Part A: Generic

DCUSA Change Proposal (DCP)	At what stage is this document in the process?
# DCP 395: ## Allocation of Smart Meter Communication Licence costs within LDNO Tariffs *Diandra Orodan* *The Electricity Network Company* *IDNO* *05 October 2021*	**01 – Change Proposal** 02 – Consultation 03 – Change Report 04 – Change Declaration

Purpose of Change Proposal:

The intent of this Change Proposal is to increase the cost reflectivity of LDNO tariffs by appropriately allocating costs associated with the smart meter communication licence to LDNO tariffs.

	Governance: The Proposer recommends that this Change Proposal should be: • Part 1 Matter • Treated as a Standard • Proceed to Working Group The Panel will consider the Proposer's recommendation and determine the appropriate route.
	Impacted Parties: DNOs, IDNOs
	Impacted Clauses: Schedule 29 new clauses

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Contents

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

Indicative Timeline

The Secretariat recommends the following timetable:	
Initial Assessment Report	20 October 2021
Consultation Issued to Industry Participants	December 2021
Change Report Approved by Panel	February 2022
Change Report issued for Voting	February 2022
Party Voting Closes	March 2022
Change Declaration Issued to Parties	March 2022
Change Declaration Issued to Authority	March 2022
Authority Decision	April 2022

Any questions?

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Summary

What

This Change Proposal seeks to improve the cost reflectivity of the Price Control Disaggregation Model (PCDM) by allocating all of the costs incurred through smart meter communication licence fees (DCC Charges) to the LDNO providing the last mile of network, rather than smearing such allocation across all network tiers through the use of cost drivers which do not consider the smart meter communication licence fees in their derivation.

Why

Currently, Smart Meter Communication Licence Fees (DCC Charges) are calculated and charged to distributors on a £ per MPAN basis in accordance with the Section K of the Smart Energy Code (SEC). The recovery of DCC charges is not presently allocated by either the CDCM or the PCDM as a separate specific cost item. In the CDCM the revenue to be recovered in respect of such charges is included as part of the target revenue to be recovered by the CDCM. Therefore, DNOs recover the total costs associated with DCC Charges in respect of customers connected directly to their network.

However, the same is not true for determining the charges to be applied to LDNOs. In the PCDM, DCC Charges are not identified as a separate Opex cost item and are therefore not considered in the calculation of the Opex cost driver. This means that in calculating charges to downstream LDNOs, only a proportion of the revenue required to cover the DCC charge is allocated – even though the DNO avoids it entirely.

This discount factor calculated by the PCDM should enable the downstream LDNO to recover the costs associated with DCC charges in full.

How

The Proposer believes that several options may exist for delivering the intent of this change. Two of these options are shown below. Each of the options would utilise the forecast costs for smart meter licence fees, which are provided in accordance with Table 1 of Schedule 15.

1. One option would be to add the costs of the smart meter communication licence fee into the calculation of the allocation driver applied to operating costs within Schedule 29. The total cost would be directly allocated to the LV service network tier (or in accordance with customer numbers at each voltage) as it is the volume of customers that directly drive the level of costs. The inclusion of the smart meter licence fees would be in additional to the costs already considered in the determination with the cost driver.
2. The second option would be to include the smart meter licence fees in the additional revenue to be shared under paragraph 23 of the Schedule 29. As with option 1, this would require the revenue to be directly allocated to the LV service network tier (or a separate driver to be established based on customer numbers).

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1 Governance

Justification for Part 1 and Part 2 Matter

Requested Next Steps

This Change Proposal should:

- Be treated as a Part 1 Matter
- Be treated as a Standard
- Proceed to Change Report/Working Group

The Proposer believes that this Change Proposal should be treated as a Part 1 matter as it is likely to impact LDNO tariffs and, therefore, margins available to IDNO parties. Margins available to IDNOs must consider competition law and, therefore, the Proposer believes that this Change Proposal is likely to have an impact on the competition in distribution of electricity.

The Proposer does not believe that this Change Proposal meets the criteria to be considered urgent and believes that the different solutions available mean that this Change Proposal would require a working group to determine the solution.

2 Why Change?

Smart Meter Communication Licence fees are not considered in the costs which are used to determine the cost drivers within the PCDM as the cost data is taken from a period of time when Smart Meter Communication Licence Fees did not exist. These fees are, however, payable by all distributors on an equal basis (i.e. DNO and IDNO parties pay the same cost per meter point in line with the DCC Charging Methodology). These costs have gradually risen from £0.29 per metering point per annum in the 15/16 regulatory year to around £1.26 per metering point per annum proposed as indicative for 21/22 regulatory year.

These costs are payable based on the metering point count (with a subtle difference between domestic and commercial metering points where all domestic metering points attract the charge, whereas only commercial metering points with a DCC enrolled smart meter attract the charge)

As the Opex cost allocation driver does not take into account the DCC Licence Fee, the costs associated with the DCC Licence Fee are effectively smeared across all Network Levels. The resultant LDNO tariffs are, therefore, not reflective of the costs incurred by an LDNO (nor are they reflected of the costs that would be incurred if the DNO operated the notional downstream business).

This Change Proposal seeks to ensure that the LDNO tariffs better reflect the costs that are fully avoided by the DNO when customers are connected to their network via another Licenced Distribution Network Operator and that such fully avoided costs are allocated to the downstream LDNO. Addressing this defect will result in a methodology that better reflects the mechanism by which the costs are incurred, which will have a positive impact on DCUSA Charging Objective 2 and DCUSA Charging Objective 3.

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Part B: Code Specific Details

3 Solution and Legal Text

Legal Text

Please find attached the file “Attachment 1 - Option 1 Legal Text” containing the Proposed Legal Text Changes, in line with Option 1, to Schedule 29 - CALCULATION OF DISCOUNT PERCENTAGES FOR THE PURPOSE OF DETERMINING CERTAIN LDNO USE OF SYSTEM CHARGES UNDER SCHEDULES 16, 17 AND 18.

Additionally, please find attached the file “Attachment 2 - Option 2 Legal Text”, which includes the Proposed Legal Text Changes to the same Schedule 29, under Option 2.

Text Commentary

The approach suggested in Option 1 listed above is to include the Smart Meter Communication Licence Fee when calculating the allocation driver for Opex and directly allocate it 100% to the LV Service. This is achieved by inserting two new paragraphs, 4(g) and 11B into Schedule 29.

Similar to Option 1, the approach suggested in Option 2 proposed above is to incorporate the Smart Meter Communication Licence Fee in the additional revenue to be shared and directly allocate it 100% to the LV Service. This is achieved by inserting two new paragraphs, 4(g) and 23A into Schedule 29.

4 Code Specific Matters

Reference Documents

None provided.

5 Relevant Objectives

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	None
☒ 2 that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	Positive
☒ 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

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☐ 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
☐ 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
Please explain how this change will better facilitate the relevant DCUSA Charging Objectives and concisely explain the rationale	
DCUSA General Objectives	**Identified impact**
☐ 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	None
☐ 2 The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity	None
☐3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	None
☐ 4 The promotion of efficiency in the implementation and administration of the DCUSA	None
☐ 5 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 Impacts & Other Considerations

Please concisely set out in detail any potential cross-code, consumer or environmental impacts and attach or reference any other, related work.

Provide detail on:

i. Who (i.e. which industry roles) is impacted;

ii. Which processes are impacted; and

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iii. Systems impacted

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

No.

Does this Change Proposal Impact Other Codes?

BSC	☐
CUSC	☐
Grid Code	☐
MRA	☐
SEC	☐
Other	☐
None	☒

Consideration of Wider Industry Impacts

No.

Confidentiality

There are no parts of this DCP that are confidential to any party.

7 Implementation

The Proposer believes that this change should be implemented at the earliest opportunity after its approval subject to notice periods for publication of tariffs

Proposed Implementation Date

01 April 2024

8 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.

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