

**Part A: Generic**

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1 style="margin: 0;">DCP 380:</h1> <h2 style="margin: 0;">TCR alignment changes</h2> <p><i>Date raised:</i> 9 December 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>		<div style="background-color: #00a651; color: white; padding: 5px; margin-bottom: 5px;">01 – Change Proposal</div> <div style="color: #00a651; padding: 5px; margin-bottom: 5px;">02 – Consultation</div> <div style="color: #8e44ad; padding: 5px; margin-bottom: 5px;">03 – Change Report</div> <div style="color: #f39c12; padding: 5px; margin-bottom: 5px;">04 – Change Declaration</div>
<p><b>Purpose of Change Proposal:</b></p> <p>The intent of this Change Proposal is to ensure that relevant legal text is aligned with the intent and requirement of both the Authority’s TCR decision and subsequent Change Proposals raised to implement that decision. The scope is twofold: (i) to align the legal text with the post-DCP361 CDCM model, and therefore the TCR decision; and (ii) to ensure that the review of the charging bands is aligned with the intended timeline.</p>		
	<p><b>Governance:</b></p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> <li>Treated as a Part 2 Matter</li> <li>Treated as an Urgent Change</li> <li>Proceed to the Change Report phase</li> </ul> <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p>	
	<p><b>Impacted Parties:</b></p> <p>DNOs, IDNOs and Suppliers.</p>	
	<p><b>Impacted Clauses:</b></p> <p>Schedule 16 and Schedule 32</p>	

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Indicative Timeline			
<b>The Secretariat recommends the following timetable:</b>			
Initial Assessment Report		16 December 2020	
Change Report Approved by Panel		20 January 2021	
Change Report issued for Voting		22 January 2021	
Party Voting Closes		19 February 2021	
Change Declaration Issued to Parties		26 February 2021	

## 1 Summary

### What?

#### **Aligning the DCUSA to reflect the intent of DCP 361**

- 1.1 DCP361 'Ofgem Targeted Charging Review (TCR) Implementation – Calculation of Charges' was raised to implement certain aspects of the Authority's TCR decision, specifically the calculation of the residual fixed charge. DCP361 was approved by the Authority on 30 September 2020<sup>1</sup>.
- 1.2 DCP361 sets out the basis for calculating residual fixed charges for Non-Domestic Premises, which, as set out in Schedule 32 (except for Unmetered Supplies) is on a charging band basis<sup>2</sup>.

<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/dcp361-ofgem-targeted-charging-review-tcr-implementation-calculation-charges>

<sup>2</sup> The charging bands are sub-categories based on percentiles of customers in one of the following groups: (i) Designated EHV Properties; (ii) Designated Properties connected at HV; (iii) Designated Properties connected at LV and with a Maximum Import

- 1.3 A residual fixed charge for Non-Domestic Premises applies where it is a Final Demand Site, as defined in Schedule 32. As currently defined, a Final Demand Site can only be a Non-Domestic Premises<sup>3</sup>.
- 1.4 DCP361 also sets out the basis for calculating residual charges for Domestic Premises, which are allocated to a single charging band.
- 1.5 In effect, Unmetered Supplies also represent a single charging band, albeit the residual is recovered on a volumetric (p/kWh) basis.
- 1.6 The TCR decision requires that the residual be allocated according to net consumption volumes. Therefore, to determine the amount of CDCM (Common Distribution Charging Methodology) residual each charging band should recover – regardless of the recovery mechanism (i.e. fixed or volumetric) – the residual is allocated to the charging bands based on the relative proportion of net consumption in each charging band<sup>4</sup>.
- 1.7 Paragraph 92 of Schedule 16 sets out how this is achieved, but unfortunately it does so on the incorrect assertion that Domestic Premises are Final Demand Sites. However, as noted in paragraph 1.3, Domestic Premises cannot be a Final Demand Site based on the existing definitions.
- 1.8 Paragraph 92 does clarify that, in addition to Final Demand Sites, Unmetered Supplies consumption needs to be included.
- 1.9 Therefore, changes are needed to ensure that: (i) the residual is allocated to Domestic Premises, and (ii) provide clarity that a Final Demand Site includes Domestic Premises. Therefore, the proposed solution to this issue extends beyond the scope of DCP361, without altering the outcome.

#### **Aligning the DCUSA to reflect the intent of DCP 358**

- 1.10 DCP358 '*Ofgem Targeted Charging Review (TCR) Implementation – Determination of Banding Boundaries*' was raised to implement certain aspects of the Authority's TCR decision, specifically to determine the charging bands and future review of them. DCP358 was approved by the Authority on 30 September 2020<sup>5</sup>.
- 1.11 Together with DCP360 '*Ofgem Targeted Charging Review (TCR) Implementation – Allocation to Bands and Interventions*', and DCP359 '*Ofgem Targeted Charging Review (TCR) Implementation–*

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Capacity as the basis for their current Use of System Charge; and (iv) Designated Properties connected at LV and without a Maximum Import Capacity as the basis for their current Use of System Charge.

<sup>3</sup> The definition of Final Demand Site refers to Single Site, which "means one of more Non-Domestic Premises that are connected to the distribution system pursuant to a single Connection Agreement (whether a Bespoke Connection Agreement or one created via the National Terms of Connection)".

<sup>4</sup> For example, assuming the total net consumption of the domestic charging band represented 50% of all relevant CDCM consumption, then the domestic charging band should recover 50% of the CDCM residual.

<sup>5</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/09/dcp358-360\\_d.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/09/dcp358-360_d.pdf)

*Customers: Who Should Pay?*, DCP358 introduced Schedule 32 ('Residual Charging Bands') to the DCUSA.

- 1.12 The charging bands that will be used up to and including 31 March 2026 have been determined<sup>6</sup>, and paragraph 3 of Schedule 32 sets out how they will be reviewed for future price control periods.
- 1.13 Paragraph 3.1 of Schedule 32 prescribes when the data will be collated and provided to the Banding Agent, being "on or before 31 March in the Regulatory Year (t-2) two years prior to the commencement of the onshore electricity transmission owner price control period (t)".
- 1.14 As such, the data for the charging bands to be used in the period commencing 1 April 2026 (Regulatory Year 2026/27, i.e. the first year of the RIIO-ET3 period), would be sent to the Banding Agent no later than 31 March 2025 (Regulatory Year 2024/25). However, DNOs will publish 2026/27 Use of System Charges in December 2024, and therefore would need to know the charging bands in advance of doing so.
- 1.15 Whilst paragraph 3.1 specifies "on or before 31 March", and therefore could be considered appropriate, paragraphs 3.1(a) and 3.1(b) set out requirements to use data (to determine the charging bands) relative to periods after December in that Regulatory Year; therefore it is incompatible.
- 1.16 In its DCP 358 decision, the Authority noted that a change should be raised to amend the wording in paragraph 3.1 of Schedule 32 from (t-2) to (t-3).

## Why?

### **Aligning the DCUSA to reflect the intent of DCP 361**

- 1.17 The CDCM model produced following approval of DCP361 implements the TCR decision as it is intended, therefore correctly allocates the residual to the domestic charging band and the non-domestic charging bands (including Unmetered Supplies).
- 1.18 A change to the legal text is required to align it with the CDCM model that is carrying out the requirement, and where the CDCM model is aligned to the requirement set out in the TCR decision.
- 1.19 Unless it is changed, the legal text will not satisfy the directed requirement on DNOs to implement the TCR decision, and nor will the CDCM model be correctly discharging Schedule 16 as it is written – and where as it is written, the domestic charging band should be allocated zero residual.

### **Aligning the DCUSA to reflect the intent of DCP 358**

- 1.20 As noted in paragraph 1.16, the Authority requested that this change is made, which is needed to meet the intention of the process detailed in DCP358.

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<sup>6</sup> <https://www.nationalgrideso.com/document/179706/download>

- 1.21 If it is not made, when setting Use of System Charges for the first Regulatory Year in any new onshore electricity transmission owner price control period, DNOs will not know the final charging bands that will be effective during that period.

## How?

### **Aligning the DCUSA to reflect the intent of DCP 361**

- 1.22 Although the failure to allocate the residual to the domestic charging band can be remedied by changing Schedule 16 alone, doing so in isolation would retain the limitation that a Final Demand Site can only be a Non-Domestic Premises.
- 1.23 Amending the definition of Final Demand Site to include Domestic Premises, would remove the limitation, and would not otherwise impact Schedule 32 – as it is clear as to which type of Final Demand Site Schedule 32 otherwise applies i.e. paragraph 1.4 of that schedule.
- 1.24 This approach would also have cross-code benefits such as for Balancing and Settlement Code (BSC) modification P402 *‘Enabling reform of residual network charging as directed by the Targeted Charging Review’*. The benefit being the ability to reference a single defined term which captures both chargeable Domestic Premises and Non-Domestic Premises, for a solution which provides the information needed to facilitate TNUoS (Transmission Network Use of System) billing post-TCR for Domestic Premises and Non-Domestic Premises.
- 1.25 It is implicit that all Domestic Premises are currently considered to be Final Demand Sites (i.e. received a residual fixed charge), where DCP361 did not introduce a zero-residual tariff unlike the non-domestic charging bands.
- 1.26 Paragraph 92A of Schedule 16 makes it clear that the Domestic Aggregated (Related MPAN) tariff does not attract a residual charge, however, the consumption associated with Related MPAN tariffs is included when allocating the residual to charging bands as set out in paragraph 92(a), because the ‘primary MPAN’ is considered to be a Final Demand Site (i.e. it should receive a residual fixed charge).
- 1.27 Therefore, there is no need to amend the definition of Single Site, as unlike for Non-Domestic Premises, Domestic Premises are a Final Demand Site in accordance with the intention of the four TCR Change Proposals (i.e. DCP358-361) and therefore cannot be a Non-Final Demand Site.
- 1.28 In addition to amending the definition of Final Demand Site to include Domestic Premises, changes are required to paragraph 92(a) of Schedule 16 to ensure that Final Demand Sites that are not covered by Schedule 32 (i.e., Domestic Premises) are accounted for, otherwise the consumption associated with Domestic Premises would still not be included for the purposes of allocating the residual.

### **Aligning the DCUSA to reflect the intent of DCP 358**

- 1.29 Paragraph 3.1 of Schedule 32 should refer to the “Regulatory Year (t-3) three years prior to the commencement of the onshore electricity transmission owner price control period (t)”, as opposed to “Regulatory Year (t-2) two year prior...” as it currently specifies.

## 2 Governance

### Justification for a Part 2 Matter

- 2.1 This Change Proposal will not impact Use of System Charges in any way that has not already been implemented because of the TCR Change Proposals (i.e. DCP358-261).
- 2.2 It will simply correct errors in the drafting of the legal text, which will bring the drafting in line with the CDCM model produced because of the approval of the TCR Change Proposals.
- 2.3 This Change Proposal should be treated as an Urgent Change because:
  - in accordance with Clause 10.7.1, it will have a significant adverse commercial impact on Parties, where currently the legal text would not allocate any residual to Domestic Premises; and
  - in accordance with Clause 10.7.3, DNOs would otherwise be in breach of the Relevant Instrument (i.e. the Distribution Licence in this case), as the legal text does not deliver the TCR decision or therefore the directions issued to DNOs by the Authority.

### Requested Next Steps

- 2.4 This Change Proposal should:
  - Be treated as a Part 2 Matter;
  - Be treated as an Urgent Change; and
  - Proceed to the Change Report phase.

## 3 Why Change?

### Aligning the DCUSA to reflect the intent of DCP361

- 3.1 Unless the relevant legal text is changed, the changes to the DCUSA to implement the TCR in line with the requirements directed by the Authority on DNOs, will: (i) not comply with that direction; and (ii) will not align to the (correct) basis on which the CDCM model has been produced to calculate post-TCR Use of System Charges.

### Aligning the DCUSA to reflect the intent of DCP 358

- 3.2 As noted in paragraph 1.16, the Authority requested that this change is made, which is needed to meet the intention of the process detailed in DCP358.
- 3.3 If it is not made, when setting Use of System Charges for the first Regulatory Year in any new onshore electricity transmission owner price control period, DNOs will not know the final charging bands that will be effective during that period.

## Part B: Code Specific Details

### 4 Solution and Legal Text

#### Legal Text Commentary

##### Aligning the DCUSA to reflect the intent of DCP 361

- 4.1 Paragraph 92(a) of Schedule 16 should be amended as follows to ensure that the residual is allocated to the domestic charging band, and where the proposed reference to that band has been used consistently with that in paragraph 92A (in relation to the residual charge allocated to the Domestic Aggregated tariff):

*“apportioning the total value of the residual surplus or residual shortfall to be returned or recovered respectively, via a fixed charge to (i) the Domestic LV-Connected Charging Band and (ii) the specific charging bands set out in paragraph 2.4 of Schedule 32 on the basis of (i) the aggregated consumption of all Final Demand Sites in that band (including the consumption of any Related MPANs where applicable), relative to (ii) the combined total net consumption for all Final Demand Sites (including the consumption of any Related MPANs where applicable) plus the total consumption for unmetered customers.”*

- 4.2 The definition of Final Demand Site in Schedule 32 should be amended as follows to facilitate this:

*“means (i) Domestic Premises or (ii) a Single Site at which there is Final Demand, as determined in accordance with Paragraphs 1.10 and 5.”*

##### Aligning the DCUSA to reflect the intent of DCP 358

- 4.3 Paragraph 3.1 of Schedule 32 should be amended as follows to ensure that charging bands are reviewed in advance of DNOs publishing Use of System Charges for the first Regulatory Year in which they will be used:

*“On or before 31 March in the Regulatory Year (~~t-32~~) ~~threetwo~~ years prior to the commencement of the onshore electricity transmission owner price control period (t), each DNO/IDNO Party shall provide to the Banding Agent the following information (and shall take reasonable steps to ensure that such information is accurate)”*

### 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 DNOs are compliant with licence requirements in relation to a Significant Code Review (SCR), by properly implementing the specific requirements set out in the Authority's TCR direction.
- **Charging objective two:** better facilitated by ensuring that the residual is allocated to Domestic Premises as well as Non-Domestic Premises.
- **Charging objective six:** better facilitated by aligning the legal text with the CDCM model produced because of the Authority approving the TCR Change Proposals (DCP358-361).

DCUSA Charging Objectives	Identified impact
<input checked="" type="checkbox"/> 1 that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	Positive
<input checked="" type="checkbox"/> 2 that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	None
<input type="checkbox"/> 3 that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	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 Proposal will (in theory) impact DNOs, IDNOs and Suppliers, but it should be noted that it will not change the way that Use of System Charges are calculated because the CDCM model is already calculating the charges as if this Change Proposal had already been implemented.

### 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 December 2020 Distribution Charging Methodologies Development Group (DCMDG) meeting.

### Does this Change Proposal Impact Other Codes?

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

7.4 This Change Proposal can benefit the BSC, as noted in paragraph 1.24, by making efficient use of defined terms.

7.5 This Change Proposal will impact the CUSC (Connection and Use of System Code) as it will no longer be required to accommodate the fact that, currently, a Final Demand Site excludes Domestic Premises.

### Confidentiality

7.6 Non-confidential.

## 8 Implementation

### Proposed Implementation Date

- 8.1 As the intent of this Change Proposal is to correct errors in amendments to Schedule 16 that will not be implemented until 1 April 2022 (due to the approval of DCP361), the changes to Schedule 16 should be implemented on 1 April 2022 as well.
- 8.2 However, this Change Proposal also intends to change defined terms and other text in Schedule 32, which were implemented immediately following approval of the TCR Change Proposals (DCP358-261) on 30 September 2020.
- 8.3 As such, the amendments to Schedule 32 should be implemented at the earliest opportunity as an extra-ordinary DCUSA release following the approval of this Change Proposal.

## 9 Recommendations