




DCUSA Change Report		At what stage is this document in the process?
<h1>DCP 395</h1> <h2>Allocation of Smart Meter Communication Licence costs within LDNO Tariffs</h2> <p><i>Date raised:</i> 05 October 2021</p> <p><i>Proposer Name:</i> Diandra Orodan</p> <p><i>Company Name:</i> The Electricity Network Company</p> <p><i>Company Category:</i> IDNO</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p><b>Purpose of this Change Proposal:</b></p> <p>DCP 395 seeks to increase the cost reflectivity of LDNO tariffs by appropriately allocating costs associated with the Smart Meter Communication Licence Fees to LDNO tariffs.</p>		
	<p>This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 395 – ‘Allocation of Smart Meter Communication Licence costs within LDNO Tariffs’.</p>	
	<p>Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>14 June 2022</b>.</p>	
	<p>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.</p>	
	<p>If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA by email to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> or telephone 020 7432 3011</p>	
	<p><b>Impacted Parties:</b> DNO parties, IDNO parties</p>	
	<p><b>Impacted Clauses:</b> Schedule 29 new clauses</p>	

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Any questions?

Contact:

**Code Administrator**



**DCUSA@electralink.co.uk**



**0207 432 3008**

Proposer:

**Dia Orodan**



**Diandra.Orodan@bu-uk.co.uk**



**07711 370067**

## Timetable

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

### Change Proposal timetable

Activity	Date
Initial Assessment Report Approved by Panel	20 October 2021
Consultation issued to Parties	21 March 2022
Change Report approved by Panel	11 May 2022
Change Report issued for Voting	20 May 2022
Party Voting Ends	14 June 2022
Change Declaration issued to Authority	16 June 2022
Authority Decision	July 2022
Implementation	01 April 2024

## 1 Executive 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 (Attachment 5) 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, who incur the charge, 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 the Electricity Network Company and seeks to change the allocation of the Smart Meter Communication Licence Fee to allow LDNOs to recover all of the Smart Meter Communication Licence Fee as they are incurred by the Distribution System providing the last mile of the network.
- 1.4 Currently, Smart Meter Communication Licence Fees are calculated and charged to Distributors on a £ per MPAN basis in accordance with 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 Charges 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 (adopting the same approach as the Ofgem Licence Fee). The inclusion of the Smart Meter Communication Licence Fees would be in addition to the

costs already considered in the determination of the cost driver. These fees will be converted from nominal prices to 2007/08 prices in line with the rest of the costs within the PCDM.

## 2 Governance

### Justification Part 1 Matter

- 2.1 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, as such, meets the criteria of Paragraph 9.4.2 (B) of DCUSA.

### Requested Next Steps

- 2.2 The Panel considered that the Working Group have carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 395.
- 2.3 The DCUSA Panel recommends that this CP:
- Be issued to Parties for Voting.

## 3 Why Change?

### Background of DCP 386

- 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 at the point of this CP being raised.
- 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 Smart Meter Communication Licence Fee, the costs associated with the Smart Meter Communication 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 reflective 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 Communication 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 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).

## **4 Solution**

### **DCP 395 Working Group Assessment**

- 4.1 The DCUSA Panel established a Working Group to assess DCP 395. This Working Group consists of DNO and IDNO 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](http://www.dcusa.co.uk).

### **DCP 395 Proposed Solution and Consultation**

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

Points raised	Option 1 Allocation Driver calculation		Option 2 Additional revenue to be shared	
	Pros	Cons	Pros	Cons
Implementation process	Easy		Easy	
Modelling change to CDCM	None		None	
PCDM principles	Followed			Moving away

<b>Modelling change to PCDM</b>	Same approach to how the Ofgem licence fee is dealt with in the PCDM	To introduce new cost item		To introduce new cost item
	Retains the allocation driver approach			Moves away from a cost allocation driver approach
<b>Modelling accuracy</b>	Likely to be more accurate			Not as accurate
		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.
<b>Cost reflectivity</b>	More than Option 2			Less 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 Ofgem Licence Fee in DCP306<sup>1</sup> (Treatment of Ofgem Licence Fees within the PCDM) and was considered to be more cost reflective.
- 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 Ofgem 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 service network level. The Working Group concluded that from a pragmatic point of view it was sensible to allocate the licence fee at the LV service network level rather than at each voltage level. This would reduce cost reflectivity (likely to be immaterial) but improve simplicity.

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

- 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 from 2018. The figures provided by the DNOs' Nominated Calculation Agent for the LV network was 99.91%.
- 4.7 Based on these figures, the Working Group concluded that the allocation of the Smart Meter Communication Licence Fee will be applied to the LV service network level for this change.
- 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 the impact of the allocation of the DCC charges was proportionate to the rest of the costs in the PCDM Opex Allocation Driver calculation.
- 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 Ofgem 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.
- 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 sourced from the CDCM each year and converted to the 2007/08 price base using indexation.

## DCP 395 Consultation

- 4.11 In order to seek industry feedback on the above proposed solution, the DCP 395 Working Group issued a consultation to industry.
- 4.12 The Working Group received 8 responses to the consultation comprising of four DNOs and four IDNOs. The full response (confidential responses excluded) to the consultation and Working Group feedback can be found in Attachment 3. The responses are summarised below.

### Q1: Do you understand the intent of the CP?

- 4.13 All respondents understood the intent of this CP.

### Q2: Are you supportive of the principles of the CP?

- 4.14 A majority of respondents were supportive of the principles of this change. One respondent suggested an alternative solution, and this is reviewed further in response to question 3.

### Q3: Do you agree that Option 1 is the correct approach? Please provide your rationale.

- 4.15 A majority of respondents were supportive of option 1. One respondent proposed an alternative approach by making changes to the CDCM to allocate a direct pass-through of the Ofgem Licence Fees.
- 4.16 This alternative solution was considered further by the Working Group and the conclusions are detailed later in this Change Report.

**Q4: Is the allocation to LV level the correct approach? Please provide your rationale.**

- 4.17 A majority of respondents agreed that the allocation to LV service network level is the correct approach. One respondent stated that the most cost reflective allocation would be to each voltage level.
- 4.18 Allocation of Smart Meter Communication Licence Fees was considered further by the Working Group and the conclusions are detailed later in this Change Report.

**Q5: Is deflating the values to 2007/08 levels the correct approach? Please provide your rationale.**

- 4.19 A majority of respondents agreed with the approach of deflating the values to 2007/08 level. One respondent stated their preferred approach would be the alternative solution posed in question 3.

**Q6: Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.**

- 4.20 All respondents agree that this CP would better facilitate the DCUSA Charging Objectives. This ranges from Charging Objective 2, 3, 4 and 6.
- 4.21 At a high level, the following table sets out which DCUSA Charging Objectives they believed were better facilitated.

Respondent	Charging Objective 2	Charging Objective 3	Charging Objective 4	Charging Objective 6
1.	Positive	Positive		
2.	Positive	Positive		
3.	Positive	Positive		
4.	Positive	Positive		Positive
5.		Positive		
6.	Positive	Positive		
7.	Positive	Positive		
8.		Positive	Positive	

**Q7: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?**



- 4.22 A majority of respondents do not believe there are any wider industry developments that may impact upon or be impacted by this CP. A couple of respondents noted the Ofgem DUoS SCR which will be coming in the future.
- 4.23 The Working Group considered the upcoming Ofgem DuoS SCR and this analysis is detailed later in this Change Report.

#### **Q8: Are you supportive of the proposed implementation date?**

- 4.24 All respondents were supportive of the proposed implementation date of 01 April 2024.

#### **Q9: Do you have any comments on the draft legal text?**

- 4.25 A majority of respondents were happy with the proposed legal text. One respondent suggested removing the word current from the below or defining what “current” means.
- ‘Where PI2007/08 is the indexation in 2007/08 and Pit is the indexation in the current charging year.’
- 4.26 The above comment was considered by the Working Group and the conclusions are detailed later in this Change Report.

#### **Q10: Do you have any other comments?**

- 4.27 There were no other comments received.

#### **Working Group Conclusions and next steps**

- 4.28 The Working Group identified the following areas of further work having discussed the parties’ responses to the consultation:
- Review the alternative solution proposed;
  - Agree how the Smart Meter Communication Licence Fees should be allocated;
  - Agree what values should be used for Smart Meter Communication Licence Fees;
  - Consider Ofgem DuoS SCR (see Section 7); and
  - Finalise Legal Text.

#### **Alternative Solution**

- 4.29 The Working Group considered one respondent’s alternative solution to allocate the Smart Meter Communication Licence Fees by taking the £/MPAN value and allocating it to the appropriate customers. This would require a change to the CDCM to allocate as a direct pass-through of the Ofgem Licence Fees.
- 4.30 The Working Group concluded that if this is placed in the CDCM, it would affect the all-the-way tariffs, which is outside of the intent of this change. It is also against the principles of allocating costs in two different models. It was also noted that this would require additional modelling, which would delay implementation by a further 12 months.

### Allocation of Smart Meter Communication Licence Fees

- 4.31 The Working Group considered one respondent's comment that the most cost reflective allocation would be to each voltage level.
- 4.32 After further consideration the Working Group concluded that based on the evidence that 99.91% of customers are forecast to be connected at the LV service network level, the allocation of the Smart Meter Communication Licence Fee should be applied to the LV service network level for this change. As concluded in the implemented DCP 306, this would reduce cost reflectivity (likely to be immaterial) but improve simplicity. In addition, it would adopt the same approach as the Licence Fee.

### Smart Meter Communication Licence Fees Values

- 4.33 As stated above, a majority of respondents agreed with the approach of deflating the values to 2007/08 level and therefore the Working Group agreed that the Smart Meter Communication Licence Fees will be sourced from the CDCM each year and converted to the 2007/08 price base using indexation.

### Legal Text

- 4.34 As stated above one respondent suggested removing the word current from the below legal text or defining what "current" means.

'Where PI<sub>2007/08</sub> is the indexation in 2007/08 and PI<sub>t</sub> is the indexation in the current charging year.'

- 4.35 After review, the Working Group agreed with the suggestion of removing the word "current" from the above text. The main reason for this is that within DCUSA, the phrase "charging year" is a defined term and the definition achieves the desired outcome of the legal text.
- 4.36 The updated legal text can be found in Attachment 1.

### Summary

- 4.37 After review of the consultation responses, the DCP 395 Working Group concludes that the solution for DCP 395 should be as below.
- 4.38 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. The inclusion of the Smart Meter Communication Licence Fees would be in addition to the costs already considered in the determination of the cost driver.

## 5 Code Specific Matters

### Reference Documents

- 5.1 None

## 6 Relevant Objectives

### Assessment Against the DCUSA Objectives

6.1 For a DCUSA CP to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. There are five General Objectives and six Charging Objectives. DCP 386 will be measured against the DCUSA Charging Objectives, which are set out in the table below:

6.1.1.1 DCUSA Charging Objectives	Identified impact
<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	Positive
<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

6.2 The Working Group unanimously agreed that Charging Objective 2, 3 and 4 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. Charging Objective 4 is positively impacted by this CP since this change reflects the development of the Smart Meter Communication Licence Fee being introduced and the cost being applied appropriately in the PCDM model.

## 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 The Working Group considered the Ofgem DUoS Charges SCR and the recent Ofgem [decision](#) published in February to descope from the current Electricity Network Access and Forward-Looking Charges SCR.
- 7.2 The Working Group noted that the LDNO charging is not specifically included within the scope of the DUoS Charges SCR and that, on page 11 of their decision, Ofgem noted that “It would not be practicable to hold up the open governance process, especially where there are improvements that can be made in the short term that would bring benefit to consumers”.

### Does this Change Proposal Impact Other Codes?

BSC	<input type="checkbox"/>
CUSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
REC	<input type="checkbox"/>
SEC	<input type="checkbox"/>
Other	<input type="checkbox"/>
None	<input checked="" type="checkbox"/>

### Consumer Impacts

- 7.3 This change proposal amends both the CDCM and the PCDM.
- 7.4 The CDCM amendment (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.
- 7.5 The PCDM (Attachment 3) 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.

### Modelling Impact Assessment

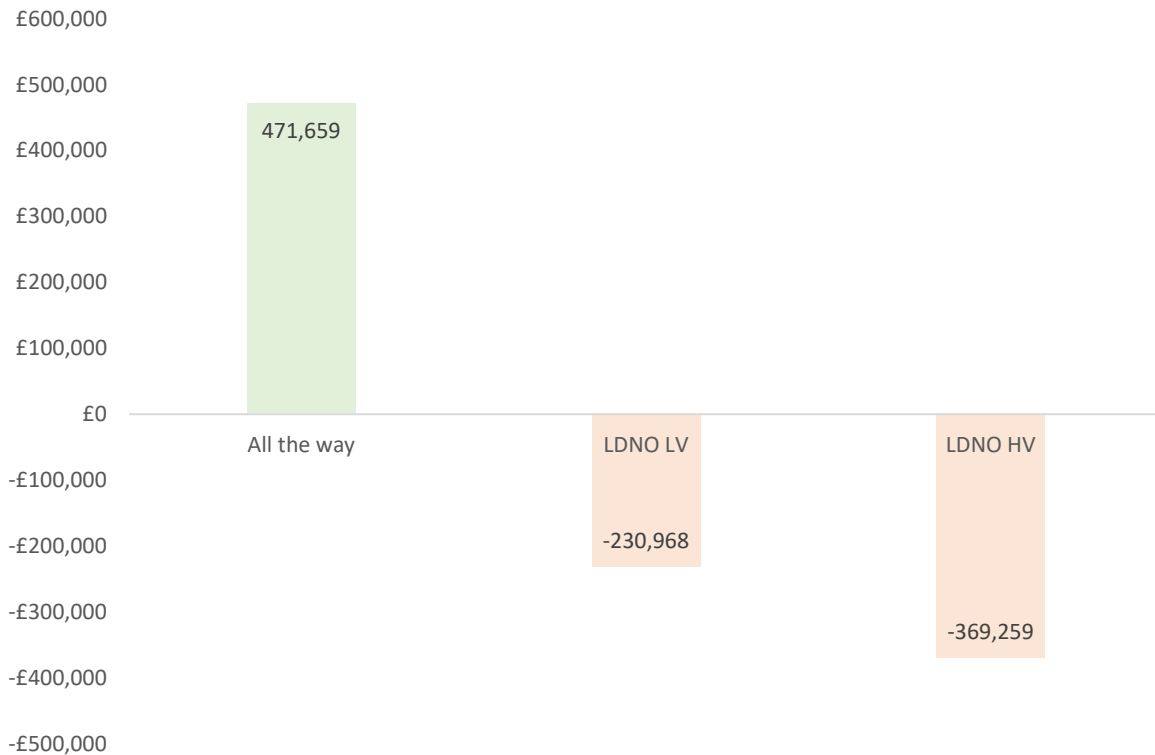
- 7.6 Below provides a summary of the modelling impact assessment. Full details of the modelling analysis, along with a summary document can be found in Attachment 4.

- 7.7 DCP395 raises the proportion of cost deemed to be associated with the LV service network level in the PCDM, and therefore reduces the proportion of cost deemed to be associated with higher network levels. Consequently, the proportion of the bill which should be retained by LDNOs, as calculated in the PCDM, is increased with respect to connections at the LV service network level but decreased for connections at higher network levels.
- 7.8 In percentage terms, and for the value of Pass-through Smart Meter Communication Licence Costs specified in 2023/24 CDCM models, impacts on LDNO discounts range from +0.8% for LV-connected users with an LV LDNO Boundary (EMID; WMID; SWALES) to -0.2% for some connections with an HVplus LDNO Boundary (NPgN; SSES; WMID).
- 7.9 DCP 395 has no impact on the four DNO licence areas which report no Pass-through Smart Meter Communication Licence Costs in 2023/24 CDCM models. The Working Group has requested feedback from the DNOs in question on this observation (i.e how these costs are treated in their models). That is, the value of DCC costs being allocated to the LV service network level in the PCDM is £0 for these DNOs, which therefore does not have any effect on LDNO discounts. At the time of submission of this Change Report no responses have been received.
- 7.10 Figure 4.1: LDNO discounts (%), 2023-24, impact of DCP395.



Boundary : user connection	ENWL	NPgN	NPgY	SSEH	SSES	SPD	SPMW	LPN	SPN	EPN	EMID	WMID	WEST	VALES
LDNO LV: LV user	0.0%	0.6%	0.6%	0.6%	0.7%	0.6%	0.6%	0.0%	0.0%	0.0%	0.8%	0.8%	0.6%	0.8%
LDNO HV: LV user	0.0%	0.3%	0.4%	0.3%	0.4%	0.3%	0.4%	0.0%	0.0%	0.0%	0.5%	0.5%	0.4%	0.4%
LDNO HV: LV Sub user	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.0%
LDNO HV: HV user	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LDNO 0000: LV demand	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LDNO 0000: LV Sub demand or LV generation	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.0%
LDNO 0000: HV demand or LV Sub generation	0.0%	0.0%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.0%
LDNO 0000: HV generation	0.0%	0.0%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
LDNO 132kV: LV demand	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	0.2%	0.2%	0.1%	0.1%
LDNO 132kV: LV Sub demand or LV generation	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
LDNO 132kV: HV demand or LV Sub generation	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
LDNO 132kV: HV generation	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	-0.1%	-0.1%
LDNO 132kV/EHV: LV demand	0.0%	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	0.3%	0.2%	0.1%	0.2%
LDNO 132kV/EHV: LV Sub demand or LV generation	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
LDNO 132kV/EHV: HV demand or LV Sub generation	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
LDNO 132kV/EHV: HV generation	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LDNO EHV: LV demand	0.0%	0.1%	0.1%	0.1%	0.2%	0.1%	0.2%	0.0%	0.0%	0.0%	0.3%	0.3%	0.2%	0.2%
LDNO EHV: LV Sub demand or LV generation	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
LDNO EHV: HV demand or LV Sub generation	0.0%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
LDNO EHV: HV generation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LDNO HVplus: LV demand	0.0%	0.2%	0.2%	0.1%	0.2%	0.2%	0.2%	0.0%	0.0%	0.0%	0.4%	0.3%	0.2%	0.2%
LDNO HVplus: LV Sub demand or LV generation	0.0%	-0.2%	-0.1%	-0.1%	-0.2%	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.2%	-0.1%	-0.1%
LDNO HVplus: HV demand or LV Sub generation	0.0%	-0.2%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	-0.1%	-0.1%	-0.1%	-0.1%
LDNO HVplus: HV generation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

- 7.11 In £ terms, DCP395 implies that LDNOs will be obliged to pass less of the end-user's charge onto the incumbent DNO with respect to LV-connected customers, but more with respect to customers connected at higher network levels. For a Domestic Aggregated customer (with typical volumes), LDNOs would be permitted to retain up to £0.94 more per year with respect to an LV boundary level, or £0.60 more with respect to an HV boundary level (SPMW). For the largest band of HV Site Specific customer (with typical volumes), LDNOs would be obliged to pass up to £3,692.44 more to the incumbent DNO with respect to an HV boundary level (SSEH).
- 7.12 The aggregate impact on LDNO revenues cannot be calculated without information on EDCM charges or the customer base of individual LDNOs. However, LDNO portfolios with a high proportion of LV-connected customers are likely to retain more charge revenue as a result of DCP395. Indeed, based on the LDNO volumes in published CDCM models, the net revenue accruing to DNOs with respect to LDNO-connected CDCM customers would fall by £600,227 (aggregated across GB). That is, LDNOs would retain £600,227 more with respect to CDCM customers. This amount may change after interactions between models are resolved. The Working Group cannot say what the impact on net revenue accruing from EDCM customers would be, or whether it would be positive or negative. For context, the sum of Pass-through Smart Meter Communication Licence Costs in 2023/24 CDCM models was £28,665,188.
- 7.13 AsDNOs are permitted to recover a fixed revenue allowance, a net shortfall in revenue from LDNO-connected customers must be made up for by higher charges for all-the-way customers, as determined by the revenue-matching stage in the CDCM model. DCP 395 would therefore increase bills by up to £0.04 per year for a Domestic Aggregated customer and up to £25.71 per year for the largest band of HV Site Specific customer (NPgN).
- 7.14 Figure 4.2 illustrates the difference in net revenue recovered from all-the-way, LDNO LV and LDNO HV-connected customers charged under the CDCM, aggregated across GB. Note that the increase in net revenue from all-the-way customers does not perfectly offset the decrease from LDNO-connected customers due to charge rounding.



7.15 The intent of DCP395, as described in the modelling specification for this service request, is to “enable the downstream LDNO to recover the costs associated with DCC Charges in full”. This intent cannot be implemented precisely because DCC Charges are not apportioned in a precise manner in the CDCM – they are spread across network levels as part of the residual banded fixed charge. The DCUSA modeller was able to compare the impact of DCP395 to the component of the residual fixed charge through which DCC costs are currently recovered and which LDNOs are not currently permitted to retain. From the DCUSA modeller’s cursory analysis, these seem to be in the same order of magnitude (but should not be expected to be exactly equivalent).

7.16 A Working Group member populated the models with their data and verified that the output is the same as in the impact assessment before iteration. As expected, the iteration has only a very small impact, with the biggest variance between the iterated and non-iterated models being -0.006% for one tariff and less than that for all others.

## Environmental Impacts

7.17 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.



## 8 Implementation

### Proposed Implementation Date

- 8.1 This Change Proposal will impact tariffs, so it is proposed that DCP 395 needs to be agreed in time for the next tariff cycle and implemented on 1 April 2024.

## 9 Legal Text

- 9.1 The legal text is provided as Attachment 1.
- 9.2 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 service network level
- 9.3 Costs included in the CDCM target revenue as described in Table 1 of Schedule 15 as “Pass-through Smart Meter Communication Licence Costs” shall be expressed in 2007/08 prices and shall be added to the final allocation of operating expenditure and be 100% allocated directly to the LV Services level and treated as indirect costs.
- 9.4 The Smart Meter Communication Licence Fee is to be sourced from the ‘General Inputs’ sheet of the CDCM and converted into 2007/08 price base and a formula has been included to calculate the value.

## 10 Recommendations

### Panel’s Recommendation

- 10.1 The Panel approved this Change Report on 18 May 2022. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 395.
- 10.2 The Panel have recommended that this report is issued for Voting and DCUSA Parties should consider whether they wish to submit views regarding this Change Proposal.

## 11 Attachments

- Attachment 1: DCP 395 Legal Text
- Attachment 2: DCP 395 Voting Form
- Attachment 3: DCP 395 Consultation and Industry Responses
- Attachment 4: DCP 395 CDCM Model and PCDM Model
- Attachment 5: DCP 395 Change Proposal