




## Part A: Generic

DCUSA Change Proposal (DCP)		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>Insert date raised: 01 February 2019</i></p> <p><i>Proposer Name:</i> Andrew Enzor</p> <p><i>Company Name:</i> Northern Powergrid</p> <p><i>Company Category:</i> DNO</p>		<div>01 – Change Proposal</div> <div>02 – Consultation</div> <div>03 – Change Report</div> <div>04 – Change Declaration</div>
<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 1 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><b>Governance:</b></p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> <li>• Treated as a Part 1 Matter;</li> <li>• Treated as a Standard Change; and</li> <li>• Proceed to Working Group.</li> </ul> <p>The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
	<p><b>Impacted Parties:</b></p> <p>DNOs, IDNOs and Suppliers.</p>	
	<p><b>Impacted Clauses:</b></p> <p>Section 19, Clause 19.1B plus one new Clause 19.1E.</p> <p>Schedule 16, one new Clause 7a.</p> <p>Schedules 17 and 18, one new Clause 1.3a.</p>	

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Indicative Timeline			
The Secretariat recommends the following timetable:			
Initial Assessment Report	20 February 2019		
Consultation Issued to Industry Participants	TBD		
Change Report Approved by Panel	15 May 2019		
Change Report issued for Voting	17 May 2019		
Party Voting Closes	10 June 2019		
Change Declaration Issued to Parties	12 June 2019		
Change Declaration Issued to Authority	12 June 2019		
Authority Decision	17 August 2019		

## 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), 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**

- 1.3. 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 Independent Distribution Network Operators (IDNOs) to provide 15- and 14-months' notice of a change to use of system charges respectively, with the licence requiring changes with shorter notice.
- 1.4. 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 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.
- 1.5. 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 recovering the claim in the next year under the licence, requiring a change to use of system charges with less than 15 months' notice.
- 1.6. 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?**

- 1.7. 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.

## **How?**

- 1.8. 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.
- 1.9. Schedules 16, 17 and 18 require new Clauses (7a, 1.3a and 1.3a respectively) 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. The proposed solution to DCP 332 '*Appropriate treatment and allocation Last Resort Supply Payment costs*' will mean that only tariffs for domestic customers will be impacted by the relevant pass-through term, including discounted tariffs which are applied to Licensed Distribution Network Operators (LDNOs) in respect of domestic customers 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

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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>

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.

- 1.10. Whilst this Change Proposal reflects the current proposed licence drafting, any solution implemented should represent the licence changes approved by the Authority following the statutory consultation and cooling off period.
- 1.11. 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 Change Proposal 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<sup>2</sup>. As such, with this being a Part 1 Matter, it is anticipated that the Authority would only approve this Change Proposal subject to its approval of consistent changes to the licence.

## 2 Governance

### Justification for Part 1 and Part 2 Matter

- 2.1. The change 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.

### Requested Next Steps

- 2.2. This Change Proposal should:
  - Be treated as a Part 1 Matter;
  - Be treated as a Standard Change; and
  - Proceed to Working Group.
- 2.3. Whilst the change is to be treated as a Standard Change, timely implementation will be important given the recent revocation of a number of supply licences and therefore increased likelihood the appointed SoLRs will make a LRSP claim.

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<sup>2</sup> DCP 332 'Appropriate treatment and allocation of Last Resort Supply Payment claim costs'

DCP 333 'Appropriate treatment and allocation of eligible use of system bad debt costs'

DCP 334 'Update to Schedule 15 ('Cost Information Table') to maintain alignment with the distribution licence'

### 3 Why Change?

- 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>3</sup> make provision for the Authority to issue a Last Resort Supply Direction i.e. to appoint a SoLR. Since November 2016 there has been ten 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>4</sup>, with Co-operative Energy Limited appointed as the SoLR<sup>5</sup>;
  - Future Energy Supply Limited ceased trading in January 2018<sup>6</sup>, with Green Star Energy (a subsidiary of Hudson Energy Supply UK Limited) appointed as the SoLR<sup>7</sup>;
  - Iresa Limited ceased in July 2018<sup>8</sup>, with Octopus Energy Limited appointed as the SoLR<sup>9</sup>;
  - Gen4U ceased trading in September 2018<sup>10</sup>, with October Energy Limited appointed as the SoLR<sup>11</sup>;
  - Usio Energy Supply Limited ceased trading in October 2018<sup>12</sup>, with First Utility Limited appointed as the SoLR<sup>13</sup>;
  - Extra Energy Supply Limited ceased trading in November 2018<sup>14</sup>, with Scottish Power Energy Retail Limited appointed as the SoLR<sup>15</sup>;

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<sup>3</sup><https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Supply%20Standard%20Licence%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

<sup>4</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>5</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>6</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>7</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>8</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>9</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>10</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>11</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>12</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>13</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>14</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>15</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>16</sup>, with Ovo Electricity Ltd appointed as the SoLR<sup>17</sup>;
- Oneselect Limited ceased trading in December 2018<sup>18</sup>, with Eddington Energy Supply Limited appointed as the SoLR<sup>19</sup>;
- Economy Energy Trading Limited ceased trading in January 2019<sup>20</sup>, with Ovo Electricity Ltd appointed as the SoLR<sup>21</sup>; and
- Our Power Energy Supply Limited ceased trading in January 2019<sup>22</sup>, with Utilita Energy Limited appointed as the SoLR<sup>23</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 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 claim approved by the Authority (i.e. 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 ten 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.

Claims could yet be made by all of the other SoLRs, but we understand that Ovo Electricity Ltd, as SoLR to the former customers of Economy Energy Supply Limited, and Utilita Energy Limited,

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<sup>16</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>17</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>18</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>19</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>20</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>21</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>22</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>23</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)



as SoLR to the former customers 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**

- 3.6. On 28 January 2019 Ofgem published its statutory consultation on modifications to the licence to recover the costs associated with appointing a SoLR<sup>24</sup>, and following its final decision and standard 56 day cooling off period the changes to the licence will be implemented.
- 3.7. 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.
- 3.8. 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).
- 3.9. 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 it has provided notice to the Authority of its intent to pay and recover the Valid Claim in the same regulatory year.
- 3.10. 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 of the change.
- 3.11. 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 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, 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 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.
- 3.12. DCP 332 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

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<sup>24</sup> <https://www.ofgem.gov.uk/publications-and-updates/informal-consultation-modification-electricity-distribution-licence-recover-costs-associated-appointing-supplier-last-resort>

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.

- 3.13. 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 change proposal 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<sup>25</sup>. As such, with this being a Part 1 matter, it is anticipated that the Authority would only approve this change proposal subject to its approval of consistent changes to the licence.
- 3.14. The proposed solution is to include a conditional need to not provide the notice periods described in Clause 19.1A, other than where the Authority directs otherwise, where a DNO has given notice to the Authority of its intent to recover Valid Claims which have breached the Materiality Threshold in accordance with the new SLC38B.
- 3.15. Schedules 16, 17 and 18 require new Clauses (7a, 1.3a and 1.3a respectively) to ensure that, where a DNO is not providing 15 months' notice of a change to use of system charges in accordance with SLC38B, the increase in use of system charges is only to recover additional revenue allowances associated with Valid Claims which have breached the Materiality Threshold. The proposed solution to DCP 332 will mean that those additional revenue allowances only impact charges to:
  - suppliers in respect of domestic customers connected to DNO networks, which are calculated in accordance with Schedule 16;
  - LDNOs in respect of domestic customers connected to LDNO networks where the DNO to LDNO boundary is at HV or LV, which are calculated in accordance with Schedule 16; and
  - LDNOs in respect of domestic customers connected to LDNO networks where the DNO to LDNO boundary is at EHV or 132kV, which are calculated in accordance with Schedule 17 or 18.
- 3.16. The Working Group should also consider notice periods provided by LDNOs, where subject to the modifications to the licence, where practical it would be beneficial to ensure that a DNO Party is

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<sup>25</sup> DCP 332 'Appropriate treatment and allocation of Last Resort Supply Payment claim costs'

DCP 333 'Appropriate treatment and allocation of eligible use of system bad debt costs'

DCP 334 'Update to Schedule 15 ('Cost Information Table') to maintain alignment with the distribution licence'



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. Note that the proposed legal text retains the requirement for a DNO Party to provide the minimum 40 days' notice but this is subject to agreement with the Working Group.

- 3.17. Whilst this Change Proposal reflects the current proposed licence drafting, any solution implemented should represent the licence changes approved by the Authority following the statutory consultation period.

## Part B: Code Specific Details

### 4 Solution and Legal Text

#### Legal Text

- 4.1. Changes are needed to Section 19, both to amend an existing Clause and insert an additional Clause, and to Schedules 16, 17 and 18 to introduce new Clauses.

#### Section 19

- 4.2. Amend Clause 19.1B as follows:

*"The periods of notice described in Clause 19.1A shall apply unless the Authority directs the Company that those periods of notice need not apply or Clause 19.1E applies. Where the Authority directs the Company that those periods of notice need not apply, or Clause 19.1E applies, the notice period shall be 40 days (without prejudice to any longer notice requirements prescribed by the Distribution Licence)."*

- 4.3. Insert Clause 19.1E as follows:

*"Subject to Licence conditions dictating the date from which a change to Use of System Charges can take effect, the Company may vary the Use of System charges at any time by giving 40 days written notice to the User, where the Company has given notice to the Authority under Condition 38B of its Distribution Licence, in respect of payment claims for last-resort supply where the aggregate value exceeds the nominal materiality threshold value. Such charges will be calculated in accordance with the provisions of the Relevant Charging Methodology, unless the Authority has consented otherwise."*

#### Schedule 16

- 4.4. Insert Clause 7a as follows:

*"Where the DNO Party is not providing 15 months' notice of a change to Use of System charges due to payment claims for last-resort supply where the aggregate value exceeds the nominal materiality threshold value (under paragraph 1E of Section 19 ('Charges')), it shall only update the calculation of charges (compared to those presented in the previous publication of charges for the charging year) in respect of the SLR term used in its forecast level of allowed revenue in the charging year."*

#### Schedule 17

- 4.5. Insert Clause 1.3a as follows:

*“Where the DNO Party is not providing 15 months’ notice of a change to Use of System charges due to payment claims for last-resort supply where the aggregate amounts exceeds the nominal materiality threshold value (under paragraph 1E of Section 19 (‘Charges’)), it shall only update the calculation of charges (compared to those presented in the previous publication of charges for the charging year) in respect of the SLR term used in its forecast level of allowed revenue in the charging year.”*

#### Schedule 18

4.6. Insert Clause 1.3a as follows:

*“Where the DNO Party is not providing 15 months’ notice of a change to Use of System charges due to payment claims for last-resort supply where the aggregate amounts exceeds the nominal materiality threshold value (under paragraph 1E of Section 19 (‘Charges’)), it shall only update the calculation of charges (compared to those presented in the previous publication of charges for the charging year) in respect of the SLR term used in its forecast level of allowed revenue in the charging year.”*

#### Text Commentary

- 4.7. The approach taken to Section 19 in relation to the notice periods of changes to use of system charges is to amend Clause 19.1B and add an additional step as 19.1E. The amendment to Clause 19.1B is 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.
- 4.8. 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 cost adjustment, where a Valid Claim has breached the Materiality Threshold in accordance with the new SLC38B. This change is necessary to ensure that no other changes are made to previously published charges.
- 4.9. The changes made to the EDCM legal text in Schedules 17 and 18 respectively is to add a new Clause 1.3a, which require 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; hence if that solution is maintained, 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. This change is necessary to ensure that no other changes are made to previously published charges.

## 5 Code Specific Matters

#### Reference Documents

- 5.1. Links to reference documents are included in footnotes throughout.

## 6 Relevant Objectives

DCUSA Charging Objectives	Identified impact
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<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)	None
<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	None
<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
<p><b>Charging objective one:</b> better facilitated by improving efficiency in a DNO discharging its licence obligations and by ensuring SLC38B can be complied with in relation to the requirement to recover a Valid Claim which has breached the Materiality Threshold using approved use of system charging methodologies.</p> <p><b>Charging objective two:</b> no impact.</p> <p><b>Charging objective three:</b> no impact.</p> <p><b>Charging objective four:</b> better facilitated by ensuring a DNO can efficiently recover costs incurred at relatively short notice relating to the appointment of a SoLR in accordance with the licence.</p> <p><b>Charging objective five:</b> no impact.</p> <p><b>Charging objective six:</b> no impact.</p>	

## 7 Impacts & Other Considerations

7.1. This change will have an impact on DNOs, IDNOs 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 licensing arrangements.

## Does this Change Proposal Impact Other Codes?

- 7.4. No other codes are impacted by this change proposal.

BSC	<input type="checkbox"/>
CUSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
MRA	<input type="checkbox"/>
SEC	<input type="checkbox"/>
Other	<input type="checkbox"/>
None	<input checked="" type="checkbox"/>

## Consideration of Wider Industry Impacts

- 7.5. The change has been discussed as part of the distribution licence review group consisting of DNOs and Ofgem.

## Confidentiality

- 7.6. Non-confidential.

## 8 Implementation

- 8.1. Upon implementation of the proposed changes to the licence, the change should be implemented as soon as possible and does not need to be implemented from the beginning of a regulatory year. It is possible that, once implemented, the licence modifications may require a DNO Party to increase Use of System charges effective from 1 April 2020 to recover a Valid Claim which has breached the Materiality Threshold.

## Proposed Implementation Date

- 8.2. Earliest possible release of the DCUSA following implementation of modifications to the licence.

## 9 Recommendations