









DCUSA Change Report		At what stage is this document in the process?
<h1>DCP 252</h1> <h2>DCP Title: Clarification and Extension Of The Application Of LDNO Tariffs Under The EDCM</h2> <p>Date raised: <b>15 October 2015</b></p> <p>Status of Change: <b>Standard</b></p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p><b>Purpose of Change Proposal:</b></p> <p>The intent of this proposal is to:</p> <ol style="list-style-type: none"> <li>1. Correct drafting errors in the specification of the distribution systems that are eligible for portfolio tariffs under the EDCM (schedule 17 and 18).</li> <li>2. Establish arrangements that ensure that methodologies in Schedule 17 and 18 do not impose undue discrimination between licensed and licence-exempt distribution systems.</li> </ol>		
	<p>This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 252 “Clarification and Extension Of The Application Of LDNO Tariffs Under The EDCM”.</p> <p>Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>09 June 2017</b></p> <p>The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.</p> <p>If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> or telephone 020 7432 3008.</p>	
	 <p>Parties Impacted: <b>DNOs, IDNOs, other parties that are or would be eligible for LDNO tariffs</b></p>	
	 <p>Impacted Clauses: <b>Schedules 17, and 18</b></p>	

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Timetable		
The timetable for the progression of the CP is as follows:		
Change Proposal timetable		
Activity	Date	
Initial Assessment Report Approved by Panel	21 October 2015	
First Consultation	6 May 2016	
Second Consultation	24 November 2016	
Change Report Approved by Panel	17 May 2017	
Change Report issued for Voting	19 May 2017	
Party Voting Closes	9 June 2017	
Change Declaration Issued to Parties	13 June 2017	
Authority Decision	18 July 2017	
Implementation	First release following approval <sup>1</sup>	

<sup>1</sup> The next DCUSA release is scheduled on the 02 November 2017

## 1 Executive Summary

### What

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.

### Why

- 1.2 DCP 252 was raised as a Part 1 Matter by The Electricity Network Company Ltd to address the following defect in the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM):

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

“contains drafting errors in the legal text whereby DNOs operating out of area should have the same arrangements as IDNOs”

- 1.3 This CP seeks to make the minimum changes necessary to remedy this defect.
- 1.4 Licensed Distributor Network Operator (LDNO) tariffs are currently 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) customers connected to LDNO owned Distribution Systems; and
  - On a site specific basis for Half-Hourly (HH) customers connected to LDNO owned Distribution Systems.
- 1.5 DCP252 does not seek to introduce a new Independent Distribution Network Operator (IDNO) methodology or to change charging arrangements in place for providing Use of System to other distribution networks. Rather, it seeks to clarify the types of networks that should qualify for the existing LDNO tariffs including rectifying the drafting error that currently omits Distribution Network Operators (DNOs) operating out of area from having such arrangements available to them yet such arrangements are currently catered for in Schedule 16 (CDCM).
- 1.6 In schedule 17 (EHV CHARGING METHODOLOGY (FCP MODEL)) and 18 (EHV CHARGING METHODOLOGY (LRIC MODEL)), it extends the application of 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

- 1.7 It is proposed that a new definition of Qualifying Network Operator (QNO) is introduced which includes IDNOs, DNOs operating outside of their Distribution Services Area and operators of distribution systems under licence exemption (sometimes referred to as Private Network Operators (PNOs) where competition in supply is being utilised by end users) and the relevant schedules updated to reflect this, as detailed in Attachment 1.
- 1.8 The criteria to qualify as a QNO requires that an unlicensed network operator confirms that they offer the same levels of service such that the DNO Party's network they are connected to is only required to provide services to such person on the same equivalent basis as it does to another IDNO or DNO Party. These services can be provided directly by the unlicensed network operator, or via contractual agreements between the unlicensed network operator and a third party. For further details regarding the definition of a QNO, please refer to Section 4 of this Change Report.

## 2 Governance

### Justification Part 1 Matter

2.1 DCP 252 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 252.

2.3 The DCUSA Panel recommends that this CP:

- Be issued to Parties for Voting

## 3 Why Change?

### Background of DCP 252

3.1 At the Distribution Charging Methodologies Forum Methodologies Issues Group (DCMF MIG) held on 11 September 2014 an issue was raised that undue discrimination may be taking place where

PNOs are unable to use the discounted LDNO tariffs that are available to IDNOs. This matter and the draft version of DCP 252 were 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 that DCUSA does not cover these points. For example, the scope of section 2B is limited to licensed embedded networks. 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 left 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 252 Assessment

- 4.1 The DCUSA Panel established a joint Working Group to assess DCP 251<sup>2</sup> along with DCP 252 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](http://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

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<sup>2</sup> DCP251 – Clarification and Extension of The [Application](#) of LDNO tariffs under the CDCM

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. 6) to aid the understanding and provide the background to how the LDNO tariffs were established. The following is an extract from the paper detailing the initial outcomes (please note that references to Distribution Exemption Holders (DEH) relate to licence exempt distributors):

- 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 either:*
- 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); or*
- 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;
- Parties agreed with the introduction of a defined term of Qualifying Network Operator; and
- 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 (which only related to EDCM

therefore DCP 252) should be removed from both the DCP 251 and DCP 252 Change Proposal forms as a result of DCP 185<sup>3</sup> and as previously agreed by the DCUSA Panel.

- 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.

### **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 key concerns from this respondent, those being:
- The lack of engagement with QNOs;
  - The wide scope of the QNO definition possibly including a large number of customers; and
  - A risk with the term 'unlicensed' in that it might be taken to exclude licensed generators and suppliers operating private distribution networks
- 4.12 An Issues log was created to capture these points of concern, details of which can be found in Attachment 7 and the summarised outcome under the Working Group review of consultation 1 starting at Clause 4.33 of this Change Report.

### **Question 3: Do you agree with the proposal to introduce the term “Qualifying Network Operator”?**

- 4.13 All respondents agreed with the proposal to introduce the term 'Qualifying Network Operator', the definition of which is covered in Question 7 below.

### **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**

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<sup>3</sup> 'LDNO discount on 20% of residual revenue'



## can you quantify the number of networks and the volume of electricity which might qualify (preferable in megawatts).

- 4.14 None of the respondents were able to provide an assessment of the impact of implementing DCP 251 and DCP 252, in terms of the number of networks and the volume of electricity which might qualify as this is not something that DNOs could quantify. DNOs do not know how customers use electricity beyond the metered boundary with their networks, so do not know how many private networks there are.
- 4.15 The responses aligned with the background document produced by the Working Group. In order to take this forward, the Working Group produced template documents to identify where unlicensed networks exist. These templates formed part of the second consultation.

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

- 4.16 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. Some examples of these comments have been included below:
- *None of table 1, table 2 or table 3 in appendix 1 cover the case of full settlement metering which is the only case in which the proposed legal text would apply: table 1 has no private network, table 2 is a private network with no exit points in MPRS, table 3 is a private network with some exit points in MPRS and a different metering arrangements — none of those cover full settlement metering as outlined in the proposed definition of QNO.*
  - *Whilst the background paper sets out the basis on which charges are determined for IDNOs; it does not set out which “classes” of unlicensed networks (if any) should fall under the definition of QNO and the justifications as to why they should (or should not) qualify.*
- 4.17 The Working Group noted these responses 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?

- 4.18 Six respondents agreed with the Working Group assessment in the background paper, with one respondent disagreeing and one respondent providing comments.
- 4.19 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?

- 4.20 Two respondents agreed with the definition for a QNO, with the remaining respondents suggesting a number of areas for improvement within the definition.
- 4.21 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

- 4.22 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:
- *If the unlicensed network provides the same services as the LDNO then they should qualify for the LDNO tariffs.*
  - *We believe that where an unlicensed network operates in the same way as an LDNO then it could be treated in the same way. However, in almost all cases we believe that the DNO (or an LDNO) would need to assist the unlicensed network with raising MPANs, MDD data etc, which would mean that they are not operating in a consistent manner to an LDNO.*
  - *In principle, we do consider that there are circumstances under which PNOs should be considered as qualifying for LDNO/QNO tariffs. The background paper makes clear that where PNOs are operating a network with competition in supply they are required to provide many of the same services as IDNOs (even if these services were supplied by a DNO under contract), and as such it would be reasonable to expect that similar tariffs would apply.*
- 4.23 Three respondents disagreed:
- *We currently are not aware of any circumstances where we envisage that a private network operator would qualify for the fully discounted LDNO tariffs, but if there were any such circumstances, the implementation practicalities, such as the background contractual and service provision arrangements would be substantial. The lack of fully established standard frameworks for dealing with competitive supply on private networks remains a significant problem for the industry to collectively address. We would welcome further explanation and background on this query to be included in the working group paperwork.*
  - *Currently we are not aware of any circumstances under which unlicensed distribution systems (private network operators) should be considered as qualifying for the LDNO tariff.*

- *No. There appears to be no clear circumstances under which unlicensed distribution systems and the operations of their network owners are similar enough to Independent Distribution Network Operators or Licensed Distribution Network Operators with embedded sites to warrant qualification for the Licensed Distribution Network Operators tariffs.*

4.24 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?

4.25 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?**

4.26 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. Five respondents disagreed and provided their rationale:

- *I can see the logic for the term “unlicensed”. However, there is a risk with the term “unlicensed” is that it might be taken to exclude licensed generators and suppliers operating private distribution networks. I do not agree with the characterisation of people operating outside the exemption conditions as “individuals” (they might be corporations or local authorities). I do not agree with the claim that these people would be operating “correctly”.*
- *Network operators should operate within the licence exemption or correctly apply for a licence. As indicated in our response to question 4, it is likely that there are network operators that breach the exemption and we are not comfortable with these being referred to as ‘correctly operating outside of the allowed exemption’. However, as we are faced with this reality we do agree with the use of the term ‘unlicensed’ when describing all network operators who operate without a licence.*
- *It is our understanding that distributing electricity without either a licence or valid exemption is an offence under the Electricity Act 1989 (1989 c. 29 Part I Section 4 bb). However, in addition to applying to the Secretary of State for a specific exemption there are three classes of exemption specified under The Electricity (Class Exemptions from the Requirement for a Licence) Order 2001. These are Small Distributors, On-site Distribution and Distribution to non-domestic consumers. It is perhaps these general exemptions that the Working Group has in mind. However, these individuals/entities are licence exempt.*
- *We would welcome further explanation and background on this query to be included in the working group paperwork.*

- *We think it is wrong to describe parties as “correctly” operating outside exemption. Parties who have not been granted exemption – either on a site specific basis or by compliance with the class exemption regulations are in breach of Act. It is not for licensed distributors to administer the law and to determine whether a party is in breach of the provisions of the Act and to discriminate on that basis. Therefore we think the term “unlicensed” rather than “licence exempt” should be used.*

4.27 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.

4.28 Four respondents agreed that the proposal better facilitates the DCUSA Charging Objectives 1 and 2, and DCUSA General Objectives 2, 3 and 4., Two respondents provided some comments and one respondent suggested that the change needed further development:

- *If the costs are the same then the charges should be the same. Whether this statement is true for unlicensed networks and LDNOs would depend on whether it better facilitates charging objective 3 or not.*
- *Portfolio billing of private networks would make it easier for private network customers to have different suppliers which will enable competition in supply which would better facilitate charging and general objectives 2.*
- *Based upon the information included in the consultation, we believe that charging objective two and general objective two are both better facilitated by this change by removing any possible undue and unintended discrimination between licensed and licence-exempt distributors.*
- *On balance we do not believe the proposal better facilitates the DCUSA Charging Objectives as currently drafted.*
- *We believe that the DCPs require further development in order to assess the DCUSA Objectives.*

4.29 The Working Group noted these concerns raised by these respondents and will consider these responses following a review of the Issues Log ahead of the second consultation.

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

4.30 Two respondents provided comments on the proposed legal text for DCP 251 and DCP 252.

4.31 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.

- 4.32 A further respondent welcomed the correction to the error in Schedule 17/18 (omission of DNOs Operating out of area).

### 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.

- 4.33 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

- 4.34 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 via the Code Administrator's Cross-Code Change Tracker.
- 4.35 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 distributors in light of their similar network setups to IDNOs.
- 4.36 The Working Group noted the concerns regarding lack of engagement with unlicensed network operators and agreed for the distribution lists from DCPs 124<sup>4</sup> and 263<sup>5</sup> be used for future consultations, which include nearly one thousand identified unlicensed network operators.
- 4.37 It was agreed that the Working Group should revisit the definition of QNO and ensure that the scope of the definition is not too ambiguous. It was further agreed that this revised QNO definition should be included in the second Consultation.
- 4.38 The concern regarding risks in using the term 'unlicensed' was noted by the Working Group, but it was agreed that some parties may be operating unlicensed networks while being in breach of the requirement to have a licence. Using the term "unlicensed" covers people owning and operating distribution networks without a distribution licence. The Working Group agreed to continue to use the term 'unlicensed distributors'.

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<sup>4</sup> 'Third Party Network - National Connection Terms Amendments'

<sup>5</sup> 'NTC DEH Gap'

4.39 The Working Group agreed to include the question as to whether Unmetered Supply should be considered within the scope of this change in the second Consultation.

## Consultation 2

4.40 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.

4.41 The Working Group issued the second Consultation to almost one thousand contacts in an attempt to foster engagement with this change. Unfortunately, no unlicensed network operators chose to respond to the Consultation.

4.42 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 5.

4.43 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?**

4.44 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.

4.45 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 8.

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

4.46 All respondents to this question agreed that UMS arrangements should be considered.

4.47 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?

- 4.48 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.
- 4.49 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?

- 4.50 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.”*

4.51 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.”*

4.52 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.

4.53 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.*



- 4.54 It was the Working Group's view that where a DNO, in respect of an unlicensed network, provides no more than the same services, on an equivalent basis, as they provide to an IDNO or DNO operating outside of its distribution service area (the cost of such services being recovered through the Distribution Use of System (DUoS) charge) and is charging more than it would to an IDNO, then it is highly likely that the DNO would be unduly discriminating (if the LDNO discounted tariff is not being made available).

### **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?**

- 4.55 Five respondents to this question agreed that the introduction of a QNO definition and a QNO tariff would alleviate undue discrimination.
- 4.56 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 which has been detailed in Section 8 of this Change Report.

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

- 4.57 The responses to this question resulted in three possible dates:
- Next DCUSA Release following approval;
  - April 2019; and
  - 12 months after approval.
- 4.58 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.
- 4.59 Based on this vote the Working Group will recommend an implementation date of next DCUSA release following approval because there are no tariff changes being proposed and, although the methodology models require amending, they are textual in nature (i.e. tariff name changes rather than a model change), so can be delivered outside of the normal 15 months' notice period.

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

- 4.60 The respondents to this question suggested a number of small drafting and formatting changes which have been reflected in the legal text. Another respondent welcomed the correction to the error in Schedule 17/18 (omission of DNOs Operating out of area). The final legal text can be found in Attachment 1.

### **Question 8: Do you have any further comments?**

- 4.61 A number of additional comments were received from Parties, details of which can be found in Attachment 5.
- 4.62 One respondent noted that as a result of this change, a number of subsequent changes would be required to amend the LDNO references to QNO references in the EDCM charging models. The Working Group noted this and agreed to progress any required updates to the EDCM charging models as part of this change.
- 4.63 Another respondent stated that the drafting error within the EDCM on the application of LDNO tariffs would need to be addressed in a separate DCP if DCP252 were not approved.

### Working Group Assessment

- 4.64 In light of the comments received from the first and second Consultations, the Working Group reviewed the Issues Log and made a number of determinations:
- **Lack of engagement with unlicensed network operators of licence-exempt distribution systems:** The second Consultation was issued to almost one thousand contacts in an attempt to foster engagement directly with them, including local councils and known licence-exempt distribution system operators;
  - **Ensure the background paper and future publications covers full settlement metering, which is the only case in which the legal text would apply:** Full settlement scenarios were included in the second Consultation;
  - **Undertake a review of Schedule 19 Sections 2 and 3, in terms of the NHH and HH portfolio tariffs:** Clause 1.3 of Schedule 19 was updated to place an obligation on any distribution business that issues MPANs on a private network to provide the billing data that is envisaged by Schedule 19 and ties in with the definition of a QNO (note; this was subsequently removed by the legal review since an unlicensed QNO is not a party to DCUSA);
  - **Qualifying Network Operator definition to be developed further:** The Working Group continued development of the QNO definition and added this into the second Consultation. After the second consultation, the definition was finalised;
  - **Consider whether we need to have separate terms for LDNO and QNO in the legal text:** The Working Group noted that this and updated the legal text appropriately by using QNO and where appropriate licensed QNO.;
  - **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:** The second Consultation differentiated between “use of system services” and “data services” of which MPAS services forms part of “data services”, this being defined in the distribution licence. It was made clear in the definition of QNO that the service provided by the DNO should be no different to that provided to IDNOs;
  - **Schedule 16 clauses 114 and 117: we would be in favour of using LDNO network data 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 agreed that they would be in favour of using LDNO network data as a proxy for QNO network data;

- **The portfolio billing that supports IDNO tariffs relies on the IDNO constructing the portfolio data for all its registered MPANs on its sites that are connected to a particular DNO's assets. The IDNO sends this portfolio data to the DNO. IDNOs (as market participants) access industry systems and data to construct the portfolio data, whereas it is difficult to see how a Distribution Exempt Holders who is not a market participant could do this:** The Working Group noted that Distributors need to have discussions and bilateral agreements in place to address this. It was suggested that to be part of the IDNO tariffs they should be able to provide data in the approved format. It was observed that including the PNO data in the Nominated Calculation Agent data will have an impact on IDNO tariffs. If on average PNOs do not provide the same amount of network as IDNOs then this will impact IDNO tariffs;
- **Distribution Exempt Holders tend to own self-contained individual sites that exist for specific and dissimilar purposes e.g. ports and airports, whereas the IDNO model replicates very similar sites e.g. new housing and that model lends itself well to portfolio billing:** It was agreed that this needs to be brought out in the second Consultation, and the Network Setup Diagrams in the second Consultation covered this issue;
- **Distribution Exempt Holders sites utilising the BSC difference metering solution have both boundary meters and some end-user meters. Not all end users would be metered so a way of applying the IDNO tariffs to the boundary meters would need to be found:** The Working Group agreed that this is outside of the scope of this CP. It was noted that there is currently no nationally agreed approach, with each DNO setting their own approach;
- **To qualify as a QNO an unlicensed network operator must notify the DNO. This allows an unlicensed operator to choose between an LDNO or ordinary tariff (which can result in lower charges in some circumstances) which is an option not available to LDNOs:** The Working Group suggested that once it is demonstrated that if QNO tariffs should apply, this should apply in perpetuity unless there are any changes to the way in which the network is constructed;
- **Should Unmetered Supply be considered by the Working Group?** The Working Group agreed to include Unmetered Supply be included within the scope of this change;
- **Should the Difference Metering scenario be out of the Working Group's scope?** The Working Group agreed that Difference Metering scenarios are outside the scope of the Working Group; and
- **Should a template be produced for non-legacy arrangements associated with BNO sites?** The Working Group agreed that it was not necessary to produce an additional template.

## 5 Relevant Objectives

### Evaluation Against the DCUSA Objectives

- 5.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. There are six DCUSA Charging Objectives.

5.2 The Working Group could not come to a conclusive view on whether the DCUSA Charging Objectives are better facilitated by DCP 252. The reasoning against these objectives are set out in the table below:

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	Identified impact
<b>Charging Objective 1</b> - that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	Neutral, see Objective 2.
<b>Charging Objective 2</b> - 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	<p>One view is that distortions to competition are reduced by removing undue discrimination between licensed and licence-exempt distributors where the DNO provides the same level of service to that of an LDNO thereby better facilitating this objective.</p> <p>The counter view is that there is currently no undue discrimination and that by extending the applicability of the IDNO tariffs without very clear justification it would create undue discrimination against IDNOs and DNOs operating out of area in favour of licenced exempt network operators thereby negatively impacting this objective. For IDNO and PNOs sites the DNO provides the same services up to the site boundary and for IDNO sites the DNO does not provide services beyond the boundary (with the IDNO providing industry support on registrations (to Suppliers) and data exchanges). If the DNO provides MPANs on a PNO site and provides registration services to suppliers it will provide more services on the PNO site than it does on an IDNO site, so applying the IDNO discounted DNO DUoS tariffs on a PNO site seems inappropriate.</p> <p>This change does not facilitate compliance as this creates a distortion where a licence exempt network could choose their charging arrangement – which is not available to licensed distributors.</p>
<b>Charging Objective 3</b> - that compliance by each DNO Party with the Charging Methodologies results in charges which, so far	It is not clear if this is cost reflective when you consider:

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	<ul style="list-style-type: none"> <li>• The HV / LV split whereby we only use the licenced QNOs data;</li> <li>• That there is a choice for unlicensed network operators to choose which pricing options are better for their networks; and</li> <li>• The uncertain costs of implementing the solution for licensed exempt distributors.</li> </ul>
<b>Charging Objective 4</b> - that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	Not impacted
<b>Charging Objective 5</b> - that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	Not impacted
<b>Charging Objective 6</b> - that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration	This objective would be better facilitated because 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

## 6 Impacts & Other Considerations

### Consumer Impacts

- 6.1 The Working Group noted that if there was a large take-up by license exempt distributors of the QNO tariffs then there may be a shortfall in revenue, which would need to be recovered from other tariff groups. It was noted that these increases are unlikely to be material in the short term.

### Supplier Impacts

- 6.2 There will be an impact should a legacy connection move from a DNO MPAN to one provided by an alternative distribution business similar to where MPANs are raised by both a DNO and an IDNO for the same consumer, and one of which requires disconnection. This is likely to incur some administrative costs associated with the move from one MPAN to the other.

## Environmental Impacts

- 6.3 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 252 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

- 6.4 Ofgem has been fully engaged throughout the development of DCP 252 providing feedback on the proposed legal text and Change Report. It is also recognised that whilst DCP251 can be approved in isolation from DCP 252, it is not the case in reverse. DCP252 requires DCP251 to be approved in order to be a viable change.

## 7 Implementation

- 7.1 Subject to Party approval, the DCP 252 change will be implemented on the next DCUSA Release following approval.
- 7.2 DCP 252 is classified as a Part 1 matter and therefore Authority determination is required.

## 8 Legal Text

- 8.1 The main purpose of this change proposal is to ensure that any perceived undue discrimination against Distribution Exempt Holders is removed and to amend the drafting errors in the legal text whereby DNOs operating out of area should (but currently don't) have the same arrangements as IDNOs. The approach taken is to introduce a new term (QNO) to replace LDNO and widen it to include all three operators. However, to qualify they need to meet certain criteria. This is contained within the legal text of the QNO definition.

- 8.2 The new definition of Qualifying Network Operator is:

<b>Qualifying Network Operator (QNO)</b>	means one of the following:
	(a) an IDNO Party (or DNO Party operating a network outside its Distribution Services Area), whose network is connected to the network of a DNO Party operating within its Distribution Services Area, where the IDNO Party (or DNO Party operating a network outside its Distribution Services Area) receives use of system from the DNO Party for the purpose of conveying electricity to or from premises or distribution systems connected to the network of the IDNO Party (or DNO Party operating a network outside its Distribution Services Area); or
	(b) any person who does not hold an electricity distribution licence (and who has confirmed that it is exempt under the Act from the requirement to hold an electricity distribution licence), whose network is connected to the network of a DNO Party operating within its Distribution Services Area, where that person has contracted with the DNO Party for use of system

for the purpose of conveying electricity to or from premises or distribution systems connected to that person's network; but only where:

- (i) the premises connected to that person's network (or premises connected to distribution systems connected to that person's network) import or export electricity through a Metering Point; and
- (ii) that person has contracted with the DNO Party (or another DNO/IDNO Party) for Data Services and any other relevant Distribution Business services for which an IDNO Party ordinarily contracts with the DNO Party (so that the DNO Party can treat that person on the same equivalent basis as the DNO Party treats IDNO Parties).

8.3 The majority of the rest of the legal text changes to schedule 17 and 18 relates to the replacement of LDNO with QNO.

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

## DCP 252 Modelling Documentation

8.5 The Working Group updated both EDCMs (Attachment 9), to reflect the introduction of the defined term of Qualifying Network Operator.

8.6 It should be noted that the proposed change would mean that the EDCMs, would have their models updated to remove reference to LDNO and change these references to QNO only. No changes to the models themselves would take place.

## 9 Recommendations

### Panel's Recommendation

9.1 The Panel approved this Change Report on **17 May 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 252.

### 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 252 Draft Legal Text
- Attachment 2 – DCP 252 Voting Form
- Attachment 3 – DCP 252 Change Proposal Form
- Attachment 4 – DCP 251 & 252 Consultation one Documents
- Attachment 5 – DCP251 & DCP252 Consultation two documents
- Attachment 6– Background Paper
- Attachment 7 – Issues Log
- Attachment 8 – Network Setup Diagrams
- Attachment 9 - EDCM Models