

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h2>DCP 408:</h2> <h3>Energy Bills Support Scheme (EBSS) cost-recovery treatment</h3> <p><i>Date raised:</i> 11 May 2022</p> <p><i>Proposer Name:</i> Lee Wells</p> <p><i>Company Name:</i> Northern Powergrid</p> <p><i>Company Category:</i> DNO</p>	01 – Change Proposal	
	02 – Consultation	
	03 – Change Report	
	04 – Change Declaration	
<p><b>Purpose of Change Proposal:</b></p> <p>The intent of this Change Proposal is to ensure that the recovery of costs of the Energy Bills Support Scheme (EBSS) is in line with policy intent set by the Department for Business, Energy &amp; Industrial Strategy (BEIS), and that there is consistency between DNO licence and DCUSA obligations.</p>		
	<p><b>Governance:</b></p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> <li>• Treated as a Part 1 Matter</li> <li>• Treated as an Urgent Change</li> <li>• Proceed to Working Group</li> </ul> <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p>	
		<p><b>Impacted Parties:</b></p> <p>DNOs, IDNOs and Suppliers.</p>
		<p><b>Impacted Clauses:</b></p> <p>Schedules 15-18 (multiple paragraphs)</p>

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Indicative Timeline			
<b>The Secretariat recommends the following timetable:</b>			
Initial Assessment Report	18 May 2022		
Consultation Issued to Industry Participants	TBC		
Change Report Approved by Panel	14 September 2022		
Change Report issued for Voting	16 September 2022		
Party Voting Closes	07 October 2022		
Change Declaration Issued to Parties	11 October 2022		
Change Declaration Issued to Authority	11 October 2022		
Authority Decision	November 2022		

## 1 Summary

### What?

- 1.1 On 11 April 2022, BEIS published its EBSS consultation ‘managing the impact of the energy price shock on consumer bills’.<sup>1</sup> The EBSS seeks to support domestic customers with the costs of rising energy bills through a £200 reduction to energy supply bills, to be given to domestic customers<sup>2</sup> by suppliers from October 2022. The £200 is – in line with BEIS’ preference – likely to be recovered through distribution use of system (DUoS) charges at (typically) £40 per domestic customer over the five-year period starting from 1 April 2023, from domestic customer fixed charges (i.e. on a p/MPAN/day basis).<sup>3</sup> However, it is possible that – e.g. through feedback received in response to the consultation – that BEIS consider a volumetric approach to be more appropriate.
- 1.2 Ofgem intends on modifying the electricity distribution licence to include obligations to pay and recover the EBSS cost in line with a Secretary of State direction.<sup>4</sup> To facilitate cost-recovery, Ofgem proposes to introduce a new EBSS pass-through cost allowance.
- 1.3 This Change Proposal has been raised out of necessity to ensure that the BEIS’ policy may be implemented correctly and as efficiently as possible. This Change Proposal is being raised now, ahead of the BEIS decision on the shape of the EBSS policy, and before Ofgem’s modifications to the electricity distribution licence are finalised, so that changes to the DCUSA may be progressed in parallel to allow BEIS and Ofgem’s policy decisions to be enacted.

### Why?

- 1.4 If this Change Proposal is not made, the EBSS pass-through costs would be recovered via revenue matching (i.e. ‘scaling’ or the ‘residual’) which would increase fixed charges for all Final Demand Sites<sup>5</sup> and volumetric charges for unmetered supplies (UMS).<sup>6</sup> An LDNO (under its relative price control) would likely increase its DUoS charges to users connected to its network in line with the increase in the host DNO’s charges; such that domestic customers connected to LDNO networks would contribute consistently with those connected direct to a DNO. However, the increase in revenue matching would be subject to LDNO discounts; such that the host DNO charges to the LDNO would increase, but only by a proportion of the increase in DUoS charges for customers connected directly to the host DNO. LDNOs would therefore see an increased margin.
- 1.5 Without changes to Schedule 15-18, the proposed modifications to the electricity distribution licence cannot in isolation deliver the policy intent. In the absence of this (or another) Change Proposal being implemented, and unless DNOs included the new EBSS pass-through cost allowance in an existing ‘term’ (e.g. a different pass-through cost allowance), the DNO would also not be able to recover the EBSS costs

<sup>1</sup> <https://www.gov.uk/government/consultations/technical-proposals-for-the-energy-bills-support-scheme>

<sup>2</sup> On a per Meter Point Administration Number (MPAN basis)

<sup>3</sup> DNOs published DUoS charges for regulatory year 2023/24 in December 2021 and therefore it is expected that DNOs will need to republish these charges subject to an Authority direction to disapply the requirement to provide 15 months’ notice of changes to the charges.

<sup>4</sup> <https://www.ofgem.gov.uk/publications/ebss-energy-bill-support-scheme-statutory-consultation-networks>

<sup>5</sup> As defined in Schedule 32 and includes non-domestic customers.

<sup>6</sup> Fixed charges are not levied on UMS: an unmetered ‘inventory’ can include different volumes of UMS.

without a change to Schedule 15; which breaks down DNO Allowed Distribution Network Revenue<sup>7</sup> by constituent parts, and ultimately defines the basis of the amount of revenue to be recovered from DUoS charges. In line with policy intent, this would mean DNOs do not pay the 'Payment Body' (if DUoS charges do not increase to recover EBSS costs), and therefore government would not recover its costs until this was remedied.

## How?

- 1.6 There are two potential options being considered by BEIS, both of which are based on the policy intent to allocate the EBSS pass-through cost allowance to domestic customers via the application of either:
  1. fixed charges, which is in line with current policy intent; or
  2. volumetric charges, if BEIS decides to change their current policy intent.
- 1.7 This Change Proposal should not be implemented if BEIS's policy intent is not aligned with these principles, nor if the associated changes to the electricity distribution licence are not implemented (which is subject to the statutory consultation and subsequent 'standstill' period, where the final licence decision can be challenged). This is in line with precedent set in previous Change Proposals.<sup>8</sup>
- 1.8 As such, with this Change Proposal being a Part 1 Matter, it is anticipated that the Authority would only approve one of the two options that will be developed by this Change Proposal subject to its approval of consistent changes to the electricity distribution licence and in line with BEIS's final policy decision.

## 2 Governance

### Justification for Part 1 Matter

- 2.1 This Change Proposal will have a significant adverse commercial impact on Parties if not implemented in line with Ofgem's modifications to the electricity distribution licence and BEIS's policy intent. It may result in DNOs being in breach of the Relevant Instrument (i.e. the electricity distribution licence in this case) and additionally cause significant and material mismatches between revenues from domestic customers and payments to the Payment Body. DNOs must be able to recover the EBSS pass-through costs to enable payment to the Payment Body. Therefore this Change Proposal should also be treated as an Urgent Change.

### Requested Next Steps

- 2.2 This Change Proposal should:
  - Be treated as a Part 1 Matter;
  - Be treated as an Urgent Change; and
  - Proceed to Working Group.
- 2.3 Timely implementation of this Change Proposal is crucial to ensure that DNOs have sufficient time to publish DUoS charges to recover (and pay) the EBSS costs, whilst allowing the essential time to test the

<sup>7</sup> As defined in the electricity distribution licence i.e. DNO total allowed revenue in a regulatory year.

<sup>8</sup> E.g. DCP 332 'Appropriate treatment and allocation of Last Resort Supply Payment claim costs': <https://www.dcusa.co.uk/group/dcp-332-working-group/>

revised models that will discharge the revised methodologies and then carry out internal assurance on the resulting DUoS charges; whilst providing the requisite notice period for changes to DUoS charges.<sup>9</sup>

## 3 Why Change?

- 3.1 EBSS is a government policy designed to support domestic customers because of increasing energy costs, and Ofgem has proposed modifications to the electricity distribution licence to facilitate recovery of these policy costs and for DNOs to have obligations to pay the Payment Body.
- 3.2 Changes to Schedule 15 are needed to reflect the introduction of the new EBSS pass-through cost, and changes to Schedules 16-18 are needed to ensure that: (i) the costs are recovered in line with policy intent; and (ii) LDNO margins are not affected.
- 3.3 We understand that BEIS currently have a preference for the Recovery of the EBSS costs to be via domestic customer fixed charges but that it is also possible that this may change given it is part of BEIS's consultation process.
- 3.4 These costs are not network costs, therefore the EBSS cost-recovery should not signal how user behaviour affects a distribution network. Cost-recovery should promote simplicity and avoid an incentive for customers to avoid costs through inefficient volumetric price signals, which would result in costs increasingly falling on those that cannot avoid them, including the most vulnerable.
- 3.5 Further, the incremental increase in fixed charges will be consistent across all DNOs, where the same would not be true for the incremental change in charges if a volumetric approach was used.<sup>10</sup> A fixed charge approach is transparent, predictable, and aligns with the principles set out in Ofgem's Targeted Charging Review (TCR) Significant Code Review (SCR): to (i) reduce harmful distortions; (ii) improve fairness; and (iii) is proportionate and practical.<sup>11</sup> However, this Change Proposal has been raised to ensure that both the fixed charge recovery option and the volumetric charge recovery option are fully developed such that either option can be implemented as efficiently as possible, once BEIS have indicated their preference.
- 3.6 The EBSS will apply equally to domestic customers connected to DNO and Licensed Distribution Network Operator (LDNO) networks. All domestic customers should therefore contribute to the recovery of the EBSS costs.

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<sup>9</sup> If (as expected) the Authority directs that the need to provide 15 months' notice of changes to DUoS charges for the 2023/24 regulatory year do not apply, DNOs would need to publish revised charges by 20 February 2023. It should also be noted that, during the development and implementation of this Change Proposal, DNOs (in particular) will be heavily involved in: (i) implementing 'phase 1' of the Access and Forward-Looking Charges Significant Code Review (the 'Access SCR'); (ii) developing proposals for 'phase 2' of the Access SCR (the 'DUoS SCR'); (iii) draft and final determinations, and licence changes to implement, the RIIO-ED2 price control settlement; and (iv) further expected claims for a Last Resort Supply Payment (LRSP) to be recovered and paid in the 2023/24 regulatory year. As such, DNOs anticipate this is a crucial 'validation' stage.

<sup>10</sup> e.g. due to the different usage (total and profile) per customer.

<sup>11</sup> <https://www.ofgem.gov.uk/publications/targeted-charging-review-decision-and-impact-assessment>

## 4 Solution and Legal Text

### Legal Text

4.1 As set out previously in this document there are two potential options that BEIS are considering with respect to the Recovery of the EBSS costs and thus this Change Proposal needs to account for both options as the final decision on which option is to be taken forward not yet known. To assist in understanding the difference between the two options, we provide the following:

#### **Option A - EBSS costs recovered via fixed charges**

4.2 The Draft redlined legal text associated with Option A which covers proposed amendments to Schedules 15-18 is provided as attachment 1.

#### **Option B - EBSS costs recovered via volumetric charges**

4.3 The Draft redlined legal text associated with Option B which covers proposed amendments to Schedules 15-18 is provided as attachment 2.

### Legal Text Commentary

4.4 Schedule 15 is amended to introduce the new EBSS pass-through cost in Table 1 only.

4.5 Schedule 16 amends calculation steps 3 and 5 to ensure that revenue matching does not include the EBSS pass-through cost allowance, which is then allocated to domestic customer either via fixed or volumetric charges, and with the same absolute adjustment applied to tariffs for customers connected to the host DNO and LDNOs.

4.6 Schedules 17-18 are amended to ensure that revenue relating to the new EBSS pass-through costs is excluded from the calculation of tariffs for Designated EHV Properties, with the adjustments calculated in Schedule 16 then being applied to LDNO charges calculated in Schedules 17-18.

## 5 Code Specific Matters

### Reference Documents

5.1 Links to reference documents are included in footnotes throughout.

## 6 Relevant Objectives

6.1 Of the DCUSA Charging Objectives contained in the table below, we believe that this Change Proposal will better facilitate the following Charging Objectives:

- 1) **Charging objective one:** better facilitated by ensuring that the DNOs are compliant with the proposed modifications to the electricity distribution licence and any associated Secretary of State direction.
- 2) **Charging objective two:** better facilitated as it will avoid the distortions which would otherwise occur in tariffs for LDNOs, impacting their margins.

- 3) **Charging objective three:** depending on the option that is ultimately selected, it is possible that Charging objective three could be adversely impacted but offset by being better facilitated by ensuring that EBSS costs are allocated to customers in line with BEIS policy intent. The EBSS costs do not reflect, nor will they be reduced by, changes in network usage – therefore this objective may be better facilitated by any fixed charge recovery option. It should also be noted that the proposed £200 reduction in domestic customer energy bills is also not linked to usage, therefore a volumetric charge recovery option has a negative impact on this objective – this option will therefore result in higher charges for domestic customers with higher usage, including the most vulnerable, whilst domestic customers will all receive the same common £200 credit per MPAN regardless of usage.
- 4) **Charging objective four:** better facilitated by ensuring that EBSS costs are allocated to customers in line with BEIS policy intent and ultimately the modifications to the electricity distribution licence and any associated Secretary of State direction.

DCUSA Charging Objectives	Identified impact
<input checked="" 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	Positive
<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 / Negative
<input checked="" 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

## 7 Impacts & Other Considerations

7.1 This Change Proposal will impact DNOs, IDNOs and Suppliers.

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

7.2 This Change Proposal will not directly impact an existing (or known probable) SCR or any other significant industry change project. The DUoS SCR is expected to further consider how costs are recovered but not

specific to the EBSS policy costs and which cannot wait until the DUoS SCR is implemented; which is expected to be post-2025.

## Consideration of Wider Industry Impacts

7.3 This Change Proposal has been discussed with Ofgem and the Energy Networks Association (ENA). Ofgem requested that DNOs would raise this and any other appropriate Change Proposals to facilitate EBSS cost recovery in line with the proposed licence modifications and proposed BEIS policy intent.

## Does this Change Proposal Impact Other Codes?

- |                     |                          |            |                                     |
|---------------------|--------------------------|------------|-------------------------------------|
| BSC.....            | <input type="checkbox"/> | MRA.....   | <input type="checkbox"/>            |
| CUSC.....           | <input type="checkbox"/> | SEC.....   | <input type="checkbox"/>            |
| Grid Code.....      | <input type="checkbox"/> | Other..... | <input type="checkbox"/>            |
| Distribution Code.. | <input type="checkbox"/> | None.....  | <input checked="" type="checkbox"/> |

## Confidentiality

7.4 Non-confidential.

## 8 Implementation

### Proposed Implementation Date

- 8.1 Upon, and subject to, implementation of the proposed changes to the electricity distribution licence, this Change Proposal should be implemented in DUoS charges effective from 1 April 2023. This is in line with BEIS policy intent that DNOs pay and recover the EBSS costs from regulatory year 2023/24.
- 8.2 It is recognised, including by Ofgem, that DNOs and LDNOs will therefore require the necessary directions to disapply the respective 15 and 14 months' notice period of changes to DUoS charges in accordance with Clause 19.1B.

## 9 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.*