

DCUSA Consultation	At what stage is this document in the process?
<h2 style="color: green;">DCP 306</h2> <h3 style="color: green;">Treatment of Ofgem Licence Fees within the PCDM</h3> <p style="color: green;"><i>Raised on the 12 July 2017 as a Standard Change</i></p>	01 – Change Proposal
	02 – Consultation
	03 – Change Report
	04 – Change Declaration
<p>Purpose of Change Proposal:</p> <p>DCP 306 seeks to increase the cost reflectivity of the Price Control Disaggregation Model by directly allocating the Ofgem licence fee to an appropriate network tier for the calculation of the Opex allocation driver.</p> <p>This document is a Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 306.</p>	
 	<p>The Workgroup recommends that this Change Proposal should:</p> <ul style="list-style-type: none"> • proceed to Consultation <p>Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 1 to dcusa@electralink.co.uk by 09 October 2017.</p> <p>DCP 306 has been designated as a Part 1 Matter and a standard change.</p> <p>The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the Change Proposal (CP).</p>
	<p>Impacted Parties: DNOs/IDNOs</p>
	<p>Impacted Clauses: Schedule XX¹, Clause 6 table and a new clause 11B</p>

¹ Schedule XX being implemented by DCP 234 'Merging the PCDM and the extended PCDM'

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Timetable		
The timetable for the progression of the CP is as follows:		
Change Proposal timetable		
Change Proposal timetable:		
Activity	Date	
Initial Assessment Report Approved by Panel	19 July 2017	
First Consultation issued to Parties	18 September 2017	
Methodology Pack issued to Reckon	October 2017	
Reckon to develop model for PCDM	October 2017	
Second Consultation issued to Parties	November 2017	
Change Report issued to Panel	14 February 2018	
Change Report issued for Voting	23 February 2018	
Party Voting Ends	16 March 2018	
Change Declaration Issued to Parties	20 March 2018	
Authority Decision	24 April 2018	
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 and 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 This CP seeks to improve the cost reflectivity of Opex cost allocation within the Price Control Disaggregation Model (PCDM) (part of Schedule 16²) by allocating Ofgem licence fee costs directly to an appropriate network tier.

Why?

- 1.3 Currently, Ofgem licence fees are calculated and paid by distributors on a £ per MPAN basis. The licence fee costs are not presently considered within the PCDM in calculating the Opex cost allocation driver. It is the view of the Proposer that the costs associated with Ofgem licence fees are not correctly allocated, leading to the Licensed Distributor Network Operator (LDNO)³ tariffs being less cost reflective, particularly for Low Voltage (LV) connected end user LDNO tariffs (High Voltage (HV):LV, LV:LV etc.)

How?

- 1.4 This change suggests that the most appropriate solution to this issue is to directly allocate the Ofgem licence fees (taken from 2007/08 Regulatory Reporting Pack table 2.6) to the LV services network level although further consideration should be given to allocating the license fee at each network level.

Q1: Do you understand the intent of DCP 306?

² Due to the approval of DCP 234, the PCDM will be contained in a new schedule with effect from the 1st April 2018, the number of which has yet to be allocated.

³ An IDNO Party or DNO Party operating an electricity distribution system outside of its Distribution Services Area.

2 Governance

Justification for Part 1 Matter

2.1 DCP 306 has been designated as a Part 1 Matter as the proposed change impacts:

- DCUSA Clause 9.4.2B - it is likely to have a significant impact on competition in the distribution of electricity

Requested Next Steps

2.2 Following a review of the Consultation responses, the Working Group will work to agree the detail of the solution for DCP 306.

3 Why Change?

Background of DCP 306

- 3.1 The Proposer suggests that the costs associated with the Ofgem licence fee are payable by all LDNOs but the derivation of the LDNO tariffs does not fully include this cost. Consequently, it is believed that LDNOs are not able to fully recover the costs incurred, or reasonably expected to be incurred in operating their distribution businesses.
- 3.2 As the Opex cost allocation driver does not take into account the Ofgem licence fee, the costs associated with the Ofgem licence fee are effectively smeared across all network levels. The resultant LDNO tariffs are not, therefore, reflective of the costs incurred by the LDNO.
- 3.3 This change proposal seeks to ensure that the LDNO tariffs better reflect the costs that are avoided by the DNO when customers are connected to their network via another LDNO.
- 3.4 The proposer suggests that by allocating the Ofgem licence fee to the LV services network level, the LDNO tariffs produced by the Common Distribution Charging Methodology (CDCM) will better reflect the mechanism by which these costs are incurred. This is consistent with the purpose of the PCDM and DCUSA Charging Objective 3.

Q2: Do you agree with the principles of DCP 306?

4 Code Specific Matters

Reference Documents

4.1 None

5 Working Group Assessment

DCP 306 Working Group Assessment

- 5.1 The DCUSA Panel established a Working Group to assess DCP 306. This Working Group consists of Distribution Network Operator (DNO) and Independent Distribution Network Operator (IDNO) 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.
- 5.2 The rationale for this CP being raised is because currently, Ofgem licence fees are not allocated in Opex cost allocation driver when calculating the LDNO tariffs. This change will be looking to review the impacts of changing this i.e. allocating the Licence fee either by, as the Proposer suggest, a 100% allocation to the LV service level or alternatively allocated across each voltage level. All other aspects of Opex would be unchanged.
- 5.3 The Working Group considered how the Licence Fee is currently derived and then subsequently allocated with the CDCM. It was determined that Ofgem charge each DNO a licence fee on a £/MPAN basis. This is then recovered as part of the residual charging calculation when deriving the all the way tariffs in the CDCM. It was confirmed that since the change is in the PCDM there would be no impact on the all the way tariffs and as such no impact on end customers.
- 5.4 The Working Group considered whether a more appropriate change would be to the CDCM by taking the Licence fee out of residual charges and within the methodology itself. This was discounted since it would not align with the intent. This is discussed further under paragraph 5.9 and 5.10.
- 5.5 The Working Group then considered whether the allocation within the PCDM should only be applied to the LV network level and whether it may be even more cost reflective if the allocation of the Licence fee was placed against each network level,
- 5.6 The working Group is seeking views as to whether it is more appropriate to allocate the Licence Fee at each voltage level or just at the LV network level, and if so is the data on customer numbers at each voltage level easily identified.
- 5.7

Q3: Should the Ofgem Licence Fee cost all be allocated within the PCDM at the LV voltage level, or should the cost be allocated at each voltage level based on the numbers of customers connected at each? Please provide your rationale associated with your choice.

Q4: Are the number of customers connected at each voltage level easily identified? If so is there a specific report already available? If not, how can this be achieved?

- 5.8 The Proposer is suggesting that the costs described in table 2.6 of the 2007/2008 Regulatory Reporting Pack (RRP) as “Ofgem licence fees” be used. The reasoning for this is that it matches the rest of the data source being used within the PDCM. A counter argument was that it may be more cost reflect to use the latest Licence Fee costs rather than the ones that are ten years old. The Working Group were of the view that for consistency the 2007/2008 RRP should be used as it aligns with how the rest of the operational costs have been allocated within the PDCM.

Q5: Is the 2007/08 data the best data set to use or is there a better data source that could be utilised? Please provide your rationale

- 5.9 The timing of the change was questioned, as, on 4 August Ofgem launched a Targeted Charging Review Significant Code Review (SCR). One of the key areas within this SCR covers residual charging. It was discussed whether it would be more practicable to progress the proposed the change as part of the wider CDCM Review or as part of the SCR.
- 5.10 It was decided that as the change is specifically looking at the PCDM, the Working Group would not be able to include CDCM or EHV Distribution Charging Model (EDCM) amendments in their solutions as it would change the intent of the proposal. Therefore, there shouldn't be any impact on the SCR. However, the Working Group would like to obtain industry views on whether they believe that the SCR or CDCM Review work is a more appropriate work stream to review this issue.

Q6: Should this Change Proposal be resolved by an alternative approach, i.e. SCR or CDCM Review? Please provide your rationale

6 Legal Text

- 6.1 Since the Working Group is seeking industry views on which option to develop further, the legal text will form part of a second consultation. It should be noted that for completion the legal associated with the change proposal has been included albeit relating to Schedule 16 and the impacted section being removed from that schedule to a new schedule covering the PDCM and the extended EDCM.

7 Relevant Objectives

Assessment Against the DCUSA Objectives

- 7.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. The Proposer believes that by allocating the Ofgem licence fee to the LV services network level, the LDNO tariffs produced by the Common Distribution Charging Methodology (CDCM) will better reflect the mechanism by which these costs are incurred and will have a positive impact on Charging Objective 3. The Working Group is interested in parties' views on which of the following DCUSA Charging Objectives are better facilitated by this change and why.

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

DCUSA General Objectives:

Charing Objective 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

Charging Objective 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)

Charging Objective 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

Charging Objective 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

Charging Objective 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.

Charging Objective 6 – that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration

8 Impacts & Other Considerations

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

- 8.1 The Working Group discussed whether it would be better if the intent of this change is reviewed as part of Ofgem's SCR or the wider CDCM Review.
- 8.2 The SCR was covered off earlier under paragraph 5.9 and 5.10. The CDCM/EDCM review was split into two stages. Stage One captured the issues and prioritised the areas that could be taken forward into Stage Two. These were:
 - a) Type of Costing Model.
 - b) Tariff Structures.

- c) LDNO Charging Arrangements.
 - d) New Products (e.g. Storage).
 - e) Combining the CDCM and EDCM Methodologies.
- 8.3 Alongside launching the SCR, Ofgem announced that it is setting up a Charging Futures Forum (CFF), previously known as the Charging Coordination Group. The CFF will provide some guidance on how to progress the CDCM/EDCM Review, with work potentially recommencing later in 2017.
- 8.4 The Working Group view at this stage is that the CDCM review is at high level at this stage and it is too early to determine whether this change will be impacted by it.

Q8: By progressing this change, can you anticipate any impacts on the SCR? If so, what is the impact?

Q9: Do you foresee any potential alternatives to this Change Proposal having an impact on the SCR?

Q10: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

Q11: Are there any alternative solutions or unintended consequences that should be considered by the Working Group?

Consumer Impacts

- 8.5 This will be determined once the solution is developed and an updated PDCM is produced and form part of a second consultation.

Environmental Impacts

- 8.6 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP 306 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

- 8.7 Ofgem has been fully engaged throughout the development of DCP 306 as an observer on the Working Group.

9 Implementation

- 9.1 The original proposed implementation date for DCP 306 was 01 April 2019. However, on further reflection the Working Group agreed that this could be too ambitious and agreed that the implementation date would be more feasible on 01 April 2020. Respondents are invited to consider whether they agree with the proposed implementation date.

Q12: The proposed implementation date for DCP 306 is the 01 April 2020. Do you agree with the proposed implementation date?

10 Consultation Questions

- 10.1 The Working Group is seeking industry views on the following consultation questions:

Number	Questions
1	Do you understand the intent of DCP 306?
2	Do you agree with the principles of DCP 306?
3	Should the Ofgem Licence Fee cost all be allocated within the PCDM at the LV voltage level, or should the cost be allocated at each voltage level based on the numbers of customers connected at each? Please provide your rationale associated with your choice.
4	Are the number of customers connected at each voltage level easily identified? If so is there a specific report already available? If not, how can this be achieved?
5	Is the 2007/08 data the best data set to use or is there a better data source that could be utilised? Please provide your rationale
6	Should this Change Proposal be resolved by an alternative approach, i.e. SCR or CDCM Review? Please provide your rationale
7	Which DCUSA Charging Objectives does the CP better facilitate? Please provide supporting comments. <ol style="list-style-type: none"> 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 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

	<p>prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)</p> <p>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</p> <p>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</p> <p>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 and the Co-operation of Energy Regulators.</p> <p>6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.</p>
8	By progressing this change, can you anticipate any impacts on the SCR? If so, what is the impact?
9	Do you foresee any potential alternatives to this Change Proposal having an impact on the SCR?
10	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
11	Are there any alternative solutions or unintended consequences that should be considered by the Working Group?
12	The proposed implementation date for DCP 306 is the 01 April 2020. Do you agree with the proposed implementation date?

10.2 Responses should be submitted using Attachment 1 to dcusa@electralink.co.uk no later than 09 October 2017.

10.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

Attachments

- Attachment 1 – DCP 306 Consultation Response Form

- Attachment 2 – DCP 306 Draft Legal Text
- Attachment 3 – DCP 306 Change Proposal