









Part A: Generic

| DCUSA Change Proposal (DCP) | | At what stage is this document in the process? |
|--|---|--|
| <h1>DCP 379:</h1> <h2>Amend Table 1 of Schedule 15 to maintain alignment with the distribution licence</h2> <p><i>Date raised:</i> 05 November 2020</p> <p><i>Proposer Name:</i> Lee Wells</p> <p><i>Company Name:</i> Northern Powergrid</p> <p><i>Company Category:</i> DNO</p> | 01 – Change Proposal | |
| | 02 – Consultation | |
| | 03 – Change Report | |
| | 04 – Change Declaration | |
| <p>Purpose of Change Proposal:</p> <p>The intent of this change proposal is, subject to successful implementation of associated licence changes, to align Schedule 15 ('Cost Information Table') with changes to the electricity distribution licence because of COVID-19 bad debt.</p> | | |
|  | <p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Treated as a Part 2 Matter • Treated as a Standard Change • Proceed to the Change Report phase <p>The Panel will consider the proposer's recommendation and determine the appropriate route.</p> | |
|  | <p>Impacted Parties:</p> <p>DNOs, IDNOs and Suppliers.</p> | |
|  | <p>Impacted Clauses:</p> <p>Schedule 15 Table 1, Schedule 16 and Schedule 20</p> | |

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| Indicative Timeline | |  DCUSA@electralink.co.uk | | | | | | | | | | |
| <div>The Secretariat recommends the following timetable:</div> <table><tr><td>Initial Assessment Report</td><td>18 November 2020</td></tr><tr><td>Change Report Approved by Panel</td><td>16 December 2020</td></tr><tr><td>Change Report issued for Voting</td><td>18 December 2020</td></tr><tr><td>Party Voting Closes</td><td>13 January 2021</td></tr><tr><td>Change Declaration Issued to Parties</td><td>15 January 2021</td></tr></table> | | Initial Assessment Report | 18 November 2020 | Change Report Approved by Panel | 16 December 2020 | Change Report issued for Voting | 18 December 2020 | Party Voting Closes | 13 January 2021 | Change Declaration Issued to Parties | 15 January 2021 |  020 7432 3011 |
| | | Initial Assessment Report | 18 November 2020 | | | | | | | | | |
| | | Change Report Approved by Panel | 16 December 2020 | | | | | | | | | |
| | | Change Report issued for Voting | 18 December 2020 | | | | | | | | | |
| | | Party Voting Closes | 13 January 2021 | | | | | | | | | |
| Change Declaration Issued to Parties | 15 January 2021 | | | | | | | | | | | |
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1 Summary

What?

- 1.1 Table 1 of Schedule 15 requires an update to reflect the proposed changes to the Principal Formula in charge restriction condition 2B 'Calculation of Allowed Pass-Through Items' (CRC2B) of the electricity distribution licence.
- 1.2 CRC2B is expected to be amended to reflect the introduction of a new pass-through term representing bad debt costs incurred as a result of the failure of a Supplier that has participated in the Network Charge Deferral (NCD) scheme, run by the Energy Networks Association (ENA), to support Suppliers that have faced cash flow issues due to COVID-19. Ofgem has recently consulted on the proposed changes¹.

¹ <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposed-changes-special-conditions-also-known-charge-restriction-conditions-crc-electricity-distribution-licence>

Why?

- 1.3 The proposed changes to the distribution licence will result in the introduction of a new term in the calculation of Allowed Distribution Network Revenue. As a result, Table 1 of Schedule 15 would no longer align to the licence and so requires a housekeeping change.
- 1.4 The proposed changes should not be implemented if the associated changes to the distribution licence² are not approved. This follows precedent set with previous changes³.
- 1.5 As such, with this being a Part 2 Matter, it is anticipated that the DCUSA Panel would only approve this Change Proposal subject to the consistent changes in the distribution licence being approved by the Authority⁴.

How?

- 1.6 Table 1 of Schedule 15 should be updated to remain aligned with the proposed distribution licence, namely the change to the Principal Formula in CRC2B.
- 1.7 This will have a knock-on impact on Schedule 16 (the 'Common Distribution Charging Methodology' (CDCM)) and the associated model, due to the CDCM requiring DNOs to prepare a forecast of allowed revenue consistent with Table 1 of Schedule 15. This in turn, has a knock-on impact to Schedule 20 (the 'Annual Review Pack' (ARP) and its associated model.
- 1.8 Whilst this Change Proposal reflects the current proposed licence drafting, any solution implemented should of course reflect the licence changes approved by the Authority.

2 Governance

Justification for Part 1 and Part 2 Matter

- 2.1 The Change Proposal does not meet any of the criteria for a Part 1 Matter, as it simply ensures alignment between the distribution licence and the DCUSA is maintained.
- 2.2 Subject to the separate Change Proposal to correct the definition of Eligible Bad Debt⁵, this Change Proposal will only (and indirectly) impact non-DNO parties regarding the timing of changes

² The changes are subject to the ongoing statutory consultation, and, if approved, the subsequent 56 day 'standstill period' that follows

³ e.g. DCPs 332-334.

⁴ In line with the proposed timeline set out by Ofgem in the statutory consultation, a decision is expected in November 2020.

⁵ At the time of submitting this change proposal, we have also submitted a separate change proposal to correct an error in the definition of Eligible Bad Debt. This change will capture use of system bad debt incurred by Suppliers regardless of whether they participated in the NCD scheme.

to use of system charges, but only insofar as it will facilitate changes to the distribution licence that enforce that change.

- 2.3 This Change Proposal, nor the associated changes to the distribution licence: (i) do not alter the amount of principal use of system bad debt that will be recovered through use of system charges; (ii) do not alter the mechanism by which use of system bad debt is recovered (i.e. a fixed charge); and (iii) do not alter the customers from whom the debt will be recovered (i.e. metered demand customers).

Requested Next Steps

2.4 This Change Proposal should:

- Be treated as a Part 2 Matter;
- Be treated as a Standard Change; and
- Proceed to the Change Report phase.

3 Why Change?

- 3.1 The licence changes that Ofgem was consulting on (and will soon provide a decision on) would allow DNOs to republish 2021/22 charges and later republish 2022/23 charges (subject to receiving the necessary derogations). This licence change will: (i) amend 2021/22 allowed revenue, which Ofgem intends on allowing DNOs to republish; and (ii) amend 2022/23 allowed revenue in order to true-up any variances to what is assumed when changing 2021/22 charges (for the bad debt only) – as 2021/22 charges will need to be republished before the debt is finalised. To hit the timeline Ofgem set out in the consultation, it only has around 10 days to approve the licence changes after the statutory consultation closed on 9 November 2020, so this should be an official requirement soon. As per the timeline, DNOs will also be drafting the request for derogation against the notice periods in due course.
- 3.2 Following proposed changes to the electricity distribution licence, new terms will be present in the special conditions (the charge restriction conditions) of the licence which are not included in Table 1 of Schedule 15.
- 3.3 A minor update is required to Schedule 15 to include one additional row and so maintain consistency with the calculation of revenue allowances as specified in the Principal Formula in CRC2B.
- 3.4 If this Change Proposal is not made, the only sensible alternative is that, for the purposes of Table 1 of Schedule 15 (and therefore use in Schedule 16), DNOs will need to combine use of system bad debt incurred by any Supplier regardless of participation in the NCD scheme, into the existing Pass-through Eligible Bad Debt Adjustment row.
- 3.5 For the avoidance of doubt, the impact on use of system charges should be the same regardless i.e. the resulting revenue allowance needs to be treated consistently.

Part B: Code Specific Details

4 Solution and Legal Text

Legal Text Commentary

- 4.1 This Change Proposal introduces a new row to Table 1 of Schedule 15 only.
- 4.2 Draft legal text for Schedule 15 is provided as attachment 1. The draft legal text also incorporates an amendment to model version number and applicable date to the introductory paragraphs of Schedule 16. This is because it is expected that DNOs will need to use a revised version of the 2021/22 pre-release CDCM model to republish 2021/22 charges, and a revised version of the 2022/23 pre-release CDCM model that will be used to republish 2022/23 charges as well.
- 4.3 The ARP will also require an update in due course to remain aligned with the updated CDCM model should this change be approved, hence the model version number in Schedule 20 should be updated. Albeit, we would expect that the first time the ARP will likely be used is December 2021 when setting 2023/24 charges, however, the production of one for the charging year prior will mean that the amended version will be the new baseline for any further changes to be added to.
- 4.4 The Proposer notes that there are some practicality issues to overcome in terms of implementing the solution which at the same time, requires simultaneous implementation of text into Schedule 15, the creation of an updated CDCM model applicable to the 2021/22 charging year and the creation of updated versions of the CDCM and ARP models applicable to the 2022/23 charging year.
- 4.5 It should be noted that the combined allowed revenue from both the existing Pass-through 'Eligible Bad Debt Adjustment' row, and the proposed Pass-through 'COVID-19 Bad Debt Adjustment' row, should be treated in the same way as the existing Pass-through 'Eligible Bad Debt Adjustment' in the charging models.

5 Code Specific Matters

Reference Documents

- 5.1 Links to reference documents are included in footnotes throughout.

6 Relevant Objectives

- 6.1 Of the DCUSA Charging Objectives contained in the table below, we believe that this Change Proposal will better facilitate the following Charging Objectives:
 - **Charging objective one:** better facilitated by ensuring that the DCUSA remains aligned to the distribution licence and ensuring that the charging methodologies enable transparent and equitable recovery of costs which the distribution licence requires the DNO to incur.

- **Charging objective four:** better facilitated by ensuring the DCUSA remains aligned with the distribution licence and keeps pace with recent developments in the supply market, where multiple Suppliers participated in the NCD scheme, and the policy intent expressed by Ofgem that any associated use of system debt from these suppliers should be recoverable at shorter notice than other use of system bad debt.
- **Charging objective six:** better facilitated by maintaining alignment between the DCUSA and the distribution licence.

| DCUSA Charging Objectives | Identified impact |
|--|-------------------|
| <input checked="" type="checkbox"/> 1 that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence | Positive |
| <input type="checkbox"/> 2 that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences) | None |
| <input checked="" type="checkbox"/> 3 that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business | Positive |
| <input type="checkbox"/> 4 that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business | None |
| <input type="checkbox"/> 5 that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators. | None |
| <input checked="" type="checkbox"/> 6 that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration. | Positive |

7 Impacts & Other Considerations

7.1 This change will have a direct impact on DNOs only.

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

7.2 This change will not impact an existing (or known probable) SCR or any other significant industry change project.

Consideration of Wider Industry Impacts

7.3 This change has been discussed at the November 2020 Distribution Charging Methodologies Development Group (DCMDG) meeting.

Does this Change Proposal Impact Other Codes?

7.4 No other codes are impacted by this change proposal.

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

Confidentiality

7.5 Non-confidential.

8 Implementation

Proposed Implementation Date

- 8.1 Upon implementation of the proposed changes to the distribution licence, this Change Proposal should be implemented as soon as possible to reflect the latest version and allow DNOs to submit forecasts of Allowed Distribution Network Revenue (and constituent parts) in a manner consistent with the latest version of the licence.
- 8.2 DNOs will have to have republished 2021/22 charges by 20 February 2021, and therefore, propose that implementation should be by extra-special release, set for 5 Working days following the latter of either Party approval or implementation of the proposed licence changes (subject to the 56 day 'standstill' period following approval by the Authority).
- 8.3 It should be noted that as part of either the report phase or implementation phase of this Change Proposal, the Panel will need to arrange for updated models to produced and circulated to DNOs.

9 Recommendations

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