DCUSA

DCUSA Change Report

At what stage is this document in the process?

01 – Change Proposal
02 – Consultation
03 – Change Report
04 – Change Declaration

DCP 387:

Amendment to the Definition of Non-Final Demand Site to Align with CUSC

Date raised: ***06 April 2021***

Proposer: ***Matthew Tucker***

Company Name: ***Welsh Power Group Limited***

Company Category: ***Designated Party***

Purpose of Change Proposal:

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

This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 387 – *Amendment to the Definition of Non-Final Demand Site to Align with CUSC*.

DCP 387 is considered to be a Part 1 Matter and therefore requires Authority approval prior to being implemented and thus, the result of the Party vote on this Change Report will act as a recommendation to the Authority.

Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the voting form (Attachment 2) to dcusa@electralink.co.uk or via the online voting form which can be found via the following link: Amendment to the Definition of Non-Final Demand Site to Align with CUSC

Responses are requested by **08 April 2022.**

The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.

Impacted Parties: DNOs, IDNOs, Suppliers and CVA Registrants

Impacted Clauses: Schedule 32

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Contents

1 Summary 3
2 Governance 5
3 Why Change? 5
4 Working Group Assessment 7
5 Summary of Consultation and Responses 11
6 Working Group Conclusions & Final Solution 15
7 Legal Text 16
8 Relevant Objectives 17
9 Code Specific Matters 17
10 Impacts & Other Considerations 18
11 Implementation Date 19
12 Recommendations 19
13 Attachments 20

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Timetable

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

Change Proposal timetable

Activity	Date
Initial Assessment Report Approved by Panel	21 April 2021
Consultation issued to Parties	14 July 2021
Change Report issued to Panel	09 March 2022
Change Report issued for Voting	18 March 2022
Party Voting Ends	08 April 2022
Change Declaration issued to Authority	12 April 2022
Authority Decision	TBC
Implementation Date	5 Working Days following approval

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1 Summary

What?

1.1 On 21 November 2019 the Authority published its Targeted Charging Review (TCR) Significant Code Review (SCR) Decision (the 'TCR Decision')[1]. At the same time, the Authority Directed that Distribution Network Operators (DNOs) raise one or more modifications to the Distribution Connection and Use of System Agreement (the 'DCUSA'), to implement the TCR Decision on 01 April 2022 (the 'TCR Direction')[2].

1.2 A similar direction was given to National Grid Electricity System Operator (NGESO) to modify the Connection and Use of System Code (CUSC).

1.3 Paragraph 34 of the TCR Direction set out the Authority's expectation that a consistent approach was to be utilised across the charging arrangements to both the DCUSA and the CUSC:

> *"34. In preparing the Proposal(s), the DNOs must:*
>
> *a. work and cooperate with NGESO (who are subject to a similar direction to bring forward a proposal to modify the Connection and Use of System Code (CUSC) to give effect to the TCR Decision (the CUSC Direction)) to ensure that a consistent approach is taken to issues or matters common to both Directions and to facilitate the timely progression of their respective code modifications proposals. Issues or matters common to both Directions include but are not limited to i) final demand; ii) single site; and iii) the review of charging bands. Such co-operation might include (but would not be limited to) participation in the working groups for the modification proposals being developed under the respective Directions;*
>
> *b. include such modifications to Section 1A (Definitions and Interpretation) of DCUSA and any other associated provisions as required as a result of the Proposal(s); and*
>
> *c. have regard to (and to the fullest extent practicable comply with) the SCR Decision Principles as defined in paragraph 3.53 of the TCR Decision."*

1.4 A number of changes were raised to both the DCUSA and to the 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. This change proposal, DCP 387 has been raised to align the DCUSA with Workgroup Alternative CUSC Modification Proposal (WACM)1 associated with CMP334.

[1] https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-decision-and-impact-assessment
[2] https://www.ofgem.gov.uk/system/files/docs/2019/11/dcusa_direction_1.pdf

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1.5 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?

1.6 The DCUSA Change Proposals were approved by Ofgem in September 2020 and more specifically, in the document setting out Ofgem's decision to approve DCP 359 '*Targeted Charging Review Implementation – Customers: Who should Pay?*'[3] [4] the following was noted:

> *"We note that one of the options for one of the equivalent CUSC modification would exclude reactive power providers from residual charges. In the event that we were to approve that proposal, it would be open to industry parties to bring forward a further modification proposal to the DCUSA to align the treatment under both codes, if appropriate. Please note that nothing in this decision in any way fetters our discretion with respect to our decision on those CUSC modification proposals."*

1.7 In November 2020, the Authority also approved the equivalent CUSC Modification Proposal (CMP) *CMP334: 'Transmissions Demand Residual – consequential definition changes (TCR)'*[5]. 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.

1.8 During the workgroup stage of CMP334, the Proposer raised 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 an 'Eligible Services Facility'.

1.9 In their decision[6] to approve WACM1 associated with CMP334, Ofgem stated:

> *"Following the Workgroup Consultation, a number of respondents raised concerns about the definition of 'Final Demand' in the Original Proposal. Their concern was that the proposal would treat some market participants, which are not final users of electricity as 'Final Demand', making them liable for the TDR. Specifically, they argued that users that solely provide reactive power services for voltage support should not be captured within the 'Final Demand' definition and should be excluded from paying the TDR.*
>
> *The Proposer raised an alternative proposal to the Workgroup to address this. The Workgroup agreed to support the Workgroup Alternative CUSC Modification ('WACM1'). WACM1 proposes that a specific type of service provider (those providing 'Eligible Services') would not be liable to pay the TDR. This would be achieved by amending the definition of 'Final Demand Site' and*

[3] https://www.ofgem.gov.uk/publications-and-updates/dcp359-ofgem-targeted-charging-review-tcr-implementation-customers-who-should-pay
[4] https://www.dcusa.co.uk/change/ofgem-targeted-charging-review-implementation-customers-who-should-pay/
[5] https://www.nationalgrideso.com/industry-information/codes/connection-and-use-system-code-cusc-old/modifications/cmp343-and-cmp340
[6] https://www.ofgem.gov.uk/publications-and-updates/cmp334-transmission-demand-residual-consequential-definition-changes

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'Non-Final Demand Site' such that those 'Single Sites' that import 'Active Power' from the transmission network solely for voltage support would be excluded from paying the TDR. This would mean that users that solely import active power for voltage support ('reactive power assets' for the purpose of this document) would be excluded from paying the TDR."

1.10 With the approval of CMP334, the DCUSA and the CUSC are now 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.

1.11 Competition is being distorted between transmission-connected sources of reactive power and distribution-connection sources of reactive power. The specifics of the divergence are detailed further in section 3 below.

How?

1.12 The definition of "Non-Final Demand site" contained in Schedule 32 'RESIDUAL CHARGING BANDS' is amended to include an "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" alongside the creation of four additional supporting definitions for terms which assist in specifying the scope of the above terms. A new paragraph 5A will be added to Schedule 32 to ensure that an Eligible Services Facility is a able to provide certification past the original deadline of 31 July 2021 for a Non-Final Demand Site to provide such certification.

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.

Next Steps

2.2 The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 387.

2.3 The DCUSA Panel recommends that this CP, be issued to Parties for Voting.

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',

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Single Site' and 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 NGESO raised modification CMP334: *'Transmissions Demand Residual – consequential definition changes (TCR)'* on 16 January 2020, to incorporate definitions relevant for the proposals set out in CMP343, as a consequential modification. CMP334 sought to define the terms to determine 'Final Demand' on a 'Site' basis in a manner which is consistent with the TCR Direction and the Distribution Connection and Use of System Agreement (DCUSA). It was progressed as part of a Joint Workgroup alongside the equivalent proposed modification to distribution residual charges (DCP 359).

3.3 CMP334 identified which customers are liable for a residual charge at transmission level. In line with the TCR Direction, the Original Proposal would amongst other things introduce new defined terms for 'Final Demand' and 'Single Site'. It would also:

3.4 Following the Workgroup Consultation, a number of respondents raised concerns about the definition of 'Final Demand' in the Original Proposal. Their concern was that the proposal would treat some market participants, which are not final users of electricity as 'Final Demand', making them liable for the residual charge at transmission level. Specifically, they argued that users that solely provide reactive power services for voltage support should not be captured within the 'Final Demand' definition and should be excluded from paying the residual charge at transmission level.

3.5 The Proposer raised an alternative proposal to the Workgroup to address this. The Workgroup agreed to support WACM1. WACM1 proposed that a specific type of service provider (those providing 'Eligible Services') would not be liable to pay the residual charge at transmission level. This would be achieved by amending the definition of 'Final Demand Site' and 'Non-Final Demand Site' such that those 'Single Sites' that import 'Active Power' from the transmission network solely for voltage support would be excluded from paying the TDR. This would mean that users that solely import active power for voltage support ('reactive power assets' for the purpose of this document) would be excluded from paying the residual charge at transmission level.

3.6 In November 2020, the Authority approved CMP334 WACM1 and in their decision document, Ofgem stated:

> *"We note that the exclusion for reactive power assets from paying the TDR would not extend to the equivalent Distribution Use of System (DUoS) 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 (if we were to approve the WACM)."*

3.7 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 by adding the concepts of 'Eligible Services' and 'Eligible Services Facility'.

3.8 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.

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4 Working Group Assessment

DCP 387 Working Group Assessment

4.1 The DCUSA Panel established a Working Group to assess/develop the DCP 387. This Working Group consists of representatives from DNOs, Suppliers, IDNOs, Generators and National Grid Electricity System Operator (NGESO) as well as observers from a consultancy and Ofgem. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

Additional Background to DCP 387

4.2 To start the process of refining and developing the solution for DCP 387, the Working Group gave consideration to the reason why the change had been raised. The Working Group noted the reference to a differential in the newly introduced definition of 'Non-Final Demand Site' between the CUSC and the DCUSA. What wasn't clear, was how the divergence was allowed to come about, when the intent of both the DCP 359 Working Group and the CMP334 Workgroup had been to develop a consistent solution.

4.3 The Working Group hypothesised that the divergence was likely related to the fact that the timelines associated with the development phase of DCP359 and CMP334 became out of sync towards the end. However, it was agreed that some investigation should be carried out to confirm whether there had been any responses received with respect to the consultation issued for DCP359 and if there had been, what that Working Group had determined at the time.

4.4 The result of the investigation uncovered two respondents to the consultation had indeed raised a point regarding the treatment of such sites and that paragraph 6.15 of the DCP 359 Change Report provides the reason why a solution wasn't developed at that time. The applicable text from the abovementioned paragraph is provided below:

> *"….the suggestion to include any device that consumes electricity but has the sole purpose of maintaining or improving the network voltage (Ancillary Services) should be treated in the same way as a generator or energy storage device was discounted as out of scope of this CP."*

4.5 Whilst it was understood that the divergence was almost certainly related to the above, there was a question on whether the timelines associated with the development phase of DCP359 and CMP334 became out of sync towards the end. Therefore, the Working Group agreed to include a timeline of events associated with the development of both DCP 359 and CMP334. The table below captures the main events for each group up to the same point in time and shows that the divergence wasn't fully attributable to the timelines for the changes.

Date	DCP 359 Activity	CMP334 Activity
30 January 2020	DCP 358/359/360/361 Joint WG	-
04 February 2020	DCP 359 Working Group Meeting	-
20 February 2020	DCP 359 Working Group Meeting	-

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Date	DCP 359 Activity	CMP334 Activity
02 March 2020	DCP 359 / CMP 334 Joint Working Group Meeting	DCP 359 / CMP 334 Joint Working Group Meeting
11 March 2020	DCP 359 / CMP 334 Joint Working Group Meeting	DCP 359 / CMP 334 Joint Working Group Meeting
20 March 2020	DCP 359 Consultation Issued	CMP 334 Consultation Issued
20 April 2020	DCP 359 / CMP 334 Joint Working Group Meeting	DCP 359 / CMP 334 Joint Working Group Meeting (a potential WACM was first discussed)
21 April 2020	DCP 359 / CMP 334 Joint Working Group Meeting	DCP 359 / CMP 334 Joint Working Group Meeting
28 April 2020	DCP 359 legal text issued to legal advisors for review (solution development ends)	-
07 May 2020	DCP 359 Working Group Meeting (reviewed comments from legal advisor and Change Report)	CMP 334 Working Group Meeting (agreed to proceed with original solution and WACM1)
13 May 2020	Issued DCP 359 Change Report to DCUSA Panel	CMP 334 Working Group Meeting
20 May 2020	DCUSA Panel approved Change Report to progress to the Party voting phase	CMP 334 Modification Report issued to CUSC Panel
29 May 2020		CUSC Panel approved Modification Report to progress to the Code Administrator consultation phase

4.6 As can be seen in the table, it was only after the consultation period for both changes that a WACM was introduced, and it was at this point that the respective Working Groups made different decisions regarding their proposed solutions.

DCP 387 Solution Development

4.7 The Working Group reviewed the information contained in the Change Proposal form, including the proposed legal text that had been included. It was noted that DCP 387 proposes to introduce two new definitions under paragraph 8.1 of Schedule 32, which for reference, are set out below:

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.

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Eligible Services

4.8 The Working Group determined that as proposed, the definition for 'Eligible Services' needed some refinement for it to work as intended and therefore set out to make the necessary amendments such that it would work as intended.

4.9 It was noted that the definition included what appeared to be capitalised terms that were not defined in the DCUSA or were defined but only applicable to a certain Schedule. These terms were:

- Balancing Service;
- Ancillary Service;
- Reactive Energy; and
- Active Power.

4.10 The Working Group agreed to add the terms 'Balancing Service' and 'Ancillary Service' as defined terms in Schedule 32, and also agreed that these should be aligned as closely as possible to the same defined terms in the CUSC. Following a review of the defined terms in the CUSC, the Working Group concluded that following definitions should be used with respect to the abovementioned terms:

Ancillary Services	has the meaning to that term in the CUSC.
Balancing Services	has the meaning to that term in the Transmission Licence

4.11 In agreeing that the term 'Active Power' should be added as a defined term in the list of defined terms in Schedule 32, it was noted that the term was only used in Schedules 17 and 18 of the DCUSA currently. Therefore, it was considered prudent to retain the existing definition for 'Active Power' and to add to the list of defined terms in Schedule 32. The proposed definition is set out below:

Active Power	the product of the voltage, current and cosine of the phase angle between them, measured in watts.

4.12 With respect to the term 'Reactive Energy' the Working Group noted that term was not currently defined in the DCUSA, although the term 'Reactive Power' is defined in Schedules 17 and 18 as *"The product of the voltage and current and the sine of the phase angle between them, measured in units of voltamperes reactive.".*

4.13 Following some discussion on whether to use the term *'Reactive Power'* or *'Reactive Energy'* the Working Group agreed to retain *'Reactive Energy'* as this aligns to what is contained in the CUSC and was set out in CMP334. For the definition itself, the Working Group agreed to mirror what was contained in the CUSC, which is set out below:

Reactive Energy	has the meaning to that term in the Balancing & Settlement Code

4.14 The Working Group sought views on whether industry supported their proposed definitions for 'Ancillary Service', 'Balancing Service', 'Active Power' and 'Reactive Energy' and if they were appropriate for what DCP 387 is seeking to achieve.

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4.15 Finally, the Working Group turned their thinking to the definition of 'Eligible Services' and in the first instance decided to compare what was developed under CMP334 and has since been implemented into the CUSC. The CUSC definition for 'Eligible Services' is set out below:

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 **NETS**.*

4.16 The Working Group noted that the only difference between the CUSC definition and the version contained in the Change Proposal form for DCP 387 was that 'NETS' had been replaced by 'distribution grid'. The consensus of the Working Group was that the words 'distribution grid' were not in keeping with the language used throughout the DCUSA and had no assigned meaning. The Working Group were also of the view that the minor divergence from the definition contained in the CUSC was necessary in order to make it applicable for the purposes of the DCUSA. Therefore, the Working Group agreed that replacing the words 'distribution grid' with 'DNO/IDNO Party's Distribution System' would better align to the terminology used in Schedule 32.

4.17 The Working Group's proposed definition for Eligible Services is:

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 DNO/IDNO Party's Distribution System.

4.18 The Working Group sought views on whether industry supported their proposed definition for 'Eligible Services' and if it was appropriate for what DCP 387 is seeking to achieve.

Eligible Services Facility

4.19 As a point of reference, the Working Group decided to compare what was developed under CMP334 and has since been implemented into the CUSC. The CUSC definition for 'Eligible Services Facility' is set out below:

Eligible Services Facility	*For the purposes of CUSC Section 14 shall mean a **Single Site** that can only and solely provide **Eligible Services** to **The Company** and does not undertake **Electricity Storage** or **Electricity Generation** or consume any **Active Power** other than for the provision of the **Eligible Services**.*

4.20 The Working Group noted that there were a couple of differences between the CUSC definition, and the version contained in the Change Proposal form for DCP 387. These differences were the inclusion of the wording at the beginning, being '*for the purposes of DCUSA section 32 shall'* and that the CUSC definition referred to '*The Company*' which had been replaced by '*DNO*'.

4.21 The Working Group agreed to remove *'for the purposes of DCUSA section 32 shall'* as the definition is housed in Schedule 32 and therefore the inclusion of such wording was unnecessary.

4.22 The consensus of the Working Group was that the original reference to services being provided to a '*DNO*' should be broadened to include both DNOs and IDNOs as well as the National Electricity Transmission System Operator (NETSO). It was noted that this was because there are sites that are due to come online in the future, which will be connected to the distribution network but whose sole purpose

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will be to provide a very specific service to the NETSO and also not to preclude a future scenario where such a site may provide the same service a DNO or IDNO.

4.23 The Working Group were also of the view that the small divergence from the definition contained in the CUSC was necessary in order to make it applicable for the purposes of the DCUSA.

4.24 Therefore, the Working Group's proposed definition for Eligible Services Facility is:

Eligible Services Facility	means a Single Site that can only and solely provide Eligible Services to a DNO/IDNO Party or to the National Electricity Transmission System Operator and does not undertake Electricity Storage or Electricity Generation or consume any Active Power other than for the provision of the Eligible Services.

4.25 The Working Group sought views on whether industry supported their proposed definition for Eligible Services Facility and if it was appropriate for what DCP 387 is seeking to achieve.

5 Summary of Consultation and Responses

Summary of responses to the DCP 387 Consultation

5.1 The DCP 387 Working Group issued a consultation on 14 July 2021 which sought views from industry on the proposed solution and legal text for DCP 387, and in some cases a number of options to select from were presented.

5.2 There were thirteen respondents to the consultation comprising of DNOs, IDNOs, Suppliers, Generators, NGESO and other interested parties. Set out below are the questions that the Working Group sought views on, and a summary of the responses received. A copy of the consultation document alongside the Party responses and Working Group conclusions can be found as Attachment 3.

Question 1: Do you understand the intent of the Change Proposal?

5.3 The Working Group noted that all respondents to the consultation confirmed that they understood the intent of the CP.

Question 2: Are you supportive of the principles that support this CP, which is to address distortion that exists between distribution and transmission connected providers of reactive power services?

5.4 Of the thirteen respondents, the Working Group noted that eleven where fully supportive of the principles that support the need for the change. With respect to the two who were not fully supportive, one was generally supportive and the other broadly so. The two who were not fully aligned with the principles raised the following comments:

- *"unsure whether current arrangements constitute a distortion as the effected service providers are providing discrete services to separate systems"* which was further clarified by the respondent who added *"our concern here was that reactive power services are provided to the ESO and it wasn't immediately clear if differences in the charging arrangements between distribution and transmission represent a distortion in competition, or simply reflect different usage of the networks if the service the networks if the service is for the benefit of the transmission system but happens to be procured on the distribution network";* and

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- *"we considered WACM1 of CMP334 which we opposed (as we considered it distortionary in other ways)".*

Question 3: Do you agree with the Working Groups proposed definitions for 'Ancillary Service', 'Balancing Service', 'Active Power' and 'Reactive Energy'? Please provide the rationale behind your response.

5.5 It was noted that all thirteen respondents agreed with the Working Groups proposed definitions for 'Ancillary Services' and 'Reactive Energy' and eleven of the thirteen respondents agreed with the Working Groups proposed definitions for 'Balancing Services' and 'Active Power'.

5.6 Three respondents questioned two specific definitions, being 'Balancing Services' and 'Active Power' and these suggestions were given further consideration by the Working Group (see below):

Active Power

5.7 There were two suggestions related to the definition for 'Active Power', with one respondent believing it should aligned to Balancing and Settlement Code (Section X, Annex X specifically) which states: *"means the product of voltage and the in-phase component of alternating current measured in units of watts and standard multiples thereof, that is: 1000 Watts = 1 kW 1000 kW = 1 MW"* and the other believing it should be aligned to the CUSC, which states: *"the product of voltage and the in-phase component of alternating current measured in units of watts and standard multiples thereof i.e. 1000 watts = 1kW; 1000 kW = 1MW; 1000 MW = 1GW; 1000 GW = 1TW"*

Balancing Services

5.8 There were two suggestions related to the definition for 'Balancing Services', with one respondent believing the reference to 'Transmission License' should be updated in the DCUSA to 'National Electricity Transmission System Operator Licence' and the other believing it should refer to the meaning given to it in the Connection and Use of System Code (CUSC), and not the 'Transmission Licence' – as the definition had originally been drafted.

Working Group Conclusion

5.9 The Working Group agreed that the definition of 'Active Power' is to remain as was consulted on, and will include additional rationale within the Change Report to explain this.

5.10 The Working Group agreed that the definition of 'Balancing Services' is to be amended to *"has the meaning to that term in the National Electricity Transmission System Operator Licence"* which is a defined term that already exists in the DCUSA.

Question 4: Do you believe that the Working Groups proposed definition of 'Eligible Services' is appropriate for what DCP 387 is seeking to achieve? Please provide the rationale behind your response.

5.11 The Working Group noted that all respondents to the consultation agreed with the Working Group's proposed definition of 'Eligible Services', with respondents generally being of the view that it aligns with the CUSC definition as closely as possible, whilst being appropriate for the DCUSA. The Working Group also noted that one respondent indicated that they did not agree with the premise of the proposal in general and this comment is given further consideration under question 10 below.

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Question 5: Do you believe that the Working Groups proposed definition of 'Eligible Services Facility' is appropriate for what DCP 387 is seeking to achieve? Please provide the rationale behind your response.

5.12 The Working Group noted that all respondents to the consultation agreed with the Working Group's proposed definition of 'Eligible Services Facility', with respondents generally being of the view that it aligns with the CUSC definition as closely as possible, whilst being appropriate for the DCUSA. The Working Group also noted that one respondent indicated that they did not agree with the premise of the proposal in general and this comment is given further consideration under question 10 below.

Question 6: Do you have any comments on the draft legal text for DCP 387?

5.13 Of the thirteen respondents, it was noted that eight had no further comments on the proposed legal text for DCP 387. Of those that did provide further comments, the Working Group noted the following concerns / suggestions:

- a suggestion that the definition of Eligible Services may need further consideration as *"'Eligible Services' states there will not be any production or export of Active Power, but we are unsure if the provision of such services might result in an immaterial level or production of Active Power"* to which the Working Group noted that the definition was in line with that introduced into the CUSC and thus any move away from the definition that was approved in the CUSC will result in a divergence between CUSC and DCUSA.
- two respondents suggested improvements to the definition of Non-Final Demand Site, which were noted as being related to the structure/ordering of the text such that it captures all relevant requirements correctly. The Working Group considered these suggestions and noted that there were some further comments in this area in responses to question 10 and agreed to review the responses in the round, prior to concluding their final position on this definition.
- one respondent had suggested that the definition of Non-Final Demand Site should be updated to make it clear that the Customer should sign the certificate as there had been some recent discussions that highlighted that the text could be interpreted as obligating the Supplier to sign the certificate. Whilst the Working Group appreciated the concern being raised, their view was that this is out of scope of DCP 387 and should be subject to a separate Change Proposal.
- other concerns were raised that may impact the legal text, but the Working Group agreed to consider those when reviewing responses to question 9 and 10 below.

Question 7: Do you consider that DCP 387 better facilitates the DCUSA General Objectives?

If so, please detail which of the General Objectives you believe are better facilitated and provide supporting reasons.

If not, please provide supporting reasons.

5.14 The Working Group noted that the majority of respondents to the consultation believed that DCUSA General Objectives One and Two would be better facilitated and therefore, they agreed with the Proposer of the CP.

5.15 At a high level, the following table sets out whether each respondent considered that the proposal better facilitates the DCUSA General Objectives and which they believed to be in scope.

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Respondent	General Objective 1	General Objective 2	General Objective 3	General Objective 4	General Objective 5
1.	Not Specific	Not Specific	Not Specific	Not Specific	Not Specific
2.	Positive	Positive	-	-	-
3.	Positive	-	-	-	-
4.	Positive	Positive	-	-	-
5.	Neutral	Positive	Positive	Neutral	Neutral
6.	Positive	Positive	-	-	-
7.	Positive	Positive	-	-	-
8.	Positive	Positive	-	-	-
9.	-	Positive	-	-	-
10.	Positive	Positive	-	-	-
11.	Positive	Positive	-	-	-
12.	Neutral	Negative	Neutral	Neutral	Neutral
13.	-	Positive	-	-	-

5.16 The Working Group noted their assessment of the DCUSA Objectives, and the Working Group view is provided in Section 8 below.

Question 8: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

5.17 The majority of respondents agreed that there were no wider industry developments that should be considered by the Working Group.

5.18 The Working Group noted that only one respondent provided a comment with respect to wider industry developments and that the respondent stated: *"that these 'Eligible Services' are being driven by NGESO's need to be able to operate the Transmission System on 100% renewable energy from 2025; as such 'pathfinder projects' are helping us meet these needs in areas other than voltage (such as inertia and constraints)".* The respondent noted that: *"the definition of 'Eligible Services' may need to be expanded to incorporate other types of services if/when CUSC modifications do the same".*

Question 9: What implementation date do you believe to be most appropriate for DCP 387?

5.19 The Working Group noted that there were mixed responses to this question, and these are set out below:

- **Two** in favour of the **next available release after a decision.**
- **Four** in favour of **as soon as possible after a decision.**
- **Five** in favour of **April 2022.**
- **One** in favour of **April 2023.**
- **One** who did not provide a comment.

5.20 The Working Group's decision on the proposed implementation date is provided in Section 11 below.

Question 10: Do you have any further comments on DCP 387?

5.21 The Working Group noted that three respondents provided further comments, two of which were similar in that they shared a concern related to the fact that the certification date will have lapsed and what changes should be made to ensure this is covered off and whether the certification date should also be updated for the other 'types' of Non-Final Demand Site. With respect to the first concern, the Working Group drafted some legal text to cover this off and concluded that the second concern was out of scope.

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5.22 The other respondent who provided further comments raised a concern regarding their view that allowing the sites in scope of this change to be "exempt from the demand residual would give providers of Eligible Services an unfair cost advantage when bidding for ESO contracts, compared to other, non-exempt providers of the same services, i.e. that it would be harmful to competition. This could lead to market distortions and ultimately higher (rather than lower) costs for consumers because it could support providers who, without the unfair cost advantage, might not be competitive in their market. The Working Group noted that they appreciated the concerns raised by this respondent but highlighted that this change is only seeking to align the arrangements between such services at transmission as compared to distribution and that at transmission, the changes have only recently been approved by the Authority.

6 Working Group Conclusions & Final Solution

Eligible Services

6.1 Following their review of consultation responses, the Working Group determined that no amendments were necessary to proposed definition for 'Eligible Services' that was consulted on.

Balancing Services

6.2 Following their review of consultation responses, the Working Group determined that the proposed definition for 'Balancing Services' that was consulted on, should be updated make reference to the 'National Electricity Transmission System Operator Licence' instead of the 'Transmission License'.

Ancillary Services

6.3 Following their review of consultation responses, the Working Group determined that no amendments were necessary to proposed definition for 'Ancillary Services' that was consulted on.

Reactive Energy

6.4 Following their review of consultation responses, the Working Group determined that no amendments were necessary to proposed definition for 'Reactive Energy' that was consulted on.

Active Power

6.5 Following their review of consultation responses, the Working Group determined that no amendments were necessary to proposed definition for 'Active Power' that was consulted on.

Eligible Services Facility

6.6 Following their review of consultation responses, the Working Group determined that no amendments were necessary to proposed definition for 'Eligible Services Facility' that was consulted on, however following comments received by DCUSA Ltd.'s legal advisors, the Working Group agreed to remove the reference to services provided to DNO/IDNO Party's. It was initially felt that including **'DNO/IDNO Party's'** would future proof the change but there were concerns that without knowing the nature of such potential services it would have been premature to include the provisions at this point in time.

Other Amendments

6.7 The Working Group noted that some respondents highlighted concerns related to the fact that the certification date for Non-Final Demand Sites will have lapsed by the time this change is implemented

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and agreed to legal text changes to cover this off. The Working Group agreed to include a new paragraph 5A *'Re-Classification Of A Single Site'*, and including additional paragraphs 5A.1 and 5A.2 to ensure that an Eligible Services Facility is a able to provide certification past the original deadline for a Non-Final Demand Site to provide such certification, which was 31 July 2021 as set out in paragraph 5 of Schedule 32. It was also agreed to make minor amendments to paragraphs 1.8(d), 4.5 and 5.3, so as to create reference to the new paragraph 5A. It is worth noting that new paragraph 5A.2, includes provisions for a rebate to be applied and is in keeping with existing provisions included for 'exceptional circumstances' under paragraph 6.4.

Non-Final Demand Site

6.8 Following their review of consultation responses, the Working Group determined that some improvements were needed to the definition of Non-Final Demand Site. It should be noted that the improvements agreed by the Working Group were related to the structure/ordering of the text such that it captures all relevant requirements correctly.

7 Legal Text

7.1 Following the Working Group's review of the responses to the consultation, the amendments being made by DCP 387 include:

- Amending the existing definition of "Non-Final Demand Site" to include Eligible Services Facility as sites that are within the scope of the defined term and to achieve this, the Working Group made some structural changes to the layout of the definition;
- Creating two supporting definitions for '**Eligible Services**' and '**Eligible Services Facility**';
- Creating four additional definitions for the terms '**Active Power**', '**Reactive Power**', '**Ancillary Services'** and **'Balancing Services**' which assist in specifying the scope of the new terms 'Eligible Services' and 'Eligible Services Facility'; and
- Adding paragraph 5A *'Re-Classification Of A Single Site'*, by including additional paragraphs 5A.1 and 5A.2 to ensure that an Eligible Services Facility is able to provide certification past the original deadline for a Non-Final Demand Site to provide such certification, which was 31 July 2021 as set out in paragraph 5 of Schedule 32. It also includes provisions related to how billing and rebates are to be handled. It should be noted that as well as proposing to add the abovementioned paragraphs, DCP 387 also proposes to make a very minor amendment to paragraphs 1.8(d), 4.5 and 5.3 so as to create reference to the new paragraph 5A.

Legal Text

7.2 The legal text for DCP 387 has been developed and refined by the DCP 387 Working Group and has been reviewed by the DCUSA legal advisors and which the Proposer has confirmed as satisfying the intent of the Change Proposal. The DCP 387 legal text is provided as Attachment 1 to this Change Report.

Text Commentary

7.3 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.

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8 Relevant Objectives

Assessment Against the DCUSA Objectives

8.1 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.

8.2 The list of DCUSA General Objectives is set out in the table below.

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.	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

The Proposer's view

8.3 The rationale provided by the Proposer as to which of the following DCUSA Objectives are better facilitated by DCP 387 is set out in the CP form, provided as Attachment 4 and also detailed below.

8.4 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 the same would be true for reactive generators. The transmission version of this proposal (CMP334) has already been approved by Ofgem.

Views of respondents to the consultation

8.5 The Working Group sought Party views on which of the DCUSA General Objectives they thought would be better facilitated by the implementation of DCP 387. A summary of which DCUSA Objectives the respondents' had provided in their responses can be found in paragraph 5.16 above and in the collated consultation responses document found as Attachment 3.

Working Group views

8.6 A majority of the Working Group agreed with the Proposer and many of the respondents to the consultation that DCUSA General Objectives One and Two will be better facilitated by the implementation of the DCP 387 solution. It was noted that the Working Group's rationale for this was in line with that of the Proposer, which is set out in the paragraph above.

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8.7 A minority of the Working Group and one respondent to the consultation believe that DCUSA General Objective Three will be better facilitated by the implementation of the DCP 387 solution.

8.8 The Working Group unanimously agreed that the implementation of DCP 387 would not have an impact on DCUSA General Objectives, Four and Five.

8.9 When looking at the DCUSA General Objectives in the round, the Working Group unanimously agreed that on balance, DCP 387 will better facilitate the DCUSA General Objectives.

9 Code Specific Matters

Reference Documents

9.1 Attachment 5: Ofgem letter dated 1st April 2021 on their decision on request of a third party for designation to raise a DCUSA modification proposal.

10 Impacts & Other Considerations

10.1 It should be noted that the issue that DCP 387 seeks to resolve was raised with the Distribution Charging Methodologies Development Group (DCMDG) prior to being submitted into the formal DCUSA Change Control process.

Identified Impacts

10.2 In trying to identify and understand what the impacts of this change may be, it was highlighted that such services are being procured by NGESO and so the impacts and volume of sites that may take advantage of such an arrangement are driven by NGESO's requirements.

10.3 The Working Group discussed whether there was a way to show what the benefits may be to a representative site but it was noted that only one such site exists and therefore no average could be produced and nor could that information be provided by only that site, given the need to remain within the rules related to competition law. This means that the Working Group aren't able to provide an indication of what the economics look like with and/or without the change..

10.4 The Working Group also considered what the potential market size for such services may be, and in doing so, it was noted that the procurement exercises undertaken by NGESO for such services has only led to one such site being procured by NGESO over the last two years. Further to this, it was highlighted that in one of these procurement rounds, there were twelve contracts awarded and only one of those was positioned on a distribution network .

10.5 There will be no impact on any other customer for the years in which Use of System Charges have been published. However, for other years, - and assuming all other things are equal - the residual would change for all Final Demand Sites given the residual is allocated to charging bands (including the domestic and unmetered customers) based on the relative proportion of annual consumption of that charging band to the total consumption for all Final Demand Sites (including unmetered). Final Demand Sites in the same charging band as any customer that later qualifies as a Non-Final Demand Site will pick up a higher share of the residual allocated to that charging band i.e. there will be fewer Final Demand Sites from which the residual is recovered for that charging band.

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Significant Code Review (SCR) Impacts

10.6 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.

Impacts on other Industry Codes

10.7 The Proposer and Working Group agree that they do not believe there are any other cross-code implications other than bringing the DCUSA into line with the CUSC.

BSC……... ☐	SEC…… ☐	Grid Code……. ☐
CUSC…… ☐	REC……... ☐	Distrbution Code.. ☐
None……. ☒		

Environmental Impacts

10.8 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 387 were to be implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

Engagement with the Authority

10.9 Ofgem has been fully engaged throughout the development of the CP as an observer of the Working Group and regular attendee of the TCR Implementation Steering Group and the DCMDG.

11 Implementation Date

11.1 The Proposer indicated their view that if approved, DCP 387 should be implemented as soon as practicable and in any case by no later than 01 April 2023, i.e., the next scheduled issuing of the DNO tariffs.

11.2 The Working Group considered this further and did not believe that a lead time for implementation to 01 April 2023 was required since there is no impact to tariffs and the models do not need to be updated as a consequence of this change. The Working Group sought industry views on a proposed implementation date and following a review of the responses to the consultation and noting the next standard release date, it was agreed that the implementation date for DCP 387 should be set for 5 Working Days following Authority approval.

12 Recommendations

Panel's Recommendation

12.1 The Panel approved this Change Report on 16 March 2022. The Panel considered that the Working Group has carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 387.

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12.2 The Panel have recommended this report be issued for voting for a period of three weeks and DCUSA Parties should consider whether they wish to submit views regarding this CP. The Voting Form can be found in Attachment 2.

13 Attachments

- Attachment 1 – DCP 387 Legal Text
- Attachment 2 – DCP 387 Voting Response Form
- Attachment 3 – DCP 387 Consultation and Responses
- Attachment 4 – DCP 387 Change Proposal Form
- Attachment 5 – Ofgem Designation Letter

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