DCP 328 Working Group Meeting 35

16 May 2022 at 10:00 - Web-Conference

Attendee	Company
Working Group Members	
Edda Dirk [ED]	SSE Generation
Dave Wornell [DW]	WPD
Chris Ong [CO]	UKPN
Tom Cadge [TC]	BUUK
Kara Burke [KB]	NPG
David Fewings [DF]	Inenco
Shannon Murray [SM]	Ofgem
Code Administrator	
John Lawton [JL] (Chair)	ElectraLink
Richard Colwill [RC] (Technical Secretariat)	ElectraLink

1. Administration

1.1 The Working Group reviewed the "Competition Law Guidance". All Working Group members agreed to be bound by the Competition Law Guidance for the duration of the meeting.

1.2 The Working Group reviewed the minutes from the last meeting. Some amendments were made to the descriptions of the proposed options within the table (paragraph 3.3) to better articulate the approach being suggested. The updated minutes can be found in Attachment 1.

1.3 The Working Group noted the items on the actions list from the last meeting. Updates on all actions are provided in Appendix A.

2. Purpose of the Meeting

2.1 The Chair set out that the purpose of the meeting was to review and decide on the best solution to take forward and determine next steps.

3. Determine Preferred Solution

3.1 At the last meeting the Working Group identified four possible approaches (see below). An action was taken for members to consider their preferred approach for discussion and agreement on way forward at this meeting. One member raised an alternative to option 3 below, where the rebate option is reintroduced but just for LES customers connected to an IDNO Network. The pros and cons for this option were considered and can be seen in the table below (option 3a).

3.2 The Working Group reviewed the pros and cons for each option and considered the impact assessment for fully settled customers on LES connected to the LDNO Network. The table below also details this analysis.

3.3 Working Group members were asked to vote on their preferred approach. Six Working Group members on the call were offered a vote. Three members voted for option 2, one member voted for option 3a, and there were two abstentions.

3.4 The Working Group concluded that option 2 will be progressed further.

Options	Pros	Cons	Impact Assessment for fully settled customers on LES connected to the LDNO Network
Option 1 – Just to have HV/ LV tiers (exclude the LES-HV/LV tariff) not the LDNO LES tariffs	- Least change required - Maintains the original proposed solution for DCP 328 - No need for further consultation - Earlier implementation than other options	- Results in some tariffs having negative margins - Doesn't address margin squeeze concerns	- If it is based 0.5% of customers it is between 0.14% and 0.43% - At 3% of customers it is between 1.1% and 3.1% (3.1% is the lowest revenue value) - The above is based on average consumption from figures in the CDCM.
Option 2 – Just to have HV/ LV tiers (exclude the LES-HV/LV tariff) and cap average consumption on LDNO margin	- Cap the tariffs to avoid negative margins for connections with average consumption	- Still some margin squeeze although reduced from option 1	- There has been no impact assessment on this solution, however it is believed this would have less impact than above.

Option 3 – Just to have HV/ LV tiers (exclude the LES-HV/LV tariff) and reintroduce the rebate option but request goes to the DNO.	- Doesn't introduce new tariffs into billing systems - Overcomes IDNO margin squeeze concern as they are exempt from this process	- Some may result in zero return due to the averaging process - Not reflective of what it costs the IDNO network - Option is not reflective of consultation feedback (i.e most were against this option in previous consultations, although option has changed in nature)	- Zero impact on the IDNO as they are excluded from any finance impacts.
Option 3a – Just to have HV/ LV tiers (exclude the LES-HV/LV tariff) and reintroduce the rebate option just for LES customers connected to an IDNO Network.	- Overcomes IDNO margin squeeze concern as they are exempt from this process - Attempts to reduce the administrative burden on DNOs/ IDNOs/ LES Customers (from original option). - Retains the tariff process	- Additional administration on the DNO and IDNO in agreeing the rebate and need to introduce a process on how to recover the money. - Not reflective of what it costs the IDNO network, equally not reflective of the cost on the DNO (i.e overcharges the DNO and undercharges the IDNO).	

Option 4 - Just to have HV/ LV tiers (exclude the LES-HV/LV tariff) and the LES tariffs (concern raised by modeller see December paper)	- It attempts to mitigate the margin squeeze concerns	- Modeller concern - The solution may not make sense conceptually, due to a misapplication of LDNO discounts. The calculation of LDNO discounts implicitly assumes a relationship between the tariff associated with a subset of network level, and the cost of those network levels. The solution proposes applying the LDNO discounts to LES tariffs. This approach does not provide a self-consistent method for calculating tariffs for LES customers serviced by LDNOs. - The modellers also considered the static distributional revenue impact of this change and provided two example situations (Attachment 1) in which the modelling specification received would give rise to outcomes which the working group may not have foreseen. - Introduces lot of new tariffs	

Progression of Option 2 - Just to have HV/ LV tiers (exclude the LES-HV/LV tariff) and cap average consumption on LDNO margin

3.5 The Working Group reviewed the above option in relation to whether the value of the cap should be zero or a positive value.

3.6 The reason for considering the cap is that the impact assessment demonstrated that some tariffs would result in negative margins. Capping at zero would eliminate this risk, however one member noted that there are also additional costs per MPAN. The analysis for this is provided in Attachment 2.

3.7 It was noted that just taking into account business rates, licence fees and DCC charges implies a charge of £6 per MPAN. These costs would be easy to provide evidence for. The analysis also demonstrated that there are additional services that need to be provided to a licence exempt distributor by the licensed upstream distributor. Description of these additional costs are as below:

Service to be provided
Provision of MPANs
Registration services for the MPAN
Management of different arrangements where site is only partially settled
Contract management with suppliers
Facilitating metering arrangements
Facilitating data exchanges with suppliers, agents and settlement
Management of LAFs
DUoS Billing and collection (provision of systems and the service)
Customer call handling
Vulnerable customer management

3.8 It was noted that these costs are harder to identify and that there may also be difficulties sharing the data from a commercial point of view. After discussion, it was agreed that if there is to be a positive cap value then it should be based on current publicly available data (i.e business rates, licence fees and DCC charges)

3.9 The Working Group reviewed the LES/IDNO impact assessment. It was noted that if the cap was set at £6 it would impact 17 tariffs out of a total of 299. If it is capped at zero it impacts 10.

3.10 The Working Group need to determine what the value of the cap should be.

3.11 An action was taken to review the current legal text and modelling documentation to determine where best to articulate the cap (regardless of the value).

3.12 An action was also taken to produce an updated version of the modelling specification for review at the next meeting.

ACTION 35/01: Review current legal text and modelling documentation to determine where the cap best fits.
ACTION 35/02: Produce a draft modelling specification document for review at the next meeting.
ACTION 35/03: Working Group to consider and agreed the value of a cap.

4. Any Other Business

4.1 There were no other items raised.

5. Date of Next Meeting

5.1 The date of the next meeting is set for Monday, 30 May (10am-1pm).

6. Attachments

- Attachment 1: DCP 328 Working Group 34 Minutes
- Attachment 2: DCP 328 Qualitative assessment

APPENDIX A

Open Actions

Action Ref.	Action	Owner	Update
34/02	Working Group to agree what the assumption will be regarding percentage of customers that are LES connected within IDNOs.	All	Ongoing
35/01	Review current legal text and modelling documentation to determine where the cap best fits.	Secretariat	
35/02	Produce a draft modelling specification document for review at the next meeting.	Secretariat	
35/03	Working Group to consider and agreed the value of a cap.	All	

Closed Actions

Action Ref.	Action	Owner	Update
33/01	Undertake an impact assessment on the number of customers that are likely to be affected by the issues described in Section 3, this will help understand the materiality of the issue.	TC	Completed
34/01	Working Group to review each solution along with impact assessments and to determine their preferred approach.	All	Completed
34/03	KB to look at the offsetting impact of other tariffs being increased due to the LES tariffs being decreased.	KB	Completed

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