DCUSA

DCUSA Change Declaration	At what stage is this document in the process?
# DCP 379: Amend Table 1 of Schedule 15 to maintain alignment with the distribution licence ***Date raised:*** 05 November 2020 ***Proposer Name:*** Lee Wells ***Company Name:*** Northern Powergrid ***Company Category:*** DNO	01 – Change Proposal 02 – Consultation 03 – Change Report **04 – Change Declaration**

Purpose of Change Proposal:

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.

✓	DCUSA Parties have voted on DCUSA Change Proposal (DCP) 379 with the outcome being a decision on whether or not the Change Proposal (CP) is to be accepted and the proposed variation to the DCUSA made accordingly. The DCUSA Parties consolidated votes are provided as Attachment 3.
✓	**For DCP 379, DCUSA Parties have voted to:** • **Accept the proposed variation (solution); and** • **Accept the implementation date.**
!	**Impacted Parties:** DNOs, IDNOs and Suppliers.
!	**Impacted Clauses:** Table 1 of Schedule 15 and the introductory paragraphs of Schedules 16, 17 and 18.

© 2016 all rights reserved

DCUSA

Contents

1 Summary 3
2 Governance 4
3 Why Change? 4
4 Code Specific Matters 5
5 Solution 5
6 Relevant Objectives 6
7 Impacts & Other Considerations 7
8 Implementation 8
9 Legal Text 9
10 Voting 9
11 Recommendations 10
12 Attachments 10

Timeline

The timetable for the progression of the CP is as follows:

Change Proposal timetable

Activity	Date
Initial Assessment Report	18 November 2020
Change Report Approved by Panel	20 January 2021
Change Report issued for Voting	29 January 2021
Party Voting Closes	12 February 2021
Change Declaration Issued to Parties	15 February 2021
Implementation	19 February 2021

Any questions?

Contact:
Code Administrator

DCUSA@electralink.co.uk

020 7432 3011

Proposer:
Lee Wells

lee.wells@northernpowergrid.com

07885 712226

© 2016 all rights reserved

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 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 recently consulted on the proposed changes[1].

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 Upon raising this CP, the Proposer noted that the change should not be implemented if the associated changes to the distribution licence[2] are not approved, however, since then, Ofgem have confirmed that the changes will be made and so this CP is able to progress.

How?

1.5 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.

1.6 This will have a knock-on impact on Schedule 16 (the 'Common Distribution Charging Methodology' (CDCM)) and Schedules 17 and 18 (the 'Extra High Voltage (EHV) Distribution Charging Methodologies (EDCMs) and the associated models. This is due to the CDCM requiring DNOs to prepare a forecast of allowed revenue consistent with Table 1 of Schedule 15, and this input is carried forward to the EDCM models for the purposes of the calculation of EHV boundary LDNO tariffs. Due to the amendment to the CDCM model, an impact to Schedule 20 (the 'Annual Review Pack' (ARP) and its associated model is also seen.

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

[2] The changes were subject to a statutory consultation, and were approved, however, there is subsequent 56 day 'standstill period' that follows.

© 2016 all rights reserved

2 Governance

Justification for treatment as a 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 Debt[3], this Change Proposal will only (and indirectly) impact non-DNO parties regarding the timing of changes 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).

Next Steps

2.4 DCUSA Parties voted to accept DCP 379 and as such, it will be implemented in line with Section 8 below.

3 Why Change?

Background of DCP 379

3.1 The licence changes that Ofgem consulted on (and recently decided on) will 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. Any DNOs who are seeking to recover any bad debt will need to request for derogation against the 15 months' notice period in due course.

[3] 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.

 © 2016 all rights reserved

3.2 Following Ofgem's decision to change 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 was not to be made, the only sensible alternative would have been that, for the purposes of Table 1 of Schedule 15 (and therefore use in Schedule 16), DNOs would have needed 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 was expected to be the same regardless i.e. the resulting revenue allowance needs to be treated consistently.

Part B: Code Specific Details

4 Code Specific Matters

Reference Documents

4.1 Links to reference documents are included in footnotes throughout.

5 Solution

5.1 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 Schedules 16, 17 and 18. This is because it is expected that DNOs who wish to re-publish charges will need to use a revised version of the 2021/22 pre-release CDCM and EDCM models to republish 2021/22 charges, and a revised version of the 2022/23 pre-release CDCM and EDCM models that will be used to republish 2022/23 charges as well.

5.2 Should this change be approved, the Annual Review Pack (ARP) will also require an update in due course to remain aligned with the updated CDCM model, however it is expected that the first time the ARP will likely be used is December 2021 when setting 2023/24 charges. Therefore, 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.

5.3 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.

© 2016 all rights reserved

6 Relevant Objectives

Assessment Against the DCUSA Objectives

6.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. There are five General Objectives and six Charging Objectives. The full list of objectives is documented in the DCUSA.

6.2 The Proposer considers that the following DCUSA Charging Objectives are better facilitated by DCP 379.

	DCUSA Charging Objectives	Identified impact
✔	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**
–	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
–	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 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	**Positive**
–	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.	**Positive**

6.3 Of the DCUSA Charging Objectives contained in the table above, we believe that this Change Proposal will better faciliate the following Charging Objectives:

© 2016 all rights reserved

- **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.

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.

Impacts on the Charging Methodology Models

7.4 For the 2021/22 charging year, the appointed modelling consultant was asked to create a parallel version of the CDCM model version 6 provided on 30/01/2020 which includes a new row in the 'General Inputs' tab that contains the new licence term which DCP 379 adds to Table 1 of Schedule 15, being 'Pass-through COVID-19 Bad Debt Adjustment (B9) (CBD)'. It was also requested that the modelling consultant ensure that the data from this new row is carried across to the 'Fixed charge adder' worksheet, with a resulting requirement on the calculations below it. For the EDCMs, the appointed modelling consultant was asked to create a parallel version of the EDCM (LRIC) model version 7 and EDCM (FCP) model version 7 as were issued on 30/01/2020 to include the same new input as per the CDCM and make any required adjustments to for this in the calculation of EHV boundary LDNO tariffs.

7.5 For the 2022/23 charging year, the appointed modelling consultant was asked to create a parallel version of the CDCM model version 7 provided on 06/11/2020 which includes a new row in the 'General Inputs' tab that contains the new licence term which DCP 379 adds to Table 1 of Schedule 15, being 'Pass-through COVID-19 Bad Debt Adjustment'. It was also requested that the modelling consultant ensure that the data from this new row is carried across to the 'SoLR & Bad Debt adders' worksheet, with a resulting requirement on the calculations below it. For the EDCMs, the appointed

 © 2016 all rights reserved

modelling consultant was asked to create a parallel version of the EDCM (LRIC) model version 9 and EDCM (FCP) model version 9 as were re-issued on 11/12/2020 to include the same new input as per the CDCM and make any required adjustments to the calculation of EHV boundary LDNO tariffs.

7.6 For the ARP model, the appointed modelling consultant was asked to create an updated ARP model version 7 provided on 06/11/2020 so that it remains aligned with the updated CDCM model. However, unlike the CDCM and EDCMs, this updated ARP is not required to act as a parallel version of the existing pre-release version but is intended to be the new baseline for any further changes to be added to prior to the production of final pre-release version ready for use in December 2021.

7.7 All updated models are contained in Attachment 4 to this Change Declaration.

Impacts on Other Codes

BSC……..	☐	MRA……	☐
CUSC……	☐	SEC……	☐
Grid Code…….	☐	Other…….	☐
Distrbution Code..	☐	None…….	☒

7.8 No other codes are impacted by this change proposal.

Consumer Impacts

7.9 This change does not impact consumers.

Environmental Impacts

7.10 In accordance with DCUSA Clause 11.14.6, the Proposer assessed whether there would be a material impact on greenhouse gas emissions if DCP 379 were implemented. The Proposer did not identify any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

8 Implementation

8.1 This Change Proposal should be implemented as soon as possible to 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 19 February 2021, which is four working days following Party approval.

© 2016 all rights reserved

9 Legal Text

9.1 The legal text for DCP 379 was recommended by the Proposer and reviewed by the DCUSA legal advisor and is provided as Attachment 1.

Text Commentary

9.2 As noted previously, the amendments to the legal text for Schedule 15 is to include a new row for the new licence term, being 'Pass-through COVID-19 Bad Debt Adjustment'.

9.3 Due to the knock-on impacts that updating Schedule 15 has on the models, there was also a need to make some updates to the introductory paragraphs of Schedule 16, 17 and 18. Specifically, so as to enable use of the updated models by those DNOs who need to re-publish their charges for the 2021/22 charging year as well as for the subsequent charging year. To account for the fact that the models already exist for those charging years, and that not all DNOs will be needing or wanting to republish charges, the text needed some optionality as to which version of the model is used and when. To achieve this, a similar approach to that of DCP 332 was used, meaning that the text now sets out the multiple model versions applicable to each of the charging years, with their use depending on whether Ofgem has given notice that the 15-month rule does not apply.

9.4 It should be noted that the implementation of this change, will over-ride the amendments to the same introductory paragraphs of Schedule 16, 17 and 18 as would have been implemented on 01 April 2021 (by DCP 341 *'Removal of residual charging for storage facilities in the CDCM'* and DCP 342 *'Removal of residual charging for storage facilities in the EDCM'*) and 01 April 2022 (by DCP 361 *'Ofgem Targeted Charging Review Implementation: Calculation of Charges'*).

10 Voting

10.1 The 379 Change Report was issued to DCUSA Parties for Voting on 29 January 2021.

Part 2 Matter: Authority Decision <u>is not</u> Required

DCP 379 Proposed Variation (Solution) Decision

10.2 For the majority of the Party Categories that were eligible to vote:

- the number of groups in each Party Category which voted to accept the proposed variation was more than 65% of the total number of Groups in that Party Category which voted; and
- the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the proposed variation was more than 65%

10.3 DCUSA Parties have voted to **accept** the proposed variation (solution) of DCP 379.

© 2016 all rights reserved

DCP 379 Implementation Date Decision

10.4 For the majority of the Party Categories that were eligible to vote:

- the number of groups in each Party Category which voted to accept the implementation date was more than 65% of the total number of groups in that Party Category which voted; and
- the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the implementation date was more than 65%.

10.5 DCUSA Parties have voted to **accept** the implementation date of DCP 379.

The table below sets out the outcome of the votes that were received in respect of the DCP 379 Change Report that was issued on 29 January 2021for a period of 10 working days.

DCP 379	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	CVA REGISTRANT	GAS SUPPLIER
CHANGE SOLUTION	Accept	None Received	None Received	Not Eligible	Not Eligible
IMPLEMENTATION DATE	Accept	None Received	None Received	Not Eligible	Not Eligible

11 Recommendations

DCUSA Parties

11.1 DCUSA Parties have voted on DCP 379, with the outcome being a decision to accept the Change Proposal and thus the proposed variation to the DCUSA will be made accordingly.

12 Attachments

- Attachment 1 – DCP 379 Legal Text
- Attachment 2 – DCP 379 Change Proposal Form
- Attachment 3 – DCP 379 Consolidated Party Votes
- Attachment 4 – Updated Models

© 2016 all rights reserved