




DCUSA Change Report		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 01 February 2019 as a Standard Change</i></p>	01 – Change Proposal	
	02 – Consultation	
	03 – Change Report	
	04 – Change Declaration	
<b>Purpose of Change Proposal:</b> <p>DCP 340 seeks 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 a 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>This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 340 – ‘Notice period required to recover approved last resort supply payment claims which breach the materiality threshold’.</p> <p>Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>09 August 2019</b></p> <p>The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.</p> <p>If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> or telephone 020 7432 3011.</p>	
	<b>Parties Impacted: DNOs, IDNOs and Suppliers</b>	
	<p>Impacted Clauses: Section 19, Clause 19.1B plus one new Clause 19.1E;</p> <p>Schedule 16, one new paragraph 7a; and</p> <p>Schedules 17 and 18, one new paragraph 1.3a.</p>	

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Any questions?

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## Timetable

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 the Authority	13 August 2019
Authority Decision	18 September 2019
Implementation	01 April 2020

## 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.

### **Modification 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 was published on 02 May 2019<sup>2</sup>. The licence changes were implemented on 28 June 2019. 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 recovering the claim in the regulatory year which follows that in which the claim was

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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>

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

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 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.

## 2 Governance

### Justification for Part 1 Matter

- 2.1 DCP 340 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 the DNOs Materiality Threshold and therefore is considered a Part 1 Matter.
- 2.2 DCP 340 has been designated as a standard change.

### Requested Next Steps

- 2.3 The Panel considered that the Working Group have carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 340.
- 2.4 The DCUSA Panel recommends that this CP is issued to Parties for Voting.

## 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>3</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>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 trading in July 2018<sup>8</sup>, with Octopus Energy Limited appointed as the SoLR<sup>9</sup>;

<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)

- Gen4u ceased trading in September 2018<sup>10</sup>, with Octopus 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>;
- Spark Energy Supply Limited ceased trading in November 2018<sup>16</sup>, with Ovo Electricity Ltd appointed as 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>;
- Our Power Energy Supply Limited ceased trading in January 2019<sup>22</sup>, with Utilita Energy Limited appointed as the SoLR<sup>23</sup>; and
- Brilliant Energy Supply Limited ceased trading in March 2019<sup>24</sup>, with SSE Electricity Limited appointed as the SoLR<sup>25</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

<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\\_enegy\\_20181123\\_revocation\\_notice\\_-\\_elec.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/11/extra_enegy_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)

<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)

<sup>24</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>25</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/03/20190312\\_solr\\_direction\\_-\\_elec.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/03/20190312_solr_direction_-_elec.pdf)

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.

3.6 Claims could yet be made by all of the other SoLRs other than Green Star Energy<sup>26</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 customers of Our Power Energy Supply Limited) will both absorb the costs and therefore will not make an LRSP claim.

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

3.7 On 02 May 2019, Ofgem published its decision on modifications to the licence to recover the costs associated with appointing a SoLR<sup>27</sup> which were implemented on 28 June 2019.

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 a Valid Claim is received on or after 01 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

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<sup>26</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>27</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-modifications-electricity-distribution-licence-recover-costs-associated-appointing-supplier-last-resort>



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 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.
- 3.14 The calculation of charges for domestic customers is predominantly carried out in accordance with Schedule 16. But 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.
- 3.15 The changes proposed to the legal text also inherently 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.
- 3.16 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



Use of System charges in the calculation of electricity price caps which it publishes in February of each year.

- 3.17 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.

## 4 Solution

### DCP 340 Assessment

- 4.1 The DCUSA Panel established a Working Group to assess DCP 340. This Working Group consisted of DNO, IDNO and Supplier representatives and 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 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 of charges under normal circumstances is to allow an LDNO sufficient time to comply with its relative price control requirements.
- 4.3 In the event of a breach of the Materiality Threshold there will be a minimum of three month's between receipt of a Valid Claim and a requirement to change charges to recover the costs. This is because claims which breach the materiality threshold received less than three months before the start of a regulatory year will be recovered and paid a year later. So the 'worst case scenario' is 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; and
  - Publish and communicate the revised Use of System charges.

- 4.4 If this CP were not implemented, DNOs would also need to request and receive consent from the Authority to not provide 15 months' notice of a change to Use of System charges prior to publishing revised charges. By removing the need for that authorisation, this CP will facilitate DNOs completing the publication 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.
- 4.5 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 LDNOs sufficient time to publish revised Use of System charges with the requisite 40 days' notice. Therefore DNOs may be required to provide more than 40 days' notice. 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.

### **DCP 340 Consultation**

- 4.6 To aid the 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 the industry for views on the proposed solution for the CP. There were eight respondents to the consultation comprising of five DNOs, one IDNO and two Suppliers. A copy of the first consultation and Working Group conclusions can be found as Attachment 4.

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

- 4.7 All respondents to the consultation understood the intent of DCP 340.

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

- 4.8 All respondents to the consultation are supportive of the principles of DCP 340.

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

- 4.9 All respondents to the consultation are supportive of the proposed solution for DCP 340.
- 4.10 One respondent highlighted that although providing less notice of changes in tariffs is not desirable, it is unavoidable in the case of SoLR payment claims that breach the Materiality Threshold and having arrangements in place to ensure that this can be achieved in an efficient and orderly manner is desirable.

4.11 It was also noted that the solution for DCP 340 is necessary to enable a DNO to efficiently discharge its licence obligations, and to achieve this in line with the desired intent of the distribution licence changes.

**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.**

4.12 The majority of respondents to this question agree that 40 days' notice is an adequate notice period for DNOs updating their published Use of System Charges. However, one respondent noted that they did not believe it was an adequate notice period as it potentially does not leave an LDNO any time to publish its own revised Use of System charges.

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

4.13 The majority of respondents do not believe that the Working Group should consider any alternative solutions, however, one respondent suggested that the Working Group should consider obliging DNOs to publish their updated Use of System charges by 01 February in any given year meaning that circa 20 days would be available for LDNOs to publish revised Use of System charges and provide 40 days' notice in doing so.

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

4.14 Seven of the eight respondents did not have any comments on the proposed legal text and were happy with the current drafting.

4.15 One respondent highlighted that the legal text would need to be amended if the Working Group were to consider their alternative solution option whereby DNOs and LDNOs would require different notice periods.

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

4.16 The Working Group noted all responses to this question and highlighted that there were seven supportive comments for DCUSA Charging Objective 1, seven for DCUSA Charging Objective 4 and one for DCUSA Charging Objective 6.

4.17 The Working Group position on which of the DCUSA Charging Objectives would be better facilitated by the implementation of DCP 340 can be found in section 5 below.

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

4.18 All respondents to the consultation were unaware of any wider industry developments that may impact upon or be impacted by this CP.

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

4.19 The majority of the respondents to the consultation were comfortable with an implementation date of 01 April 2020.

### Working Group Conclusions and Next Steps

4.20 Following a review of the consultation responses the Working Group agreed that it would be more beneficial to LDNOs for DNOs to be required to provide greater notice of changes to Use of System charges. This seeks to avoid a potential scenario where LDNOs are required to publish updated Use of System charges on the same day as DNOs, if DNOs were to provide the minimum 40 days' notice.

4.21 The Working Group agreed that the DNOs should publish their updated Use of System charges by 01 February in any given year meaning that an additional circa 20 days would be available for LDNOs to publish revised Use of System charges and provide 40 days' notice in doing so. This would mean that the DNOs would have a minimum of 30 days to update their charges from receipt of a Valid Claim which breached the Materiality Threshold.

## 5 Relevant Objectives

### Assessment Against the DCUSA Objectives

5.1 For a DCUSA CP to be approved it must be demonstrated that it better meets the DCUSA Objectives. There are five General DCUSA Objectives and six Charging Objectives. This change proposal impacts the charging objectives.

5.2 The Proposer of DCP 340 believes that the proposed solution of DCP 340 will better facilitate DCUSA Charging Objectives one and four with no impact on the other Objectives.

5.3 The proposer asserts that:

- 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 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, as the licence intends to do so i.e. by only changing charges to recover SoLR pass-through costs.

- 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.

5.4 The Working Group unanimously agree with the Proposer and considers that DCUSA Charging Objectives one and four would be better facilitated by the implementation of DCP 340.

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	Identified impact
Charging Objective One – that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	<b>Positive</b>
Charging Objective Two – 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)	Neutral
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 expected to be incurred, by the DNO Party in its Distribution Business	Neutral
Charging Objective Four – that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	<b>Positive</b>
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	Neutral
Charging Objective Six - that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	Neutral

## 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 There is no impact on any existing or anticipated SCR.
- 6.2 As detailed throughout, changes were made to the licence on 28 June 2019. Those licence changes are the driver for this CP which has been discussed with Ofgem as part of the review of licencing arrangements.

### Consumer Impacts

- 6.3 N/A.

### Environmental Impacts

- 6.4 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if this CP 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

- 6.5 Ofgem has been engaged throughout the development of this CP as an observer of the Working Group.

## 7 Implementation

- 7.1 The proposed implementation date for DCP 340 is 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.

## 8 Legal Text

- 8.1 The DCP 340 legal text acts as Attachment 1 to this Change Report.
- 8.2 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.
- 8.3 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 the differing notice periods for DNOs and LDNOs.
- 8.4 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.
- 8.5 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 if both DCP 332 and this CP were implemented, this CP 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.
- 8.6 The changes being made to Schedule 16, 17 and 18 are necessary to ensure that no other charges are made to previously published charges.



## 9 Code Specific Matters

### Modelling Specification Documents

9.1 Not applicable.

### Reference Documents

9.2 Not applicable.

## 10 Recommendations

### Panel's Recommendation

10.1 The Panel approved this Change Report on 17 July 2019. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 340.

10.2 The Panel have recommended that this report is issued for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

### Attachments

- Attachment 1 – DCP 340 Legal Text
- Attachment 2 – DCP 340 Voting Form
- Attachment 3 – DCP 340 Change Proposal
- Attachment 4 – DCP 340 Consultation and Collated Responses