



## **DCUSA Change Report**

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### DCP 109 - Implementation of the EDCM

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 109 – Implementation of the EDCM.
- 1.2 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.
- 1.3 Parties are invited to consider the proposed amendments (Appendix B) and submit their votes using the form attached as Appendix E to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than 13 February 2012.

## 2 BACKGROUND TO DCP 109

- 2.1 Distribution Network Operators (DNOs) are required by their licences to have in place methodologies to calculate their charges for Use of System (UoS). In 2009 licence modifications requiring the governance of the distribution charging methodologies to be placed in the DCUSA were approved by Ofgem<sup>1</sup>.
- 2.2 On 01 January 2010 the DCUSA was modified via DCP 046B<sup>2</sup> to include the governance arrangements to reflect the requirements of the final licence modification. DCP 046B recognised that the methodologies would be introduced into the Agreement at a later stage (the Common Distribution Charging Methodology (CDCM) in April 2010 and the EHV Distribution Charging Methodology (EDCM) in April 2012) and provided placeholders for the Schedules in the Agreement.
- 2.3 The CDCM, for charging customers at the lower voltage levels, came into effect on 01 April 2010 and was implemented in the DCUSA via DCP 059<sup>3</sup>.
- 2.4 On 01 April 2011 the DNOs submitted to Ofgem their proposals for charging customers at the higher voltage levels (EDCM). In September 2011 Ofgem published its decision on the methodology for higher voltage import charges, approving the methodology for import charges (i.e. demand) subject to three conditions<sup>4</sup>.

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<sup>1</sup> [Ofgem Notice - Licence Modifications](#)

<sup>2</sup> Common Distribution Charging Methodology Governance

<sup>3</sup> Implementation of the CDCM

<sup>4</sup> [Ofgem EDCM Decision Document](#)

- 2.5 The Authority has decided to delay the introduction of EDCM export (i.e. generator) charges until April 2013 at the earliest (possibly later). Ofgem issued consultations on higher voltage generation charging and a time limited exemption for pre-2005 generators in October 2011. The consultations closed on 05 December 2011 and responses can be viewed on the Ofgem website.
- 2.6 The conditions set by Ofgem in its decision letter are as follows:
- Condition 1 - LDNO discount categories - by 30 November 2011
  - Condition 2 - Sense-checking of LRIC branch charges - by 30 November 2011
  - Condition 3 - Treatment of spare capacity in calculating network use factors - by 1 June 2012
- 2.7 A report on Conditions 1 and 2 was submitted to by the DNOs to Ofgem on 30 November 2011. The DNOs consider that the proposals set out meet the conditions.
- 2.8 As part of the 30 November report, the DNOs also submitted to Ofgem revised methodology statements and models reflecting Ofgem's decision to postpone the implementation of the EDCM for generation (export) charges. There are no other material changes to the April 2011 submission.
- 2.9 Appendix A details the sequence of events since October 2008. The first table sets out what was included in the April 2011 submission. The second table sets out the relevant events from April 2011 to date.
- 2.10 In its decision notice Ofgem stated that the new charges for demand customers connected at higher voltages will apply from 01 April 2012. Licence Condition SLC 20A.11 requires the DNOs to incorporate the EDCM for import charges into the DCUSA. Licence Condition SLA 50A.24 requires the DNOs to implement the EDCM in the form in which it has been approved by the Authority.

### **3 INTENT OF DCP 109**

- 3.1 The intent of DCP 109 is to bring the EDCM text (as approved by Ofgem on 20 December 2012<sup>5</sup>) into Schedules 17 and 18 of the DCUSA.
- 3.2 The CP also seeks to make any consequential changes to the rest of the Agreement required by the implementation of the EDCM including any around the use of the term EHV and any to the CDCM arising from any reclassification of customers.

#### 4 DCP 109 – CONSULTATION

- 4.1 A consultation on DCP 109 was issued to all DCUSA Parties and interested parties on 22 December 2011 for a period of 13 Working Days.
- 4.2 7 responses were received by the closing date of 12 January 2012. A summary of the responses received and the DCP 109 Working Group's response to them is set out below. The full responses from each Party are attached as Appendix D.
- 4.3 Do you understand the intent of DCP 109 and are you supportive of its principles? All 7 respondents confirmed that they understood the intent of the CP and are supportive of its principles.
- 4.4 Does the proposal better facilitate the DCUSA general and charging methodology objectives<sup>6</sup> (please specify which)? 2 respondents provided general comments confirming they consider that the CP better facilitates the DCUSA general and charging methodology objectives. The other responses are documented in the table below:

	General Objective	Charging Objective
Objective #1	2	4
Objective #2	0	0
Objective #3	4	3
Objective #4	2	2

- 4.5 Do you consider that the proposed drafting effectively discharges Licence Condition SLC 20A.11 which requires the DNOs to incorporate the EDCM for import charges into the DCUSA? All 7 respondents considered that the proposed drafting discharges the Licence obligation. 1 respondent stated their response was given on the basis that there has been no material change to the scope or intent of the Charging Methodologies Group (CMG)

<sup>5</sup> [www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=818&refer=Networks/ElecDist/Policy/DistChrgs](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=818&refer=Networks/ElecDist/Policy/DistChrgs)

<sup>6</sup> As set out in Appendix D – Consultation response form

and Ofgem approved drafting then the proposed drafting will discharge licence condition SLC 20A.11.

- 4.6 Do you consider that the proposed drafting properly reflects the methodology approved by Ofgem in December 2011? All 7 respondents considered that the proposed drafting reflects the approved methodology although 1 highlighted that it would be helpful to see a change tracked version of the methodology showing the changes made from the Ofgem approved version in order to verify the Working Group's view.
- 4.7 Do you support the Working Group's view that no consequential changes are required to the CDCM in order to implement the EDCM? All 7 respondents supported the Working Group's view. 2 respondents identified that a housekeeping change to the CDCM for the removal of the HV Sub Tariff should be considered at a future time.
- 4.8 Are there any other matters that should be considered by the Working Group? 2 respondents identified matters for consideration. The first suggested the group consider whether the spreadsheet model can be amended so that the tariff rates are displayed to the correct number of decimal places. The respondent noted that the issue does not have any materiality, but that correcting it should reduce the possibility of future errors.
- 4.9 The second noted that Demand Side Agreements have been proposed in the draft charging statements from the DNOs. The respondent asked a series of questions about the agreements as well as further questions on Super Red time bands and reactive power charges.

## **5 DCP 109 – WORKING GROUP CONCLUSIONS**

- 5.1 The DCP 109 Working Group comprised Supplier and Distributor Parties, supported by Ofgem and DCUSA Legal Counsel. 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).

### Consultation Responses

- 5.2 The Working Group concluded that the respondents to the consultation understood the intent of DCP 109, were supportive of its principles and

considered that the proposed legal drafting met the licence condition and reflected the approved methodology.

- 5.3 The Working Group noted the comment regarding the provision of change marked text and agreed to include this, along with the DNO Report issued to Ofgem on 30 November 2011, with this Change Report. The documents are attached as Appendix B and C respectively.
- 5.4 The Working Group noted the comments regarding consequential changes to the CDCM and concluded that no changes are required to facilitate the implementation of the EDCM. Any future changes that are identified can be raised through the existing change process set out in Section 1C of the DCUSA.
- 5.5 The Working Group considered whether the spreadsheet model should be amended so that the tariff rates used for the calculation of forecast revenue are rounded are displayed to the correct number of decimal places. Members noted that they considered the change would not have any material impact on the methodology but could reduce the risk of future errors as the values are used in charging statements.
- 5.6 The Working Group noted that a change to both the methodology (to instruct DNOs to publish rounded EDCM tariffs) and a change to the model (to implement the rounding) would be required to effect this proposal.
- 5.7 Following consultation with the Professional Advisers for DCP 109, members considered modifying the methodology and model at such a late stage could result in the introduction of errors either in the model itself or in the population of the new blank models.
- 5.8 The Working Group further agreed that the primary intent of DCP 109 is to implement the approved methodology in the DCUSA on 01 April 2012 and that any modifications to that approved version could either result in a delay or Ofgem rejection of the CP.
- 5.9 The Working Group instead recommended that a separate CP should be raised via the Methodologies Issues Group (MIG) to properly assess and develop the proposal. It further recommended that a change to the CDCM model be considered at the same time to address a further issue identified by the Professional Advisers regarding differences in the way LDNO tariffs and the all-the-way tariffs are rounded.

The Working Group considered that the questions raised around Demand Side Agreements, Super Red time bands and reactive power charges were not relevant to the implementation of the approved EDCM in open governance as they relate to the application of the methodology. The Working Group suggested that the questions should be directed either to individual DNOs or raised at the EDCM Workshop on 19 January 2012.

#### Drafting Changes

- 5.10 The drafting presented as DCP 109 has been modified from the approved methodology to better align it with the existing DCUSA text. The amendments seek to reflect the DCUSA defined terms and correct minor typographical errors.
- 5.11 The Working Group considers that there has been no material change to the scope or intent of the Charging Methodologies Group (CMG) and Ofgem approved drafting and that the proposed drafting meets the intent of DCP 109. The change marked and clean versions of the drafting are attached as Appendix B.

#### Consequential Changes

- 5.12 The scope of DCP 109 was drafted to allow the CP to make any consequential changes required to CDCM to ensure consistency with implementation of EDCM.
- 5.13 The Working Group, in consultation with Reckon LLP, has determined that there are no consequential changes required to the CDCM in order to implement the EDCM.

## **6 PROPOSED LEGAL TEXT**

- 6.1 The draft legal text has been reviewed by Wragge & Co and is attached as Appendices B1 and B2.
- 6.2 The drafting presented as DCP 109 has been modified from the approved methodology to better align it with the existing DCUSA text. The amendments seek to reflect the DCUSA defined terms and correct minor typographical errors. There has been no material change to the scope or intent of the CMG and Ofgem approved drafting.

## **7 EVALUATION AGAINST THE DCUSA OBJECTIVES**

- 7.1 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 109:
- 1) The development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System.
  - 3) The efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.
  - 4) The promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it.
- 7.2 Objective 1 - This proposal incorporates the EDCM within the modification framework established under DCP 046. This incorporation is intended to have the effect of contributing to the efficient development of the network. Subjecting the EDCM to the governance and change control mechanisms of the DCUSA will ensure that the EDCM is responsive to the needs of network users and that the industry can continue to pursue cost reflective charges centrally through the DCUSA.
- 7.3 Objective 3 – Implementation of the proposal will discharge the DNOs and IDNOs obligation under SLC20A.11 to ensure that the EDCM is incorporated within the DCUSA from 1 April 2012.
- 7.4 Objective 4 - This proposal inserts the EDCM into the DCUSA. A few minor edits have been made to the EDCM to ensure that definitions are in line with the DCUSA. These promote efficiency in the implementation and administration of the DCUSA, as without these Schedule 17 and 18 would conflict with other parts of the Agreement and be unclear to Parties.

## **8 EVALUATION AGAINST THE CHARGING METHODOLOGY OBJECTIVES**

- 8.1 The Working Group considers that the following Charging Methodology Objectives are better facilitated by DCP 109:

- 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.
  - 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.
  - 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.
- 8.2 Objective 1 - Implementation of the proposal will discharge the DNOs and IDNOs obligation under SLC20A.11 to ensure that the EDCM is incorporated within the DCUSA from 1 April 2012.
- 8.3 Objective 3 – The CP implements a charging methodology which has already been approved by Ofgem as reflective of the costs incurred, or reasonably expected to be incurred, by Distributors in the operation of their business.
- 8.4 Objective 4 – The CP implements a charging methodology which has already been approved by Ofgem as taking account of developments in each DNO Party's Distribution Business.

## **9 IMPLEMENTATION**

- 9.1 In its decision notice, Ofgem stated that the new charges for demand customers connected at higher voltages will apply from 01 April 2012. Licence Condition SLC 20A.11 requires the DNOs to incorporate the EDCM for import charges into the DCUSA. Licence Condition SLA 50A.24 requires the DNOs to implement the EDCM in the form in which it has been approved by the Authority.
- 9.2 Subject to Ofgem approval, DCP 109 will be implemented on 01 April 2012.

## 10 PANEL RECOMMENDATION

10.1 The Panel approved this Change Report ex-committee by email on 30 January 2012.

10.2 The timetable for the progression of the Change Proposals is set out below:

<b>Activity</b>	<b>Date</b>
Change Report issued for voting	30 January 2012
Voting Closes	13 February 2012
Change Declaration	14 February 2012
Authority Determination	20 March 2012
CP Implemented	01 April 2012

## 11 APPENDICES:

- Appendix A – Charging Methodologies Timeline
- Appendix B1 - Schedule 17 Proposed legal drafting
- Appendix B2 - Schedule 18 Proposed legal drafting
- Appendix B3 - Schedule 17 Proposed legal drafting change marked against Ofgem legal drafting
- Appendix B4 - Schedule 18 Proposed legal drafting change marked against Ofgem legal drafting
- Appendix C – DNO Report to Ofgem, 30 November 2011
- Appendix D – Collated consultation responses
- Appendix E - DCP 109 Voting Form