DCUSA

DCUSA Change Report	At what stage is this document in the process?
# DCP 361 ## Ofgem Targeted Charging Review (TCR) Implementation – Calculation of Charges *Raised on 14 January 2020 as an Urgent Change*	01 – Change Proposal 02 – Consultation **03 – Change Report** 04 – Change Declaration

Purpose of Change Proposal:

The intent of this Change Proposal (CP) is to implement certain areas of Ofgem's TCR Decision[1]; specifically relating to the calculation of charges. This CP seeks to address paragraphs 17-19, paragraph 24-28 and paragraph 30, whilst having regard for paragraphs 34 and 36-39, of the TCR Direction[2].

	This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 361 – Ofgem Targeted Charging Review (TCR) Implementation – Calculation of Charges. DCP 361 is considered a Part 1 matter and 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 **07 August 2020** 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. 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 3011.
	Parties Impacted: **DNOs, IDNOs, Suppliers and CVA Registrants**
	Impacted Clauses: **Various paragraphs within Schedules 16, 17, 18 and 20**

[1] TCR decision document

[2] TCR Direction

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Timetable

Activity	Date
Initial Assessment Report Approved by Panel	15 January 2020
Consultation issued to Parties	28 May 2020
Change Report approved by Panel	15 July 2020
Change Report issued for Voting	17 July 2020
Party Voting Ends	07 August 2020
Change Declaration issued to Parties / Authority	11 August 2020
Authority Decision	16 September 2020
Implementation	01 April 2022

Any questions?

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1 Executive Summary

What?

1.1 On 21 November 2019 the Authority published its Targeted Charging Review (TCR) Significant Code Review (SCR) Decision (the 'TCR Decision'). 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').

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[3][4]. The detailed plan sets out the proposed delivery approach (section 4.6) which included a package of four DCUSA CPs; of which this CP is one.

1.3 DCP 361 seeks to address paragraphs 17-19 and paragraphs 24-28 of the TCR Direction, which for completeness are set out below:

17. that there will be a single fixed DUoS residual charge for domestic LV-connected consumers; and

18. that there will be a set of single fixed DUoS residual charges for distribution-connected consumers within each of the following distribution-connected 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.

19. the fixed DUoS residual charge that will apply to consumers within each of the above groups will be determined by reference to the charging band to which they are allocated as set out in paragraph 20 below.

Unmetered

24. that DUoS residual charges for unmetered consumers will be derived considering their net consumption volume or agreed capacity based on their 'profiled' demand and the applicable charging methodology.

Allocation of DUoS residual charges

25. that applicable residual charges for each licensed area for consumers are allocated to the different voltage levels, according to the total net consumption volumes of all consumers at each voltage level.

[3] http://www.chargingfutures.com/media/1390/tcr-joint-eso-dno-pid-v10.pdf

[4] The Authority also directed that NGESO raise modifications to the Connection and Use of System Agreement ('the CUSC') to implement the TCR Decision

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26. *that residual charges for each voltage level are allocated further to charging bands according to the total net consumption volumes for all consumers in each charging band.*

27. *that the allocated proportion of the residual charges for each charging band is divided equally among all consumers in that band with all consumers in a charging band paying the same level of fixed charge.*

28. *that allocation to unmetered supply will be by net volumes.*

Further arrangements

30. *appropriate arrangements to develop the following:*

    a. *the frequency and relevant units of the fixed charge, considering a proposal of a pence/site/day structure;*

    b. *the mechanism to identify which sites should be classified as final demand for the purposes of determining residual charges. In doing so, the DNOs must have regard to paragraph 3.58(2) of the TCR Decision;*

    c. *any consequential changes that may be required in relation to residual charges for Independent Distribution Network Operators (IDNOs), consumers connected to private wire and complex sites, noting that the Authority expects that the IDNO charging regime (which operates via a Relative Price Control) to continue to function as it does today; and*

    d. *the systems and processes to implement the Proposal(s). In doing, so the DNOs must have regard to paragraph 3.58(4) of the TCR Decision.*

Why?

1.4 This CP has been raised to enable DNOs to satisfy specific requirements set out in the TCR Direction. Failure to develop this proposal together with the three related DCUSA CPs that form the package of DCUSA CPs[5] in sufficient time to implement these changes effective as of 1 April 2022 will result in failure to implement the TCR Decision.

How?

1.5 Specifically, DCP 361 seeks to amend the appropriate Charging Methodologies which will provide for the calculation of residual fixed charges based on the definitions developed under DCP 359 and the processes developed under DCP 358 and DCP 360.

1.6 Consistent with paragraph 30(a) of the TCR Direction, it is proposed that residual fixed charges will be levied on a pence per site per day basis, with the exception of residual charges for unmetered supplies, which will remain consistent with the current methodologies on a pence per kilowatt hour basis.

[5] DCP 358 *'Ofgem Targeted Charging Review Implementation: Determination of Banding Boundaries'* seeks to implement certain areas of Ofgem's TCR Decision; specifically relating to the determination of charging bands for nondomestic distribution connected customers.

DCP 359 *'Ofgem Targeted Charging Review (TCR) implementation – customers: who should pay?'* seeks to implement certain areas of Ofgem's TCR Decision; specifically relating to the identification of which 'customers' are eligible for a residual fixed charge.

DCP 360 *'Ofgem Targeted Charging Review Implementation: Allocation to Bands and Interventions'* seeks to implement certain areas of Ofgem's TCR Decision; specifically relating to the allocation and reallocation of 'customers' to residual charging bands.

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1.7 Consistent with the TCR Decision, the total value of the residual revenue to be recovered from charges calculated by the Common Distribution Charging Methodology (CDCM) or by the Extra-high voltage (EHV) Distribution Charging Methodology (EDCM) will continue to be apportioned between the two methodologies as they are today. This means that the total value of the CDCM/EDCM residual revenue will be recovered from CDCM/EDCM respectively and therefore, the method of allocating the residual revenue between the two methodologies is out of scope for this CP.

1.8 Following apportionment, all applicable residual charges are to be allocated to eligible 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.

1.9 For Designated Properties, whose charges are calculated using the CDCM, in accordance with the TCR Direction, it is proposed to apply different treatments to domestic customers as compared to non-domestic customers.

1.10 All domestic customers will be allocated to a single charging band, and therefore, they will all receive the same level of residual fixed charge specific to each Distribution Services Area. For non-domestic customers, there will be the inclusion of a fifth 'band' which a customer can be allocated to, which is over and above the four charging bands that a customer can be allocated to as is set out under paragraph 20 of the TCR Direction (and being introduced by DCP 358). This 'fifth' band will not contain a residual fixed charge, and a customer can only be allocated to this band where it meets the criteria developed under DCP 359.

1.11 For Designated EHV Properties, whose charges are calculated using the EDCM, the baseline solution proposes that the various charging components that make up tariffs for these customers will remain on a site-specific basis, other than the residual fixed charge component which will be set to one of the four banded fixed charges, or zero.

1.12 It also proposes that Licensed Distribution Network Operator (LDNO)[6] 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.

1.13 Any DNO Licence area that over-recovers its allowed revenues via the forward-looking element of their charges will have negative residual fixed charges. These will flow through onto the existing fixed charge element but a floor at zero will be put in place to ensure that the total fixed charge is not negative. This may still result in an over-recovery of allowed revenue and as such any remaining surplus once the total fixed charge has been floored at zero, will be returned via unit charge adders across all unit charges within the relevant charging band only.

[6] For the purposes of this consultation, a reference to a LDNO, means an IDNO Party or DNO Party operating an electricity distribution system outside of its Distribution Services Area

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1.14 As set out in the TCR Decision document and consistent with DCP358, the Charging Bands will be set at a GB level and a solution has been derived to counter any issues, such as commercial sensitivity or charging volatility that may result due to a specific band having a very limited number of sites within it. If such a scenario occurs at an individual DNO level, then the proposed solution is to combine residual charging bands together where less than two sites are within a given band.

2 Governance

Justification for Part 1 Matter

2.1 DCP 361 is a Part 1 Matter in accordance with the clause 9.4.1 of the DCUSA as it is likely to have a significant impact on the interests of electricity consumers.

2.2 The DCUSA Panel also agreed that this is an urgent change. The scope of this CP is limited to the amendments to the charging methodologies which will provide for the calculation of residual fixed charges based on the definitions developed under DCP 359 and the processes facilitated by DCP 358 and DCP 360.

2.3 This CP cannot be withdrawn without the Authority's consent to do so. 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.

Requested Next Steps

2.4 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 361.

2.5 The DCUSA Panel recommends that this CP, be issued to Parties for Voting.

3 Why Change?

Background of DCP 361

3.1 As noted previously, this CP has been raised in response to specific requirements set out in the TCR Direction, namely the calculation of residual fixed charges within the charging methodologies.

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 01 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.

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4 Working Group Assessment

DCP 361 Working Group Assessment

4.1 The DCUSA Panel established a joint Working Group to assess/develop the DCUSA CPs that were raised to implement the TCR Decision. In establishing this Joint Working Group, the Panel agreed that it shall be for that Working Group to consider and decide whether there is a need to set up subsequent Working Groups whose duties will be to assess one or more of the DCPs, whether in isolation or grouped, where it considers it beneficial to do so. During the initial joint Working Group meeting, the following was agreed:

- DCP 358 and DCP 360 will be jointly progressed via a subset of any interested members;
- DCP 361 will be progressed on its own via a subset of any interested members; and
- DCP 359 will be progressed with its sister CUSC Modification Proposal 'CMP 334', as both are concerned with the definitions for a 'Single Site' and for 'Final Demand' and this will be a cross-code Working Group with the CUSC.

4.2 The Working Group held seven meetings prior to issuing the consultation, with members of the Working Group consisting of representatives from DNOs, Suppliers, IDNOs, Generators and National Grid Electricity System Operator (NGESO) as well as observers from several consultancies and Ofgem. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website.

4.3 The Working Group developed a consultation document to gather information and feedback from market participants on this CP. This Section 4 sets out the detail of what the Working Group had included in the consultation, with Section 5 provides a summary of the responses received with respect to the questions asked, and Section 6 containing the Working Group's conclusions and final solution following the consultation.

4.4 Following discussions by the Working Group during their initial meetings, it was agreed that the following items including any sub-elements under each would be addressed in the consultation:

- Combining the residual fixed charge with existing fixed charge vs. a separate fixed charge;
- The calculation method: allocation of costs to tariffs before revenue matching;
- Approach to be adopted where there is a very limited number of sites within a charging band:
  - The combining of one band with another band;
- Clarification on the allocation of the residual revenue to bands;
- Approach to negative scaling in:
  - (Schedule 16); and
  - (Schedules 17 & 18);
- Impact on LDNO Parties (Schedules 17 and 18); and
- Consequential changes as a result of decisions made by other CPs.

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4.5 For DCP 361 the development of the solution needed to be expedited. DNOs are required to provide notification of changes to Use of System Charges 15 months' ahead of when they will come into effect. To facilitate this process a further three-month period is built in prior to the 15-months to allow DNOs to set, test and carry out internal assurance activities on those charges, which effectively means that the Change Report needs to be presented to the Panel during their meeting in July to facilitate a decision by the cut-off date of 01 October 2020.

4.6 Table 1 below maps which DCUSA CPs and CUSC Modifications have been raised to fulfil the various aspects of both the 'DCUSA Direction' and the 'CUSC Direction', as well as a BSC Modification which has been raised to enable NG ESO to be provided with data for the purposes of billing the residual fixed charge.

Table 1 – TCR CODE MODIFICATIONS

DCUSA	**DCP358** Seeks to implement the determination of charging bands for non-domestic distribution connected customers.	**DCP359** Seeks to implement the identification of which 'customers' are eligible for a residual fixed charge.	**DCP360** Seeks to implement the allocation and reallocation of 'customers' to residual charging bands.	**DCP361** Seeks to implement elements required for the calculation of charges.
CUSC	**CMP332** Creation of a methodology to determine (i) the charging bands and (ii) the tariffs for each band.[7]	**CMP334** This will identify who will be liable to pay the TDR by defining 'Final Demand' and 'Site'.	**CMP335/CMP336** Update all of the 'post tariff setting' processes (e.g. band allocation, securitisation etc) to reflect the TDR methodology.	
BSC	**P402;** This modification aims to establish the processes and data flows to enable Elexon to collect aggregate data from DNOs and subsequently provide the required data to the National Electricity Transmission System Operator (NETSO).			

Combining the residual fixed charge with existing fixed charge vs. a separate charge

4.7 The Working Group considered whether this new residual fixed charge should either stand alone as a separate fixed charge in addition to the current fixed charge that is levied or retain an approach similar to the status quo, which amalgamates the p/kWh unit rate or p/kVA/day capacity charge with the applicable variable p/kWh unit rate or p/kVA/day capacity based residual charges (p/kWh rate being the approach adopted in the CDCM and p/kVA/day in the EDCM).

4.8 The Working Group agreed that the approach to combine the residual fixed charge with the existing fixed charge was the most suitable option. It was noted that the rationale for this decision was based on several factors, being:

[7] Following approval by the Authority, CMP332 was withdrawn from the CUSC Modification Process. It is expected that a new CUSC modification will be raised that will change the implementation date from 01 April 2021 to 01 April 2022.

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- Although the charge will be levied in a different format, the industry have been used to receiving a standard set of charges, and to deviate from this approach by adding a further charge may lead to the need for system changes, which would likely result in further costs being incurred; and
- In order to meet the required timeline with respect to the required 15-months' notification of changes to Distribution Use of System (DUOS) charges, developing an approach that defined a separate fixed residual charge would probably delay the delivery of the TCR due by 01 April 2022.

Options for allocating costs to tariffs that incorporates the residual charging bands

4.9 The Working Group considered what options were available to them in order for the models to be able to allocate the various cost elements to tariffs that will, as a result of the TCR decision, need to account for the residual charging bands associated with each distribution connected customer group. Two options were discussed, and each is set out below.

UPDATING THE ALL-THE-WAY TARIFF NAMES THROUGHOUT

4.10 One option was for the legal text to introduce of a new set of tariffs for CDCM customers which would need to be applied in a similar fashion to those which will be introduced when DCP 341[8] is implemented in April 2021. It was noted that for DCP 341, only three extra tariffs will be introduced, and these will mirror three existing tariffs. For cost allocation purposes, the inclusion of such tariffs meant that they needed to be aggregated together with their counterparts throughout the various paragraphs that would require it. For example, the introduction of the storage tariffs meant that the calculations related to pseudo load coefficients, reactive power unit charges, unit costs and their allocation to capacity charges and exceeded capacity charges needed to include a provision which stated that users on the following pairs of tariffs shall be considered in aggregate:

- LV Site Specific together with LV Site Specific Storage Import;
- LV Sub Site Specific together with LV Sub Site Specific Storage Import; and
- HV Site Specific together with HV Site Specific Storage Import.

4.11 The Working Group considered how this might be achieved when extrapolated out for each of the charging bands associated with each distribution connected customer group as set out below:

- LV Domestic Aggregated;
- LV Domestic Aggregated (Related MPAN);
- LV Non-Domestic Aggregated (No Residual);
- LV Non-Domestic Aggregated Band 1;
- LV Non-Domestic Aggregated Band 2;
- LV Non-Domestic Aggregated Band 3;
- LV Non-Domestic Aggregated Band 4;
- LV Non-Domestic Aggregated (Related MPAN);

8 DCP 341 - Removal of residual charging for storage facilities in the CDCM

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- LV Site Specific (No Residual);
- LV Site Specific Band 1;
- LV Site Specific Band 2;
- LV Site Specific Band 3;
- LV Site Specific Band 4;
- LV Sub Site Specific (No Residual);
- LV Sub Site Specific Band 1;
- LV Sub Site Specific Band 2;
- LV Sub Site Specific Band 3;
- LV Sub Site Specific Band 4;
- HV Site Specific (No Residual);
- HV Site Specific Band 1;
- HV Site Specific Band 2;
- HV Site Specific Band 3; and
- HV Site Specific Band 4.

4.12 The Working Group were of the view that it would not be an efficient option to introduce all these different residual tariffs throughout the entirety of the methodology and the model as well. In other words, it would make many aspects of the calculations much more complex.

ALLOCATION OF COSTS TO TARIFFS BEFORE REVENUE MATCHING

4.13 An alternative to the approach outlined above was also considered by the Working Group, which in effect, maintains the current approach to the cost allocation rules to the existing tariff structure. It was noted that to calculate the all-the-way tariffs, the charging bands associated with residual fixed charges are applied to the existing tariff structure at the revenue matching step.

4.14 Under this approach a new mapping table is added to the end of the revenue matching step, and only the LDNO and Supplier of Last Resort fixed charges sections need their tables adjusted to reflect the new end tariff structure. The benefit of such an approach is that it reduces the amount of changes needed to the existing legal text, meaning both this and future changes are easier to implement.

4.15 The Working Group considered this to be the lightest-touch approach possible, but still as effective as the other option and therefore, agreed to proceed with this option. This was later substantiated by the Modeller in paragraph 2.4 of the summary document contained within Attachment 4, which stated:

> *"One approach could have been to model all 32 all-the-way tariffs throughout the entire model within separate columns. Additional steps would need to be added to ensure that these tariffs match – which would have added significant complexity throughout the entire model"*

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Approaches to scenario where a charging band contains a very limited number of sites within it

4.16 The Working Group noted that a decision was made within the joint DCP 358/360 Working Group to maintain the GB wide charging bands at the point of their creation and thus, ruled out the option to go down the route of regional banding. Therefore, regional banding is out of scope of this CP, and the paragraph below focuses solely on the design of a solution that would allow for one band to be combined with another, where there a very limited number of sites within one or more bands.

THE COMBINING OF ONE BAND WITH ANOTHER BAND

4.17 The Working Group considered a hypothetical scenario where, within a particular customer category at a specific voltage level, 'band 1' has one customer and 'band 2' has five customers, where the amount of residual revenue would be allocated based on the total metered import consumption of all six customers relative to the total metered import consumption for all sites at that voltage level. It would be that allocated residual revenue that would be divided by six to derive a total annual residual fixed charge – which would be applied to bands 1 and 2 consistently.

4.18 It was noted that this would also cover an instance where, for example, within a particular customer category at a specific voltage level, 'band 1' has one customer, 'band 2' has one customer, and 'band 3' has four customers. As the amount of residual revenue would be allocated based on the total metered import consumption of all six customers relative to the total metered import consumption for all sites within a customer category at a specific voltage level. It would be that allocated residual revenue that would be divided by six to derive a total annual residual fixed charge – which would be applied to bands 1-3 consistently.

4.19 In considering what would constitute a 'very limited number of sites' the Working Group reviewed paragraph 32 of the TCR Direction, which states:

> *"32) a) an assessment of whether there may be circumstances, in particular for EHV-connected consumers, where regional differences in consumer types lead to substantially different distributions of consumers in a DNO region and result in very low consumer numbers in some bands (having regard to paragraph 3.56(1) of the TCR Decision); and*
>
> *b. if this is found to be the case, develop and bring forward alternative modification proposals for options to address this, which could include:*
>
> *i. regionally-derived boundaries, rather than GB-wide boundaries; or*
>
> ***ii. combining bands when a minimum number of consumers would be in a particular band."***

4.20 The Working Group considered seeking a steer from Ofgem as to whether this option should (where necessary) only be applied to the EHV bands or (where necessary) to bands at any voltage level, and also as to whether there was a specific minimum number of sites that would result in this process being applied. However, there was a majority view that it would be unlikely for Ofgem to give the Working Group any more of a steer than the above without 'fettering its discretion'.

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4.21 A view supported by the majority of the Working Group was that Ofgem had left these items open, such that it could be inferred to mean that Ofgem didn't have a desired limit on the number of bands that are combined. If there was, say, a limit of two bands merged for the purposes of calculating the charge, this could potentially undermine the need for doing so. The following example was considered by the Working Group: say 'bands 2 and 3' when combined as 'band 2' had one customer, but 'band 4' also had only one customer, there could be a scenario, if using an approach of only banding 'up', that band 4 would be left with one customer.

4.22 After careful consideration, the Working Group agreed to some wording that they believe sufficiently covers off the various scenarios described above, however sought views as to the minimum number of customers (Final Demand Sites) within a band that would necessitate the application of the process, which has provisionally been set at 'less than two'. The provisional wording is set out below:

For any DNO Party, if the count of Final Demand Site(s) in any given metered non-domestic charging band is less than [two], the residual fixed charge for that band will be calculated as set out in accordance with Paragraph 92, but the total import consumption and total count of Final Demand Site(s) in that band will be combined with the equivalent information for the band(s) above that band and at the same voltage level. If that band is the highest band, it will be combined with the equivalent information for the band(s) below that band and at the same voltage level. The residual fixed charge should therefore be the same for all Final Demand Site(s) in the relevant bands. There should be no single or combined band with less than [two] Final Demand Site(s) within that band.

Clarification on the allocation of the residual revenue to bands

4.23 During discussions on the topic of the allocation of the residual revenue to bands, the Working Group agreed to seek clarification as there were differing ways in which paragraphs 25 and 26 of the TCR Direction could be interpreted. The specific elements of the two paragraphs are set out below:

"that applicable residual charges for each licensed area for consumers are allocated to the different voltage levels, according to the total net consumption volumes of all consumers at each voltage level" and

"that residual charges for each voltage level are allocated further to charging bands according to the total net consumption volumes for all consumers in each charging band".

4.24 The Working Group believe the intention is that residual revenue is allocated proportional to sites which are **classed as Final Demand Sites only**, based on the consumption in each band relative to the total consumption for all **Final Demand** Sites. It was noted that the highlighted text appears to suggest that the residual revenue is allocated proportionate to **all** sites, and not just those that are Final Demand Sites.

4.25 For example, and taking EHV customers for simplicity – where the decision is that the CDCM and EDCM residual revenue will be calculated as it currently is, and will be recovered from sites within the respective methodology only (i.e. EDCM customers recover the EDCM residual revenue only) – let's assume:

(i) the residual revenue to be recovered in total is £5m;

(ii) there are twenty-five sites, split equally across each band;

(iii) five are stand-alone storage sites (exempt); and

(iv) each have the same annual import of 2GWh (so 10GWh per band, and 50GWh for all EHV sites).

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4.26 If the £5m is allocated proportionate to the "*total net consumption volumes of all consumers at each voltage level*", this would mean that only 80% of the residual revenue would be recovered; as out of the 50GWh total consumption for all EHV sites, 10GWh relates to sites which will not contribute to the residual revenue recovery. This is illustrated in the table below, where each band will be allocated 20% of the total residual revenue.

Voltage	Band	Site count	Band net consumption (kWh)	Band residual (£)	Band fixed charge (£)
EHV	Band 1	5	10,000,000	£1,000,000	£200,000
	Band 2	5	10,000,000	£1,000,000	£200,000
	Band 3	5	10,000,000	£1,000,000	£200,000
	Band 4	5	10,000,000	£1,000,000	£200,000
	Exempt	5	10,000,000		
Total		25	50,000,000	£5,000,000	

4.27 The Working Group did not believe this to be the intention, and as such the 10GWh associated with sites which should not pay a residual fixed charge (such as stand-alone storage sites) should not be considered when allocating the residual fixed charge to the bands proportionate to the total consumption across that voltage. This means that 100% of the residual revenue would be recovered, as illustrated in the table below, and where each band will be allocated 25% of the total residual fixed charge.

Voltage	Band	Site count	Band net consumption (kWh)	Band residual (£)	Band fixed charge (£)
EHV	Band 1	5	10,000,000	£1,250,000	£250,000
	Band 2	5	10,000,000	£1,250,000	£250,000
	Band 3	5	10,000,000	£1,250,000	£250,000
	Band 4	5	10,000,000	£1,250,000	£250,000
	Exempt	5			
Total		25	40,000,000	£5,000,000	

4.28 At the same time as seeking clarification of the above, the Working Group also noted their intention to omit the step which first allocates the residual revenue to a voltage level as it was generally agreed that allocating proportionate to each band in the first instance will achieve the same outcome.

4.29 A response was received from Ofgem, which confirmed that the interpretation of the wording was indeed correct and the approach to omit the step which first allocates the residual revenue to a voltage level was in keeping with the intent of the TCR Decision. Therefore, the Working Group continued to progress along these lines.

Approach to negative scaling:

SCHEDULE 16

4.30 The Working Group discussed several approaches to deal with any instances of negative scaling, which at this point in time, are only seen in one DNO Licence area. The following suggestions were put forward for further discussion:

Option 1: Allow negative fixed charges regardless (total or residual charge); or

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Option 2: Apply negative residual fixed charges against the total fixed charges but floor at zero. If floored:

(a) return remainder via unit charges for the relevant charging band only; then if floored

(b) return remainder via residual fixed charges for all other bands; then if floored;

(c) return remainder via unit charges for all other bands.

4.31 It was also suggested that there could also be an option to floor the residual fixed charge at zero, not the total fixed charge, and the same above applies (i.e. a-c). It was noted that if the Working Group moved to return any remainder to the unit charges, then they would need to apply the status quo approach of ensuring any of the total unit charges are not zero.

4.32 Following some deliberations on the subject matter the Working Group agreed that it would be sensible to seek views from industry on two specific options, which are set out below in the following paragraphs.

4.33 **Option 1:** replaces the existing text of paragraph 94 to 'not used' which means that any negative residual fixed charges will be allowed to flow through any remaining calculations and into the resultant charges. With no additional steps for negative residuals, the overall fixed charges for some users could be negative which would mean that some users would effectively be paid by a DNO on a p/day basis for being connected to the network.

4.34 **Option 2:** amend the existing paragraph 94 text that allows negative residual fixed charges to flow through onto the existing fixed charge element but place a floor on the total fixed charges at zero. This would potentially still result in an over-recovery and as such any remaining surplus once the total fixed charge has been floored at zero, the remainder will be returned via unit charge adders across all unit charges within the relevant charging band only. In doing so, the inverse of the current process still applies as the text ensures the total unit charge is not zero.

4.35 So that the Working Group and respondents could better understand the effect that implementing Option 1 or Option 2 would have on the models themselves and whether usability is impacted, the Working Group requested for the appointed DCUSA modelling consultants to provide two separate versions of the CDCM and ARP models. Alongside the models, two separate impact assessments were requested so that the Working Group and respondents could better understand the impact to charges that implementing Option 1 or Option 2 would have when compared against each other. Further information on the models and impact assessment is contained within Section 8 below.

4.36 The table below provides the percentage increase/decrease for 'typical bills' in the LPN Licence area, between charges effective from 01 April 2021 to that which would apply if either Option 1 or Option 2 is taken forward and DCP 361 is subsequently approved and implemented to be effective from 01 April 2022. The table also shows difference between the two options with respect to the percentage increase/decrease for 'typical bills' for all the way tariffs in the LPN Licence area.

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Table 2 - Percentage increase/decrease for 'typical bills' in the LPN Licence area

Tariff	Option 1	Option 2	Difference
Domestic Aggregated with Residual	0.34%	0.34%	0.00%
Domestic Aggregated (Related MPAN)	36.73%	36.73%	0.00%
Non-Domestic Aggregated No Residual	-	-	-
Non-Domestic Aggregated Band 1	1.60%	1.60%	0.00%
Non-Domestic Aggregated Band 2	2.24%	2.27%	0.02%
Non-Domestic Aggregated Band 3	2.38%	2.45%	0.07%
Non-Domestic Aggregated Band 4	2.46%	2.54%	0.08%
Non-Domestic Aggregated (Related MPAN)	50.05%	50.05%	0.00%
LV Site Specific No Residual	-	-	-
LV Site Specific Band 1	0.22%	0.90%	0.67%
LV Site Specific Band 2	0.23%	0.91%	0.69%
LV Site Specific Band 3	0.23%	0.93%	0.70%
LV Site Specific Band 4	0.23%	0.94%	0.72%
LV Sub Site Specific No Residual	-	-	-
LV Sub Site Specific Band 1	8.57%	0.53%	-8.03%
LV Sub Site Specific Band 2	8.57%	0.39%	-8.18%
LV Sub Site Specific Band 3	8.58%	0.25%	-8.33%
LV Sub Site Specific Band 4	8.59%	0.14%	-8.45%
HV Site Specific No Residual	-	-	-
HV Site Specific Band 1	-3.20%	-3.40%	-0.20%
HV Site Specific Band 2	-3.23%	-3.44%	-0.21%
HV Site Specific Band 3	-3.24%	-3.45%	-0.21%
HV Site Specific Band 4	-3.25%	-3.48%	-0.22%
Unmetered Supplies	10.55%	10.55%	0.00%
LV Generation Aggregated	0.00%	0.00%	0.00%
LV Sub Generation Aggregated	-	-	-
LV Generation Site Specific	0.00%	0.00%	0.00%
LV Sub Generation Site Specific	0.00%	0.00%	0.00%
HV Generation Site Specific	0.00%	0.00%	0.00%

4.37 The Working Group noted that there is no mechanism within the EDCM that deals with negative residual revenues but considered whether an amendment should be made to explicitly cater for such a scenario. It was suggested that this may be due to EDCM tariffs mainly being levied on a capacity charge basis rather than a unit charge basis and therefore may not have been appropriate previously.

4.38 The Working Group agreed that they were happy with how the legal text was drafted, which means the status quo is retained as the DNOs have not previously seen negative residual revenues for EDCM customers. It was therefore believed that the Working Group would only be designing a solution for what is essentially a theoretical issue of negative fixed charges and thus agreed not to include an option for mitigating it in the EDCMs.

4.39 It was noted that the DNOs conducted a sense check on whether there were any negative residual revenues in the ECDM models following the completion of the modelling work and impact assessment on the updated models. Following receipt of the updated models and upon carrying out some testing, the DNOs were able to confirm that there were no instances of negative residual revenue with their ECDM. Further information on the models and impact assessment is contained within Section 8 below.

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Impact on LDNO Parties (Schedules 17 and 18)

4.40 The Working Group remained cognisant of Ofgem's expectation that solutions would consider if there were:

> *any consequential changes that may be required in relation to residual charges for Independent Distribution Network Operators (IDNOs), consumers connected to private wire and complex sites, noting that the Authority expects that the IDNO charging regime (which operates via a Relative Price Control) to continue to function as it does today;*

4.41 When reviewing how the changes to the text made throughout other paragraphs within Schedules 17 and 18, it was noted that paragraph 26.11 would require some amendment as it referred to "the 20% share of residual revenue that is applied as a fixed adder" with respect to charges for EDCM Connectees connected to a LDNO's Distribution System. In making the necessary amendments, the Working Group believe that they have done so in a way that retains the status quo for these customers, such as to not disadvantage those customers.

4.42 It is noted that this is done by retaining scaling down by 50 per cent of the 20 per cent of the residual fixed charge element, with such scaling down not applying where the residual revenue is negative.

4.43 The Working Group confirmed that the above held true following a review by the DNOs of the updated models. Subsequent confirmation from the appointed DCUSA modelling consultants was received, that in moving the recovery of EDCM residual revenue from the import capacity charge to the fixed charge for final demand customers, the discounts for customers with EHV-level connections to LDNO networks are preserved.

Consequential changes because of decisions made by other CPs.

4.44 During various Working Group meetings and as has been noted throughout various elements of the consultation document, a number of decisions made by the two related Working Groups (one for DCP 359 and a joint one for DCP 358 and DCP 360) have had consequences on the ability of this Working Group to consider/develop some areas of the TCR Decision that interact with each other.

4.45 The Working Group noted that at the time of the consultation being issued, DCPs 358, 359 and 360 had progressed to the Change Report phase and were now with Parties to vote on. Given this fact and where such interaction occurs, the Working Group cannot re-open some items for discussion, as doing so would potentially render one or another CP invalid.

DCP 361 Proposed Solution at consultation phase

CDCM:

4.46 For domestic LV-connected consumers:

- a single fixed DUoS residual charge will be levied

4.47 For non-domestic customers there are three separate customer groups based on voltage of connection and whether agreed capacity or consumption is used as a basis for their current DUoS charges as follows:

- Non-domestic HV connected with an agreed capacity as the basis for their current charge;
- Non-domestic LV connected with an agreed capacity as the basis for their current charge; and
- Non-domestic LV connected without an agreed capacity as the basis for their current charge.

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4.48 The fixed DUoS residual charge that will apply to consumers within each of the above groups will be determined by reference to the charging band to which they are allocated under DCP 358 and DCP 360. The allocated proportion of the residual charges for each charging band is divided equally among all consumers in that band, meaning all consumers in the charging band will pay the same level of fixed residual charge.

4.49 With respect to the treatment of negative residual charges, following their review of the responses to the consultation, the Working Group noted that they would select one of the two options set out in paragraphs 4.33 and 4.34 above to take forward as part of the final solution. Therefore, this element of the solution was yet to be finalised.

4.50 DUoS residual charges for unmetered consumers will be derived considering their net consumption volume on the basis of their 'profiled' demand and the applicable charging methodology. The allocation of residual charges to unmetered supply customers will be by net volumes and the current approach to applying residual charges via unit charges (p/kWh) will be retained.

EDCM

4.51 Residual charges for EHV connected consumers will be allocated according to the total net consumption volumes of all eligible consumers at the EHV voltage level.

4.52 Residual charges are then further allocated to charging bands of which there will be four charging bands set by reference to specific boundaries **(the basis of which will be determined outside of the methodologies and models)**, which customers will be allocated to by reference to levels of agreed capacity **(again, the basis of which will be determined outside of the methodologies and models).**

4.53 The allocated proportion of the residual charges for each charging band is divided equally among all consumers in that band with all consumers in the charging band paying the same level of fixed charge.

5 Summary of Consultation and Responses

Summary of responses to the DCP 361 Consultation

5.1 The Working Group developed and issued a consultation on 28 May 2020 seeking industry views on the solution set out above. There were seventeen respondents to the consultation, of which five were from Suppliers, six were from DNOs, four were from IDNOs, one was from an energy consultancy firm, and one from a respondent who chose to remain anonymous.

5.2 To support the consultation, a question and answer session was facilitated during the consultation period window to aid respondents in understanding the change being proposed.

5.3 Set out below are the questions that the Working Group sought views on, and a summary of the responses received. A copy of the consultation document alongside the full set of responses and Working Group conclusions can be found as Attachment 6.

Question 1- Do you understand the intent of DCP 361?

5.4 The Working Group noted that sixteen of the seventeen respondents understood the intent of DCP 361 change, with the remaining respondent not stating that they didn't understand but that they disagreed with the TCR Decision in general and that the implementation date should be deferred twelve months to align with the Access and Forward Looking Charges SCR.

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Question 2: Are you supportive of the principles that support this CP, which are to address the elements required for the calculation of residual charges within the Charging Methodologies, to implement the TCR Decision?

5.5 The Working Group noted that sixteen of the seventeen respondents were supportive of the principles of the change, with the one that wasn't supportive, citing that the implementation date should be deferred twelve months to align with the Access and Forward Looking Charges SCR due to the definition of "residual charge" being still under review in that SCR. In addition, two further respondents had concerns over the implementation date, which the Working Group agreed to discuss within their comments against responses to Question 13 covering this area.

5.6 There was also a concern raised by the same respondent over *"the significant increase in costs to consumers in Northern Scotland and London"*, to which the Working Group noted that the residual pot is just being re-allocated but the same amount will be recovered therefore any change to the allocation of network costs to users is aligned with the solution to address the issues identified in the SCR. This re-allocation will therefore result in some consumers paying more and others less.

Question 3: Are you comfortable with the approach to combine the residual fixed charge with the existing fixed charge? If not, then please provide your rationale.

5.7 The Working Group noted that all seventeen respondents to the consultation were comfortable with the Working Group's proposed approach to combine the residual fixed charge with the existing fixed charge. Some respondents included supporting rationale within their responses, such as:

"We do not feel it is necessary to change any element of the DUoS tariff structures as it would increase the costs to industry to implement this CP with little benefit to the end consumer."

"The combination of the residual fixed charge with the existing fixed charge negates the potential system changes which could have been required should an additional charge have been proposed"

"This approach results in a single fixed charge and minimal changes to the legal text and charging models";

"there's no defined, or perceived, benefit in splitting the Fixed Charge to show "Base" and "Residual" elements"

5.8 The Working Group noted some additional comments which indicated that some further consideration may be necessary, with such comments detailed below:

"there are benefits in separating the fixed charges in terms of providing clarity on the proportion of the bill/charge/tariff that stems from residual charges which may be of interest to some parties for analysis purposes"; and

"as long the residual fixed charge is transparent and traceable through the models then this can be combined".

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5.9 The Working Group noted that the residual element will be evident within the CDCM model, but not for the EDCM model because the EDCMs are site specific and are not published. The Working Group concluded that for EHV Connectees, the amount of residual charge applicable to their site can be identified but it would be up to the DNOs to make such information available. Therefore, the Working Group agreed to include a recommendation within the Change Report that the DNOs utilise the LC14 statement to include charging bands and level of charge for each band such that EHV Connectees can determine which charge would be applicable to them, given they should have an understanding of their agreed capacity.

Question 4: Do you agree with the Working Groups approach of allocating costs to the existing tariff structure before revenue matching and then applying the relevant charging bands at the revenue matching step to create the all-the-way tariffs? If not, then please provide your rationale?

5.10 The Working Group noted that fifteen out of seventeen respondents agreed with the Working Group's approach of allocating costs to the existing tariff structure before revenue matching and then applying the relevant charging bands at the revenue matching step to create the all-the-way tariffs Some respondents included some supporting rationale within their responses, such as:

"the lightest touch approach possible but still effective in achieving the required result";

"A different solution would be overly complicated and inefficient";

"it seems to be an efficient and less complex solution to meet the requirements set out in the TCR Direction";

"the simplest solution which will reduce the scope for errors in the modelling and also reduce the complexity for parties analysing or assuring the models";

"reduces the changes required to existing legal text, which can only be beneficial considering the timescales for implementation".

5.11 The two remaining respondents indicated that they had either no comment or no did not provide a view.

5.12 The Working Group agreed to maintain the approach of allocating costs to the existing tariff structure before revenue matching and then applying the relevant charging bands at the revenue matching step to create the all-the-way tariffs as set out in the consultation.

Question 5: Are you comfortable with the Working Groups approach of combining bands when a minimum number of Final Demand Sites would be in a particular band? If not, please provide your rationale.

5.13 The Working Group noted that fifteen of seventeen respondents to the consultation **were comfortable** with the Working Group's proposed approach to the combining of bands when a minimum number of Final Demand Sites would be in a particular band. Some respondents included supporting rationale within their responses, such as:

"there is a risk that the site pays a materially high residual charge in the absence of this approach"

"The proposed approach helps to ensure that the charging bands will have consistent upper and lower boundaries for all residual distribution and transmission use of system charges."

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"The working group have addressed the directive from the TCR Decision which states that alternative modification proposals could include 'combining bands when a minimum number of consumers would be in a particular band'"

5.14 With respect to the remaining two respondents, one **did not** agree, and the other did not provide a response. The respondent who did not support the approach, suggested that EHV Connectees could:

- remain in a band by themselves, as merging into a band above may increase costs for that Connectee, however during the Working Group discussions, the respondent noted that their stance had changed and no longer believes this to be appropriate given that the level of charge for each band is likely to be published;
- move down a band rather than up a band, with the rationale being that the merging into a band above might result in increased costs for that Connectee, however the Working Group agreed that whilst that Connectee may see a decrease if merged with a lower band, it may result in an increase in the level of charge for Connectees in the lower band, if there were only a limited number in that band in the first instance.

5.15 One respondent voiced a concern related to the whether the uncoupling of merged bandings (where a new site connects within a charging year), as well as the reverse situation where a site disconnects, had been properly considered by the Working Group and if it was expected to form part of the annual charge/tariff setting process.

5.16 The Working Group gave consideration to the concern, noting that the status quo approach means that for new mid-year EHV connections would have their charges calculated based on the number of days they are connected in a charging year, but DNOs do not then recalculate charges for all other EHV Connectees at that point in time so there are no mid-year changes to charges. Any additional Connectees would be picked up as part of the annual charge/tariff setting process, which will potentially result in the movement (or unpicking) of merged bands at that point in time.

5.17 The Working Group agreed that to fully resolve the topic of merging bands, it would be necessary to review the responses to Question 6 which relates to the views of respondents on the specific minimum number of Final Demand Sites within a charging band that would result in the combining of bands and to then consider their final solution in the round.

Question 6: What do you believe should be the specific minimum number of Final Demand Sites within a charging band that would result in the combining of bands process being applied? Please provide your rationale for whatever number you believe should be applied as a minimum.

5.18 The Working Group noted that the majority of respondents to the consultation agreed with the Working Group's proposal of setting the minimum number of Final Demand Sites that would be allowable within a particular band to two i.e. if less than this then the band would be merged. The split of responses to this question was as follows:

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Minimum number of Final Demand Sites within a charging band (resulting in merging of bands)	Number of respondents supporting each specific option
Less than 2	Ten respondents support this approach
CDCM 2 and EDCM 1	One respondent suggested this approach but as part of the discussions during the review of responses concluded that 1 for EDCM was no longer appropriate
Less than 2 via a set criterion	One respondent suggested this approach
DNO discretion	One respondent suggested this approach
No preference or view provided	Four respondents

5.19 Some respondents included additional comments, such as:

"be best determined with reference to the statistical distribution of site characteristics";

"beneficial to get a clearer view of how many instances of this scenario may occur to form a clearer position"

5.20 The Working Group agreed to maintain the specific minimum number of Final Demand Sites within a charging band that would otherwise require the combining of bands process to be applied at no less than two as indicatively set out in the consultation. In the main, this was due to it being the favoured number among respondents to the consultation but also because it is consistent with the approach used in the original impact assessment, published alongside the TCR Decision on 21 November 2019, calculated a residual fixed charge per charging band, and where the minimum number of Final Demand Sites in a given charging band was two. The Working Group considers that this, together with the broad range of MIC/annual consumption (as appropriate) within a given charging band, as presented in the Ofgem impact assessment, means that two Final Demand Sites represents a sufficient minimum threshold in any charging band to protect identification of those sites. For example, the Ofgem impact assessment highlights a difference of 355% and 91%, between the upper and lower boundary in EHV charging bands two and three respectively. Based on indicative analysis since publication of the TCR Decision, the Working Group believe the range for EHV bands one and four to be significantly higher. Therefore, two Final Demand Sites in the same charging band could be very different in reality.

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Question 7: Are you comfortable with the Working Group's interpretation of the way in which the allocation of the residual revenue to charging bands is applied; being that residual revenue is allocated proportional to sites which are classed as Final Demand Sites only, based on the consumption in each band relative to the total consumption for all Final Demand Sites and not the consumption from all sites (i.e. including Non-Final Demand Sites) connected to any given voltage level?

5.21 The Working Group noted that all seventeen respondents to the consultation were comfortable with the Working Group's interpretation of the way in which the allocation of the residual revenue to charging bands is applied; being that residual revenue is allocated proportional to sites which are classed as Final Demand Sites (plus unmetered supplies) only, and under the same charging methodology, and based on the consumption in each band relative to the total consumption for all Final Demand Sites (plus unmetered supplies) under the same charging methodology, and not the consumption from all sites (i.e. including Non-Final Demand Sites) connected to any given voltage level. Some respondents included supporting rationale within their responses, such as:

"this will not lead to a margin of error in recovery of residual charges"

"aligns with the Ofgem direction had been initially and also what they have subsequently confirmed to be the case"

5.22 The Working Group agreed to continue with the solution as based on their original interpretation of the way in which the allocation of the residual revenue to charging bands is applied.

Question 8: With respect to the two approaches to deal with any negative scaling within the CDCM that have been put forward by the Working Group, do you prefer Option 1 or Option 2 or do you have an alternative approach which you believe the Working Group should consider? Whichever option you select, please provide your rationale.

5.23 With respect to the way in which any negative scaling is dealt with within the CDCM, the Working Group noted that **ten** respondents to the consultation had a preference for approach set out under Option 2 and seven had a preference for approach set out under Option 1. Some respondents included supporting rationale within their responses in support of Option 1, such as:

"a consistent approach between DNOs and is consistent with the principles underlying the TCR";

"affects fewer users"

"the correct mathematical result for charges";

"the more straightforward option in that any negative residual fixed charges would follow the same process, and flow through to the resultant charges"

5.24 For those that did not support Option 1, the Working Group noted the following comments:

"some users effectively receiving a payment for being connected to the network on the basis of location and voltage level of connection"

"could provide perverse economic incentives that would result in economically inefficient use of the network"

"could potentially cause confusion as these are typically associated with generation"

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"are difficult to implement in some internal systems and as such we would want to avoid them"

"if flooring was not implemented in April 2022 then customers impacted would see significant tariff disturbance in both years which would be difficult to plan for and manage"

5.25 For those that supported Option 2, the following rationale was provided:

"meets the TCR direction by ensuring that all users of the network contribute their fair share to the upkeep of the network";

"avoids -negative DUoS charge"

5.26 For those that did not support Option 2, the Working Group noted the following comments:

"flooring of negative demand residual introduces distortion and impacts the forward looking. It is also contrary to Ofgem's intention in the TCR decision"

"requires adjustment which may be open to discretion"

5.27 The Working Group agreed to proceed with Option 2, noting that the arguments made on both sides were valid and therefore it was purely a matter of choice and as there was a small majority of respondents who favoured Option 2, the Working Group will abide by the majority.

Question 9: Notwithstanding the two options with respect to the approach to negative residual revenues in the CDCM, do you agree with the Working Group's proposed solution for DCP 361?

provide your rationale for whatever number you believe should be applied as a minimum.

5.28 The Working Group noted that sixteen of the seventeen respondents to the consultation agreed with the Working Group's proposed solution. The one that didn't, stated that the implementation date should be deferred twelve months to align with the Access and Forward Looking Charges SCR due to the definition of "residual charge" being still under review in that SCR.

Question 10: Do you have any comments on the proposed legal text for DCP 361? If so, then please provide examples or supporting rationale.

5.29 The Working Group noted that fifteen of the seventeen respondents to the consultation did not have any comments on the proposed legal text. Of the two respondents who did, the following areas were identified within those specific responses:

- That further consideration be given to the proposed change to paragraph 26.11 of Schedule 17 and 18 as the respondent was of the view that maintaining the 50 percent scaling down of the 20% share of residual revenue that is applied as a fixed adder should be amended such that the now 100% share of residual revenue that is applied as a fixed adder should be scaled down by 50%.
- Paragraph 92 of Schedule 16 references paragraph 2.4 of the new schedule – however this paragraph references paragraph 1.5 of that schedule, which also applies to Designated EHV Properties. We believe paragraph 92 of Schedule 16 would benefit from clarity that this is not the case, rather than by inference that Schedule 16 does not apply to Designated EHV Properties.
- Paragraph 92C of Schedule 16 should be consistent with paragraph 92 of the same schedule, and where reference to proportioning the residual relative to the net consumption for all Final Demand Sites, it should also reference "including the consumption of any Related MPANs where applicable".

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5.30 The Working Group discussed each of the items raised by the two respondents. It was agreed to only move forward with the suggestion to add the words "including the consumption of any Related MPANs where applicable" after the use of Final Demand Sites in paragraph 92C to align with paragraph 92.

5.31 On the first point, the Working Group stated that the modification to this text have been made in such a way as to have a cost neutral impact to IDNOs as was specified within the TCR decision document. If the respondent believes that this should now be changed then a further change proposal will need to be raised to address it.

5.32 On the second point, Schedule 16 Paragraph 1A states that this schedule is only applicable to Designated Properties, and the view of the Working Group was that this text should be sufficient. The Working Group sought confirmation from the respondent as to whether this new information changed their mind on the need for clarity. The respondent was comfortable that Paragraph 1A covers it off sufficiently.

5.33 The Working Group noted that their final draft of the legal text has taken account of the responses to this specific question alongside other suggestions made in response to other consultation questions when they finalised the legal text. The Working Groups final conclusions on the legal text can be found in section 10 below.

Question 11: Which of the DCUSA Charging Objectives does DCP 361 better facilitate? Please provide supporting comments.

5.34 The Working Group noted that all of the respondents who submitted a response to this question agreed that the DCUSA Charging Objectives would be better facilitated by the implementation of DCP 361.

5.35 It was also noted that thirteen of the seventeen respondents also highlighted that they believed that DCUSA Charging Objectives 1 and 2 would be better facilitated and therefore, they agreed with the Proposer of the CP. Among the four other respondents, it was noted that one stated that they believed that Charging Objective 1 and 6 are both better facilitated by DCP 361 and two believed that only Charging Objective 1 is better facilitated by DCP 361 and there was one respondent that did not provide a response to the question.

5.36 At a high level, the following table sets out whether each respondent considered that the proposal better facilitates the DCUSA Charging Objectives and which they believed to be in scope.

Respondent	Charging Objective 1	Charging Objective 2	Charging Objective 6
1.	Positive	Maybe	
2.	Positive	Positive	
3.	Positive	Positive	
4.	Positive	Positive	
5.	Positive	Positive	
6.	Positive	-	
7.	Positive	Positive	
8.	Positive	Positive	
9.	No answer	No answer	
10.	Positive	Positive	
11.	Positive	Positive	
12.	Positive	Positive	
13.	Positive	-	Positive
14.	Positive	Positive	

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15.	Positive	Positive	
16.	Positive		
17.	Positive	Positive	

5.37 The Working Group noted that with respect to the support for DCP 361 better facilitating DCUSA Charging Objective 1, respondents generally stated that this is because it ensures that DNOs are compliant with licence requirements in relation to SCRs, by implementing specific requirements set out in the TCR Direction.

5.38 For those that provided rationale for their support for DCP 361 better facilitating DCUSA Charging Objective 2, respondents generally stated that this is because it ensures network costs are recovered fairly from network users and in doing so it reduces harmful distortions which may impact competition and efficiency of the electricity market as well as providing for a more equitable distribution of residual charges which are applied consistently across the customer groups.

5.39 The Working Group noted their assessment of the DCUSA Objectives, and the Working Group view is provided in Section 7 below.

Question 12: Are you aware of any wider industry developments that may impact upon or be impacted by DCP 361?

5.40 The Working Group noted that twelve of the seventeen respondents were not aware of any wider industry developments that should be considered by the Working Group.

5.41 The remaining five who did provide additional comments, draw upon three separate areas, being:

"the Access and Forward Looking Charges SCR is still ongoing and believe that the changes here should be aligned to the outcome from that SCR";

"the use of covid-impacted demand data could drive significant volumes of disputes among non-domestic users, which could increase costs and decrease service quality for all system users"

"The other TCR changes, which need to be considered as a package along with DCP361"

5.42 The Working Group stated that they will pick up the points raised due to either or both COVID-19 and/or the Access and Forward-looking charging review SCR in their comments made against responses to Question 13.

5.43 With respect to the comment related to the entire package of DCUSA Change Proposals needing to be considered together, the Working Group agree with the respondent and will continue to highlight this point within the final Change Report.

Question 13: The proposed implementation date for DCP 361 is 01 April 2022. Do you agree with the proposed implementation date? If not, then please provide your rationale.

5.44 The Working Group noted that eleven of the seventeen respondents agree that the implementation date for DCP 361 should be 01 April 2022, subject to Authority approval of DCP 358, DCP 359 and DCP 360.

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5.45 However, those respondents that did not cited a number of reasons, including the need to delay until 2023; due to the issues faced by industry with respect to the ongoing COVID-19 pandemic; to align with the expected implementation of the Access and Forward-Looking Charging SCR; as well as to allow enough time for Suppliers to properly factor in the updated charges to their contracts with consumers. The following extracts provide a representative sample of responses that did not agree with the proposed implementation date:

"DNOs will be unable to provide 15 months' notice of the new charges. The implementation date needs to provide sufficient time for DNOs to publish tariffs at end Dec 2020";

"COVID-19 is causing enormous disruption to businesses and households with many livelihoods at risk. We strongly believe it would be appropriate to delay the implementation of the TCR and this modification to April 2023 to help customers avoid the additional burden of significant tariff disturbance which will result from these changes."

"We believe the benefit of a delay to April 2023 (as outlined above) and subsequent alignment to the implementation of the access and forward charging work is far higher (benefit) to the Suppliers and Customers than implementing these changes in April 2022"

"It is recommended the implementation of the TCR be delayed until sales following the pandemic have stabilised."

5.46 The Working Group stated that they had sympathy with the points raised, but believe that it is ultimately with Ofgem to decide whether there should be a delay to the implementation of this and the other CPs raised to implement the TCR Decision due to either or both COVID-19 and/or the Access and Forward-looking charging review SCR. However, given the other areas also raised by a respondent (such as delays to another SCR on switching which may result in two significant changes going live at the same time), the Working Group agreed to include such areas raised by respondents within the Change Report as a general point for consideration by the Authority to ensure awareness of the many ongoing and interacting workstreams/SCRs such as the Switching Programme / Access and Forward Looking Charges / Retail Code Consolidation / Market-wide Half-Hourly Settlements.

6 Working Group Conclusions & Final Solution

DCP 361 Working Group Conclusions

6.1 Following the review of the consultation responses, the Working Group agreed to the final elements that will make up the entire solution, which is set out in the paragraphs below.

COMMON SOLUTIONS:

6.2 The fixed DUoS residual charge that will apply to consumers within each of the above groups will be determined by reference to the charging band to which they are allocated under DCP 358 and DCP 360. The allocated proportion of the residual charges for each charging band is divided equally among all consumers in that band, meaning all consumers in the charging band will pay the same level of fixed residual charge.

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6.3 The new residual fixed charge element will be combined with the existing fixed charge element that is set out with the respective methodologies. This approach is similar to the status quo, which amalgamates the p/kWh unit rate or p/kVA/day capacity charge with the applicable variable p/kWh unit rate or p/kVA/day capacity based residual charges (p/kWh rate being the approach adopted in the CDCM and p/kVA/day in the EDCM).

6.4 DUoS residual charges for unmetered consumers will be derived considering their net consumption volume on the basis of their 'profiled' demand and the applicable charging methodology. The allocation of residual charges to unmetered supply customers will be by net volumes and the current approach to applying residual charges via unit charges (p/kWh) will be retained.

6.5 Ofgem had recognised there may be a concern that applying segmentation at a GB level could give rise to issues under the SCR Decision Principles, such as commercial sensitivity or charging volatility. This was with respect to a specific element of the TCR Decision, related to the potential for some bands in some DNO areas to have a very limited number of sites within it, and thus the Working Group consulted on a proposed solution to merge charging bands together if this was encountered at an individual DNO level. In this respect, the solution does make the necessary arrangements for the combining of bands where less than two sites are within a band and the preference order to be adopted in merging the bands.

CDCM SPECIFC:

6.6 For domestic LV-connected consumers:

- a single fixed DUoS residual charge will be levied.

6.7 For non-domestic customers there are three separate customer groups based on voltage of connection and whether agreed capacity or consumption is used as a basis for their current DUoS charges as follows:

- Non-domestic HV connected with an agreed capacity as the basis for their current charge;
- Non-domestic LV connected with an agreed capacity as the basis for their current charge; and
- Non-domestic LV connected without an agreed capacity as the basis for their current charge.

6.8 In order to calculate the all-the-way tariffs, the charging bands associated with residual fixed charges are applied to the existing tariff structure at the revenue matching step,

6.9 Under this approach a new mapping table is added to the end of the revenue matching step, and only the LDNO and Supplier of Last Resort fixed charges sections need their tables adjusted to reflect the new end tariff structure. The benefit of such an approach is that it reduces the amount of changes needed to the existing legal text, meaning both this and future changes are easier to implement.

6.10 With respect to the treatment of negative residual charges, following their review of the responses to the consultation, the Working Group proceed with **Option 2.** It is noted that Option 2 amends the existing paragraph 94 text that allows negative residual fixed charges to flow through onto the existing fixed charge element but place a floor on the total fixed charges at zero. This may still result in an over-recovery and as such any remaining surplus once the total fixed charge has been floored at zero, the remainder will be returned via unit charge adders across all unit charges within the relevant charging band only. In doing so, the inverse of the current process still applies as the text ensures the total unit charge is not zero.

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6.11 In addition, an additional paragraph has been added to cater for instances where an all-the-way tariff is derived from more than one tariff before revenue matching and shares the same residual charge. The amount of residual charge to be applied will be set equal to the amount that applies to whichever tariff before revenue matching would first require a cap to be applied. This will result in one of the two still retaining a fixed charge. This approach also applies to the unit charge.

EDCM SPECIFIC

6.12 Residual charges for EHV connected consumers will be allocated according to the total net consumption volumes of all eligible consumers at the EHV voltage level.

6.13 Residual charges are then further allocated to charging bands of which there will be four charging bands set by reference to specific boundaries **(the basis of which will be determined outside of the methodologies and models)**, which customers will be allocated to by reference to levels of agreed capacity **(again, the basis of which will be determined outside of the methodologies and models).**

6.14 The allocated proportion of the residual charges for each charging band is divided equally among all consumers in that band with all consumers in the charging band paying the same level of fixed charge.

7 Relevant Objectives

Assessment against the DCUSA Objectives

7.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets the DCUSA Objectives. The Proposer of DCP 361 believes that the proposed solution will better facilitate DCUSA Charging Objectives one and two. The rationale for these decisions can be found in the paragraphs that follow the table of DCUSA Charging Objectives below.

DCUSA Charging Objectives	Identified impact
1) That compliance by each DNO Party with the Charging Methodologies failitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	**Proposer's view:** Positive **Working Group view:** Positive
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)	**Proposer's view:** Positive **Working Group view:** Positive
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**
4) That, so far 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**

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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**
6) That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration	**None**

The Proposer's view

7.2 The rationale provided by the Proposer as to which of the DCUSA Objectives are better facilitated by DCP 361 is set out in the CP form (Attachment 3) and detailed below.

- **DCUSA Charging Objective One** is better facilitated by ensuring DNOs are compliant with licence requirements in relation to SCRs, by implementing specific requirements set out in the TCR Direction.
- **DCUSA Charging Objective Two** is 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.

Views of respondents to the consultation

7.3 The Working Group sought Party views on which of the DCUSA Charging Objectives they thought would be better facilitated by the implementation of DCP 361. A summary of the Party views can be found in paragraphs 5.34 to 5.39 above and in the collated consultation responses document found as Attachment 6.

Working Group views

7.4 The Working Group unanimously agrees with the Proposer and many of the respondents to the consultation that DCUSA Charging Objectives One and Two will be better facilitated by the implementation of the DCP 361 solution. It was noted that the Working Group's rationale for this was in line with that of the Proposer, which is set out in the bullet points below paragraph 7.2.

7.5 The Working Group unanimously agreed that the implementation of DCP 361 would not have an impact on DCUSA Charging Objectives, Three, Four, Five and Six.

7.6 When looking at the DCUSA Charging Objectives in the round, Working Group members who put forward a view with respect to the DCUSA Charging Objectives, unanimously agreed that on balance, DCP 361 will better facilitate the DCUSA Charging Objectives.

8 Impacts & Other Considerations

Model Amendments (CDCM, EDCMs and ARP)

WORKING GROUP REQUEST FOR THE PRODUCTION OF AMENDED MODELS:

8.1 The drafting amendments made by the Working Group were baselined against the pre-release version for the applicable charging methodologies (being Schedules 16, 17, 18 and 20) that will be effective as of 01 April 2021, as was provided to the appointed modelling consultants on 19 December 2019 for the purposes of creating the set of models and user guides for the 2021/22 charging year.

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8.2 The appointed modelling consultant was asked to use the following versions of the models as a baseline for the DCP 361 request:

- CDCM_v6_20200130
- ARP_v6_20200130
- EDCM-FCP_v7_20200130
- EDCM-LRIC_v7_20200130

CHANGES MADE TO THE MODELS TO ACCOMMODATE DCP 361:

8.3 The appointed DCUSA modelling consultants created modified versions of the CDCM and ARP models and for the EDCM models (both the FCP and LRIC versions) in line with the draft legal text and with the aid of the model specification document provided by the Working Group. The updated models and a document that outlines the structural changes made to the models and other relevant information are located within Attachment 4 to this Change Report.

8.4 Section 3 within the document which outlines the modifications to the models that were necessary to implement DCP 361 explains that the modifications made as a result of implementing DCP 341 (the addition of three new tariffs throughout the model) have effectively been reversed. It was noted that this was achieved by deleting the relevant columns and/or rows across several sheets and tables within the models.

8.5 After removing the DCP 341 tariffs, DCP 361 required introduction of new post-revenue-matching tariffs in the model which reflect the decision, with respect to the allocation of costs to tariffs before revenue matching.

8.6 In the CDCM and ARP:

(a) new columns were added to the tables in the following sheets:

- 'Fixed inputs';
- 'Inputs by customer type';
- 'Revenue matching';
- 'Rounding';
- 'Net Revenue Summary'; and

(b) new rows were added to the tables in the following sheets:

- 'ARP_Inputs by customer type' (ARP only);
- 'Tariff summary';
- 'Typical bills' (ARP only); and
- 'Outputs to other models' (CDCM only).

ADDITIONAL OR MODIFIED INPUT SECTIONS

8.7 In the CDCM and ARP, changes were made in the following sheets:

- 'Fixed inputs'
- 'Inputs by customer type'

8.8 In the EDCM, changes were made in the following sheets:

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- 'Fixed inputs'
- 'Tariff inputs'

ADDITIONAL OR MODIFIED CALCULATION SECTIONS

8.9 In the CDCM and ARP, changes were made in the following sheets:

- 'Volume adjustments'
- 'Revenue matching', including subsections:
- "Pre-matching net revenue calculations"
- "Residual charge calculation"
- "Adjustments for negative fixed charges"
- "Final adders"
- 'Rounding'.
- 'Net revenue summary'.

8.10 In the EDCM, changes were made in the following sheets:

- 'Import capacity' (sheet adapted)
- 'Residual bands' (sheet added)
- 'Residual charge' (sheet added)
- 'Fixed' (sheet adapted)
- 'Revenue' (sheet adapted)

ADDITIONAL OR MODIFIED OUTPUT SECTIONS

8.11 In the CDCM and ARP, changes were made in the following sheets to ensure consistency after the addition of the post-revenue-matching tariffs:

- 'Tariff summary'.
- 'Outputs to other models' (CDCM only)

8.12 In the EDCM, changes were made in the following sheets:

- 'Revenue summary' (sheet adapted)

8.13 DNOs, who are also Working Group members have successfully populated the DCP 361 CDCM models and applicable EDCM model and have confirmed that they have been able to replicate the expected outputs from the modified models.

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Impact Assessment

8.14 The Working Group agreed that it would be beneficial to provide industry with some way of understanding what the end charges may look like, as it was noted that it was not possible to provide the applicable charges as part of this impact assessment. This is due to the fact that the process of determining the band boundaries that result in four charging bands to be applied across each of the four non-domestic customer groups and the subsequent allocation of customers to those charging bands has not yet commenced, nor have the proposed changes been approved.

8.15 For the purposes of producing an impact assessment for DCP361, the modelling consultants were asked to:

- apply boundaries and the split of sites and volumes between residual bands used in the impact assessment published alongside Ofgem's final TCR decision—applied to aggregate volumes and sites by CDCM tariff from published 2021/22 models;
- assume that the split of sites and volumes between bands for "Non-Domestic Aggregated (Related MPANs)" are equal to the split for "Non-Domestic Aggregated" tariffs (described as "LV NHH" in the TCR impact assessment); and
- assume no volumes or sites will fall in the "no residual" bands for storage reasons (consistent with published CDCM models for 2021/22).

IMPACTS ON TYPICAL BILLS

8.16 The effect of DCP 361 on customer's annual bills depends on their tariff, residual band, and energy usage. Where the residual is positive (opposite is true for negative residual), customers are likely to benefit if:

- they are in a low residual band for their tariff group (e.g. band 1 or 2);
- their energy usage is greater than the average within their residual band; or
- they are on an "LV Sub Site Specific" tariff (which shares a banded residual charge with "LV Site Specific" tariffs); or
- they are on a "Domestic Aggregated (Related MPAN)" or "Non-Domestic Aggregated (Related MPAN)" tariff (whose share of the residual is now recovered from "Domestic Aggregated" and "Non-Domestic Aggregated" charges).

8.17 The table below shows the impact of DCP 361 on annual bills for the typical customer on each post revenue matching tariff. Blank cells arise when there are no volumes to measure bill impacts with. The four "no residual" tariffs are all unaffected by DCP361, so could also be interpreted as "0.0%".

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Table 3 - Option 2: This table shows the % changes in typical bills per MPAN per DNO for each all-the-way tariff after applying DCP 361

Post-matching tariff	ENWL	NPgN	NPgY	SSEH	SSES	SPD	SPMW	LPN	SPN	EPN	EMID	WMID	SWEST	SWALES
Domestic Aggregated with Residual	-0.07%	0.06%	-0.08%	4.61%	0.22%	1.51%	-0.01%	0.34%	0.04%	0.00%	-0.14%	-0.05%	0.17%	-0.05%
Domestic Aggregated (Related MPAN)	-57.25%	-80.01%	-75.61%	-52.19%	-57.94%	-88.89%	-80.23%	36.73%	-54.81%	-32.82%				
Non-Domestic Aggregated No Residual														
Non-Domestic Aggregated Band 1	0.09%	0.10%	0.18%	0.82%	0.14%	1.04%	0.02%	1.60%	0.03%	0.02%	-0.08%	0.05%	0.20%	0.04%
Non-Domestic Aggregated Band 2	0.10%	0.14%	0.25%	1.16%	0.20%	1.41%	0.04%	2.27%	0.04%	-0.01%	-0.12%	0.09%	0.34%	0.08%
Non-Domestic Aggregated Band 3	0.10%	0.14%	0.26%	1.24%	0.22%	1.48%	0.05%	2.45%	0.04%	-0.01%	-0.13%	0.10%	0.37%	0.09%
Non-Domestic Aggregated Band 4	0.10%	0.14%	0.27%	1.29%	0.23%	1.51%	0.05%	2.54%	0.04%	-0.01%	-0.13%	0.11%	0.39%	0.10%
Non-Domestic Aggregated (Related MPAN)	-59.97%	-69.95%	-68.92%	-41.14%	-51.80%	-56.98%	-77.50%	50.05%	-46.81%	-31.34%				
LV Site Specific No Residual														
LV Site Specific Band 1	5.60%	8.41%	4.01%	2.18%	1.09%	2.62%	16.89%	0.90%	0.37%	1.03%	1.97%	1.33%	12.53%	1.81%
LV Site Specific Band 2	5.70%	8.53%	4.07%	2.22%	1.11%	2.65%	17.08%	0.91%	0.37%	1.03%	1.99%	1.34%	12.67%	1.83%
LV Site Specific Band 3	5.74%	8.56%	4.09%	2.23%	1.11%	2.67%	17.15%	0.93%	0.37%	1.03%	2.00%	1.34%	12.72%	1.84%
LV Site Specific Band 4	5.77%	8.60%	4.11%	2.24%	1.12%	2.68%	17.23%	0.94%	0.37%	1.04%	2.00%	1.34%	12.76%	1.85%
LV Sub Site Specific No Residual														
LV Sub Site Specific Band 1	-12.64%	-40.86%	-37.76%	-35.36%	-25.34%	-34.43%	-14.07%	0.53%	-21.83%	-6.66%	-22.15%	-14.28%	-25.27%	-29.30%
LV Sub Site Specific Band 2	-12.90%	-40.99%	-37.94%	-35.61%	-25.59%	-34.47%	-14.10%	0.39%	-21.86%	-6.67%	-22.21%	-14.32%	-25.38%	-29.41%
LV Sub Site Specific Band 3	-13.01%	-41.02%	-38.00%	-35.72%	-25.68%	-34.49%	-14.11%	0.25%	-21.87%	-6.68%	-22.24%	-14.33%	-25.41%	-29.44%
LV Sub Site Specific Band 4	-13.10%	-41.06%	-38.06%	-35.82%	-25.79%	-34.51%	-14.12%	0.14%	-21.88%	-6.68%	-22.26%	-14.35%	-25.44%	-29.48%
HV Site Specific No Residual														
HV Site Specific Band 1	-0.03%	-0.14%	-0.04%	-0.03%	0.02%	-0.29%	-0.46%	-3.40%	-0.17%	-0.02%	0.02%	0.11%	0.08%	-0.13%
HV Site Specific Band 2	-0.03%	-0.15%	-0.04%	-0.03%	0.02%	-0.30%	-0.46%	-3.44%	-0.17%	-0.02%	0.02%	0.11%	0.08%	-0.13%
HV Site Specific Band 3	-0.03%	-0.15%	-0.04%	-0.03%	0.02%	-0.30%	-0.47%	-3.45%	-0.17%	-0.02%	0.02%	0.11%	0.08%	-0.13%
HV Site Specific Band 4	-0.03%	-0.15%	-0.04%	-0.03%	0.02%	-0.31%	-0.47%	-3.48%	-0.17%	-0.02%	0.02%	0.11%	0.08%	-0.13%
Unmetered Supplies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	10.55%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LV Generation Aggregated	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%				
LV Sub Generation Aggregated	0.00%			0.00%	0.00%	0.00%	0.00%							
LV Generation Site Specific	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
LV Sub Generation Site Specific	0.00%	0.00%	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
HV Generation Site Specific	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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IMPACTS ON EDCM CHARGES

8.18 The Working Group noted that the DNOs undertook an impact assessment of the likely impacts associated with DCP 361 on EDCM tariffs following receipt of the updated models. As part of this exercise the Working Group agreed that it would be beneficial to do a comparison with the impact assessment carried out by Frontier Economics on behalf of Ofgem, which was contained within the TCR Decision document as well as an Annex to it.

8.19 A suggested approach of how this could be done was put to and agreed by the Working Group, which is to set out how the removal of the capacity based element of the current residual charge would flow through into lower capacity charges and how this may compare with the addition of the fixed residual charge that will result from this change. This was achieved by adding the 'Asset based residual revenue charges' and 'Import capacity based fixed adder' data from the EDCM that will be effective as of 01 April 2021 for each customer and dividing by the import capacity of the relevant customer. This figure is then divided by 365 (to get from a yearly figure to a daily figure) and multiplied by 100 to turn the £/year figure into a p/kVA/day figure for each customer across each DNO.

8.20 In completing this task, each DNO used the same tariff ordering as is contained within their statement of charges effective as of 01 April 2021 and included the LLFC, MPAN(s) and site/tariff name in a table together with the current calculated p/kVA/day. It was noted that Suppliers and customers would be able to use this as a mechanism to further their understanding of what their actual £/year capacity based residual charge will be for the 2021/22 charging year. To calculate the aforementioned charge, a customer or Supplier will need to locate the site within the correct DNO licence area and use the p/kVA/day capacity based charge and multiply it by whatever their agreed capacity is, then multiply it by 365 (days in year) and then divide by 100 to return their current £/year capacity based residual charge.

8.21 This is set against a second table that has a number of columns that contain some very generic, hypothetical capacity levels against each site, which provides a very general view as to the as £/year capacity based residual charge at those capacities. A third table sits to the right, which contains data sourced from a the worksheet titled 'Frontier analysis' that shows the £/year fixed residual charge across the four EHV charging bands as was set out in Ofgem's TCR decision document, which was provided by Frontier Economics and used hypothetical band boundaries so as to provide indicative £/year fixed residual charges across the four charging bands.

8.22 The workbook that contains the above data which can be used by Suppliers or customers as a makeshift impact assessment for their individual sites acts as Attachment 5 to this Change Report.

Impacts on other Significant Code Reviews (SCRs) or other significant industry change projects

8.23 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.

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Electricity Network Access and Forward-Looking Charging Review SCR Interaction

8.24 Following Ofgem's consultation issued on 23 July 2018, it was noted that on 18 December 2018 Ofgem published its decision to launch an SCR entitled 'Electricity Network Access and Forward-looking Charging Review' (the 'Access SCR'). During 2019, Ofgem published two working papers that consisted of a suite of discussion notes and which set out Ofgem's current thinking with respect to issues that the SCR is seeking to resolve.

8.25 The scope of the Access SCR explicitly excludes residual charging, which was the subject of the TCR. It is noted that the Access SCR may have a material impact on the level of residual charging, and so does interact with this CP, however, the Working Group is unable to test any such interaction as there is still a long-list of options being considered by Ofgem.

Settlement Reform SCR / Retail Code Consolidation SCR / Switching Programme SCR

8.26 The Working Group does not consider that the solutions they have developed have any impact on, nor are they impacted by the 'Settlement Reform SCR', the 'Retail Code Consolidation SCR' or the 'Switching Programme SCR' although a respondent raised a concern that the proposed delay in some of these may result in one or more being implemented at the same time as the TCR SCR.

Impacts on other Industry Codes

Consideration of any interaction between DCP 361 and industry code arrangements

8.27 As noted, NGESO has also been directed to raise modifications to the CUSC to implement the TCR Decision. A key requirement of the TCR Directions is to ensure consistency between the DCUSA and the CUSC in certain areas, however, this CP does not fall into this category.

Environmental Impacts

8.28 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 361 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

8.29 The Authority have been fully engaged with the development of this CP as observers of the Working Group and regular attendee of the TCR Implementation Steering Group.

9 Implementation

9.1 Clause 11.9A(2) of the DCUSA sets out that in respect of all Authority Change Proposals, which DCP 361 is considered to be, the Authority may, by direction, specify and/or amend the date from which the variation envisaged by the Change Proposal is to take effect.

9.2 Within the TCR Direction, the Authority, in accordance with paragraph 22.9E(a) of SLC C22 directed the DNOs to raise one or more code modification proposals in the terms and for the reasons set out in the Annex of the Direction in sufficient time to enable the modifications to be effective as of 01 April 2022.

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9.3 As noted previously, this means that the proposed implementation date for DCP 361 is 01 April 2022. However, the Working Group highlight that DCP 361 is reliant upon definitions that DCP 359 seeks to introduce, as well as the processes and procedures that will be put in place by DCP 358 and DCP 360 and therefore DCP 361 can only be implemented where the Authority has provided its approval of DCP 358, DCP 359 and DCP 360.

9.4 In addition, whilst the Working Group are supportive of the 01 April 2022 implementation date it would like to highlight the concerns of some respondents over this implementation raised under paragraph 5.45 regarding a number of SCRs currently being reviewed due to COVID-19 and the potential impact on this.

10 Legal Text

10.1 The legal text for DCP 361 has been developed and refined by the DCP 361 Working Group and has been reviewed by the DCUSA legal advisors and which the Proposer has confirmed as satisfying the intent of the Change Proposal. The DCP 361 legal text is provided as Attachment 1 to this Change Report.

10.2 The proposed legal text for 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 Final Demand Sites will receive a residual fixed charge.

10.3 The amendments have been baselined against the pre-release version for the applicable charging methodologies (being Schedules 16, 17, 18 and 20) that will be effective as of 01 April 2021, as was provided to the appointed modelling consultants on 19 December 2019 for the purposes of creating the set of models and user guides for the 2021/22 charging year.

AMENDMENTS TO THE CDCM:

10.4 Within Schedule 16, 'Step 2' which relates to the application of the cost allocation rules, will no longer be applicable to all-the-way tariffs, but will be applicable to what has been labelled as 'Tariffs Before Revenue Matching'. In order to calculate the all-the-way tariffs, the charging bands (as described within Schedule [XX], as a result of DCP 358) are applied to the 'Tariffs Before Revenue Matching' and then the allocated proportion of the residual charges for each charging band is divided equally among all consumers in that band with all consumers in the charging band paying the same level of fixed charge.

10.5 Residual charges for each Final Demand Site will be applied as a fixed charge adder (p/Final Demand Site/day) to the existing fixed charge element of CDCM tariffs.

10.6 Additional paragraphs have been included to cater for the merging of bands and the preference order to be adopted where such instances occur.

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10.7 With respect to the treatment of any negative residual fixed charges, following their review of consultation responses to question 9 of the consultation the Working Group agreed to proceed with Option 2. It is noted that Option 2 replaces existing paragraph 94 text with updated text that allows negative residual fixed charges, but floor total fixed charges at zero meaning there would still be an over-recovery and as such any remaining surplus once the total fixed charge has been floored at zero, the remainder will be returned via unit charge adders across all unit charges within the relevant charging band only. In doing so, the inverse of the current process still applies as the text ensures the total unit charge is not zero.

10.8 An additional paragraph 94.A has been added to cater for instances where an all-the-way tariff is derived from more than one tariff before revenue matching and shares the same residual charge. The amount of residual charge to be applied will be set equal to the amount that applies to whichever tariff before revenue matching would first require a cap to be applied. This will result in one of the two still retaining a fixed charge. This approach also applies to the unit charge

AMENDMENTS TO THE EDCMs:

10.9 The Working Group have amended the calculations for *'Demand Scaling'* in the bullet points under paragraph 18.2 *'Demand scaling using the site-specific assets approach'* and paragraphs 18.18 to 18.21A (encompassing, '*A single asset based residual revenue charging rate'* its conversion *'into a p/kVA/day import capacity based residual revenue charge'* and *'A fixed adder in p/kVA/day for the remaining 20 per cent of residual revenue'* and its conversion *'into a p/kVA/day import capacity based charge'*) to account for the fact that if approved, the TCR changes will mean that residual charges will take the form of a fixed charge (p/Final Demand Site/day) instead of two charges based on capacity (p/kVA/day).

10.10 Residual charges for EHV connected consumers are allocated according to the total net consumption volumes of all consumers at the EHV voltage level.

10.11 Residual charges are then further allocated to charging bands of which there will be four charging bands set by reference to specific boundaries (the basis of which is described within Schedule [XX], as a result of DCP 358), to which customers will be allocated to by reference to levels of agreed capacity (again, the basis of which is described within Schedule [XX], as a result of DCP 360).

10.12 The allocated proportion of the EDCM residual charges for each charging band is divided equally among all consumers in that band with all consumers in the charging band paying the same level of fixed charge. Residual charges for each Final Demand Site will be applied as a fixed charge adder (p/Final Demand Site/day) to the existing fixed charge element of EDCM tariffs.

10.13 The approach for the merging of bands and the preference order to be adopted where such instances occur has been included.

10.14 Paragraph 18.21A has been updated to state that for sites that are Non-Final Demand Sites, the residual fixed charge will be zero.

10.15 Paragraph 19.4 has been amended to include the residual fixed charge element being added to the fixed charge on sole use assets in p/day and paragraph 19.5 has been amended to remove the *'Asset based residual revenue charges in p/kVA/day'* and the '*Single fixed adder in p/kVA/day'* from the final EDCM import capacity charge for each EDCM Connectee.

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10.16 Paragraph 26.11 of the EDCMs have been amended, but only so that charges for EDCM Connectees connected to a LDNO's Distribution System are retained in such a way as to not disadvantage those customers. It is noted that this is done by retaining scaling down by 50 per cent of the 20 per cent of the residual fixed charge element with such the scaling down not applying where the residual revenue is negative.

10.17 The legal text for DCP 361 should be read in conjunction that which is provided for by DCP 358, DCP 359 and DCP 360. For ease of reference, the Working Group provide Attachment 7, which is a combined version of the legal text for all three CPs that has been colour coded to highlight which parts of the text are related to each CP.

11 Code Specific Matters

Reference Documents

11.1 The below links are to the TCR Decision re-published in December 2019, the TCR DCUSA Direction published in November 2019 and the 'Detailed Plan' also known as the Joint ESO/DNO PID published in December 2019:

- The TCR Decision: https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf
- The TCR Direction: https://www.ofgem.gov.uk/system/files/docs/2019/11/dcusa_direction_1.pdf
- The detailed plan: http://www.chargingfutures.com/media/1390/tcr-joint-eso-dno-pid-v10.pdf

11.2 The below links are to the three other DCUSA CPs that have been raised to implement the TCR Decision:

- DCP 359 'Ofgem Targeted Charging Review (TCR) implementation – customers: who should pay?'
- DCP 358 – 'Ofgem Targeted Charging Review Implementation: Determination of Banding Boundaries'
- DCP 360 – 'Ofgem Targeted Charging Review Implementation: Allocation to Bands and Interventions'

12 Recommendations

Panel's Recommendation

12.1 The Panel approved this Change Report on 15 July 2020. 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 361.

12.2 The Panel have recommended this report be issued for voting for a period of three weeks and DCUSA Parties should consider whether they wish to submit views regarding this CP. The Voting Form can be found in Attachment 2.

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13 Attachments

- Attachment 1 – DCP 361 Legal Text
- Attachment 2 – DCP 361 Voting Form
- Attachment 3 – DCP 361 Change Proposal Form
- Attachment 4 – DCP 361 Modelling Specification and Impact Assessment Documentation
- Attachment 5 – DCP 361 EDCM Working Group Impact Assessment
- Attachment 6 – DCP 361 Consultation and Collated Responses
- Attachment 7 – Colour Coded Combined Legal Text – DCP 358-359-360

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