



## **DCUSA Second Consultation**

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DCP 251 – Clarification And Extension Of The  
Application Of LDNO Tariffs Under The CDCM

And

DCP 252 – Clarification And Extension Of The  
Application Of LDNO Tariffs Under The EDCM

## PURPOSE

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- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors, electricity Suppliers and large Generators and sets out the arrangements under which those Parties can use the electricity distribution systems of DNO parties and IDNO Parties. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.
- 1.2 This is the second consultation to be issued to all DCUSA Parties, interested third parties, and the Authority in accordance with Clause 11.14 of the DCUSA seeking industry views on the following Change Proposals:
- DCP 251 'Clarification And Extension Of The Application Of LDNO Tariffs Under The CDCM'.
  - DCP 252 'Clarification and Extension Of The Application Of LDNO Tariffs Under The EDCM'.
- 1.3 Parties are invited to consider the Change Proposals as developed to date, the initial legal text being considered by the Working Group and the questions developed by the Working Group to seek answers that will assist it in the development of the Change Proposal and in its consideration of whether the Change Proposal better meets the relevant DCUSA objectives. The Working Group also invites industry to decide on whether Private Network Operators (PNOs) are unduly discriminated against by not being able to utilise Independent Distribution Network Operator (IDNO) DUoS Tariffs. Respondents are asked to submit comments using the response form provided as **Attachment 1** to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) by **xxx, xx xxxx 2016**.
- 1.4 The Working Group has produced a template, provided as **Attachment 2**, that assesses the differences in structure and responsibilities between PNOs and IDNOs.

## 2 BACKGROUND TO THE DEVELOPMENT OF THE CHANGE PROPOSAL

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- 2.1 Currently, LDNO tariffs are only available to licensed distributors in respect of networks where they connect to a 'host' electricity distribution system. The tariffs are applied by the host licensee on a similar basis to how suppliers are charged i.e.:
- On a portfolio basis for Non-Half Hourly (NHH) and aggregated Half Hourly (HH) customers connected to LDNO owned distribution systems; and
  - On a site specific basis for other HH customers connected to LDNO owned distribution systems.
- 2.2 An issue was raised at the Distribution Charging Methodology Forum (DCMF) Methodology Issues Group (MIG) on LDNO tariffs to determine whether:
- The current applicability was set out clearly enough in respect of licenced Distribution Network Operators (DNOs) who operate networks outside their distribution services area; and
  - Separately, whether the LDNO tariffs should also apply to networks owned and operated under licence exemption.
- 2.3 The issue was developed after being initially discussed at the DCMF MIG in September 2014, before it was raised as a formal DCUSA change in October 2015.
- 2.4 The proposer of the original issue (raised as a Draft Change Proposal at the October DCMF MIG meeting) considered how the legal provisions are supposed to work in the case of unlicensed distribution networks that opt for "full settlement" metering [\[see Elexon's document on full settlement or difference metering\]](#) and use the Meter Point Registration Service (MPRS) from a licensed distributor.
- 2.5 DCP 251 was raised alongside DCP 252 to consider potential updates to both the Common Distribution Charging Methodology (CDCM) and the EHV Distribution Charging Methodology (EDCM). Due to the similar nature of these changes, the DCUSA Panel agreed for both DCPs to be considered by a single Working Group.

### 3 DCP 251 AND DCP 252

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- 3.1 DCP 251 and DCP 252 were raised by The Electricity Network Company Limited so that the issues raised at the DCMF MIG could be considered under DCUSA's formal governance arrangement as the originator of the MIG issue is not a DCUSA party so could not raise the DCUSA changes on its own behalf.
- 3.2 In line with the duties of the Working Group to evaluate, develop and refine the solution, the intent of the change was amended to not include the restoration of the 50 per cent LDNO discount on indirect costs which was removed by the approved legal text for DCP 185 in cases where the fixed adder is negative. These amendments have been reflected in DCP 252. This amendment was agreed with the Panel.

#### Applicability of the CDCM

- 3.3 The CDCM currently applies the LDNO tariffs to Independent Distribution Network Operators (IDNO) Parties and DNO Parties (where a DNO Party operates network(s) outside its distribution service area). The CDCM does not apply LDNO tariffs to networks operated under licence exemption. This may result in undue discrimination if the networks and the way they are operated by a licensed operator and a licence exempt operator are equivalent. DCP 251 and DCP 252 would allow the application of LDNO tariffs to be extended to licence exempt networks, where the DNO provides use of system services that it would also provide to an IDNO in respect of end users connected to its network.

#### Applicability of the EDCM

- 3.4 In addition to the applicability matters highlighted in 3.3 above the current drafting of the EDCM legal text wrongly limits the application of LDNO tariffs to "IDNO Parties". This is viewed by the Working Group as an error in the drafting rather than a fundamental issue of applicability as, in practice, DNO companies are already operating outside of their distribution services area (mirroring IDNO activity) and it is understood current practice is to charge such DNOs on the same basis as LDNOs.

## 4 BACKGROUND TO THE CREATION OF THE LDNO TARIFFS

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- 4.1 The common IDNO tariffs were established in 2010, following the introduction of the Common Distribution Charging Methodology (CDCM). Prior to this each DNO had their own approved methodology for charging IDNOs. These methodologies had been established and approved by Ofgem on an interim basis on the understanding that the introduction of the CDCM would ensure commonality across all DNOs.
- 4.2 The LDNO tariffs were developed and introduced in 2010 to recognise the particular features of IDNOs and out of area DNOs and their place in the market for competition of ownership of new networks: Those features were:
- IDNOs (or DNOs operating outside their distribution services area) provide, own and operate the “last mile” of network (i.e the network between a DNO’s existing distribution system and end customers), and in doing so substitute the activity that the DNO would otherwise provide.
  - The PCDM allocates total DNO costs between the DNO’s existing network and the last mile network provided by the IDNO or DNO. These costs are allocated using the host DNO’s total average costs to serve an equivalent network. Such cost being dependent on:
    - The amount of last mile network provided by the IDNO or DNO in substitution of the host DNO. The level of substitution is determined from the point (e.g. voltage level) at which the last mile network connects to the DNO network and the network level (e.g. the voltage level) at which the last mile network connects to end customers.
  - The PCDM developed for IDNOs and DNOs connecting to a host DNO’s distribution system apply to all such networks connected: The host IDNO/DNO cannot elect to choose to have some sites charged on LDNO tariffs and for other sites to be charged on tariffs designed for end consumers.

- This approach means that the IDNO/ DNO operating the network will typically receive the same margin as the host DNO's notional "equivalent" business does in operating the same "equivalent" network. This is because under IDNOs'/ DNOs' licence conditions they are required, in respect of domestic customers, to replicate the host DNOs tariff structure and to charge no more than the host DNO would charge.
- Where the IDNO/DNO procures services from the host DNO in respect of the last mile network it does so on separate contractual terms and charges; i.e. the cost of such services is not recovered through DUoS charges (for example emergency services).

4.3 The majority of the Working Group believes that, at the time of developing the LDNO tariffs under the CDCM, explicit consideration of the application of these tariffs to licence exempt networks did not occur.

## 5 WORKING GROUP ASSESSMENT

- 5.1 The DCUSA Panel has established a Working Group for DCP 251 and DCP 252, which consists of independent representatives from DNO and IDNO parties, an Ofgem observer and the raiser of the original DCMF MIG issue (a non DCUSA party). An open invitation was extended to all DCUSA Parties and to all other interested parties to participate in this Working Group and this invitation remains open for any interested parties.
- 5.2 Since the last consultation which sought to clarify the applicability criteria of the IDNO tariffs through the creation of a new concept and term in DCUSA called a Qualifying Network Operator (QNO) and how the new term could be used in relation to unlicensed distribution systems, discussions have moved on to specific differences between PNOs and IDNOs.
- 5.3 The Working Group's discussions have been centred around whether the inability for PNOs to use IDNO DUoS Tariffs is considered 'unduly discriminatory' or not, based on the wording used in the Change Proposal (CP) documentation. Based on this the Working Group have been considering the following points:

### **Definition of ‘Undue Discrimination’**

- 5.4 The use of the term ‘*undue discrimination*’ has been used in the CP documentation however the Working Group noted that this had not been defined. As this ‘*undue discrimination*’ was at the core of the issue it was agreed that this should be made clear moving forward.
- 5.5 On this basis the Working Group undertook work to define this term using existing OFCOM definitions as guidance. The group noted that existing OFCOM definitions indicated that ‘*undue discrimination*’ deemed undue or not undue based on whether the discrimination can be ‘*objectively justified*’. The Working Group agreed to use the Ofcom code when considering the Distribution Licence obligations covering Discrimination. “Discrimination will not be undue where it can be objectively justified”.

### **Network Structure**

- 5.6 It was highlighted that due to the similar structures of PNO and IDNO network setups, PNOs should be eligible for use of IDNO Tariffs. On this basis the Working Group compared the various setups of PNOs, including:
- IDNO Networks;
  - Building Network Operator (BNO) networks;
  - Private Networks with Competition in Supply;
  - Private Networks without Competition in Supply; and
  - Private Wire Generation and Local Supply.

These network setup diagrams have been included as **Attachment 3**.

- 5.7 Analysis of these different structures allowed the Working Group to identify specific differences between PNO and IDNO networks. These differences could then be used to ascertain the scope of additional services IDNO’s offer as part of their license obligations against PNOs who are not obligated to offer these services.

#### **Differences between PNO and IDNO network structures**

PNO	IDNO
Maintenance	Maintenance

Providing network assets	Providing network assets
Settlement processes on 'bulk' users at boundary	Settlement processes on multiple users rather than 'bulk'
	CoS processes
	Emergency services
	MPAN creation / provision

- 5.8 The Working Group requests that the industry utilise these diagrams and tables when considering the consultation questions set out in Section 8 of this document.

#### **Provision of Services**

- 5.9 The Working Group considered whether the additional services that IDNOs provide which PNOs do not is material when considered in relation to the reduced costs that they are entitled to as part of the IDNO tariffs, and thus the prescribed discrimination against PNOs would be considered '*objectively justified*'.
- 5.10 Using the identified differences between PNO and IDNO network structures the Working Group compiled a list of differences in services provided:

Services provided by the PNO	Services provided by the DNO
Maintenance, operation and provision of physical assets	Provides maintenance, operation and provision of physical assets up to the boundary
Billing (as appropriate) of end user customers	Bills the Supplier
Receives a 'bulk' Supply tariff (the end user customers are bundled)	Facilitates settlements (e.g. loss adjustment factors, line loss factor classes etc.)
Benefits from the diversity of its customers' use of the private network	Facilitates the CoS process
	Provides emergency services in respect of the MPAN at the boundary
	Operates as the MPAN point of contacts
	Provides the MPAN at the boundary



5.11 The Working Group requests that the industry consider the differences in PNO and IDNO provided services when considering the consultation questions set out in Section 8 of this document.

**Are PNOs unduly discriminated against?**

5.12 The Working Group agreed that...

**Commented [DF1]:** To be completed by the Working Group

## 6 LEGAL DRAFTING

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6.1 The proposed legal drafting has been provided as **Attachments 4 and 5**. Within these attachments, amendments have been drafted to:

- Address the drafting errors in the EDCM to ensure that DNO operating outside of their distribution service area are treated in the same manner as IDNOs;
- Introduce the term Qualifying Network Operator; and
- Introduce a definition for Qualifying Network Operator, which would allow unlicensed distributor to qualify for LDNO tariffs.

## 7 IMPLEMENTATION

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7.1 The proposed implementation date for DCP 251 and DCP 252 is five working days following Authority Consent.

## 8 CONSULTATION

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8.1 The Working Group is seeking views on the below questions:

1. Do the templates and diagrams provide you with sufficient information to understand the issue?
2. Are you supportive of the principles of the DCP 251 and DCP 252?
3. Do you agree with the Working Group's comparison of the differences between DNOs, IDNOs and PNOs, as set out in the diagrams?
4. Do you agree with the view of the Working Group? If not, are there areas that the Working Group has missed which might have resulted in a different view?
5. Even if it were the case that undue discrimination is taking place, due to the nature of IDNO tariffs were developed, is it appropriate to calculate IDNO and PNO tariffs using the same approach?

- 8.2 Responses should be submitted using Attachment 1 to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) no later than **xxx, xx xxxx 2016**
- 8.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

## 9 NEXT STEPS

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- 9.1 Responses to the Consultation will be reviewed by the DCP 251 and DCP 252 Working Group. The Working Group will then determine the progression route for the CP.
- 9.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) or telephone 020 7432 3011.

## 10 ATTACHMENTS

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- Attachment 1