
















DCUSA Consultation		At what stage is this document in the process?
<h2>DCP 395</h2> <h3>DCP Title: Allocation of Smart Meter Communication Licence costs within LDNO Tariffs</h3> <p>05 October 2021</p> <p>Standard</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
Purpose of Change Proposal: DCP 395 seeks to increase the cost reflectivity of LDNO tariffs by appropriately allocating costs associated with the smart meter communication licence to LDNO tariffs.		
	This document is a Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP Title: Allocation of Smart Meter Communication Licence costs within LDNO Tariffs	
	The Working Group recommends that this Change Proposal should proceed to Consultation	
	Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 1 to dcusa@electralink.co.uk by DATE	
	The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the Change Proposal (CP).	
	Impacted Parties: DNOs and IDNOs	
	Impacted Clauses: Schedule 29 new clauses	

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2	Governance	4	 George.dawson@electralink.co.uk
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8	Legal Text	11	 thomas.cadge@bu-uk.co.uk
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10	Attachments	12	Other: Insert name
Timetable		 email address.	
The timetable for the progression of the CP is as follows:		 telephone	
Change Proposal timetable		Other: Insert name	
Activity	Date	 email address.	
Initial Assessment Report Approved by Panel	20 October 2021	Other: Insert name	
Consultation issued to Parties	dd month year	 email address.	
Change Report issued to Panel	dd month year	 telephone	
Change Report issued for Voting	dd month year		
Party Voting Ends	dd month year		
Change Declaration Issued to Parties	dd month year		
[Change Declaration issued to Authority]	dd month year		
[Authority Decision]	dd month year		

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1 Summary

What?

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.
- 1.2 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?

- 1.3 DCP 395 has been raised by BU-UK and seeks to recover all of the Smart Meter Communication Licence Fees.
- 1.4 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.
- 1.5 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?

- 1.6 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 addition to the costs already considered in the determination with the cost driver.

2 Governance

Justification for Part 1

- 2.1 DCP 395 is classified as a Part 1 matter and therefore will go to the Authority for determination after the voting process has completed.
- 2.2 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 and a such meets the criteria of Paragraph 9.4.2 (B) of DCUSA.

Requested Next Steps

- 2.3 Following a review of the Consultation responses, the Working Group will work to agree the detail of the solution for DCP 395.

3 Why Change?

Background of DCP 395

- 3.1 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 metering point in line with the DCC Charging Methodology). These costs have gradually risen from £0.29 per metering point per annum in the 2015/16 regulatory year to around £1.26 per metering point per annum proposed as indicative for 2021/22 regulatory year.
- 3.2 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).
- 3.3 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).

3.4 This Change Proposal (attachment 2) 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.

3.5 The Proposer suggested two options to solve the issue identified.

Option 1 - allocation driver applied to operating costs

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 addition to the costs already considered in the determination with the cost driver.

Option 2 – additional revenue to be shared

Include the smart meter communication 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).

Question 1 - Do you understand the intent of the CP?

Question 2 – Are you supportive of the principles of the CP?

4 Working Group Assessment

DCP 395 Working Group Assessment

4.1 The DCUSA Panel established a Working Group to assess DCP 395. This Working Group consists of DNO, IDNO and Ofgem representatives. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

Commented [JL3]: Do we have an Ofgem rep on this WG

DCP 395 Solution

4.2 The Working Group discussed both options and produced the pros and cons of each approach.

Option 1 Allocation Driver calculation	Option 1 Allocation Driver calculation	Option 2 – Additional	Option 2 – Additional revenue to be shared
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Pros	Cons	revenue to be shared Pros	Cons
Same approach to how the Ofgem licence fee is dealt with in the PCDM			
Retains the allocation driver approach			Moves away from a cost allocation driver approach
Easy to implement		Easy to implement	
no modelling change to the CDCM		No modelling change to the CDCM	
	Introduces a new cost item to the PCDM		Introduces a new cost item to the PCDM
	communication Licence fee was not a cost in 2007-08 when the costs were used to create the driver so the use of such figures may be disproportionate.		communication Licence fee was not a cost in 2007-08 when the costs were used to create the driver so the use of such figures may be disproportionate.
Likely to be more accurate			Not as accurate
Follows the principle of the PCDM			Moving away from the principle of the PCDM
This option is more cost reflective than option 2			Less cost reflective than option 1



- 4.3 The Working Group concluded that the preferred approach was to progress with Option 1 because it follows the same principles of the PCDM, the same approach adopted for the Licence fee in DCP306¹ (Treatment of Ofgem Licence Fees within the PCDM) and was considered to be more cost reflective.

Question 3 – do you agree that Option 1 is the correct approach? Please provide your rationale.

- 4.4 The initial proposal suggested that the Smart Meter Communication Licence Fees could be 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.
- 4.5 The allocation was also considered during the development of DCP306, Parties supported the allocation of the licence fee at each voltage level from a cost reflectivity perspective. To develop this further, they requested from the DNO community the number of customers at each voltage level. When this was analysed, there were 99.8% of customers forecast to be connected at the LV network level. The Working Group concluded that from a pragmatic point of view it was sensible to allocate the licence fee at the LV network level rather than at each voltage level. This would reduce cost reflectivity (likely to be immaterial) but improve simplicity.
- 4.6 The Working Group requested the latest figures on LV network customers to see if there had been a material change since the numbers used for DCP306 were in 2018. The figures provided by the DNOs' Nominated Calculation Agent for the LV network was [REDACTED]
- 4.7 Based on these figures, the Working Group concluded that [REDACTED]

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Commented [JL5]: Agree once 4.6 completed.

Question 4 – is the Allocation to LV level the correct approach? Please provide your rationale.

- 4.8 The Working Group also considered whether the Smart Meter Communication Licence Fees should use the current value, or one based on 2007-08 values so that parties would not have to pay overly inflated prices.
- 4.9 During the development of DCP306 this was also discussed. They suggested that the costs described in table 2.6 of the 2007-08 Regulatory Reporting Pack (RRP) as "Ofgem licence fee" be used. The reasoning for this is that it matches the rest of the data source being used within the PCDM. A counter argument was that it may be more cost reflective to use the latest licence fee costs rather than the ones that are ten years old. The Working Group were of the view that for consistency the 2007-08 RRP should be used as it aligns with how the rest of the operational costs have been allocated within the PCDM. Industry Parties agreed with this approach.

¹ [DCP306 – treatment of Ofgem Licence fee within the PCDM](#)



- 4.10 However, the Smart Meter Communication Licence Fees came into existence post 2007-08 so no value exists in the RRP. Even so, the principle to retain the same cost base against all elements in calculating the operating expenditure was agreed by the Working group so the Smart Meter Communication Licence Fees will be expressed in 2007-08 values.

Question 5 – is deflating values to 2007-08 levels the correct approach? Please provide your rationale.

5 Relevant Objectives

Assessment Against the DCUSA Objectives

- 5.1 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 CP form provided as Attachment 2.
- 5.2 The Proposer considers that the following DCUSA Objectives are better facilitated by DCP 395.

General Change Proposals should be assessed on DCUSA General Objectives.

DCUSA General Objectives	Identified impact
<input type="checkbox"/> 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	None
<input type="checkbox"/> 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
<input type="checkbox"/> 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	None
<input type="checkbox"/> 4 The promotion of efficiency in the implementation and administration of the DCUSA	None
<input type="checkbox"/> 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

Charging Methodology Change Proposals should only be assessed against the DCUSA Charging Methodology Objectives

DCUSA Charging Objectives	Identified impact
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<input 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	None
<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)	Positive
<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 type="checkbox"/> 6 that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	None

5.3 The Proposer is of the view that Charging Objective 2 and 3 are better facilitated by DCP 395 because addressing this defect will result in a methodology that better reflects the mechanism by which the costs are incurred.

Question 6 - Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.

6 Impacts & Other Considerations

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



- 6.1 The Working Group do not believe that this change impacts any of the SCRs currently being undertaken.

Consumer Impacts

- 6.2 This change proposal amends both the CDCM and the PCDM.
- 6.3 The CDCM (Attachment 3) is minor in nature. The Smart Meter Communication Licence Fees value is added into the "outputs for PCDM" block in the 'Output to other models' sheet along with everything else that needs to be linked between the models. This is a simple additional row in the 'Output to other models' sheet which would link to the value in for the Smart Meter Communication Licence Fee in the 'General Inputs' sheet. No additional calculations or alterations would be required in the CDCM.
- 6.4 The PCDM (Attachment 4) amendment adds the costs of the Smart Meter Communication Licence Fee expressed in 2007-08 prices into the calculation of the allocation driver applied to operating costs within Schedule 29.
- 6.5 Impact assessment here

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Environmental Impacts

- 6.6 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 395 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

- 6.7 Ofgem has been fully engaged throughout the development of DCP395 as an observer of the Working Group.

Commented [JL7]: See comment above. We should have a representative

Question 7 - Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

7 Implementation

- 7.1 This change proposal will impact tariffs, so It is proposed that DCP395 needs to be agreed in time for the next tariff cycle and implemented on 01/04/2024.

Question 8 - Are you supportive of the proposed implementation date?

8 Legal Text

- 8.1 The legal text is provided as Attachment 5.
- 8.2 The legal text amends the PCDM by including the Smart Meter Communication Licence Fee:
- as an additional item to be considered when calculating the discount percentages for operational expenditure;
 - The allocation is to be applied to the LV network;
 - The fee to be expressed in 2007-08 values.

Question 9 - Do you have any comments on the draft legal text?

9 Consultation Questions

- 9.1 The Working Group is seeking industry views on the following consultation questions:

The questions below are shown as an illustrative basic template which should be expanded with further questions as appropriate to the particular CP.

No.	Questions
1	Do you understand the intent of the CP?
2	Are you supportive of the principles of the CP?
3	Do you agree that Option 1 is the correct approach? Please provide your rationale.
4	Is the allocation to LV level the correct approach? Please provide your rationale.
5	Is deflating the values to 2007-08 levels the correct approach? Please provide your rationale.
6	Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.
7	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
8	Are you supportive of the proposed implementation date?
9	Do you have any comments on the draft legal text?



10	Do you have any other comments?
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9.2 Responses should be submitted using Attachment 1 to dcusa@electralink.co.uk no later than, DATE

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9.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

10 Attachments

- Attachment 1 – DCP 395 Consultation Response Form
- Attachment 2 – DCP 395 Change Proposal Form
- Attachment 3 – DCP395 CDCM Model
- Attachment 4 – DCP395 PCDM Model
- Attachment 5 – DCP395 legal text