




Part A: Generic

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1>DCP 339:</h1> <h2>Amend definition of 'Other Charges' in Clause 19.2.1 to exclude the recovery of approved Last Resort Supply Payment claims</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>Purpose of Change Proposal:</p> <p>The intent of this Change Proposal is to remove a contradiction between the electricity distribution licence and the Distribution Connection and Use of System Agreement (DCUSA) by amending Clause 19.2.1 to remove any reference to DNO Party obligations in relation to Last Resort Supply Payments.</p>		
	<p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Treated as a Part 2 Matter; • Treated as a Standard Change; and • Proceed to Change Report. <p>The Panel will consider the proposer's recommendation and determine the appropriate route.</p>	
	<p>Impacted Parties:</p> <p>DNOs.</p>	
	<p>Impacted Clauses:</p> <p>Section 19 Clause 19.2.1</p>	

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Indicative Timeline			
The Secretariat recommends the following timetable:			
Initial Assessment Report	20 February 2019		
Change Report Approved by Panel	20 March 2019		
Change Report issued for Voting	22 March 2019		
Party Voting Closes	12 April 2019		
Change Declaration Issued to Parties	16 April 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). Where applicable, an approved claim (a 'Valid Claim') is made to Distribution Network Operators (DNOs), with DNOs in turn recovering the costs from customers via Use of System charges.
- 1.3. The distribution licence ("the licence") specifies that DNOs must recover the costs associated with an LRSP through Use of System charges, whilst the Distribution Connection and Use of System Agreement include such costs in the definition of 'Other Charges'. The licence and DCUSA are

therefore contradictory, and DNOs are required to seek Authority derogation from the DCUSA requirement to recover LRSP costs via 'Other Charges' in order to comply with the licence requirement to recover LRSP costs through Use of System charges. This change seeks to resolve this contradiction by amending the DCUSA definition of 'Other Charges'.

Why?

- 1.4. DNOs are obligated by the existing licence to recover Valid Claims via Use of System Charges. The licence and the DCUSA should be consistent in the treatment of Valid Claims to remove any ambiguity and contradictions.

How?

- 1.5. Clause 19.2.1 should be amended to remove any reference to LRSP.
- 1.6. This Change Proposal is not conditional on the implementation of modifications to the licence.

2 Governance

Justification for Part 1 and Part 2 Matter

- 2.1. The change does not meet any of the criteria for a Part 1 matter, as it is simply ensuring alignment between the licence and the DCUSA is achieved.

Requested Next Steps

- 2.2. This Change Proposal should:
 - Be treated as a Part 2 Matter;
 - Be treated as a Standard Change; and
 - Proceed to Change Report.

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. The SoLR may make a claim for a 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 '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.
- 3.3. Standard condition 38 '*Treatment of payment claims for last-resort supply*' of the licence ('SLC38') sets out the requirements of a DNO to recover a Valid Claim, and paragraph two (emphasis added) specifies:

*"Where the licensee receives a Valid Claim, it must, during the Relevant Regulatory Year, make an increase to its **Use of System Charges** relating to the distribution of electricity to premises in*

respect of that year to such an extent as it reasonably estimates is appropriate to ensure that the consequential increase in its Use of System revenue will equal the Specified Amount.”

3.4. However, Clause 19.2.1 specifies that ‘**Other Charges**’ are defined (emphasis added) as:

“the charges for (i) the provision of MPAS, (ii) (where applicable) the provision of Legacy Meter Asset Provision and of Data Services, and (iii) (where applicable) the provision of last resort supply payments (all pursuant to the Company’s obligations under, respectively, Condition 18, Condition 36, and Condition 38 of its Distribution Licence)”

3.5. Therefore, a contradiction exists between the licence and the DCUSA, where the licence requires a Valid Claim to be recovered via Use of System Charges, but the DCUSA requires these costs to be recovered as Other Charges.

3.6. On 28 January 2019 Ofgem published its statutory consultation on modifications to the electricity distribution licence to recover the costs associated with appointing a SoLR¹, and following its final decision and standard 56 day cooling off period the licence changes will be implemented. The requirement to recover Valid Claims via Use of System Charges remains unaltered as a result of these proposed modifications, and indeed it is essential that Use of System Charges and not ‘Other Charges’ recover Valid Claims to deliver the intent of the modifications to the licence.

Part B: Code Specific Details

4 Solution and Legal Text

Legal Text

4.1. Clause 19.2.1 should be amended as follows:

“the charges for (i) the provision of MPAS, and (ii) (where applicable) the provision of Legacy Meter Asset Provision and of Data Services, ~~and (iii) (where applicable) the provision of last resort supply payments (all pursuant to the Company’s obligations under, respectively, Condition 18, Condition 36, and Condition 38 of its Distribution Licence)”~~

Text Commentary

4.2. The amendment to Clause 19.2.1 is simply to remove any reference to an LRSP.

5 Code Specific Matters

Reference Documents

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

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

6 Relevant Objectives

DCUSA Charging Objectives	Identified impact
<input checked="" type="checkbox"/> 1 that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	Positive
<input type="checkbox"/> 2 that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	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>Charging objective one: better facilitated by ensuring a DNO is compliant with both the licence and the DCUSA, where at present it cannot be compliant with both and therefore is in breach of the licence as a result.</p> <p>Charging objective two: no impact.</p> <p>Charging objective three: no impact.</p> <p>Charging objective four: better facilitated by removing the contradiction and ensuring Valid Claims are recovered via Use of System Charges which is essential to deliver the intent of the proposed modifications to the licence.</p> <p>Charging objective five: no impact.</p> <p>Charging objective six: no impact.</p>	

7 Impacts & Other Considerations

- 7.1. This change should have no impact as the amendment to Clause 19.2.1 will bring the DCUSA in line with the licence conditions with which DNOs are complying when recovering Valid Claims. No

system impacts are anticipated, as the change does not impact tariff structures or the rates calculated, nor indeed does it impact notice periods 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 to the licence. This change will ensure the intent of the proposed modifications to the licence can be delivered without the existing contradiction complicating matters.

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. This change should be implemented as soon as possible and does not need to be implemented from the beginning of a regulatory year.

Proposed Implementation Date

- 8.2. First available DCUSA release.

9 Recommendations