





DCUSA Change Report		At what stage is this document in the process?
<div>DCP 251</div> <div>DCP Title: Clarification and Extension Of The Application Of LDNO Tariffs Under The CDCM</div> <div>Date raised: 15 October 2015</div> <div>Status of Change: Standard</div>	01 – Change Proposal	
	02 – Consultation	
	03 – Change Report	
	04 – Change Declaration	
<div>Purpose of Change Proposal:</div> <div>The intent of this proposal is to:</div> <div><div>1. Correct drafting errors in the specification of the distribution systems that are eligible for LDNO tariffs under the CDCM and under the EDCM.</div><div>2. Ensure that the charging methodologies do not impose undue discrimination between licensed and licence-exempt distribution systems.</div></div>		
<div></div>	<div>This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 251 'Code Governance Review 3 & SLC 22'.</div> <div>Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by xx xxxx 2017</div> <div>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.</div> <div>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 3008.</div>	
<div></div>	<div>Parties Impacted: DNOs, IDNOs, other parties that are or would be eligible for LDNO tariffs</div>	
<div></div>	<div>Impacted Clauses: Schedules 16, 19 and 20.</div>	

Commented [JL1]: Is the WG happy that this is only relevant to DCP252 or do you want to keep it in due to the original change proposal including it then agreeing that it was an error

Commented [JL2]: Once legal text agreed we may need to update this

Contents

1	Executive Summary	3
2	Governance	3
3	Why Change?	43
4	Solution	4
5	Relevant Objectives	145
6	Impacts & Other Considerations	145
7	Implementation	155
8	Legal Text	156
9	Recommendations	157

 Any questions?


Contact:
Dan Fittock

 DCUSA@electralink.co.uk

 0207 432 3008

Proposer:
Mike Harding

 Waymont, Peter
mike.harding@bu-uk.co.uk

 07920 238095

Timetable

The timetable for the progression of the CP is as follows:

Change Proposal timetable

Activity	Date
Initial Assessment Report Approved by Panel	
Change Report Approved by Panel	
Change Report issued for Voting	
Party Voting Closes	
Change Declaration Issued to Parties	
Implementation	

Commented [JL3]: Does the standard template for the Change Report just limit it to these activities? If not, then add in the two consultations

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.

Why

- 1.2 DCP 251 was raised as a Part 1 Matter by The Electricity Network Company Ltd to address the following defect in the Common Distribution Charging Methodology (CDCM):

“The CDCM currently contains undue discrimination in favour of IDNOs/DNOs compared to operators of equivalent distribution systems that take up their legal right to operate under a licence exemption.”

- 1.3 This CP seeks to make the minimum changes necessary to remedy this defect.
- 1.4 In schedule 16 (CDCM), it extends the application of Licenced Distributor Network Operator (LDNO) tariffs to the operators of exempt distribution systems subject to strict conditions about metering, openness to competition and duties to provide data. These conditions ensure equivalence with licensed distribution systems.

How

- 1.5 It is proposed that a new definition of Qualifying Network Operator (QNO) is introduced which includes Independent Distribution Network Operators (IDNOs), Distribution Network Operators (DNOs) operating outside of their Distribution Services Area and operators of distribution systems under licence exemption and the relevant schedules updated to reflect this, as detailed in Attachment 1. The new definition includes the criteria required to become a QNO.

2 Governance

Justification Part 1 Matter

- 2.1 DCP 251 is classified as a Part 1 matter as described in DCUSA clause 9.4.2:

“it is likely to have a significant impact on competition in one or more of: (A) the generation of electricity; (B) the distribution of electricity; (C) the supply of electricity; and (D) any commercial activities connected with the generation, distribution or supply of electricity”



and will be submitted to the Authority for determination after the voting process has completed.

Requested Next Steps

- 2.2 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 251.
- 2.3 The DCUSA Panel recommends that this CP:
 - Be issued to Parties for Voting

3 Why Change?

Background of DCP 251

- 3.1 At the Distribution Charging Methodologies Forum Methodologies Issues Group (DCMF MIG) held on 11 September 2014 it was raised that undue discrimination may be taking place where Private Network Operators (PNOs) are unable to use the discounted LDNO tariffs that are available to IDNOs. This matter and the draft version of DCP 251 was further discussed at the DCMF MIG held on 2 October 2014.
- 3.2 Following that meeting, the issue originator sought to understand how the legal provisions are supposed to work in the case of licence-exempt distribution networks which have opted for “full settlement” metering and are purchasing a Metering Point Registration Service from a licensed distributor. It seems to be that DCUSA does not cover these points. For example, the scope of section 2B seems to be limited to licensed embedded networks. But there is no need for DCUSA to cover everything, as there does not seem to be any absolute barrier to using site-specific bilateral agreements from providing the necessary framework, outside DCUSA.
- 3.3 This leaves the question of charges, which has to involve DCUSA but only because the charging methodologies, even though they are not part of the DCUSA contractual structure, are subject to DCUSA governance. The issue originator brought the issue back to the November 2014 MIG meeting, with a submission that it is a legitimate charging methodology issue, and the suggested solution would better meet the DCUSA charging objectives by removing undue discrimination between licensed and licence-exempt distributors, and by improving clarity/correctness of the methodology statement.

4 Solution

DCP 251 Assessment

- 4.1 The DCUSA Panel established a joint Working Group to assess DCP 251 along with DCP 252¹, due to the similarities between the changes. This Working Group consists of DNO, IDNO 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.
- 4.2 The Working Group discussed the concept of a new term in DCUSA of a Qualifying Network Operator (QNO), to define and describe the types of network operator that would qualify for the LDNO tariffs. The term QNO was used by the Working Group to help develop DCP 251 and 252 as the terms IDNO, DNO, LDNO and EDNO are already used in DCUSA to describe different aspects of the relationships between parties. This CP proposes to modify Schedule 16 to introduce this defined term of ‘Qualifying Network Operator (QNO)’ and update subsequent wording in the schedule to include QNOs and QNO tariffs in a number of clauses as detailed in Attachment 1.
- 4.3 The Working Group carried out two consultations to obtain views on the proposed approach to introducing the new QNO definition and to avoid undue discrimination against unlicensed distributors.
- 4.4 In developing the first consultation the Working Group produced a background paper (attachment. x) to aid the understanding and provide the background to how the LDNO tariffs were established. The initial outcome from this paper was as follows:
- A “The intent of both DCP 251 and DCP 252 are about allowing QNOs to be eligible for LDNO tariffs. Therefore, the task of the workgroup is to determine the rules to be considered as a QNO.
- B If a DEH demonstrates that it substitutes the DNO activity on a last mile network in the same way that an IDNO does, then it should be considered as meeting the requirements to be considered as a QNO.
- C If the DNO is providing services in respect of the customers connected to the DEH (for example, to facilitate competition in supply) then the DEH could:
- a. be considered as a QNO and eligible for LDNO tariffs, but any services provided by the DNO in respect of such licence exempt network should be subject to separate contractual provisions (and charges);

¹ [DCP252 - Clarification And Extension Of The Application Of LDNO Tariffs Under The CDCM](#)



b. be rejected as a QNO, and therefore not eligible for LDNO tariffs. Where such rejection is made the grounds for rejection need to be clear.”

Consultation 1

4.5 The first consultation in May 2016 was issued as the Working Group wished to ascertain:

- Whether Parties were comfortable with the intent and principles of DCPs 251 and 252;
- Whether Parties agreed with the introduction of a defined term of Qualifying Network Operator; and
- Views on whether there are individuals correctly operating outside of the allowed exemption and thus whether Parties are comfortable with the proposed term 'unlicensed distributor'.

4.6 There were eight responses received to the consultation. Five respondents were DNOs and two respondents were IDNOs and one was a consultant. The Working Group discussed each response and its comments are summarised alongside the collated consultation responses in Attachment 4.

4.7 A summary of the responses received, and the Working Group's conclusions are set out below:

Question1: Do you understand the intent of the DCP 251 and DCP 252?

4.8 Seven respondents understood the intent of DCP 251 and DCP 252, with one respondent providing some comments regarding inconsistencies between the change proposal form and the consultation document, noting that that the references to the 50% discounts should be removed from the DCP 251 Change Proposal form as previously agreed by the DCUSA Panel.

Commented [JL4]: Is this value correct?

4.9 The Working Group noted these inconsistencies and updated the change proposal form accordingly as the original Change Proposal form had not been updated to reflect the removal of the references to the 50% discounts.

Commented [JL5]: As above

Question 2: Are you supportive of the principles of DCP 251 and DCP 252?

4.10 Seven of the respondents were supportive of the principles of DCP 251 and DCP 252, with one respondent raising some fundamental concerns.

4.11 The Working Group noted the concerns and added these points of concern to the Issues Log, details of which can be found in Clause xx.x of this Change Report.

Commented [JL6]: Check that this section is added

Question 3: Do you agree with the proposal to introduce the term "Qualifying Network Operator"?

4.12 All respondents agreed with the proposal to introduce the term 'Qualifying Network Operator'.

Question 4: Please can you provide details of your assessment of the implication of implementing DCP 251 and DCP 252, namely the extension of the tariffs to unlicensed networks. If possible, please can you quantify the number of networks and the volume of electricity which might qualify (preferable in megawatts).

- 4.13 None of the respondents were able to provide an assessment of the implication of implementing DCP 251 and DCP 252, in terms of the number of networks and the volume of electricity which might qualify.

Question 5: Please can you confirm whether the background paper, Attachment 6 provided sufficient information?

- 4.14 Six respondents agreed that the background paper, which details the work undertaken by the Working Group in comparing the use of system services between different network operators and how these differences may result in undue discrimination, provided sufficient information, with one respondent disagreeing and one respondent providing comments.
- 4.15 The Working Group noted this response and reiterated that further clarity in the consultation document, background paper and QNO definition would be provided in future publications.

Question 6: Please can you confirm whether you agree with the Working Group assessments in the background paper provided as Attachment 6?

- 4.16 Six respondents agreed with the Working Group assessment in the background paper, with one respondent disagreeing and one respondent providing comments.
- 4.17 The Working Group noted the comments regarding the Working Group having a view as to whether undue discrimination is taking place or not, and agreed for future publications to note that the Working Group does not currently hold a consensus view on the issue in order for the concerns to be addressed.

Question 7: Do you agree with the definition for a Qualifying Network Operator?

- 4.18 Two respondents agreed with the definition for a QNO, with the remaining respondents suggesting a number of areas for improvement within the definition.
- 4.19 The Working Group noted these comments and agreed to consider them in the future development of the defined term for QNO.

Question 8: Are there circumstances under which unlicensed distribution systems (private network operators) should be considered as qualifying for the LDNO tariffs? Please give

supporting reasons. If you consider that there are circumstances that licence exempt distribution systems do qualify please also describe the circumstances

- 4.20 Three respondents agreed that there are circumstances under which unlicensed distribution systems should be considered as qualifying for the LDNO tariffs, where they are operating in the same manner and three respondents disagreed.
- 4.21 The Working Group noted the disagreements and agreed that the comments reflected a common theme within the consultation responses:
- Should it be the Use of System services that the unlicensed operator provides; or
 - Should it be the Use of System services it receives from the DNO
- 4.22 These considerations were added to the Issues Log for further development.

Question 9: The Change Proposal refers to people who operate under licence exemption; however, the Working Group believes that there are individuals correctly operating outside of the allowed exemption and are therefore propose to use the term 'unlicensed' as opposed to 'licence exemption'. Do you agree with this?

- 4.23 Three respondents agreed with the use of unlicensed network operators as opposed to licence exempt network operators, two respondents agreed in principle but provided comments. The remaining respondents disagreed and provided their rationale.
- 4.24 The Working Group noted the concerns raised by respondents and agreed to add these to the issues log for further consideration.

Question 10: Do you agree that the proposal (as outlined so far) better facilitates the DCUSA objectives? Please give supporting reasons.

- 4.25 Four respondents agreed that the proposal better facilitates the DCUSA Objectives, two respondents provided some comments and one respondent suggested that the change needed further development.
- 4.26 The Working Group noted these concerns raised by these respondents.

Question 11: Do you have any comments on the proposed legal text for DCP 251 and DCP 252?

- 4.27 Two respondents provided comments on the proposed legal text for DCP 251 and DCP 252.
- 4.28 The Working Group noted that the main concerns were:
- That there may be a need for separate terms for LDNO and QNO in the legal text as it should be made clear that this solution only applies to networks where Full Settlement solution exists rather than those with Difference Metering. The Working Group noted this

response and agreed that further clarity on the definition of who the tariffs apply to is required and this issue was added to the Issues Log; and

- That the LDNO network data could be used as a proxy for QNO network data, the unlicensed QNOs may include less sophisticated entities that are not DCUSA parties and obtaining data from them may be problematic. The Working Group noted these concerns and agreed that they should be added to the Issues Log.

Question 12: Please can you confirm the earliest date which you believe DCP 251 and DCP 252 can be implemented? Please provide your reasons why.

- 4.29 One respondent suggested near-immediate effect upon approval (5 working days following Authority consent) and a number of respondents suggested that the changes should be introduced in the next DCUSA release following approval. Finally, a respondent suggested an implementation date of six months following approval.

Working Group Review of first consultation

- 4.30 Following the review of the responses to the first consultation it was noted that DCPs 251 & 252 may have impacts on the Balancing and Settlements Code (BSC) and the Master Registration Agreement (MRA) and it was agreed that the relevant code Panels be informed of the work being undertaken by this Working Group.
- 4.31 In order to consider the highlighted concerns detailed in the Issues Log, the Working Group developed a series of Network Setup Diagrams to clearly set out the roles, responsibilities and provided services of a number of archetypal network configurations. These diagrams along with a refined definition for QNO were used in the second Consultation in order to ascertain the industry's view of whether undue discrimination was taking place against unlicensed distributions in light of their similar network setups to IDNOs.

Consultation 2

- 4.32 The December 2016 consultation was issued as the Working Group wished to ascertain:
- Whether undue discrimination was taking place against unlicensed network operators;
 - Opinions on the proposed definition of Qualifying Network Operator; and
 - Whether the new definition of Qualifying Network Operator removed any undue discrimination.
- 4.33 There were seven responses received to the consultation. Five respondents were DNOs and two respondents were IDNOs. The Working Group discussed each response and its comments are summarised alongside the collated consultation responses in Attachment 4.
- 4.34 A summary of the responses received, and the Working Group's conclusions are set out below:

Question 1: Do the templates and diagrams provide you with sufficient information to understand the issue?

- 4.35 The majority of respondents to this question found the templates and diagrams useful in understanding the issue, with one respondent suggesting changes to the documents and another respondent noting that they did not feel that the templates and diagrams were fully comprehensive of all the possible scenarios.
- 4.36 The Working Group agreed to update the diagrams to reflect the suggested changes to aid clarity, and noted that the templates and diagrams are illustrative examples and should be used to aid understanding of the issue, rather than be a record of all possible private network setups. These diagrams have been included in [Attachment x](#).

Question 2: Should Unmetered Supply (UMS) arrangements be considered when reviewing various network set-ups as part of this change?

- 4.37 All respondents to this question agreed that UMS arrangements should be considered and the Working Group agreed to include UMS arrangements within the scope of the change proposal.

Question 3: Do you agree with the Working Group's comparison of the differences between DNOs, IDNOs and unlicensed distributors, as set out in the diagrams?

- 4.38 All respondents agreed with the Working Group's comparison of the differences between DNOs, IDNOs and unlicensed distributors, with some respondents requesting greater clarity with regards to IDNO portfolios in comparison template 1.
- 4.39 The Working Group agreed to update Template 1 to ensure greater clarity as per the received comments.

Question 4: Do you believe that unlicensed distributors are being unduly discriminated against please provide your rationale?

- 4.40 Three respondents believed that undue discrimination against unlicensed distributors could be occurring in certain circumstances:
- *"We understand that the industry framework and procedures exist for those private network or building network operators to act as described by the comparison templates within the industry rules for a licensed exempt distributor. The key decision for the licensed exempt distributor is whether it facilitates competition in supply for its customers and/or it chooses whether to follow the industry rules for charging use of system for its own network."*

- *"We agree that where an unlicensed network operator provides the same level of services as an IDNO or DNO operating outside of its distribution services area, there would be undue discrimination. If the end-user on the unlicensed network receives the same services as if it was connected to an IDNO/DNO/DNO operating outside of its distribution services area then the unlicensed network operator should be eligible for QNO tariffs."*
- *"We believe that there is the possibility that not applying the IDNO discounts to unlicensed distributors could be unduly discriminated against in a limited circumstances. However we believe this could be where the operator of the unlicensed network receives no more than the same services that an IDNO receives for operating an equivalent network (and which the DNO would otherwise have to own and operate)."*

In operating networks the IDNO substitutes the network and inter alia registration services and other customer services that the DNO would otherwise have to provide. It is on this basis that the LDNO discount tariffs are calculated and it is, therefore, against this standard that the judgement of undue discrimination should apply. Unless there is full competition in supply in respect of exit and entry points to the unlicensed distribution network, the boundary from the Total System will be at the DNO connection boundary and the DNO will have certain obligations in respect of operating such boundary. Also, a supplier would need to be registered against the exit/entry point from the DNO network. In contrast, for an IDNO network the boundary from the Total System is at metering points on the IDNO network. The IDNO/DNO boundary is invisible to the settlement process and no supplier is required."

4.41 One respondent noted that they believed in these instances that the best solution would be to introduce a new tariff:

- *"We believe that the best solution to the problem is to introduce a new tariff discount for private network operators. As answered in the question above the diagrams attached to the consultation imply that the DNO network provides a greater service to a private network than an IDNO."*

4.42 However, in response to this the Working Group noted that the introduction of a new LDNO tariff was not in the scope of this DCP.

4.43 Two respondents confirmed that they do not believe unlicensed distributors are discriminated against based on the fact that there is a differentiation between IDNOs and unlicensed distributors and that they are fundamentally different. Some examples of comments received have been included below:

- *No, we do not believe there has been any intention to discriminate, due or undue against unlicensed distributors by not allowing them access to the discounted tariffs. There has always been differentiation between different customer groups in setting tariffs and this should not be confused with discrimination. In short, IDNOs and unlicensed distributors*

are fundamentally different and do not appear, on the face of it, to be similar enough to have the same tariffs applied to them.

- In operating networks the IDNO substitutes the network and inter alia registration services and other customer services that the DNO would otherwise have to provide. It is on this basis that the LDNO discount tariffs are calculated and it is, therefore, against this standard that the judgement of undue discrimination should apply. Unless there is full competition in supply in respect of exit and entry points to the unlicensed distribution network, the boundary from the Total System will be at the DNO connection boundary and the DNO will have certain obligations in respect of operating such boundary. Also, a supplier would need to be registered against the exit/entry point from the DNO network. In contrast, for an IDNO network the boundary from the Total System is at metering points on the IDNO network. The IDNO/DNO boundary is invisible to the settlement process and no supplier is required.*
- No we do not, as an unlicensed network utilises more DNO services than an IDNO.*

Question 5: Do you agree with the Working Group's view that the introduction of a Qualifying Network Operator (QNO) definition and a QNO tariff will alleviate any undue discrimination?

- 4.44 Five respondents to this question agreed that the introduction of a QNO definition and a QNO tariff would alleviate undue discrimination.
- 4.45 One respondent noted that the question insinuated that the Working Group was working on the assumption that undue discrimination did take place and did not believe that the proposed definition of QNO would remove any undue discrimination. The respondent recommended an amendment to the proposed defined term for QNO, which the Working Group agreed to use.

Question 6: What lead time do parties require in order to implement this Change Proposal?

- 4.46 The responses to this question resulted in three possible dates:
- Next DCUSA Release following approval;
 - April 2019; and
 - 12 months after approval.
- 4.47 On this basis the Working Group undertook a vote with three Working Group members voting for the next DCUSA release after approval, two Working Group members voting for April 2019, and one Working Group member voting for 12 months after approval.
- 4.48 Based on this vote the Working Group will recommend an implementation date of next DCUSA release following approval.

Question 7: Do you have any comments on the legal drafting?

- 4.49 The respondents to this question suggested a number of small drafting and formatting changes which have been reflected in the legal text. Details of these amendments can be found in Attachment x.

Question 8: Do you have any further comments?

- 4.50 A number of additional comments were received from Parties, details of which can be found in Attachment x.
- 4.51 One respondent noted that as a result of this change, a number of subsequent changes would be required to update the references in the charging models. The Working Group noted this and agreed to progress any required updates to the charging models as part of this change.

Commented [JL7]: How do we intend to cover off a reference to schedule 19

Revised QNO Definition

- 4.52 The revisions made to the QNO Definition seek to ensure that any potential undue discrimination against PNOs is removed by including any person who does not hold an electricity distribution licence, and whose distribution system connects to the electricity distribution system of a DNO Party operating within its Distribution Services Area for the purpose of conveying electricity to or from premises or other distribution systems connected to its electricity distribution system and who receives use of system from that DNO Party. This is further backed up by including the examples:
- where the premises connected to that distribution system (or to such other distribution system that may be connected to that distribution system) import or export electricity through a Metering Point; and
 - where a Distribution Business provides services such that the DNO Party is only required to provide services to such person on the same equivalent basis as it does to another IDNO or DNO Party.

Commented [JL8]: Working group assessment section to be added including the issue log. Most of the issues where covered off in the second consultation so should be discussed in the section above between the two consultations and then schedule 19 needs to be addressed.

5 Relevant Objectives

Evaluation Against the DCUSA Objectives

- 5.1 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 251:

Commented [DF9]: WG to update

6 Impacts & Other Considerations

Consumer Impacts

- 6.1 The Proposer did not identify any material impact on consumers from the implementation of this CP.

Commented [JL10]: We need to ask the question of the working group



Environmental Impacts

- 6.2 In accordance with DCUSA Clause 11.14.6, the Proposer assessed whether there would be a material impact on greenhouse gas emissions if DCP 251 were implemented. The Proposer did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

Commented [JL11]: This should be working group

Engagement with the Authority

- 6.3 Ofgem has been fully engaged throughout the development of DCP 251 providing feedback on the proposed legal text and Change Report.

7 Implementation

- 7.1 Subject to Party approval, the DCP 251 change will be implemented on the next DCUSA Release following approval.
- 7.2 DCP 251 is classified as a Part 1 matter and therefore Authority determination is required.

8 Legal Text

- 8.1 The proposed legal text has been developed by the Working Group and acts as Attachment 1.

Commented [JL12]: Main areas of change to be added in summary form

9 Recommendations

Panel's Recommendation

- 9.1 The Panel approved this Change Report on xx xxxx 2017. The Panel considered that a sufficient level of analysis had been carried out to enable Parties to understand the impact of the proposed amendment and to vote on DCP 251.

Requested Next Steps

- 9.2 The DCUSA Panel recommends that this CP:
- Be issued to Parties for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

Attachments

- Attachment 1 –DCP 251 Draft Legal Text
- Attachment 2 – DCP 251 Voting Form
- Attachment 3 – DCP 251 Change Proposal Form



- Attachment 4 – DCP 251 & 252 Consultation Documents