Part A: Generic

DCUSA Change Proposal (DCP)	At what stage is this document in the process?
# DCP 387: ## Amendment to the Definition of Non-Final Demand Site to Align with CUSC ***Date raised:*** *6th April 2021* ***Proposer Name:*** *Matthew Tucker* ***Company Name:*** *Welsh Power Group Limited* ***Company Category:*** *Designated Party*	**01 – Change Proposal** **02 – Consultation** **03 – Change Report** **04 – Change Declaration**

Purpose of Change Proposal: To remove consumers of active power when this consumption is only for the provision of eligible services.

✔	**Governance:** The Proposer recommends that this Change Proposal should: • be treated as a Part 1 Matter; • be treated as a Standard Change; and • proceed to the definition phase via a Working Group. The Panel will consider the proposer's recommendation and determine the appropriate route.
!	Impacted Parties: DNOs, IDNOs and Suppliers
!	Impacted Clauses: Schedule 32

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Indicative Timeline

The Secretariat recommends the following timetable:

Initial Assessment Report	21 April 2021
Consultation Issued to Industry Participants	TBC
Change Report Approved by Panel	18 August 2021
Change Report issued for Voting	20 August 2021
Party Voting Closes	10 September 2021
Change Declaration Issued to Authority	14 September 2021
Authority Decision	19 October 2021

Any questions?

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1 Summary

What?

1.1 In November 2019 OFGEM published its decision on the Targeted Charging Review (TCR) Significant Code Review. The TCR reviewed how residual element of charges should be recovered via Distribution Use of System (DUoS) and Transmission Network Use of System (TNUoS) charges and concluded that residual charges should apply to final demand consumers (and be fixed charges).

1.2 A number of changes were raised to both the Distribution Connection and Use of System Agreement (DCUSA) and to the Connection and Use of System Code (CUSC) in order to implement Ofgem's TCR decision. Whilst efforts were made to ensure consistency of solutions developed for both distribution and transmission, a divergence has arisen with respect to the arrangements for providers of reactive power services.

1.3 The specifics of the divergence are detailed further in section 3 below, however, there appears to be no reason why providers of reactive power services connected to the transmission system are not subject to residual charges, whereas such providers connected to the distribution system are liable to such charges. This proposal would standardise the treatment of such users.

Why?

1.4 DCUSA and the CUSC are inconsistent as to who is exempt from the residual charge. At the transmission level, providers of reactive power are not liable for the transmission residual. At the distribution level, providers of reactive power are liable for the distribution residual. There is no reason why this differential should exist. There is also a distortion in competition between reactive power assets that are currently obliged to pay the residual component of distribution charges and other competitors that will not be charged as of 01 April 2022.

1.5 Competition is being distorted between transmission-connected sources of reactive power and distribution-connection sources of reactive power.

How?

1.6 The definition of "Non-Final Demand site" contained in Schedule 32 'RESIDUAL CHARGING BANDS' is amended to include "Eligible Services Facility". This would then enable the owner of such a site to certify that it should be excluded from the liability to pay distribution residual charges. It would also be necessary to add a definition of "Eligible Services' and "Eligible Services Facility". We suggest that the definition contained in the CUSC would be appropriate.

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2 Governance

Justification for Part 1 Matter

2.1 This proposal is to address a distortion that exists between distribution and transmission connected providers of reactive power services. As such, it affects competition between providers of reactive power services and should therefore be treated as a Part 1 Matter.

Requested Next Steps

2.2 This Change Proposal should:

- Be treated as a Part 1 Matter;
- Be treated as a Standard Change; and
- Proceed to a Working Group

3 Why Change?

3.1 As noted in section 1 above, following Ofgem's decision on the TCR, a number of changes were raised to implement the decision and it was DCP 359: '*Ofgem Targeted Charging Review Implementation – Customers: Who should Pay?'* which was brought forward to modify the DCUSA to introduce new defined terms as specified in the decision document. Specifically, DCP 359 introduced the terms 'Final Demand', Single Site' an additional defined term to tie the two together, namely 'Final Demand Site'. The Proposal stated that all sites with metered import consumption shall be considered a Final Demand Site, and therefore liable for a fixed residual charge, unless they meet the criteria to be classed as a 'Non-Final Demand Site'. This was intended to capture stand-alone storage and generator sites. DCP 359 was approved by the Authority in September 2020.

3.2 In November 2020 the Authority also approved *CMP334: 'Transmissions Demand Residual – consequential definition changes (TCR)'*. Like DCP 359, CMP334 also sought to define the terms to determine 'Final Demand' on a 'Site' basis in a manner that was consistent with both the TCR definition as well as those which had been proposed for implementation into the DCUSA. During the workgroup stage of CMP334, the Proposer raised an alternative proposal, WACM1, to expand the definition of 'Non-Final Demand Site' to include sites that import active power from the transmission network solely for voltage support, defined as 'Eligible Services Facility'.

3.3 WACM1 was approved by the Authority stating in their decision document 'We believe that approving WACM1 brings further benefits than the Original as it implements the relevant parts of our Decision whilst facilitating additional benefits with respect to ACO (b).' Applicable CUSC Objective (ACO) (b) is to facilitate effective competition in the generation and supply of electricity.

3.4 It was noted in CMP334's decision document that WACM1 would introduce a difference in the definition of 'Non-Final Demand Sites' between DCUSA and the CUSC with the Authority stating '*We note that the exclusion for reactive power assets from paying the TDR would not extend to the equivalent Distribution Use of System (DCUSA) residual charge. In our decision on DCP359, we noted that it would be open to DCUSA Parties to bring forward a further modification proposal to align the two codes in this respect.'*

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3.5 This proposal seeks to align the two codes by amending the definition of Non-Final Demand Site to include those sites providing voltage support services.

3.6 There appears to be no reason why providers of reactive power connected to the transmission system are not subject to residual charges, whereas such providers connected to the distribution system are liable to such charges. This proposal would standardise the treatment of such users.

Part B: Code Specific Details

4 Solution and Legal Text

4.1 Amend the definition of "Non-Final Demand site" and add 2 new definitions.

Legal Text

4.2 Amend definition of "Non-Final Demand Site" as contained in paragraph 8.2 of Schedule 32, by the addition of paragraph (b) "or is an Eligible Services Facility"

4.3 Add the following definitions to the table contained in paragraph 8.2 of Schedule 32:

> *"Eligible Services" shall mean any Balancing Service or Ancillary Service which imports or exports Reactive Energy but does not result in the production or export of any Active Power to the distribution grid.*
>
> *"Eligible Services Facility" for the purposes of DCUSA section 32 shall mean a Single Site that can only and solely provide Eligible Services to a DNO and does not undertake Electricity Storage or Electricity Generation or consume any Active Power other than for the provision of the Eligible Services.*

Text Commentary

4.4 The proposal seeks to replicate the process and wording that was agreed by Ofgem when it approved WACM1 of CMP334. This would allow a provider of "eligible services" to certify as such, and therefore avoid residual charges in the way that generation only and storage only sites will be able to do.

5 Code Specific Matters

Reference Documents

5.1 Appendix 1: Ofgem decision letter for CMP334 of 30th November 2020.

5.2 Appendix 2: Ofgem letter dated 1st April 2021 on their decision on request of a third party for designation to raise a DCUSA modification proposal.

6 Relevant Objectives

DCUSA General Objectives	Identified impact

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☒ 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	Positive
☒ 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	Positive
☐ 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

6.1 Competition is currently being distorted between transmission connected reactive power sites and distribution connected reactive power sites. Ofgem has long been concerned that there are competitive distortions between active generators, so they same would be true for reactive generators. The transmission version of this proposal (CMP334) has already been approved by Ofgem.

7 Impacts & Other Considerations

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

7.1 This proposal does not affect an SCR as such. However, it is making the implementation of the Targeted Charging Review consistent between transmission and distribution.

Does this Change Proposal Impact Other Codes?

7.2 We do not see any other cross-code implications other than bringing the DCUSA into line with the CUSC.

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

Consideration of Wider Industry Impacts

7.3 This issue has been raised with the DCMDG prior to raising as a proposal and the group were supportive of this Change Proposal progressing.

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Confidentiality

7.4 This proposal is not confidential.

Proposed Implementation Date

7.5 As soon as practicable and in any case by 1 April 2023, the next scheduled issuing of the DNO tariffs.

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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