

**DCUSA CHANGE REPORT**

**DCP 251 – Clarification And Extension Of The Application Of LDNO Tariffs Under The CDCM**

**Executive Summary**

DCP 251 was raised by The Electricity Network Company Limited and seeks to ensure that there the charging methodologies do not impose undue discrimination between licensed and licence-exempt distribution systems

This document presents the Change Report for DCP 251 and invites respondents to vote on the proposed change.

# **PURPOSE**

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## This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP DCP 251 – Clarification and Extension of The Application Of LDNO Tariffs Under The CDCM. 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.

## 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 by **day/month/year**.

# **Background and Summary of DCP 251**

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## This issue was developed and discussed at the Distribution Charging Methodology Forum (DCMF) Methodology Issues Group (MIG) in September 2014 before it was raised as a formal change in October 2015. The issues proposer originally considered how the legal provisions are supposed to work in the case of licence-exempt distribution networks, which have opted for “full settlement” metering and are purchasing a meter point registration service from a licensed distributor. It was determined that these arrangements did not necessarily fall within the remit of DCUSA as they could be fulfilled by bilateral agreements but that a charging methodology issue identified did.

## DCP 251 was raised as a Part 1 Matter by The Electricity Network Company Limited and seeks to:

## Correct drafting errors in the specification of the distribution systems that are eligible for LDNO tariffs under the Common Distribution Charging Methodology (CDCM).

## Ensure that there the charging methodologies do not impose undue discrimination between licensed and licence-exempt distribution systems.

CDCM

## The CDCM currently contains undue discrimination in favour of IDNOs/DNOs compared to operators of equivalent distribution systems that take up their legal right to operate under a licence exemption. In Schedule 16 (CDCM), this change allows the application of LDNO tariffs to be extended to exempt distribution systems subject to strict conditions on metering, openness to competition and duties to provide data. These conditions ensure equivalence with licensed distribution systems.

EDCM

## The EDCM legal text currently wrongly limits the application of LDNO tariffs to “IDNO Parties” and some licence-exempt distribution systems. In practice, companies operating out of their area should be eligible for LDNO tariffs under the EDCM. The EDCM legal text also contains errors and inconsistencies in the definition of customer categories for LDNO systems. The EDCM legal text as varied by DCP 185 does not provide for a 50 per cent discount on indirect costs in cases where the fixed adder is negative. The proposer considers that may have been a drafting error in DCP 185, which this DCP would correct. In Schedules 17 and 18 (EDCM), it corrects the legal drafting as it relates to LDNO systems, including the 50 per cent discount at paragraph 26.11.

## This CP seeks to make the minimum changes necessary to remedy these defects.

# **Working Group**

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## DCP 251 was raised alongside DCP 252 to consider potential updates to both the Common Distribution Charging Methodology (CDCM) and the EHV Distribution Charging Methodology (EDCM). Due to the similar nature of these changes, the DCUSA Panel agreed for both DCPs to be considered by a single Working Group.

## The Working Group consisted of DNO, IDNO and Ofgem 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).

## In line with the duties of the Working Group to evaluate, develop and refine the solution, the intent of the change was amended to not include the restoration of the 50 per cent LDNO discount on indirect costs which was removed by the approved legal text for DCP 185 in cases where the fixed adder is negative. These amendments have been reflected in DCP 252. This amendment was agreed with the Panel.

## The Working Group considered a number of elements with regard to this Change, which have been summarised below:

## Applicability Criteria

## The Working Group discussed the concept of a new term in DCUSA i.e. a Qualifying Network Operator (QNO) in order to define and describe the types of network operator that would qualify for the LDNO tariffs. The term QNO is being used by the Working Group to help develop DCP 251 and 252 as the terms IDNO, DNO, LDNO and EDNO are already used in DCUSA to describe different aspects of the relationships between parties.

Licence-exempt Distribution Systems

## The Working Group discussed licence-exempt (or unlicensed) distribution systems, noting that DNOs provide a number of additional services to these clients that are not provided to IDNOs. Due to this difference, the proposer suggested that IDNOs and licence-exempt distribution systems should be treated equally and that additional services should be provided via bi-lateral agreements, outside of the scope of DCUSA. The Working Group explored this, noting that the provision of MPRS or billing services in respect to private networks should be arranged via bi-lateral agreements.

## In order to address the difference between IDNOs and licence-exempt distribution systems, the Working Group considered that either:

## A new charging model should be created, which was discounted due to the complexity and cost associated; or

## Mandate that ancillary services are out of the scope of DCUSA and should be considered outside of the charging methodologies.

## The Working Group noted that the cost associated with providing DUoS or MPAS services per MPAN is minimal for a DNO but that to procure such services can be costly for IDNOs.

## Finally, the Working Group compared the services provided by, and charges applicable for, IDNOs and Licence-Exempt Distribution Systems as well as the services provided in respect of the end consumer. The comparisons have been documented within Attachment X.

Licence Conditions

## With regard to Licence Conditions, the Working Group noted that DNOs have a duty to provide MPRS services to those who request it, which is not replicated for IDNOs. This could result in IDNOs not connecting to a private network, due to the cost associated, but suggesting that the private network contacts their local DNO.

## The Working Group noted that obligations are placed on DNOs and Suppliers through DCUSA, which are not replicated for private networks as they are not party to the code. As such the Members agreed that charging relates to the boundary and that ancillary charges are outside of the scope of DCUSA as private networks are not party to the Agreement. The result being that a mechanism and contractual arrangement to procure ancillary services is required.

## The Working Group developed a consultation document (Attachment X) to gather information and feedback from market participants.

# **DCP 251 CONSULTATION**

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## The Working Group consulted on both DCP 251 and DCP 252 in parallel. The consultation document was issued on 6 May 2016 to all DCUSA Contract Managers and the DCMF distribution list.

## The consultation received XX responses, which have been provided as Attachment X alongside the Working Group’s comments.

## A summary of the responses received, and the Working Group’s conclusions have been provided below.

**Question 1 - Do you understand the intent of the DCP 251 and DCP 252??**

## The Working Group noted that

**Question 2 - Are you supportive of the principles of the DCP 251 and DCP 252?**

## X of the respondents were supportive of the principles

**Question 3 – Do you agree with the proposal to introduce the term “Qualifying Network Operator”?**

## The Working Group noted that

**Question 4 – Please can you provide details of your assessment of the implication of implementing DCP 251 and DCP 252, namely the extension of the tariffs to unlicensed networks. If possible, please can you quantify the number of networks and the volume of electricity which might qualify (preferable in megawatts).**

## The Working Group noted that

**Question 5 – Please can you provide details of your assessment of the implication of implementing DCP 251 and DCP 252, namely the extension of the tariffs to unlicensed networks. If possible, please can you quantify the number of networks and the volume of electricity which might qualify (preferable in megawatts).**

## The Working Group noted that

**Question 6 – Please can you confirm whether you agree with the Working Group assessments in the background paper provided as Attachment 6?**

## The Working Group noted that

**Question 7 – Do you agree with the definition for a Qualifying Network Operator?**

## The Working Group noted that

**Question 8 – Are there circumstances under which unlicensed distribution systems (private network operators) should be considered as qualifying for the LDNO tariffs? Please give supporting reasons. If you consider that there are circumstances that licence exempt distribution systems do qualify please also describe the circumstances**

## The Working Group noted that

**Question 9 – The Change Proposal refers to people who operate under licence exemption; however, the Working Group believes that there are individuals correctly operating outside of the allowed exemption and are therefore propose to use the term ‘unlicensed’ as opposed to ‘licence exemption’. Do you agree with this?**

## The Working Group noted that

**Question 10 – Do you agree that the proposal (as outlined so far) better facilitates the DCUSA objectives? Please give supporting reasons.**

## The Working Group noted that

**Question 11 – Do you have any comments on the proposed legal text for DCP 251 and DCP 252?**

## The Working Group noted that

**Question 12 – Please can you confirm the earliest date which you believe DCP 251 and DCP 252 can be implemented? Please provide your reasons why.**

## The Working Group noted that

# **ASSESSMENT AGAINST THE DCUSA OBJECTIVES**

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## The Working Group considers that the following DCUSA Charging Objectives are better facilitated by DCP 251.

**General Objective One - The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Network**

## General Objective One is better facilitated by DCP xxx because..

## *Include explanatory detail about how the CP meets the relevant DCUSA General and/or Charging Objectives.*

## *Include a summary of any analysis that the Working Group undertook to prove any of the principles in relation to the CP (reference any appendix as applicable)*

# **DCP 251 - LEGAL DRAFTING**

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## The proposed legal drafting has been provided as Attachment X and seeks to:

## Address the drafting errors in the EDCM to ensure that DNO operating outside of their distribution service area are treated in the same manner as IDNOs;

## Introduce the term Qualifying Network Operator; and

## Introduce a definition for Qualifying Network Operator, which would allow unlicensed distributor to qualify for LDNO tariffs.

# **ENVIRONMENTAL IMPACT**

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## 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 251 were implemented.  The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

# **ENGAGEMENT with the authority**

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## Ofgem has been fully engaged throughout the development of DCP 251 as a member of the Working Group.

# **implementation**

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## The proposed implementation date for DCP 251 is five working days following Authority Consent.

# **panel recommendation**

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## The Panel approved this Change Report at its meeting on **day/month/year**. 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 251.

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

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| **Activity** | **Date** |
| Change Report issued for voting | Day/Month/Year |
| Voting closes | Day/Month/Year |
| Change Declaration | Day/Month/Year |
| Authority Determination | Day/Month/Year |
| DCP 251 Implemented | Day/Month/Year |

# **next steps**

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## 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 by **day/month/year**.

## If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3014.

**Attachments**

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# Attachment 1 – DCP251 Legal Text

# Attachment 2 – Voting Form

# Attachment 3 –

# Attachment 4 -