

DCUSA Change Report		At what stage is this document in the process?
<h1 data-bbox="124 353 550 448">DCP 339</h1> <h2 data-bbox="124 488 1133 772">Amend definition of ‘Other Charges’ in Clause 19.2.1 to exclude the recovery of approved Last Resort Supply Payment claims</h2> <p data-bbox="124 790 858 828"><i>Raised on 01 February 2019 as a Standard Change</i></p>	<div data-bbox="1187 344 1353 412">01 – Change Proposal</div> <div data-bbox="1187 472 1417 501">02 – Consultation</div> <div data-bbox="1187 566 1353 629">03 – Change Report</div> <div data-bbox="1187 674 1353 734">04 – Change Declaration</div>	
<p data-bbox="119 929 571 965">Purpose of Change Proposal:</p> <p data-bbox="119 983 1439 1137">The intent of DCP 339 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 data-bbox="225 1176 1430 1292">This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 339 – Amend definition of ‘Other Charges’ in Clause 19.2.1 to exclude the recovery of approved Last Resort Supply Payment claims.</p> <p data-bbox="225 1312 1398 1429">DCP 339 is considered a Part 2 matter and Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by 12 April 2019.</p> <p data-bbox="225 1449 1430 1565">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 data-bbox="225 1585 1445 1659">If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3011.</p>	
	<p data-bbox="225 1697 600 1733">Parties Impacted: DNOs</p>	
	<p data-bbox="225 1816 895 1852">Impacted Clauses: Section 19, Clause 19.2.1</p>	

Contents		 Any questions?														
1	Executive Summary	3														
2	Governance	4														
3	Why Change?	4														
4	Solution	5														
5	Relevant Objectives	5														
6	Impacts & Other Considerations	6														
7	Implementation	7														
8	Legal Text	7														
9	Code Specific Matters	7														
10	Recommendations	8														
Timetable		 Any questions? Contact: Code Administrator  DCUSA@electralink.co.uk  020 7432 3011 Proposer: Andrew Enzor  andrew.ensor@northernpowergrid.com  0734 618994														
<p>The timetable for the progression of the CP is as follows:</p> <p>Change Proposal timetable</p> <table border="1"> <thead> <tr> <th>Activity</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>Initial Assessment Report Approved by Panel</td> <td>20 February 2019</td> </tr> <tr> <td>Change Report Approved by Panel</td> <td>20 March 2019</td> </tr> <tr> <td>Change Report issued for Voting</td> <td>22 March 2019</td> </tr> <tr> <td>Party Voting Closes</td> <td>12 April 2019</td> </tr> <tr> <td>Change Declaration Issued to Parties</td> <td>16 April 2019</td> </tr> <tr> <td>Implementation</td> <td>First DCUSA release following Party approval</td> </tr> </tbody> </table>			Activity	Date	Initial Assessment Report Approved by Panel	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	Implementation	First DCUSA release following Party approval
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1 Executive 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 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 Connect and Use of System Agreement (DCUSA) 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.
- 1.4 This change seeks to resolve this contradiction by amending the DCUSA definition of ‘Other Charges’.

Why?

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

How?

- 1.6 Clause 19.2.1 should be amended to remove any reference to LRSPs.
- 1.7 Ofgem has recently launched a statutory consultation on changes to the licence to improve arrangements associated with LRSPs¹. This Change Proposal is not conditional on the implementation of modifications to the licence as the contradiction exists in both the existing licence and that which will be in force should the proposed licence changes be made.

¹ https://www.ofgem.gov.uk/system/files/docs/2019/01/solr_-_statutory_consultation.pdf

2 Governance

Justification for Part 2 Matter

- 2.1 The Change Proposal 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 The Panel considered that the Proposer has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 339.
- 2.3 The DCUSA Panel recommends that this CP:
- Be issued to Parties for Voting.

3 Why Change?

Background of DCP 339

- 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 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 '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 LRSP costs to be recovered via Use of System Charges, but the DCUSA requires those 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 SoLR, and following its final decision and standard 56 day cooling off period the licence changes will be implemented. The requirement to recover LRSP costs 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 LRSP costs to deliver the intent of the modifications to the licence.

4 Solution

DCP 339 Assessment

- 4.1 The solution for this Change Proposal is to simply amend the DCUSA legal text Clause 19.2.1 to remove any reference to a Last Resort Supply Payment.

5 Relevant Objectives

- 5.1 Assessment against the DCUSA Objectives
- 5.2 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives.
- 5.3 The CP form provided as Attachment 3, details which of the DCUSA Objectives the Proposer considers DCP 339 better facilitates.

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	Positive
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	Positive

- 5.4 The Proposer considers that DCUSA Charging Objective One is better facilitated by this Change Proposal 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.
- 5.5 The Proposer considers that DCUSA Charging Objective Four is better facilitated by this Change Proposal 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.
- 5.6 The Proposer considers that there would be no impact on the other four DCUSA Charging Objectives if this Change Proposal is implemented.

6 Impacts & Other Considerations

- 6.1 This Change Proposal should have no impact on charges or on Parties (other than removing the need for DNOs to request derogations) 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 LRSP costs. No system impacts are anticipated, as the Change Proposal does not impact tariff structures or the rates calculated, nor indeed does it impact notice periods of changes to Use of System Charges.
- 6.2 This Change Proposal has also been discussed as part of the distribution licence review group consisting of DNOs and Ofgem

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

- 6.3 There is no impact on any existing or anticipated SCR.
- 6.4 As detailed throughout, changes are in progress to the licence. This Change Proposal will ensure the intent of the proposed modifications to the licence can be delivered without the existing contradiction complicating matters.

Consumer Impacts

6.5 No consumer impacts have been identified.

Environmental Impacts

6.6 In accordance with DCUSA Clause 11.14.6, the Proposer assessed whether there would be a material impact on greenhouse gas emissions if DCP 339 were implemented. The Proposer did not identify any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

7 Implementation

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

7.2 Therefore, the Proposer suggests that this Change Proposal is implemented in the first DCUSA Release following Party approval.

8 Legal Text

8.1 The legal text for DCP 339 has been recommended by the Proposer and reviewed by the DCUSA legal advisor and is provided as Attachment 1.

8.2 The legal text change simply removes any reference to LRSP in clause 19.2.1.

8.3 The Proposer is satisfied that the legal text meets the intent of the change.

9 Code Specific Matters

Modelling Specification Documents

9.1 Not applicable.

Reference Documents

9.2 Links to reference documents are included in footnotes throughout.

10 Recommendations

Panel's Recommendation

10.1 The Panel approved this Change Report on 20 March 2019. The Panel considered that the Proposer has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 339.

10.2 The Panel have recommended this report be issued for voting and DCUSA Parties should consider whether they wish to submit views regarding this CP. The Voting Form can be found in Attachment 2.

Attachments

- Attachment 1 – DCP 339 Legal Text
- Attachment 2 – DCP 339 Voting Form
- Attachment 3 – DCP 339 Change Proposal