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| **DCUSA Consultation** | | At what stage is this document in the process? |
| DCP 284  The application of scaling to generation credits in the CDCM  *12 October 2016*  *Standard Change* | | |  | | --- | | **01 – Change Proposal** | | **02 – Consultation** | | **03 – Change Report** | | **04 – Change Declaration** | |
| **Purpose of Change Proposal:**  DCP 284 seeks to amend the calculation of credits for embedded generation to more closely reflect the benefits they bring to Distribution Network Operators by including an element of scaling.  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 284. | | |
| Description: Description: YES_GREEN | The Workgroup recommends that this Change Proposal should proceed to Consultation. Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 2 to dcusa@electralink.co.uk by **27 February 2017** The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the Change Proposal (CP). | |
| Description: Description: High_Impact | Impacted Parties: Distribution Network Operators (DNOs), Distributed Generation, Suppliers | |
| Description: Description: High_Impact | Impacted Clauses: Schedule 16 (CDCM), Schedule 20 (Production of the Annual Review Pack) | |

***Guidance On The Use Of This Template****:*

*Code Administrators will produce this Report using the original proposal as the source.*

*The Workgroup will verify all of the information provided, adding the Impact Assessment.*

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| Contents  1. Summary 3  2 Governance 3  3 Why Change? 3  4 Code Specific Matters 4  5 Working Group Assessment 4  6 Relevant Objectives 4  7 Impacts & Other Considerations 5  8 Implementation 6  9 Legal Text 6  10 Consultation Questions 6    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 October 2016 | | Consultation issued to Parties | 6 February 2017 | | Change Report issued to Panel | 17 May 2017 | | Change Report issued for Voting | 19 May 2017 | | Party Voting Ends | 9 June 2017 | | Change Declaration Issued to Parties | 13 June 2017 | | Change Declaration issued to Authority | 13 June 2017 | | Authority Decision | 18 July 2017 | | Proposed Implementation Date | 01 April 2019 | | **Any questions?** |
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1. Summary

#### What

## 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.

#### Why

## DCP 284 has been raised by MVV Environment Service Ltd. and is seeking to address the issue of whether scaling or some element of scaling should be applied to credits for embedded generation within the CDCM. Scaling is an alternative word used to mean revenue matching, Revenue matching takes the pre-scaled tariffs and amends them to match each DNO’s allowed revenue. The proposer suggests that the application of scaling when determining credits under the CDCM could improve the cost reflectivity of generation credits for embedded generators. The proposer believes that some costs are omitted from the yard stick tariffs that are used to derive generation credits and these costs could be reduced through the presence of embedded generation. The proposer therefore believes these costs are captured through scaling and the scaling elements should therefore be included in generation credits. More cost reflective credits for generators will place incentives on embedded generation that reflect the benefits they bring to network operators.

#### How

## The proposed solution is to apply a percentage of scaling when calculating credits for embedded generators in the CDCM.

1. Governance

#### Justification for Part 1 Matter

## DCP 284 is classified as a Part 1 matter and therefore will go to the Authority for determination after the voting process has completed.

## This issue is considered a Part 1 Matter as it affects the level of charges for embedded generation and therefore impacts on competition for embedded generation as specified under DCUSA clause 9.4.2 (A).

#### Requested Next Steps

## Following a review of the Consultation responses, the Working Group will work to agree the detail of the solution for DCP 284.

1. Why Change?

#### Background of DCP 284

## Under the CDCM, generation credits reflect demand charges at voltage levels above the voltage of connection, except for the application of scaling. During the development of the CDCM, scaling was excluded from the derivation of credits as the costs included within scaling were not seen to be avoided through the presence of embedded generation.

## The recent DCUSA CP (DCP228[[1]](#footnote-2)) that has been approved by the Authority amends the way in which scaling is applied to demand charges.

## The DCP 228 change report provides the following comment on scaling:

*“DCP 228 is intended to be clearer in explaining that the shortfall or excess of revenue recovered from pre-scaled yardstick tariffs is a natural consequence of the incremental design of the CDCM. As the accompanying spreadsheet (Attachment 5) demonstrates, the CDCM recovers significantly more in peak charges than DNOs expect to spend on network reinforcement for the foreseeable future. This is because the CDCM provides incremental cost signals rather than total cost signals. Similarly, there are DNO costs which are not included in the CDCM (such as replacement costs and a portion of indirect costs), however these are not ‘unidentified’ as the DCP 123 form suggested, but rather they are intentionally excluded from the CDCM for the purpose of deriving the desired incremental cost signals. This CP is therefore clear in its intent that scaling should not be used to allocate any cost not included within the CDCM, but should rather be applied in a way which maintains the incremental cost signals produced by the pre-scaled tariffs.”*

## It is the proposers view that this CP considers the costs associated with the replacement of assets within scaling which, although it may not be an incremental cost for demand customers, is potentially an area of saving for DNOs through the connection of embedded generation.

## It is also the proposers view that DNOs replace assets as they reach the end of their useful life. If embedded generation is installed, then the potential benefit to the DNO is that the asset may not need to be replaced as it is no longer required or the asset can be replaced with a smaller capacity asset which is therefore cheaper. The degree to which this occurs will vary depending on the type of generation, the degree to which it can be relied upon by the DNO and the arrangement of the network to which the generator is connected.

## DCP 284 was raised by MVV Environment Services Ltd and seeks to amend the calculation of credits for embedded generation to more closely reflect the benefits they bring to DNOs by including an element of scaling. It proposes to allocate an element of the scaling to generation by applying 50% of scaling as generation credits. The proposer however considers that this value should be determined by the working group after undertaking analysis in this area.

1. Code Specific Matters

#### Reference Documents

n/a.

1. Working Group Assessment

#### DCP 284 Working Group Assessment

## The DCUSA Panel established a Working Group to assess DCP 284. This Working Group consists of DNO, Supplier, National Grid 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](http://www.dcusa.co.uk).

## The Working Group discussed whether scaling or some element of scaling should be applied to credits for embedded generation within the CDCM taking in to consideration the approaches taken in two previous CPs, DCP 123[[2]](#footnote-3) and DCP 228*.*

## The Working Group questioned the reasoning provided by the proposer within the CP form which is quoted below.

* + - * *“The recent DCUSA change proposal (DCP228) that has been approved by the Authority amends the way in which scaling is applied to demand charges. This change proposal provided more detail on what costs are recovered via scaling.”*
      * *“The DCP 228 change report identified the costs that are recovered via scaling mainly comprise of asset replacement and a portion of indirect costs.”*

## The Working Group discussed that the approach to DCP 228 *‘*was to use the scaled tariffs as a tool to get the CDCM to match the DNOs allowed revenue and that the CDCM model was not a total cost model so the approach set out in DCP 228 would not necessarily be applicable for this CP. It was also noted that DCP 123 had been rejected by Ofgem as it was attempting to allocate costs that were previously being allocated elsewhere.

## The Working Group considered any reasons behind why generation is excluded and demand included for scaling purposes. Members suggested that the yardstick costs are underlying cost signals and scaling was preserving those cost signals and as such there would be no impact on the network if generators were responding to those scaling elements.

## The approach to scaling within the CDCM was agreed with Ofgem prior to the implementation of DCP 059[[3]](#footnote-4) in DCUSA on the 01 April 2010. The Ofgem paper on the CDCM condition placed on DNOs on whether scaling should apply to generation was considered by the Working Group. The Working Group considered that the extracts shown below are relevant to this CP:

**Ofgem’s consultation document on Electricity distribution structure of charges project: DNOs' proposals for a common methodology at lower voltages**[[4]](#footnote-5)

*‘2.60. We note that the revenue matching mechanism in the CDCM does not apply to generators. This means that charges/credits to generators remain at their pre-scaling level. Although it is difficult to identify precisely what the discrepancy represents, a shortfall to some extent covers non-incremental overhead costs. We see no obvious reason why DGs should be excluded from such cost.’*

**Ofgem decision document on** [**Electricity distribution structure of charges project: the common distribution charging methodology at lower voltages[[5]](#footnote-6)**](https://www.ofgem.gov.uk/sites/default/files/docs/2009/11/cdcm-decision-doc-201109-%282%29.pdf)

*‘2.37. A bottom-up charging methodology requires a mechanism to scale charges to match the recovered revenue from the model with the permitted price control revenue. The DNOs decided to exclude generators from the revenue matching process, meaning charges/credits to generators remain at their pre-scaling level.’*

*‘2.38. The proposal does not provide any justification for the decision to exclude generators from scaling and we would expect this matter to be addressed through open governance arrangements. We see no obvious reason why DGs should be excluded from this mechanism.’*

## There were two differing views within the Working Group regarding the purpose of scaling, with some members believing that scaling is a means of taking the cost signals derived from the pre-scaled tariffs and maintaining them whilst ensuring the DNO targets allowed revenue, and others believing that scaling was the means by which certain costs which are not included in the underlying inputs to the CDCM are recovered.

## To support the former view there is a belief that DCP 228 was clear in its approach that scaling was not used to allocate costs, but was rather a means of maintaining the cost signals generated by pre-scaled tariffs whilst ensuring the DNO targets their allowed revenue. That is, the costs included in the DNOs 500MW model, service models and direct/indirect costs are used to generate a set of pre-scaled tariffs with the desired differentials between tariff elements. Scaling is then a means of maintaining this differential between tariff elements whilst enabling the DNO to target allowed revenue. As such, scaling is not a means of allocating costs, and it is not a true representation of scaling to analyse which costs are included in the underlying inputs and conclude that the remainder of costs are allocated by scaling; rather the underlying inputs are intentionally used (and certain elements intentionally excluded) to provide the appropriate cost signal, which scaling then seeks to maintain.

## The proposer’s view is that the CDCM model uses scaling to correct the shortfall/surplus in revenue that results from the yardstick charges that are calculated within the model and form the basis of the final charges. In some case the scaling may be negative which results in a reduction in the yardstick tariffs to ensure that the DNO does not recover too much revenue.

## In order to develop the proposer’s view and this CP, it is necessary to gain visibility into what is recovered in each of the cost categories. It was suggested by the Working Group that it would be necessary to locate the direct and indirect cost inputs in the CDCM and compare these values against the allowed revenue targets. It was noted that this information can be found within the MREV work sheet. Please see the results of this analysis below.

Scaling Overview

## The tables below show how much revenue is recovered through scaling and how much is recovered through the different cost components of the final tariff. It should be noted that the operating cost component consists of network costs, direct costs and 60% of the indirect costs.

**Table 1 -Breakdown of costs for 2016/17**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Costs recovered through charges (£m)** | | | |
| **DNO** | **Allowed Revenue (£m)** | **Operating costs\*** | **Transmission Exit charge** | **Asset Costs** | **Scaling** |
| **ENWL** | £430.0 | £112.7 | £18.3 | £166.4 | £132.6 |
| **NPG Northeast** | £283.9 | £76.6 | £10.8 | £69.4 | £127.1 |
| **NPG Yorkshire** | £357.7 | £103.7 | £13.6 | £97.4 | £143.0 |
| **SPEN SPD** | £385.4 | £120.9 | £24.1 | £90.6 | £149.8 |
| **SPEN SPM** | £314.9 | £109.0 | £19.1 | £106.9 | £79.9 |
| **SSEPD SEPD** | £548.8 | £153.5 | £15.9 | £211.9 | £167.5 |
| **SSEPD SHEPD** | £236.8 | £93.8 | £14.1 | £40.3 | £88.8 |
| **UKPN EPN** | £545.8 | £190.9 | £37.4 | £278.0 | £39.4 |
| **UKPN LPN** | £412.3 | £128.1 | £35.8 | £306.2 | -£57.9 |
| **UKPN SPN** | £378.7 | £114.4 | £17.6 | £155.8 | £90.8 |
| **WPD EastM** | £453.5 | £127.6 | £11.1 | £140.1 | £174.8 |
| **WPD SWales** | £220.4 | £71.3 | £11.2 | £41.0 | £96.9 |
| **WPD SWest** | £331.0 | £101.0 | £8.7 | £53.1 | £168.2 |
| **WPD WestM** | £479.3 | £121.6 | £11.6 | £128.8 | £217.3 |

**Table 2 - Breakdown of costs for 2017/18**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Costs recovered through charges (£m)** | | | |
| **DNO** | **Allowed Revenue (£m)** | **Operating costs\*** | **Transmission Exit charge** | **Asset Costs** | **Scaling** |
| **ENWL** | £383.0 | £113.9 | £18.6 | £170.8 | £79.6 |
| **NPG Northeast** | £272.8 | £79.0 | £11.6 | £63.0 | £119.2 |
| **NPG Yorkshire** | £351.2 | £106.9 | £14.3 | £84.0 | £146.0 |
| **SPEN SPD** | £373.9 | £125.2 | £26.4 | £88.6 | £133.8 |
| **SPEN SPM** | £308.3 | £111.5 | £18.8 | £104.1 | £74.0 |
| **SSEPD SEPD** | £527.5 | £161.4 | £16.3 | £210.8 | £139.0 |
| **SSEPD SHEPD** | £226.5 | £97.9 | £14.5 | £39.2 | £74.9 |
| **UKPN EPN** | £544.6 | £196.9 | £41.6 | £273.5 | £32.7 |
| **UKPN LPN** | £415.9 | £132.2 | £40.3 | £305.1 | -£61.7 |
| **UKPN SPN** | £365.9 | £118.0 | £19.8 | £153.1 | £75.0 |
| **WPD EastM** | £450.4 | £133.4 | £11.9 | £139.9 | £165.2 |
| **WPD SWales** | £222.2 | £76.5 | £11.5 | £39.7 | £94.6 |
| **WPD SWest** | £324.2 | £102.6 | £9.0 | £51.7 | £161.0 |
| **WPD WestM** | £468.1 | £124.2 | £12.1 | £128.5 | £203.4 |

#### Scaling components

## There have been a number of DCUSA change proposals that looked at how scaling is applied and what cost elements are recovered within scaling. The two components that have been mentioned as possible components are 40% of indirect costs and replacement of assets. Both of these cost components are specifically excluded from the CDCM model, so the presumption is that the scaling element must recover these elements. A further complication is that for the UKPN London network area, the scaling is negative, which suggests that there are no cost components missing from the yardstick tariffs for that DNO.

#### Indirect Costs

## Indirect costs are split using an indirect cost proportion of 60%. This means that 60% of the total indirect costs within the CDCM are allocated and form part of the operating costs component of the tariff. Consequently, the 40% of indirects is not recovered elsewhere, so it can be assumed to be within the scaling element. The tables below show the residual element of scaling that is left, once 40% of the indirect costs are removed. The table also shows the ratio of the residual scaling to the original scaling.

**Table 3 - Residual Scaling for 2016/17 (£m)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DNO** | **Scaling** | **40% of Indirects** | **Residual Scaling** | **Percentage** |
| **ENWL** | £132.6 | £39.0 | £93.6 | 71% |
| **NPG Northeast** | £127.1 | £30.5 | £96.6 | 76% |
| **NPG Yorkshire** | £143.0 | £35.3 | £107.8 | 75% |
| **SPEN SPD** | £149.8 | £42.8 | £107.0 | 71% |
| **SPEN SPM** | £79.9 | £43.8 | £36.1 | 45% |
| **SSEPD SEPD** | £167.5 | £42.7 | £124.8 | 75% |
| **SSEPD SHEPD** | £88.8 | £23.3 | £65.5 | 74% |
| **UKPN EPN** | £39.4 | £67.5 | -£28.1 | -71% |
| **UKPN LPN** | -£57.9 | £49.3 | -£107.2 | -185% |
| **UKPN SPN** | £90.8 | £43.7 | £47.2 | 52% |
| **WPD EastM** | £174.8 | £44.2 | £130.5 | 75% |
| **WPD SWales** | £96.9 | £24.6 | £72.3 | 75% |
| **WPD SWest** | £168.2 | £39.0 | £129.2 | 77% |
| **WPD WestM** | £217.3 | £45.2 | £172.1 | 79% |
| **Total** | **£1,618.3** | **£571.0** | **£1,047.3** | **65%** |

**Table 4 - Residual Scaling for 2017/18 (£m)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DNO** | **Scaling** | **40% of Indirects** | **Residual Scaling** | **Percentage** |
| **ENWL** | £79.6 | £38.9 | £40.7 | 51% |
| **NPG Northeast** | £119.2 | £31.4 | £87.8 | 74% |
| **NPG Yorkshire** | £146.0 | £36.4 | £109.7 | 75% |
| **SPEN SPD** | £133.8 | £44.1 | £89.7 | 67% |
| **SPEN SPM** | £74.0 | £45.2 | £28.8 | 39% |
| **SSEPD SEPD** | £139.0 | £44.3 | £94.7 | 68% |
| **SSEPD SHEPD** | £74.9 | £24.2 | £50.8 | 68% |
| **UKPN EPN** | £32.7 | £69.6 | -£37.0 | -113% |
| **UKPN LPN** | -£61.7 | £50.9 | -£112.6 | -182% |
| **UKPN SPN** | £75.0 | £45.0 | £30.0 | 40% |
| **WPD EastM** | £165.2 | £43.9 | £121.4 | 73% |
| **WPD SWales** | £94.6 | £24.5 | £70.0 | 74% |
| **WPD SWest** | £161.0 | £38.0 | £122.9 | 76% |
| **WPD WestM** | £203.4 | £43.5 | £159.8 | 79% |
| **Total** | **£1,436.6** | **£579.9** | **£856.7** | **60%** |

## It can be observed from the residual scaling in 2016 and 2017 that two of the UKPN areas have negative scaling once 40% of the indirect costs have been removed. The proportion of the residual scaling to the original scaling for most DNOs falls in the range of 67% to 79%.

#### Residual scaling

## The DCP 284 proposal suggests that the residual scaling is primarily made up of asset replacement as this cost is specifically excluded from the CDCM calculations. The reason for this cost being excluded is that the CDCM is a forward looking, incremental model and therefore focuses on future costs such as reinforcement.

## The working group discussed whether the residual scaling could include replacement. Two comments received suggested that although replacement is excluded from CDCM model, the asset cost is based on the 500MW hypothetical model which looks at the cost to build a 500MW chunk of network. The two comments suggest that as the 500MW model is a complete network, it effectively swaps asset reinforcement for asset replacement. On this basis, there is no need to include asset replacement in the model.

## This hypothesis has led to further debate on the components of residual scaling. The proposer, after following the debate, has put forward the suggestion that the residual scaling recovers the difference between the asset costs in the hypothetical model and the actual asset cost of the DNO. This proposal suggests that the concept of asset replacement is irrelevant when considering the difference in asset costs between the 500MW model and the actual annualised asset costs of DNOs in each year. There are several reasons why this difference occurs and the proposer believes that the key reasons are as follows:

* The 500MW model is a hypothetical model and does not fully reflect the inefficiencies within the actual DNO network. These inefficiencies will arise due to the DNOs’ network evolving over a long period with customers changing their consumption patterns and impacting on locational powerflows.
* The CDCM model assumes a 40-year depreciation period. In reality there will be a range of depreciation timeframes for existing assets. In particular underground cables can remain in use for over 40 years, and at the other extreme, automation assets that are currently being implemented as part of the move to smart networks are likely to have a much shorter lifespan than 40 years
* The existing DNO network is built based on the design standards that were appropriate at the time of construction. This compares with the 500MW model which is constructed based upon the most up to date design practices
* Ofgem have identified that there is a lack of commonality within the 500MW model and a DCUSA change proposal[[6]](#footnote-7) was brought forward to address this issue. However, the proposed solution was too complex and rejected by Ofgem.

#### Residual scaling and embedded generation

## DCP 284 raises the issue of whether scaling should apply to generation credits within the CDCM. The proposer recognises that indirect costs do not vary with demand and are not avoidable by embedded generators. The proposer is therefore questioning whether the residual scaling should form part of the credits for embedded generation.

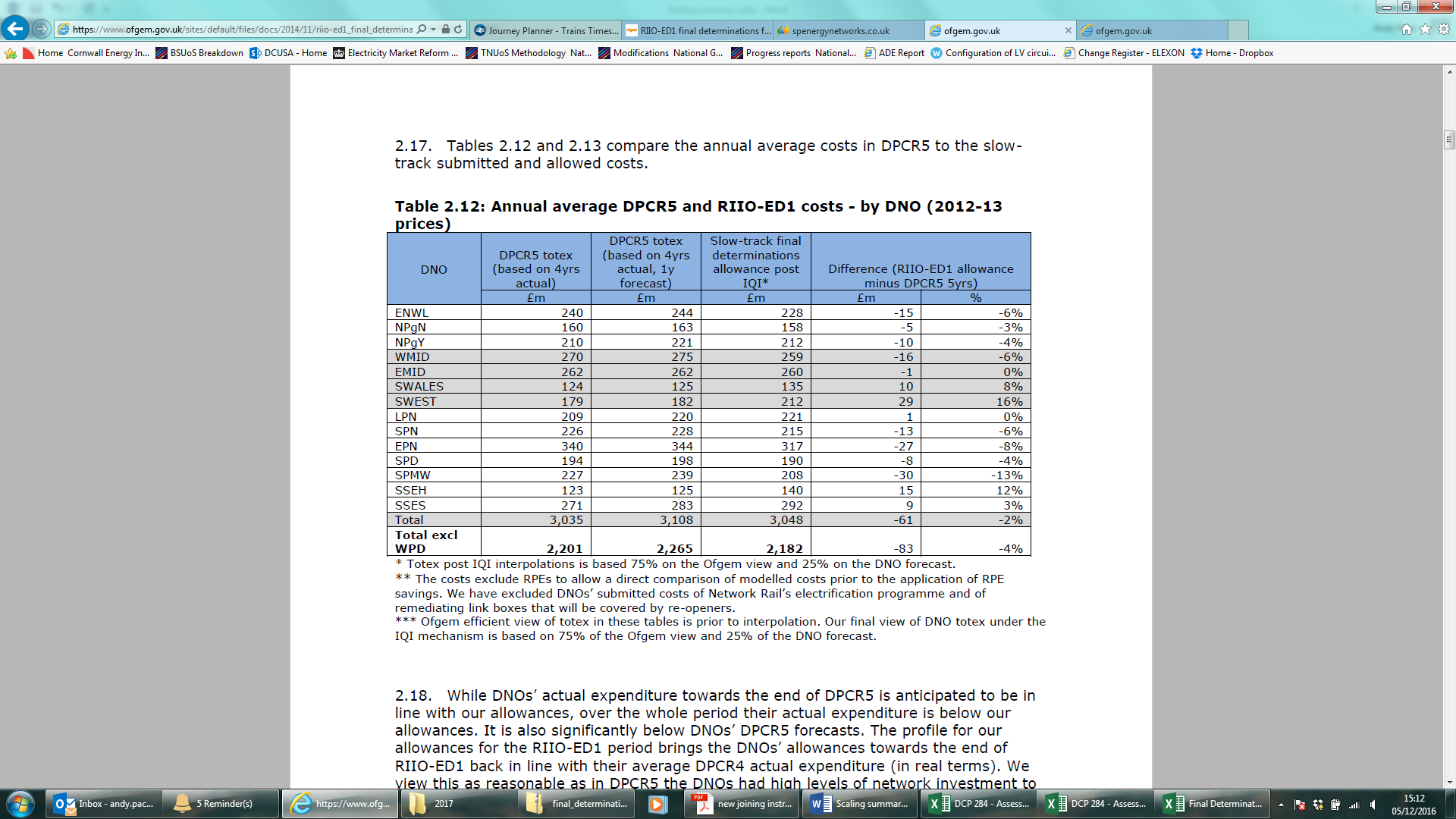
## The CDCM model can be used to derive a comparison of forecast annualised capex based on the historical values (i.e. derived from the allowed revenue) and the future annualised capex based on the 500MW model. The graphs below show a comparison of these two data sets for 2016 and 2017.

## These graphs show a large difference in the actual capex of DNOs and the forecast capex using the 500MW model. In most cases this is higher, except for the UKPN London and Eastern areas. Based on this data, forecast annual capex from the 500MW model is £1.9bn compared to the actual cost of £2.9bn in 2016, a reduction of 35%. The equivalent values for 2017 is 32%. This implies that future capex is expected to be substantially lower than the current annualised rate of capex based on the DNOs allowed revenue.

## The proposer believes that the 500MW model is not reflective of the costs offset by embedded generation and that using the current level of capex by including scaling within the credits for embedded generation is more representative for the following reasons:

* Using actual annualised capex captures the reality of each DNOs network and any inefficiencies that may exist due to how the network has evolved over a long period of time.
* Historical totex used as a proxy for capex across DPCR5 and RIIO-ED1 is fairly constant as shown in the table below and DNOs are not expecting a large reduction in capex across RIIO-ED1 compared to DPCR5.
* The large variation across the DNOs between forecast and actual capex (particularly with some DNOs forecasting higher future capex within their 500MW model) implies some inconsistency in the 500MW model across the DNOs.
* Future capex may be lower than the current ongoing capex in part due to the presence of embedded generation. It is therefore appropriate to reward embedded generation based on current capex, to ensure future savings are captured.

**Table5 - Ofgem final determination – Average annual DPCR5 and RIIO-ED1 costs by DNO (2012-13 prices)**



#### Proposed level of scaling

The proposer is suggesting that the amount of scaling that should be included in the calculation of CDCM credits for eligible embedded generators should be set at **62.5%**.

This value is derived as a simple average of the residual scaling as a proportion of the total scaling using the values shown in the tables 3 and table 4 above for 2016 (65%) and 2017 (60%).

* 1. The Working Group developed a consultation document to gather information and feedback from market participants. The Working Group is interested in parties’ views on the following questions:

## Do you believe scaling should be applied to generation? If it is applied, should it be a positive or negative application?

## Do you agree with the definition of residual scaling provided in paragraphs 5.15 to 5.17?

## Is the current level of capex or the 500MW model a better indication of the avoided cost of embedded generation?

## Do you support the view of the proposer on how scaling is applied?

## Do you agree with the proposer’s point of view or the alternative point of view??

## What level of scaling as generation credits should be applied

## 50% of scaling (in line with the initial proposal);62.5% scaling in line with the Working Groups assessment;

## 0% (in line with the current DCUSA); or

## another value.

* + If another value please provide your rationale for this.

1. Relevant Objectives

## **Assessment Against the DCUSA Objectives**

## The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 284.

|  |  |
| --- | --- |
| **Impact of the Change Proposal on the Relevant Objectives:** | |
| Relevant Objective | Identified impact |
| Charging Objective Two - 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) | Positive |
| Charging Objective Three - 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. | Positive |

## Charging Objective Two is better facilitated by DCP 284 because more cost reflective tariffs will provide a more accurate price signal which will result in a more efficient dispatch of plant and the siting of plant within the distribution network. Both of these will result in the promotion of effective competition in generation.

## Charging Objective Three is better facilitated by DCP 284 because it increases the cost reflectivity of tariffs within the CDCM by awarding credits to embedded generators that more closely reflect the benefits they bring to DNOs and thereby encourages the development of efficient, co-ordinated and economical distribution networks.

1. Impacts & Other Considerations

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

## The Working Group does not consider there to be any cross-code impact.

#### Consumer Impacts

## Consumer impacts will be assessed following feedback from parties. There may be multiple solutions which may potentially increase or decrease the level of credits to embedded generators which could result in a small increased or decreased cost to consumers.

#### Environmental Impacts

## 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 284 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

## Ofgem has been fully engaged throughout the development of DCP 284 as a member of the Working Group.

1. Implementation

## The proposed implementation date for DCP 284 is 01/04/2019. Respondents are invited to consider whether they require any further lead time to comply with this change.

1. Legal Text

## It was identified by the proposer that paragraphs 89 to 95 of schedule 16 of the DCUSA will need to be amended to implement this change. No proposed legal text was provided within the initial CP as the implementation of DCP 228 amends the same paragraphs within the DCUSA. The Working Group noted that the amended legal text provided to parties as part of this consultation is not from the current version of the DCUSA and is the approved legal text formulated as part of DCP 228.

## The Working Group identified that the CP will also affect the Annual Review Pack (ARP), however will only impact paragraph 1.1 of schedule 20 of the DCUSA.

## This change proposes to allocate an element of the scaling to generation by applying [x%] of scaling as generation credits. A proposed initial value of 50% was set out in the CP however the Working Group agreed that [x%] will better meet the DCUSA objectives than either the status quo or the proposed initial figure.

## The legal text for DCP 284 is provided as Attachment 1.

1. Consultation Questions

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

|  |  |
| --- | --- |
| **Question Number** | **Question** |
|  | Do you understand the intent of the CP? |
|  | Are you supportive of the principles of the CP? |
|  | Do you believe scaling should be applied to generation? If it is applied, should it be a positive or negative application? |
|  | Do you agree with the definition of residual scaling provided in paragraphs 5.15 to 5.17? |
|  | Is the current level of capex or the 500MW model a better indication of the avoided cost of embedded generation? |
|  | Do you support the view of the proposer on how scaling is applied? |
|  | Do you agree with the proposer’s point of view or the alternative point of view set out in section 5? |
|  | What level of scaling as generation credits should be applied50% of scaling (in line with the initial proposal);62.5% scaling in line with the Working Groups assessment;0% (in line with the current DCUSA); oranother value. If another value please provide your rationale for this. |
| 1. 9 | Do you consider that the proposal better facilitates the DCUSA Charging Objectives? Please give supporting reasons. |
| 1. 10 | Are you supportive of the proposed implementation date of 1 April 2019? |
| 1. 11 | Do you have any comments on the draft legal text? |
| 1. 12 | Do you have any other comments on DCP 284? |
| 1. 13 | Are you aware of any wider industry developments that may impact upon or be impacted by this CP? |
| 1. 14 | Are there any alternative solutions or unintended consequences that should be considered by the Working Group? |

## Responses should be submitted using Attachment 2 to dcusa@electralink.co.uk no later than **27 February 2017.**

## 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 284 Legal Text
* Attachment 2 – Consultation Response Form
* Attachment 3 – DCP 284 Change Proposal

1. DCP228 - *‘*[Revenue Matching in the CDCM’](https://www.dcusa.co.uk/Lists/Change%20Proposal%20Register/DispForm.aspx?ID=253&Source=https%3A%2F%2Fwww%2Edcusa%2Eco%2Euk%2FSitePages%2FActivities%2FChange-Proposal-Register%2Easpx%23InplviewHasheedde852-0231-4b85-87ff-0f14d79826f5%3DPaged%253DTRUE-p_DCP%253D263-p_ID%253D288-PageFirstRow%253D21&ContentTypeId=0x0100684A1DE09E1F9740A444434CF581D435) [↑](#footnote-ref-2)
2. DCP 123 *‘*[Revenue Matching Methodology Change’](https://www.dcusa.co.uk/Lists/Change%20Proposal%20Register/DispForm.aspx?ID=100&Source=https%3A%2F%2Fwww%2Edcusa%2Eco%2Euk%2FSitePages%2FActivities%2FChange-Proposal-Register-Archive%2Easpx%23InplviewHash35f4ef25-f112-41cb-9311-dac2d3455147%3DPaged%253DTRUE-p_DCP%253D127-p_ID%253D147-PageFirstRow%253D141&ContentTypeId=0x0100684A1DE09E1F9740A444434CF581D435)  [↑](#footnote-ref-3)
3. DCP059 - *‘*[Implementation of Common Distribution Charging Methodology (CDCM](https://www.dcusa.co.uk/Lists/Change%20Proposal%20Register/DispForm.aspx?ID=18&Source=https%3A%2F%2Fwww%2Edcusa%2Eco%2Euk%2FSitePages%2FActivities%2FChange-Proposal-Register-Archive%2Easpx%23InplviewHash35f4ef25-f112-41cb-9311-dac2d3455147%3DPaged%253DTRUE-p_DCP%253D061-p_ID%253D52-PageFirstRow%253D211&ContentTypeId=0x0100684A1DE09E1F9740A444434CF581D435)*)* [↑](#footnote-ref-4)
4. [Ofgem’s consultation document on Electricity distribution structure of charges project: DNOs' proposals for a common methodology at lower voltages](https://www.ofgem.gov.uk/sites/default/files/docs/2009/09/ofgem_cdcm_consultation-280909_1.pdf) [↑](#footnote-ref-5)
5. [Ofgem’s decision document on Electricity distribution structure of charges project: the common distribution charging methodology at lower voltages](https://www.ofgem.gov.uk/sites/default/files/docs/2009/11/cdcm-decision-doc-201109-%282%29.pdf) [↑](#footnote-ref-6)
6. [DCP133 – 500MW network common model for the CDCM](https://www.dcusa.co.uk/Lists/Change%20Proposal%20Register/DispForm.aspx?ID=107&Source=https%3A%2F%2Fwww%2Edcusa%2Eco%2Euk%2FSitePages%2FActivities%2FChange-Proposal-Register-Archive%2Easpx%23InplviewHash35f4ef25-f112-41cb-9311-dac2d3455147%3DPaged%253DTRUE-p_DCP%253D137-p_ID%253D109-PageFirstRow%253D131&ContentTypeId=0x0100684A1DE09E1F9740A444434CF581D435) [↑](#footnote-ref-7)