUSA Charging Objective three will be better facilitated by the implementation of this change by ensuring that costs associated with the appointment of a SoLR are allocated to customers appropriately. Options which ensure these costs are only recovered from domestic users are likely to be the most cost reflective, to avoid a non-cost reflective cross-subsidy from industrial and commercial to domestic customers. These costs to be recovered cannot be reduced by reduced network usage, so this objective will be better facilitated by options which ensure these costs are recovered through fixed charges.

5.5 DCUSA Charging Objective four will be better facilitated by the implementation of this change by ensuring appropriate allocation of pass-through costs in the CDCM.

5.6 The Working Group unanimously agree with the Proposer and considers that DCUSA Charging Objectives two, three and four would be better facilitated by the implementation of DCP 332.

Impact of the Change Proposal on the Relevant Charging Objectives:	
Relevant Objective	**Identified impacts and rationale**
Charging Objective One – that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	No Impact
Charging Objective Two – that compliance by each DNO Party with the Charging Methdologies 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 Distribition Licences)	**Positive**
Charging Objective Three – that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably	**Positive**

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expected to be incurred, by the DNO Party in its Distribution Business	
Charging Objective Four – that, so far as is consistent with Clauses 3.2.1 to 3.2.1, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	**Positive**
Charging Objective Five - that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchanges in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulator	No Impact
Charging Objective Six - that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	No Impact

6 Impacts & Other Considerations

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

6.1 The Working Group has highlighted an impact on DNOs, IDNOs and Suppliers. However, no system impacts are anticipated, as the change will use existing tariff structures and will only impact the rates calculated.

6.2 The Working Group agreed that there is a potential link with the TCR SCR, in that the change is linked to the mechanism by which revenue matching is achieved. However, the solution for this CP only includes revenue relating to a SoLR and so leaves the application of revenue matching unaltered for the remainder of DNO revenue, i.e. this change deals with costs which are currently not allocated or recovered as part of the distribution charging methodologies or indeed DNO allowed distribution network revenue.

6.3 As detailed throughout this document, the change has been aligned with the changes to the distribution licence and is the main driver for this DCUSA change which has been discussed with Ofgem as part of the review of licencing arrangements.

Consumer Impacts

6.4 The Working Group instructed the DCUSA Modelling Provider to develop CDCM and EDCM models in support of this change. The DCUSA Modelling Provider calculated the impact on CDCM tariffs, as well as on total revenue recovered per MPAN and per kWh from different tariff categories. This impact assessment was based on using the value of LRSP claims made to each DNO by Octopus Energy Limited in January 2019.

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6.5 The “base” impact assessments (without the new revenues included) returned no difference in costs for all-the-way tariffs compared to the original model without the CP implemented. The impacts are in line with expectations, in that they increase the fixed charges of domestic customers.

6.6 Absolute impact on LDNO tariffs are almost identical to those on all-the-way tariffs, with the exception of some ±0.01 changes in other charge due to rounding. These small changes also occurred in the “base” scenario when compared to published charges. This is because of rounding, as the structure of the rounding calculations has been changed. Previously, the LDNO discounted tariffs were calculated by applying the discount percentages to the unrounded all-the-way tariffs, but they are now calculated based on applying the discount percentages to the unrounded all-the-way tariff. This means that, previously, LDNO tariffs were essentially being rounded twice – in the updated model, they are only being rounded once.

6.7 For some of the larger LDNO tariff categories, this difference leads to changes in bills in the order of £10s per customer per year. This is due to the rounding differences for capacity and unit rate charges which are then applied to large volumes of kWh or large values of capacity. The percentage differences are still very small (typically less than 1%). The Working Group agrees that applying rounding once is the appropriate treatment.

6.8 In addition, the increase in the fixed adders are higher (in percentage terms) for LDNO LV customers that all-the-way customers and even higher for LDNO HV customers. This is because the new fixed charges adders are not discounted, and LDNO connected customers are still to pay 100% of their share of the SoLR costs.

Environmental Impacts

6.9 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 332 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

Engagement with the Authority

6.10 Ofgem has been fully engaged throughout the development of DCP 332 as an observer on the Working Group.

7 Implementation

7.1 SoLR costs will typically be included in revenue allowances with a two-year lag. In these circumstances, the requirement to provide 15 months’ notice of charges will be maintained. Charges have already been set for 2020/21, so under these circumstances the first year in which this change could take effect would be 2021/22.

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7.2 But if the materiality threshold is breached, the licence changes allow a DNO to change charges without providing 15 months' notice. Under current arrangements, this would require a direction from Ofgem that the requirement to give 15 months' notice need not apply, as was the case for the Co-operative Energy Limited claim in January 2018 and the Octopus Energy Limited claim in January 2019. As noted, DCP 340 is progressing and seeks to avoid the need for such derogations in the future. If the materiality threshold were to be breached before or on 31 December 2019, a DNO could amend previously published charges for 2020/21. Hence the implementation date for DCP 332 is 01 April 2020.

7.3 In order to avoid a need for DNOs to publish new CDCM models for 2020/21 if the materiality threshold is not breached, the legal text has been drafted to require DNOs to use different model versions for 2020/21 charges depending on whether 15 months' notice is being provided. So, if the materiality threshold is not breached, the CDCM models which DNOs have already published for 2020/21 will remain unaltered. If the materiality threshold is breached, DNOs will be required to publish a new CDCM model which includes DCP 332.

8 Legal Text

8.1 The DCP 332 proposed legal text acts as Attachment 2 to this Change Declaration.

8.2 Changes made to Schedule 16 introduce a fifth step in the calculation process for the allocation of SoLR, with the details on allocation included as paragraphs 100 and 101. Changes to Schedule 17 and 18 are predominately to the section governing LDNO discounts, with the change to LDNO tariffs as a result of this change detailed in paragraph 25.3.

8.3 The DCP 332 legal text includes different model versions to be used for 2020/21 should the materiality threshold be breached, as detailed in section 7 of this Change Declaration. Once DCP 332 is established, the need for different model versions will fall away. This is necessary for 2020/21 only where charges have previously been published using models which do not include DCP 332 but the changes to the distribution licence could result in a need to change 2020/21 charges. It is anticipated that a future DCUSA change will return these clauses to their previous form of defining a single model version to be used.

8.4 The DCP 332 legal text also includes an obligation in Schedule 16 on the DNO Parties to publish a breakdown of the fixed charge in their LC14 statements to separately identify the impact of the recovery of total SoLR pass-through costs.

9 Code Specific Matters

Modelling Specification Documents

9.1 Modelling documentation can be found in Attachment 5.

Reference Documents

9.2 See footnote references throughout.

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10 Voting

10.1 The DCP 332 Change Report was issued to DCUSA Parties for voting on 19 July 2019.

Part 1 Matter: Authority Decision Required

DCP 332: Proposed Variation (Solution)

10.2 For the majority of the Parties that were eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the proposed variation was more than 50%.

10.3 DCUSA Parties' have voted and recommend to the Authority to determine that the proposed variation (solution) is accepted for DCP 332.

DCP 332: Implementation Date

10.4 For the majority of the Parties that were eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was more than 50%.

10.5 DCUSA Parties' have voted and recommend to the Authority to determine that the implementation date is accepted for DCP 332.

The table below sets out the outcome of the votes that were received in respect of the DCP 332 Change Report that was issued on 19 July 2019 for a period of 15 working days.

DCP 332	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	CVA Registrant	GAS SUPPLIER
CHANGE SOLUTION	Accept	Accept	Accept	n/a	n/a
IMPLEMENTATION DATE	Accept	Accept	Accept	n/a	n/a

11 Recommendations

DCUSA Parties Recommendation

11.1 DCUSA Parties have voted on DCP 332 and in accordance with Clause 13.5 of the DCUSA, recommend to the Authority to determine that the Change Proposal be accepted and thus that the proposed variation to the DCUSA should be made.

12 Attachments

- Attachment 1 – DCP 332 Consolidated Party Votes
- Attachment 2 – DCP 332 Legal Text

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- Attachment 3 – DCP 332 Change Proposal
- Attachment 4 – DCP 332 Consultation and Collated Responses
- Attachment 5 – DCP 332 Modelling Documentation

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