

**Part A: Generic**

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1 data-bbox="167 353 632 443">DCP 361:</h1> <h2 data-bbox="167 483 995 674">Ofgem Targeted Charging Review (TCR) implementation – Calculation of Charges</h2> <p data-bbox="167 696 611 732"><i>Date raised: 14 January 2020</i></p> <p data-bbox="167 752 671 788"><i>Proposer Name: Claire Campbell</i></p> <p data-bbox="167 808 746 844"><i>Company Name: SP Energy Networks</i></p> <p data-bbox="167 864 555 900"><i>Company Category: DNO</i></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 Change Proposal (CP) is to implement certain areas of Ofgem’s TCR Decision; specifically relating to the calculation of charges. This CP seeks to address paragraphs 17-19, paragraphs 24-28 and paragraph 30, whilst having regard for paragraphs 34 and 36-39, of the TCR Direction.</p>		
	<p><b>Governance:</b></p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> <li>• Part 1 Matter</li> <li>• Treated as an Urgent Change</li> <li>• Treated as an Authority Change</li> <li>• Proceed to the definition phase via a Working Group</li> </ul> <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p>	
	<p><b>Impacted Parties:</b> DNOs, IDNOs and Suppliers, generators and demand users</p>	
	<p><b>Impacted Clauses:</b> Possibly Schedules 16-18 or potentially a new Schedule to be determined by the working group.</p>	

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Indicative Timeline			
<b>The Secretariat recommends the following timetable:</b>			
Initial Assessment Report		15 January 2020	
Consultation Issued to Industry Participants		TBC	
Change Report Approved by Panel		15 April 2020	
Change Report issued for Voting		17 April 2020	
Party Voting Closes		11 May 2020	
Change Declaration Issued to Parties		13 May 2020	
Authority Decision		18 June 2020	

## 1 Summary

### What?

- 1.1. On 21 November 2019 the Authority published its Targeted Charging Review (TCR) Significant Code Review (SCR) Decision (the 'TCR Decision')<sup>1</sup>. The Authority Directed that Distribution Network Operators (DNOs) raise one or more modifications to the Distribution Connection and Use of System Agreement (the 'DCUSA'), to implement the TCR Decision on 1 April 2022 (the 'TCR Direction')<sup>2</sup>.
- 1.2. On 20 December 2019, DNOs and National Grid Electricity System Operator (NGESO) published a joint plan (the 'detailed plan') to deliver the requirements of the TCR Directions<sup>34</sup>. The detailed plan sets out the proposed delivery approach (section 4.5) which includes four DCUSA modification 'packages'; of which this CP is one.
- 1.3. Specifically, this CP will seek to implement a single fixed residual charge for domestic LV-connected consumers; and a set of single fixed residual charges for consumers within each of the following groups (except unmetered supplies):
  - a. EHV-connected consumers;
  - b. HV-connected consumers;
  - c. Non-domestic LV-connected consumers with an agreed capacity as the basis for their current charge; and
  - d. Non-domestic LV-connected consumers without an agreed capacity.
- 1.4. Each of the groups set out in paragraph 1.3 will have four charging bands, which will be determined by a separate CP.
- 1.5. The residual charge for unmetered supplies will be on a variable basis relative to the demand of the customer.
- 1.6. This CP will consider the frequency and relevant units of the residual fixed charge.
- 1.7. This CP will also consider any consequential changes that may be required in relation to residual charges for Licensed Distribution Network Operators (LDNOs).

### Why?

- 1.8. This CP has been raised to enable DNOs to satisfy specific requirements set out in the TCR Direction. Failure to develop these proposals and implement associated change by 1 April 2022 will result in failure to implement the TCR Decision.

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/11/tcr\\_final\\_decision.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/11/tcr_final_decision.pdf)

<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/11/dcusa\\_direction\\_1.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/11/dcusa_direction_1.pdf)

<sup>3</sup> <http://www.chargingfutures.com/media/1390/tcr-joint-eso-dno-pid-v10.pdf>

<sup>4</sup> The Authority also directed that NGESO raise modifications to the Connection and Use of System Agreement ('the CUSC') to implement the TCR Decision.

## How?

- 1.9. As specified in the TCR Decision, this CP will define how residual charges will be allocated to customers. The detailed plan sets out a 'baseline solution' (section 4.4), which proposes that residual fixed charges will be levied on a pence per site per day basis, and that residual charges for unmetered supplies will remain consistent with the current methodologies on a pence per kilowatt hour basis. In addition to the four bands within each group set out in paragraph 1.3, a fifth 'band' will be included where no residual fixed charge will be applied.
- 1.10. The baseline solution proposes that tariffs for Designated EHV Properties will remain site-specific, other than the residual charge which will be one of the four banded fixed charges, or zero.
- 1.11. It also proposes that LDNO charging arrangements will continue as per the status quo, with discounts relative to the voltage of connection applied consistently to each charging band at that voltage level.
- 1.12. Consistent with the TCR Decision, the quantum of the residual to be recovered from Common Distribution Charging Methodology (CDCM) and Extra-high voltage (EHV) Distribution Charging Methodology (EDCM) customers respectively in total, will continue to be apportioned as they are today i.e. the CDCM residual will be recovered from CDCM customers only, and vice versa, and the method of allocating the residual between the two methodologies is out of scope.
- 1.13. Following apportionment, all applicable residual charges are to be allocated to users connected to each voltage level across the system (low voltage (LV), high voltage (HV) and EHV) on the basis of the aggregate net consumption volumes of those network users in each charging year connected at each voltage level. The allocated proportion of the residual charges for each charging band (excluding unmetered supplies) is divided equally among all consumers in that band with all consumers in a charging band paying the same level of fixed residual charge; the charge being specific to each Distribution Services Area.
- 1.14. All domestic customers will be allocated to a single charging band, with non-domestic customers (excluding unmetered supplies) allocated to a band within the groups set out in paragraph 1.3.
- 1.15. However, which customers are eligible for a residual charge will be determined by a separate CP, and this may require domestic customers to be allocated to either a domestic band with or without a residual charge.
- 1.16. This CP will also consider changes to systems and processes to implement the Proposal. In doing, so the DNOs must have regard to paragraph 3.58(4) of the TCR Decision.

## 2 Governance

### Justification for classification as a Part 1 Matter

- 2.1. This CP must be a Part 1 matter as it has been raised by a DNO Party pursuant to Clause 10.2.5, and pursuant to clause 11.9A the Authority has determined the implementation date. For these reasons, and where this CP may have a significant adverse commercial impact on Parties if not implemented, as set out in the TCR Decision, and where failure to deliver the requirements of the TCR Direction would result in DNOs being in breach of the Relevant Instrument (i.e. the Distribution Licence in this case), this CP should also be treated as an Urgent Change.

## Requested Next Steps

- 2.2. This CP should:
  - Be treated as a Part 1 Matter
  - Be treated as an Urgent Change
  - Be Treated as an Authority Change
  - Proceed to a Working Group
- 2.3. As noted, this CP has been raised to satisfy specific requirements set out in the TCR Direction and must be progressed in sufficient time to enable this CP to be effective as of 1 April 2022.
- 2.4. This CP cannot be withdrawn without the Authority's consent to do so.
- 2.5. In accordance with Clause 11.9A, the Authority may also, by direction, specify and/or amend the relevant timetable to apply to each stage of the Assessment Process, and where it has determined the implementation date to be 1 April 2022.

## 3 Why Change?

- 3.1. As noted, this CP has been raised in response to specific requirements set out in the TCR Direction, namely which customers will be eligible for residual fixed charges.
- 3.2. Modifications to the DCUSA are required to implement the TCR Decision in order to address the issues associated with current residual charging arrangements; primarily that they provide an incentive to reduce exposure to residual charges which in turn increase costs for others, who may be less able or less willing to change behaviour.
- 3.3. Failure to develop these proposals and implement associated change by 1 April 2022 will result in failure to implement the TCR Decision, and in doing so result in DNOs being in breach of the distribution licence.

## Part B: Code Specific Details

## 4 Solution and Legal Text

### Legal Text

- 4.1. The legal text will be developed by the Working Group.

### Text Commentary

- 4.2. This CP, when combined with amended legal text associated with the other modification 'packages' set out in the detailed plan, will seek to ensure that only customers who are eligible for residual fixed charges will receive a residual charge.
- 4.3. In isolation, this CP seeks only to amend the calculation of residual charges.

## 5 Code Specific Matters

### Reference Documents

- 5.1. TCR Decision<sup>5</sup> and TCR Direction<sup>6</sup>.
- 5.2. The detailed plan<sup>7</sup>.
- 5.3. DCUSA CPs to implement the other three 'packages' as set out in the detailed plan.

## 6 Relevant Objectives

DCUSA Charging Objectives	Identified impact
<input checked="" type="checkbox"/> 1 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	Positive
<input checked="" type="checkbox"/> 2 that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	Positive
<input type="checkbox"/> 3 that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	None
<input type="checkbox"/> 4 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	None
<input type="checkbox"/> 5 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.	None
<input type="checkbox"/> 6 that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	None

- 6.1. Charging Objective 1 will be better facilitated by ensuring DNOs are compliant with licence requirements in relation to SCRs, by implementing specific requirements set out in the TCR Direction.

<sup>5</sup> See footnote 1

<sup>6</sup> See footnote 2

<sup>7</sup> See footnote 3

- 6.2. Charging Objective 2 will be better facilitated by ensuring network costs are recovered fairly from network users and to reduce harmful distortions which impact competition and efficiency of the electricity market.

## 7 Impacts & Other Considerations

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

- 7.1. It is not believed that this CP will impact on any existing SCR, and this CP needs to be raised as a result of the TCR Decision which therefore means the SCR phase of the TCR shall be treated as having ended.

### Does this Change Proposal Impact Other Codes?

- |           |                          |
|-----------|--------------------------|
| BSC       | <input type="checkbox"/> |
| CUSC      | <input type="checkbox"/> |
| Grid Code | <input type="checkbox"/> |
| MRA       | <input type="checkbox"/> |
| SEC       | <input type="checkbox"/> |
| Other     | <input type="checkbox"/> |
| None      | <input type="checkbox"/> |

### Consideration of Wider Industry Impacts

- 7.2. The proposals have been shared with Ofgem and primarily discussed within the TCR Implementation Steering Group (see detailed plan section 3.1); which has undertaken some stakeholder engagement (see detailed plan section 3.2).

### Confidentiality

- 7.3. This CP is non-confidential.

## 8 Implementation

### Proposed Implementation Date

- 8.1. As noted, the Authority has decided that implementation will be 1 April 2022.

## 9 Recommendations

*The Code Administrator will provide a summary of any recommendations/determinations provided by the Panel in considering the initial Change Proposal. This will form part of a Final Change Report.*