

DCUSA DCP 252 CHANGE DECLARATION

VOTING END DATE: 14 JULY 2017

DCP 252	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	DISTRIBUTED GENERATOR	GAS SUPPLIER
CHANGE SOLUTION	Accept	Reject	n/a	n/a	n/a
IMPLEMENTATION DATE	Reject	Reject	n/a	n/a	n/a
RECOMMENDATION	<p>Change Solution – Reject. In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the change solution was less than 50% in all Categories.</p> <p>Implementation Date – Reject. In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was less than 50% in all Categories.</p>				
PART ONE / PART TWO	Part One – Authority Determination Required				

PARTY	SOLUTION (A / R)	IMPLEMENTATION DATE (A / R)	WHICH DCUSA OBJECTIVE(S) IS BETTER FACILITATED?	COMMENTS
DNO PARTIES				
Northern Powergrid Northeast	Reject	Reject		

<p>Northern Powergrid Yorkshire</p>	<p>Reject</p>	<p>Reject</p>	<p>It is unclear how this proposal, in respect of unlicensed distributors better meets some of the DCUSA objectives. It would however correct the error in drafting that currently discriminates between Licensed Distribution Network Operators and Distribution Network Operators operating outside of their licence area, therefore it would better meeting DCUSA Charging Objective One in that regard.</p>	<p>The originator (rather than the proposer) of the thinking behind this change proposal appears to have considered that private networks operators (operators of licence exempt sites) were sufficiently similar to IDNOs to warrant the application of the DNO's discounted IDNO tariffs to such licence exempt sites.</p> <p>However we believe that this assumption had flaws from the outset, for example because IDNOs carry licence obligations to comply with industry codes including on the provision of industry data and to fund the IT systems that the IDNO needs to fulfil its obligations. Licence Exemption obviously removes such obligations creating the first key difference between private network operators and IDNOs.</p> <p>The discount in the DNO IDNO tariffs can be seen to reflect the role fulfilled by the IDNOs in providing industry services and their associated costs. It is not clear to us that any licence exempt network operator could achieve sufficient similarity to an IDNO in respect of services and data provision, unless the DNO steps in to perform the relevant activities to support industry</p>
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				<p>arrangements e.g. the creation of portfolio data and industry data flows. If the DNO steps into the arrangement to 'fill in the gaps' (through contracts or otherwise) it seems inappropriate that the DNO then applies the discounted tariffs in relation to the licence exempt site.</p> <p>In early working group meetings we highlighted the risks of potential gaming (if this was approved) by owners of larger commercial sites through the creation of separate metering for subsidiaries and Ofgem were present during these discussions.</p>
<p>Electricity North West Limited</p>	<p>Reject</p>	<p>Reject</p>	<p>We do not consider that any of the DCUSA objectives are better facilitated. Our reasoning is set out below:</p> <p>Facilitates competition (Charging Objective 2)</p> <p>The proposer suggests this change would address issues of undue discrimination resulting from differing charging arrangements between LDNO (or out-of-area DNOs) and DEHs. We are not convinced that there is currently undue discrimination as the</p>	<p>We believe that the proposer has potentially identified a valid issue and that work should continue within the industry to seek a more satisfactory solution.</p> <p>We note that an option was suggested during the consultation but was ruled outside the scope of this particular change, which may provide an alternative approach which would better address the issue. In particular, the option of a specific tariff for DEHs which would enable the design of a tariff which would fully reflect the DNO costs for</p>

		<p>LDNO/DEH categories of customer are fundamentally different.</p> <p>Licensed parties are subject to a wide range of provisions and obligations which can vary over time in response to regulatory needs. In the case of a DNO, changes to the licensed obligations may give rise to costs which are recovered through DUoS charges. LDNO parties are likely to be subject to the same obligations, if appropriate, and likewise recover their costs through DUoS charges which are in some cases capped to the same level as the DNO. The situation for DEHs is different, and DEHs are unlikely to face the exact same requirements.</p> <p>The proposed solution does not in any event result in a situation where the two parties face the same charges. A DEH will be able to choose whether to opt in to the QNO tariff or to remain under the 'normal' charging arrangements. Which is cheaper will vary according to circumstances and it seems most likely that the DEH will choose the cheapest option available. The workgroup suggests that once a choice is made to be charged under QNO tariffs then it will be irreversible.</p>	<p>serving such customers, rather than the current approach which suggests that DEHs and LDNOs should be treated equally with no consideration of differences between the two groups.</p> <p>We would suggest that further development in this area should not be driven by changes to DUoS charges alone. It would be better to develop broader industry practices before attempting to design charging arrangements to serve them.</p> <p>The drafting errors addressed by this change should be progressed by a separate change if this change is rejected.</p>
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			<p>This seems not to be enforceable in practice as QNO tariffs put in place obligations which the DEH could choose not to fulfil, thus meaning they would have to revert to the 'normal' tariffs. In practice then, DEHs have the option to move in and out of QNO tariffs which is not an option available to LDNOs. This seems to introduce discrimination which the stated purpose of the change is to remove.</p> <p>We do not believe this change either better facilitates, or lessens restrictions, distortions or barriers to, competition in the distribution of electricity.</p> <p>Cost reflectivity (Charging Objective 3) The working group recognises that there are issues which make it unclear whether Cost Reflectivity is improved or not.</p> <p>We do not believe that the current LDNO tariffs are inherently more reflective of the cost of distribution of electricity to any other distribution networks than standard tariffs. Indeed, there are examples of cases where we distribute to other distribution networks but do not apply</p>	
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			<p>IDNO tariffs and such arrangements are considered to be cost reflective under the current methodology (for example, our connection to the Isle of Man electricity network). The working group has presented no evidence that the proposed QNO tariff is more reflective of DNO costs when distributing to DEHs than the current charges.</p> <p>We of course recognise the merit of LDNO tariffs which are vital to facilitate competition between DNO and LDNO parties by ensuring that the same margin is available to both parties, especially bearing in mind that both parties may be subject to a control on the price they can charge to an end customer. Such tariffs are specifically designed to reflect the proportion of total costs applicable to each distributor and we consider the LDNO charging methodology to be reflective of the overall costs of providing services to LDNOs. It is less clear that these tariffs would fulfil the same role when applied to DEHs.</p> <p>This is additional to the issues raised by the working group: the lack of any means to consider the nature of DEH's</p>	
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			<p>networks when calculating the LV/HV split, and the elective nature of the proposed QNO tariff for DEHs.</p> <p>Artificial Structures The introduction of a QNO definition would have the effect of enabling sophisticated entities to design artificial structures that would benefit from reduced tariffs without having any impact on the costs faced by DNOs. This would have the impact of increasing charges for all other users of the distribution network as the DNO would still need to recover the same total revenue.</p> <p>Overall we consider that this is a change that would reduce the cost reflectivity of the charging methodology.</p> <p>Other objectives We accept the finding of the working group that there is no, or a neutral, impact on all the other Charging Objectives.</p>	
SP Manweb	Accept	Accept	<p>Charging Objective 2 Distortions to competition are reduced by removing undue discrimination between licensed and licence-exempt</p>	
SP Distribution	Accept	Accept		

			<p>distributors where the DNO provides the same level of service to that of an LDNO thereby better facilitating this objective.</p> <p>Charging Objective 6 It addresses and drafting error in the DCUSA where schedule 17 and 18 omits to recognise that LDNO tariffs equally apply to DNOs operating out of area</p>	
Southern Electric Power Distribution plc	Accept	Reject	<p>We believe the CP better facilitates compliance with DCUSA Objective 1 and Charging Objective 2 by removing a restriction on the application of discounted tariffs to include licence exempt networks which provide the same level of services as an LDNO. However, it also creates a distortion whereby the licence exempt network can choose their charging arrangement – which is not available to LDNOs.</p> <p>The CP also facilitates compliance with Charging Objectives 1 and 2 by correcting the drafting error in Schedule 17 regarding the applicability of LDNO tariffs to IDNOs and DNOs operating out of area.</p>	<p>We have voted to accept the proposed solution but still have some reservations; particularly in reference to the distortions that may be created as described above.</p> <p>We have voted to reject the implementation date on the basis that a November 2017 implementation may not provide sufficient time for modelling and tariff approval for 2019/20 tariffs, as well as not providing sufficient time to update and gain approval for the LC14 Use of System Charging Statement. We also feel more time is needed to develop the bi-lateral agreements required to enable portfolio billing of QNOs. If this DCP was approved, we would therefore recommend an implementation date of 1 April 2020.</p>
Scottish Hydro Electric Power Distribution plc	Accept	Reject		

Western Power Distribution (East Midlands)	Accept	Accept	WPD believe Charging Objective 3 is marginally better facilitated by this change although for the reasons specified in the change report this is not 100% clear.	
Western Power Distribution (West Midlands)	Accept	Accept		
Western Power Distribution (South West)	Accept	Accept		
Western Power Distribution (South Wales)	Accept	Accept		
Eastern Power Networks	Reject	Reject	No DCUSA Objectives are better facilitated by this change. Indeed all Charging Objectives are negatively impacted as a result of this change due to wider industry processes not being sufficiently considered during its development. Standardisation of process is vital as otherwise it may lead to different DNOs taking different approaches which is likely to confuse parties, specifically this impacts charging objective two and three, potentially distorting competition in distribution, if all costs are not considered. We remain unclear on how a QNO will actually benefit from these revised arrangements because it would appear to just add considerable complexity and cost to the arrangements which	This change does not introduce standardisation across the arrangements, as a result any approval will exacerbate what has already occurred for licence exempt boundary-metered Exempt Distribution Network Operators (EDNOs) with difference metering, which is extremely confusing for parties and this change would appear to extend that confusion even further.
London Power Networks	Reject	Reject		
South Eastern Power Networks	Reject	Reject		

			<p>parties will face, where a network operator elects to take this approach.</p> <p>We believe that charging objective two will be negatively impacted by this change as the current discounted tariffs make use of data provided by DNOs and IDNOs only (such as the LV Split data) and as such extending these tariffs to other groups of customers would seem to be the wrong approach as the tariffs will take no account of these unlicensed networks or the additional costs, such as MPAS, that LDNOs face in the calculation of these charges.</p> <p>We believe that this change will have a negative impact on charging objective three as the processes around this concept are not standardised as part of this change, and as such may lead to different DNOs taking different approaches which could cause confusion for Exempt Distribution Network Operator (EDNOs), especially those operating nationally.</p> <p>We also believe that charging objective 6 will be negatively impacted by this change, as it would introduce a high degree of complexity to the</p>	
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			<p>arrangements. As referred to above this change does not detail the methods for how MPANs would be created or disconnected and how the registration activities would work (what LLFC would be assigned and how would Suppliers know these MPANs relate to an Unlicensed Network as just two examples). This change also creates uncertainty for Suppliers and whether under these arrangements they would receive two invoices for a connection, or just one as would be the case currently.</p> <p>Charging objective six is also negatively impacted as a result of this change only considering the Extra High Voltage Distribution Charging Methodology (EDCM).</p>	
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IDNO PARTIES

Peel Electricity Networks Limited	Reject	Reject		
The Electricity Network Company Limited	Reject	Reject	We do not believe that any of the DCUSA general objectives are better facilitated by this change proposal. The analysis contained in our vote on DCP 251 is equally applicable to this change	

			<p>proposal and is copied directly below for reference.</p> <p><i>“We do believe that there may be certain network operators who operate under licence exemption should receive an equivalent tariff as IDNOs and DNOs operating out of area. We do not think that the definition of “Qualifying Network Operator” in the legal text, however, correctly clarifies the circumstance under which a licence-exempt distributor should qualify for the “QNO Tariff”.</i></p> <p><i>The LDNO Tariff is designed so that it reflects a percentage discount of the all the way tariff and that percentage discount is, in itself, reflective of the DNOs’ avoided costs in the LDNO providing the last part of the network. We do not believe that the definition of QNO in the legal text draws out the point that the DNO must not incur any costs, from the QNO, in excess of instances where an LDNO connects to its network. The definition requires QNO’s to contract with a DNO party for the provision of services equivalent so that it may treat the QNO as if it were an IDNO connected to the network. However, by contracting for these</i></p>	
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			<p><i>services and providing them we believe that the licence-exempt network has an inherently different relationship with the DNO than an IDNO would with a DNO. We do not, therefore, believe that there is any undue discrimination in the present application of the LDNO tariff. Should the proposed drafting enter into DCUSA we believe that it has the potential to create additional discrimination “against” licenced network operators. Licenced distribution businesses are required to comply a raft of different obligations than unlicensed network operators. Such obligations extend to various code, licence and smart metering licence funding obligations which are not imposed upon unlicensed operators. By introducing this definition of qualifying network operator we believe that competition in the distribution of electricity could be adversely affected. This negatively impacts Charging conditions 2 of the DUCSA.</i></p> <p><i>We note that DCUSA DNO and IDNO parties are required to make an annual submission to the Nominated Calculation Agent in order for the average use of the DNO’s network by</i></p>	
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			<p><i>the IDNO to be calculated. This is an important part of the PCDM as it splits the costs at voltage tiers dependent on the usage percentage published by the NCA. It is likely that the makeup of unlicensed networks will be materially different to licensed networks and without the unlicensed network feeding into this process to provide an average we believe that the LDNO tariff will not be cost reflective of the costs which are avoided by the DNO in the unlicensed network substituting the services of the DNO.</i></p> <p><i>Furthermore, we believe that there is an unintended consequence of the drafting of QNO which would negatively impact IDNOs who are nested within another IDNO's network. The application of the QNO tariff only applies to IDNOs (and DNOs operating out of area) which are connected to the DNO. Where an IDNO is embedded within another IDNO's distribution system and they are charged for use of system by the DNO we believe that that IDNO should qualify for the QNO/LDNO tariff. The current drafting of the change proposal permits the DNO to charge the embedded IDNO the all the way tariff in respect of any</i></p>	
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			<i>metering points on the LDNO's system. This has an adverse impact on competition in the distribution of electricity and therefore negatively impacts on DCUSA charging Objective 2."</i>	
SUPPLIER PARTIES				
DISTRIBUTED GENERATOR PARTIES				
GAS SUPPLIER PARTIES				