

DCUSA Change Report		At what stage is this document in the process?
<h2>DCP 289</h2> <h3>Creation of Distribution Charging Methodology Development Group</h3> <p><i>Raised on the 16 December 2016 as an Urgent Change</i></p>	01 – Change Proposal	
	02 – Consultation	
	03 – Change Report	
	04 – Change Declaration	
<p>Purpose of Change Proposal:</p> <p>DCP 289 seeks to formalise the creation of a new single standing issues working group for the use of system charging methodologies and related topics within DCUSA.</p>		
<p>This document is issued in accordance with Clause 11.20 of the DCUSA, and details <i>DCP 289 'Creation of Distribution Charging Methodology Development Group'</i></p> <p>Parties are invited to consider the proposed amendments (Attachment 2) and submit their votes using the Voting form (Attachment 1) to dcusa@electralink.co.uk by 16/02/2017</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>DCP 289 has been designated as a Part 1 Matter as the proposed change impacts the governance arrangements under DCUSA.</p> <p>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>Parties Impacted: All Parties</p>	
	<p>Impacted Clauses: Section 1A and Section 1B and new Schedule xx</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	21 December 2016
Change Report Approved by Panel	24 January 2017
Change Report issued for Voting	26 January 2017
Party Voting Closes	16 February 2017
Change Declaration Issued to Parties and Ofgem	20 February 2017
Authority Decision	27 March 2017
Implementation	01 April 2017

1 Executive 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 The creation of a DCUSA Charging Methodology Development Group (DCMDG), as a forum for discussion/development of Distribution Use of System (DUoS) related charging methodologies and their application. This will benefit industry participants including DCUSA Parties by creating a structured environment for the focused addressing of issues raised by either the DCUSA Panel, parties to the Agreement or other interested participants.

Why?

- 1.3 The new arrangements would better reflect Ofgem's views detailed in the Code Governance Review (Phase 3) (CGR3) Final Proposals¹ which were published on 31 March 2016. In particular paragraph 5.7 which welcomed the strong support for the use of a pre-modifications process which would result in well-developed modifications and therefore reducing the time spent in the formal process.

How?

- 1.4 The new Working Group, the DCMDG will undertake the activities which were previously carried out by the Distribution Charging Methodology Forum (DCMF), the Methodologies Issues Group (MIG) and the Distribution Charging Managers (DCM) group. This will be undertaken as a single monthly meeting which any interested party is welcome to attend.

2 Governance

Justification for Part 1 or Part 2

- 2.1 DCP 289 has been classed as a Part 1 Matter and therefore will go to the Authority for determination after the voting process has completed.

¹

https://www.ofgem.gov.uk/system/files/docs/2016/03/code_governance_review_phase_3_final_proposals_2.pdf



- 2.2 This CP has been designated as a Part 1 Matter as the proposed change impacts the governance arrangements under DCUSA.
- 2.3 DCP 289 will be treated as an urgent change due to the timescales for implementation.

Requested Next Steps

- 2.4 The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 289.
- 2.5 The DCUSA Panel recommends that this CP:
 - Be issued to Parties for Voting

3 Why Change?

Background of DCP 289

- 3.1 As part of the Code Governance Review 3 Phase 2 (CGR3), Final Proposals, Ofgem encouraged parties to look at the governance arrangements for any meeting which discussed charges and related to charge setting.
- 3.2 As a result, the work of the ENA Commercial Operations Group (COG) and its subgroup, Distribution Charging Managers (DCM), as well as the Distribution Charging Methodology Forum (DCMF) and the Methodologies Issues Group (MIG) were considered.
- 3.3 It was ultimately agreed that the COG was out of scope as it does not discuss DUoS charge setting. During November 2016, a consultation was issued by the ENA to all DCUSA Contract Managers and all participants of the DCMF, MIG and DCM. This sought feedback on the preferred approach to the three meetings and also gave an opportunity to raise any wider issues or concerns prior to this DCUSA change being raised. The consultation considered two options:
 - To place just the MIG under DCUSA (option 1); or
 - To place all three groups under DCUSA (option 2).
- 3.4 Feedback from parties was requested by Ofgem to assist them in making a decision. Parties were strongly in favour of moving the MIG and DCMF into DCUSA, but were split on the DCM. Ofgem were however strongly in favour of Option 2, as they felt that all discussions relating to charges should take place under the open governance regime, so that the process is open to all. This approach would also see an independent chair appointed and the agenda, minutes and papers will be published on the DCUSA website.

4 Solution

DCP 289 Assessment

- 4.1 The DCUSA Panel directed that this urgent change proceed directly to change report to ensure that it can meet the implementation timescales of the 01 April 2017. A change report was submitted to the DCUSA Panel ex-committee in January 2017 for decision and it was determined that a Working Group should be set up to analyse this change and determine whether an alternate solution should be incorporated.
- 4.2 The DCUSA Panel established a Working Group to assess DCP 289. This Working Group consists of DNO, Supplier, consultant, and Ofgem representatives. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website –www.dcusa.co.uk.
- 4.3 DCP 289 was raised by UK Power Networks and seeks to formalise the creation of a new single standing issues working group for the Use of System charging methodologies and related topics within DCUSA.
- 4.4 The DCMDG will provide a structured environment under which parties can discuss and address issues and develop solutions related to the charging methodologies.
- 4.5 It is proposed to modify DCUSA Section 1A and Section 1B to accommodate the DCMDG in the governance arrangements and for a new Schedule to set out the structure and operation of the group. The high level objectives of the group are part of the drafting. The detailed Terms of Reference (ToR) will be developed separately to this DCUSA change to assist the group, giving flexibility.
- 4.6 It should be noted that under DCP 289 the costs of this meeting are intended to be picked up by all DCUSA parties (in line with non-TRAS/ETTOS costs under the code). When the ENA consulted on bringing these matters under DCUSA governance, there were 20 responses of which only two raised any concerns about who should pay the costs of this new working group, stating that in their view this should be solely paid for by DNOs. Other respondents felt that moving to a single meeting under DCUSA would see an overall reduction in costs.
- 4.7 It is important to note that the DCMDG is a new group which will replace DCMF, MIG and DCM, and this change is not a case of merely moving those three existing groups across into DCUSA, but instead brings the work which they would have historically undertaken under a DCUSA governance framework.
- 4.8 DCP 289A was raised by British Gas which captures an alternative view that the activities carried out by the Distribution Charging Methodology Forum (DCMF), the Methodologies Issues Group (MIG) and the Distribution Charging Managers (DCM) group assist DNOs to discharge their licence obligation to keep the charging methodology under review and are 100% paid for by DNOs, funded through their price control revenue allowances. DCP 289A does not seek to change this



arrangement and requires that the activities of the DCMDG be 100% funded by the DNOs. Please see DCP 289A which acts as Attachment 2.

- 4.9 It is noted that when the ENA consulted on bringing these matters under DCUSA governance, there were 21 responses. The ENA consultation did not seek views on funding arrangements however two response did raise concerns about who should pay the costs of this new Working Group, stating that in their view this should be solely paid for by DNOs. Please see the responses in Attachment 4.

DCP 289 and 289A Consultation One

- 4.10 The Working Group carried out a consultation (Attachment 4) to give DCUSA Parties and other interested organisations an opportunity to review and comment on the proposed DCP 289 and 289A solution. The Working Group issued consultation one to DCUSA Contract Managers, on 18 May 2016 to determine whether Parties agreed with the DCMF, DCMF MIG and DCM being consolidated in to the DCMDG and incorporated in to DCUSA.
- 4.11 There were nine responses received to the consultation. Two respondents were Suppliers, five respondents were Distributors and two respondents were IDNOs. The Working Group discussed each response and its comments are summarised alongside the collated consultation responses in Attachment 4.
- 4.12 A summary of the responses received, and the Working Group's conclusions are set out below:

Question 1: Do you understand the intent of DCP 289?

- 4.13 All respondents understood the intent of the CP. One respondent highlighted that they supported an end to end process *"incorporating the raising, development and the decision on change proposals. DCP289 would see all elements of the charging methodology in a single place, creating a single efficient process"*.
- 4.14 The Working Group noted the responses.

Question 2: Do you understand the intent of DCP 289A?

- 4.15 Eight respondents understood the intent of the CP. One respondent did not support the alternate modification *"as it treats costs differently for the same area of work. DCP289A sees the costs relating to the development and raising of changes being treated differently (under DCMF and DCMF MIG), to costs relating to the ongoing development of a change proposal (taken forward as a DCP)"*.
- 4.16 The Working Group noted the responses.

Question 3: Do you agree with the principle that these groups (DCMF, DCMF MIG and DCM) should be consolidated and brought under DCUSA?

Respondent Party Type	DCMF	DCMF MIG	DCM	NONE
Suppliers	2	2	2	0
DNOs	3	4	2	0
IDNOs	1	1	1	0
Total	6	7	5	0

- 4.17 The above table provides a summary of respondents support for the groups that should be consolidated as the DCMDG and be brought under the DCUSA.
- 4.18 The Working Group reviewed these responses and there was a consensus that the DCMF, DCMF MIG and DCM should sit under DCUSA. It was noted that three Parties suggested a preference for the DCM not to be included, but are happy with the Working Group view that this should be included under DCUSA as part of this change.

Question 4: Do you have any comments on the proposed legal text for DCP 289?

- 4.19 There were no comments on the DCP 289 draft legal text.

Question 5: Do Parties have a view on whether the DCMDG should be funded by all DCUSA Parties or by DNOs?



4.20 All Supplier and IDNO respondents advised that they considered that the DCMDG should be solely funded by the DNOs and some of the reasons behind this choice are highlighted below:

- For DCP 289A, the *“negative impacts on the consumer are removed without affecting the rewards (additional profit) which should be achievable by DNOs for the genuine efficiency savings which are to be expected by consolidating these 3 groups. The RIIO totex incentive should reward genuine efficiency savings, not revised industry funding arrangements”*.
- *“The activities of the DCMF, DCMF MIG and DCM assist DNOs in discharging their licence obligation to keep the charging methodology under review and are currently funded through DNO price control revenue allowances. We do not believe this proposal does anything to warrant a change in funding arrangements”*.

4.21 The majority of DNO respondents considered that the DCMDG should be funded by all Parties and one of these responses is highlighted below:

- *“The DCMDG is an open forum for the discussion of potential changes to the charging methodologies embedded within DCUSA. Although DNOs are individually and collectively responsible for the common methodologies as defined by the obligations in the distribution licence any DCUSA party and/ or stakeholder is able to seek clarity on the application of charging and propose changes to the charging methodologies under the DCUSA governance framework. Consequently, it would seem appropriate for the DCMDG to be funded collectively by all parties. We have an opportunity here to structure this new group, for the benefit of all parties, including what the Terms of Reference should be”*.

4.22 The Working Group noted that there was a clear division of support for DCP 289 and DCP 289A. Supplier and IDNO respondents highlight that they consider it an obligation of the DNO under Distribution Licence Condition 13A to review and maintain the charging methodologies. However, the DNO respondents contend that they have a responsibility to review the charging methodologies annually and that the pre-modification process will be open to all Parties for the purpose of receiving support to raise formal charging methodology changes under the DCUSA and should therefore be supported by all Parties.

4.23 The Working Group considered respondents views that DNO Parties had received funding under the RIIO ED1 licence obligation and that as a result moving these groups would cause extra costs under DCUSA that would be incurred by all Parties and ultimately incurred by the Customer through an increase in DUoS to pay for the DCMDG.

4.24 The Working Group considered the proposal that the DCMDG be funded under the RIIO ED1 Price Control by DNO Parties as DNOs have been assigned the allowance. However, from RIIO ED2 Price Control, the DCMDG would be funded by all Parties.

4.25 The Working Group noted that the costs for the three existing groups did not exist as a line item in the RIIO ED1 Price Control as when it was split between DNO Parties it came to less than £20,000. Members considered that the DNOs would have factored it in to their calculations in RIIO



ED1 and could remove it for the RIIO ED2 Price Control even if the transparency of a line item being removed was not available..

Question 6: Do you have any comments on the proposed legal text for DCP 289A?

- 4.26 Seven respondents had no comments on the legal text and one DNO respondent reiterated why they did not support DCP 289A. One IDNO respondent requested the proposer of DCP 289A to consider amending Clause 8.9 B.2 which uses the same definition for 'TN' as 289. This respondent believed that *“this should not include IDNO parties metering points, as the denominator should only include DNO parties’ MPAN counts, rather than all electricity distribution licences. The current legal text would not recover 100% of the costs as the total DNO metering points would be lower than the total metering points, ‘TN’”*.
- 4.27 The DCP 289 Working Group agreed to modify the DCP 289A legal text to accommodate this point.

Question 7: Which DCUSA General Objectives does the CP better facilitate? Please provide supporting comments.

- 4.28 The majority of respondents noted that DCP 289 would better facilitate DCUSA General Objectives 3 and 4, however noted that Objective 3 would be impacted adversely as consumers would be charged twice for activities as the existing DCMF, DCMF MIG and DCM have already been funded through RIIO ED1 price control, and DCP 289 would charge customers again for the DCMDG.
- 4.29 The majority of respondents noted that DCP 289A DCUSA General Objectives 3 and 4 would be better facilitated by this change as the creation of the DCMDG would bring a more coordinated and efficient approach to the running of DCUSA and discharging LC 13A.

Question 8: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

- 4.30 The majority of respondents were not aware of any wider industry developments that may impact upon or be impacted by this CP, however two respondents noted:
- Potential changes resulting from work of the Charging Review Workstream under the ENA’s TSO-DSO Working Group
 - The DCMF MIG’s review of the EDCM and CDCM

Question 9: Are there any alternative solutions or unintended consequences that should be considered by the Working Group?

4.31 A number of comments regarding alternates were received from respondents to this question:

- *The working group may wish to consider an alternative approach whereby an end date of 31 March 2023 is included in DCUSA for the sole funding of the DCMDG by DNOs. This would ensure that the funding included in DNOs price control agreements for RIIO ED1 is used for funding the DCMDG during RIIO ED1 but will provide certainty to DNOs and industry that the funding will be shared from RIIO ED2 and so can be captured in DNO Business Plans and in supplier cost forecasts. The DCMF MIG's review of the EDCM and CDCM*
- *As we stated above we see the potential for the DCMF being retained as a wider stakeholder forum as we believe this forum has highlighted many potential issues over the years' which would otherwise have gone under the radar. If this group is moved under DCUSA we would like to understand how wider industry developments are going to be covered.*
- *We would seek assurances that parties will retain the right to independently raise charging related DCPs outside of the DCMDG. We believe that it would be counterproductive such DCPs have to be passed through the DCMDG before they can be raised at the DCUSA Panel. We understand that the DCMDG Terms of Reference have not been drafted as of yet, but it is of our opinion that the remit of the new DCMDG should remain the same as the current DCMF/MIG/DCM meetings.*
- *DCP289A introduces inconsistencies between raising a change and the ongoing development of that change, as in the future all elements will be part of the open governance arrangements. Furthermore we have significant concerns that DCP289A is moving away from the standard DCUSA costing arrangements, and whether this sets a precedent for the future, and would likely see other changes where its believed only a particular sector of the industry is impacted, paying all those costs.*

4.32 As a result of these comments the Working Group agreed that a second alternate, DCP 289B, be raised in order reach a compromise between the two Working Group views, and that the DCMDG be paid for 100% by DNOs until 31 March 2023 until such a time that RIIO ED1 comes to an end. From the 1 April 2023 onwards, the proposed funding mechanism similar to the Theft Risk Assessment Service would be applied in which costs are shared across all Parties and would be implemented as part of RIIO ED2.

Question 10: The proposed implementation date for both variations (DCP 289/DCP289A) is 5 Working Days after Approval. Do you agree with the proposed implementation date?

4.33 All respondents agreed with the proposed implementation date.

Consultation Conclusion

4.34 Due to the varying responses in support of both DCP 289 and DCP 289A, the Working Group agreed that a second alternate should be drafted as a compromise to ensure that the concerns of both the supporters and opponents of both DCP 289 and DCP 289A were alleviated. As such, DCP 289B was drafted in which the DCMDG is paid for 100% by DNOs until 31 March 2023 and until such a time that RIIO ED1 comes to an end. From the 1 April 2023 onwards, the proposed [standard DCUSA](#) funding mechanism ~~similar to the Theft Risk Assessment Service~~ would be applied in which costs are shared across all Parties and would be implemented as part of RIIO ED2.

5 Legal Text

DCP 289 Legal Text

- 5.1 The following existing legal text has been modified to accommodate the DCUSA Charging Methodologies Development Group:
- Section 1A has been modified to add two new definitions; and
 - Section 1B has been modified in regards to the *'Establishing Working Groups'* under Clause 7.24 and 7.26, *'Membership of Working Groups'* under Clause 7.28 and *'Duties of those Serving on Working Groups'* under Clause 7.33 and 7.34. As a point of process, it is highlighted that in regards to those *'Serving on the Working Groups'* that persons attending the DCMDG will not be required to act independently or be required to sign a Working Group membership letter stating that they will comply with Clause 7.33.
- 5.2 This CP uses the existing Schedule 7 *'DCUSA Standing Issues Group'* structure as the basis for the new schedule setting out how the DCMDG will operate. The new Schedule sets out the:
- Scope
 - Objectives
 - Membership
 - Requirements of Members
 - Meeting Frequency
 - Secretariat
 - Summary of Process
 - Decision Making
 - Reporting
 - Funding
 - Other Matters



5.3 The proposed DCP 289 legal text has been reviewed by the DCUSA Legal Advisor and acts as Attachment 2.

DCP 289A Proposed Legal Text

5.4 DCP 289A proposed legal text differs from the DCP 289 legal text by making amendments to Clause 8 (Cost of the DCUSA) so that the funding of the activities of the DCMDG is 100% paid for by DNOs and introduces a DCMDG liabilities definition.

5.5 Another Working Group Member felt that this approach reflects the fact that the activities of the DCMF, DCMF MIG and DCM are currently 100% paid for by DNOs, funded, to some extent, through their RIIO-ED1 price control allowances, albeit this is subject to the Annual Iteration Process and therefore totex cost variations to allowances would be shared with customers via DUoS. The proposed mechanism is based on the existing mechanism in place for the Theft Risk Assessment Service Arrangements and/or the Energy Theft Tip-Off Service (which are 100% funded by Suppliers).

5.6 The proposed DCP 289A legal text has been reviewed by the DCUSA Legal Advisor and acts as Attachment 2.

DCP 289B Proposed Legal Text

5.7 DCP 289B proposed legal text differs from the DCP 289 and DCP 289A legal text by making amendments to Clause 8 (Cost of the DCUSA) so that the funding of the activities of the DCMDG is 100% paid for by DNOs up until the 31 March 2023 and then fully funded by all Parties from the start of the RIIO ED2 Price Control on the 01 April 2023.

Commented [CH1]: Summary for agreement with the Working Group

6 Impacts & Other Considerations

6.1 This change impacts all Parties as it modifies the governance arrangements that sit under DCUSA. It will cause additional costs to be incurred by DCUSA that will either be recharged to all Parties under DCP 289, all DNO Parties under DCP 289A or DNO Parties up until the 31 March 2023 and all Parties from the 01 April 2023 under DCP 289B.

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

6.2 This change has been submitted as a result of Code Governance Review 3 recommendations.

Consumer Impacts

6.3 The Working Group did not identify any consumer impacts introduced by this change.

Environmental Impacts

6.4 In accordance with DCUSA Clause 11.14.6, the proposer assessed whether there would be a material impact on greenhouse gas emissions if DCP 289, 289A or 289B were implemented. The

proposer did not identify any material impact on greenhouse gas emissions from the implementation of these CPs.

7 Relevant Objectives

Commented [CH2]: Is this the Working Group view?

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. There are five General DCUSA Objectives. The full list of objectives is documented in the CP form provided as Attachment 3.
- 7.2 For DCP 289, the [majority of the](#) Working Group considers that the DCUSA Objective 4 is better facilitated by DCP 289. The reasoning against this objective is set out in the table below:

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	Identified impact
General Objective 4 - The promotion of efficiency in the implementation and administration of the DCUSA	This objective will be better facilitated as a result of this change as it will ensure that current discussions and debates relating to Use of System Charge setting will be open to all.

- 7.3 For DCP 289A, the [majority of the](#) Working Group considers that the DCUSA Objectives 3 and 4 are better facilitated by DCP 289A. The reasoning against this objective is set out in the table below:

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	Identified impact
General Objective 3 - The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences.	DNOs have licence obligations to keep the charging methodology under review to ensure that it continues to achieve the Relevant Objectives. General Objectives three and four are better facilitated as a result of this change as it will reduce fragmentation and ensure that current discussions and debates relating to Use of System Charge setting will be open to all.
General Objective 4 - The promotion of efficiency in the implementation and administration of the DCUSA	

- 7.4 For DCP 289B, the [majority of the](#) Working Group considers that the **DCUSA Objectives 3 and 4** are better facilitated by DCP 289B. The reasoning against this objective is set out in the table below:

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	Identified impact
General Objective 3 - The efficient discharge by the DNOs have licence obligations to keep the	

<p>DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences.</p> <p>General Objective 4 - The promotion of efficiency in the implementation and administration of the DCUSA</p>	<p>charging methodology under review to ensure that it continues to achieve the Relevant Objectives. General Objectives three and four are better facilitated as a result of this change as it will reduce fragmentation and ensure that current discussions and debates relating to Use of System Charge setting will be open to all.</p>
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8 Implementation

8.1 The proposed implementation date for DCP 289 is 5 Working Days following Authority Approval.

9 Code Specific Matters

Reference Documents

9.1 [Ofgem's Code Governance Review \(Phase 3\) \(CGR3\) Final Proposals](#), published on 31 March 2016. In particular paragraph 5.7 where Ofgem states *"We welcome the strong support for the use of pre-modification processes (charging forums), which can help produce well-developed modification proposals for submission to the formal process"*.

10 Recommendations

Panel's Recommendation

- 10.1 The Panel approved this Change Report on 18/01/17. The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 289, 289A and 289B.
- 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 289 Voting Form
- Attachment 2 - DCP 289 Draft Legal Text
- Attachment 3 - DCP 289 Change Proposal
- Attachment 3 – DCP 289A Change Proposal
- Attachment 3 – DCP 289B Change Proposal
- Attachment 4 – DCP 289 and DCP 289A Consultation