

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1>DCP 412:</h1> <h2><i>Discounts from TCR charges for 'peaky' final demand customers</i></h2> <p>Date Raised: 11 October 2022</p> <p>Proposer Name: Lee Stone/Matt Cullen</p> <p>Company Name: E.ON UK</p> <p>Party Category: Supplier</p>	01 – Change Proposal	
	02 – Consultation	
	03 – Change Report	
	04 – Change Declaration	
<p>Purpose of Change Proposal</p> <p>This Change Proposal aims to create a discount against the residual charge for 'peaky' customers, removing the disproportionate impact of allocating residual charges on the basis of the Agreed Supply Capacity.</p>		
	<p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Treated as a Part 1 Matter • Treated as an Urgent Change • Progressed to the Definition phase and for a Working Group to be set up in order to further refine the proposed solution. <p>The Panel will consider the proposer's recommendation and determine the appropriate route.</p>	
		<p>Impacted Parties: Suppliers/DNOs/IDNOs</p>
	<p>Impacted Clauses: Amendments to Schedule 32 and Schedules 16,17 & 18</p>	

Contents		 Any questions?
1 Summary	3	Contact: Code Administrator
2 Governance	4	 DCUSA@electralink.co.uk
3 Why Change?	5	 020 7432 3011
4 Solution and Legal Text	5	Proposer: Lee Stone
5 Code Specific Matters	6	 Lee.stone@eonenergy.com
6 Relevant Objectives	6	 07971474426
7 Impacts & Other Considerations	8	Other: Matt Cullen
8 Implementation	8	 Matthew.cullen@eonenergy.com
9 Recommendations	8	 07702667406
Indicative Timeline		
The Secretariat recommends the following timetable:		
Initial Assessment Report	14 October 2022	
Consultation Issued to Industry Participants	November 2022	
Change Report Approved by Panel	18 January 2023	
Change Report issued for Voting	20 January 2023	
Party Voting Closes	10 February 2023	
Change Declaration Issued to Parties	14 February 2023	
[Change Declaration Issued to Authority]	14 February 2023	
[Authority Decision]	March 2023	

1 Summary

What?

- 1.1 The recent reform of residual charges through the Targeted Charging Review (TCR) and subsequent DCUSA Change Proposals (such as DCP360) has led to an unintended consequence whereby customers with low annual consumption, but with high-capacity requirement needs are seeing bills that are overly excessive on the basis that such customers residual costs are allocated based on the Agreed Supply Capacity (ASC) over both Distribution & Transmission Use of System charging.
- 1.2 For such customers the new fixed residual charge is based on connection agreements which in most cases the ASC reflects as a regular anticipated peak capacity. However for others, this peak capacity is very infrequently used and most of their demand is at significantly far lower levels of maximum capacity requirements.

Why?

- 1.3 The Access & Forward-Looking Charging SCR considered the potential for flexible connection agreements to be introduced, which had the potential for customers to share their ASC with other users over time periods whereby they did not require use of their peak demand. However, this was latterly discounted. In the event that this option had been taken forward and developed then it is likely that such customers could have both benefited from being flexible with available capacity from a forward looking perspective and more pertinently, required different treatment for the allocation of the residual charge to reflect their actual use of electricity system.
- 1.4 The final decision and impact assessment of the Targeted Charging Review outlines under Paragraph 3.14 and 3.29 the principles pertaining to non-domestic customer segment. In the majority of cases these principles have been achieved. However, it is the proposer's belief that a number of extreme exceptions (as outlined in paragraph 1.2) are liable to pick up a disproportionate share of the residual costs comparative to their actual use of the total system. We shall refer to these extreme exceptions as 'peaky' customers.
- 1.5 The above will lead to some of these 'peaky' customers seeing in excess of 500% increases to their electricity bills from April 2023. Whilst the residual charge was not designed to send forward looking cost signals, such increases in costs have led to a disproportionate share of the residual costs being allocated to these customers which is neither fair nor reasonable. In turn, this is posing an existential threat to their businesses' viability.
- 1.6 In the event that these demand customers do fail, then this will only serve to increase charges for all customers as unpaid network bills increases the risk of further supplier failure, which in turn is recovered through other network cost recovery mechanism. Therefore, it is to all customers' (and market) benefit to set charges that are cost reflective of a customer's actual use of the system.

How?

- 1.7 In order to remove this new distortion, this change proposal recommends allowing 'peaky customers (a term which is defined below) to have access to discounts up to 85% against the full residual charge. The remainder of these customers' full charge will be factored back into the fixed charges for non-domestic users.
- 1.8 The discount levels should be applied for by the customer or authorised representative (e.g supplier or TPI) to the DNO on a case-by-case basis. If discount criteria are met then the discount level will be valid for a charging year in order to ensure the validity of the discount remains and to ensure that change in behaviour does not continue receive discounts against the residual cost share.
- 1.9 'Peaky' customers are defined to be those customers who meet the following criteria:
 1. **Customers who have their residual charges calculated based on capacity rather than consumption** i.e. excludes domestic customers, non-domestic customers without a connection agreement and transmission connected customers. This is on the basis that these customers do not have their charge set by their consumption shape (which is the defect this proposal looks to address)
 2. **Peak capacity is >500% of baseload capacity and demand > peak capacity/5 endures for no more than 10% of the year** i.e. peak capacity is 30MW with a baseload of 0.5MW and # of periods per year where capacity exceeds 6MW < 876 hours. Whilst we acknowledge that these definitions of 'peakiness' are arbitrary, these levels have been chosen to only include those extreme user cases and to ensure that eligibility cannot be seen as something to take advantage of or gamed.
 3. **Proportion of total electricity bill set by TCR residual charges is > 33%** i.e. for a total electricity bill of £1m, residual charges make up > £333k. Again, this definition of 'peakiness' has been set to ensure that only 'peaky' customers who are extremely exposed and at an existential risk should be eligible.

2 Governance

Justification for Part 1 and Part 2 Matter

- 2.1 This change proposal should be treated as a Part 1 matter due to its significant impact on electricity consumers (both those directly affected by the introduction of discounts for 'peaky' customers and all other customers who will see residual charges rise to make up the monies that peaky customers have been discounted).

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 the Definition phase and for a Working Group to be set up in order to further refine the proposed solution.

- 2.3 The proposer is looking for this CP to be treated as urgent as alongside the distribution residual charges that became effective as of 01 April 2022, the transmission residual charges that are set to be introduced in April 2023 pose an existential threat to some customers. Whilst it is appreciated that there may not be sufficient time to implement these changes before TNUoS residual charges are set (Jan 23), the proposer would like to highlight the very real threat of some customers failing if the current charges do go through unchanged, thereby adding to the bad debt burden on all other customers that would be incurred through the socialisation of unrecovered network costs within a charging year.

3 Why Change?

- 3.1 As stated in 1.2 and 2.2, this code modification is being proposed to help rectify an unintended consequence of the residual charging methodology introduced by the TCR in DCP358-361. Peaky customers have in the past been able to support the network by shifting their peak consumption away from periods of system stress and have benefitted by receiving lower network charges. Under the TCR methodology, these customers will now see dramatically higher bills that pose an existential threat to their business survival.
- 3.2 One example is a customer with a connection agreement for 30MVA, putting them in Band 4 of the EHV category of residual charges. However, this customer uses the 30MVA rarely (their consumption is below 6MW more than 90% of the time). Their network charges are estimated to increase from £226k in 2021/22 to £1,442k in 2023/24. This customer's total revenue is ~£13m pa with annual EBIT of ~£1m pa such that the increase in residual charges will make them unprofitable overnight. Should this customer fail, then other customers in EHV Band 4 will be required to pick up the £1.4m cost, thereby increasing pressures on their financial stability and potentially perpetuating the contagion of failing businesses.

4 Solution and Legal Text

Legal Text

- 4.1 It is proposed to include the addition of a new section to Schedule 32 which would be titled 'Discounts to residual charges'.
- 4.2 It is also proposed that amendments be made to Schedules 16,17 & 18 so that the charging methodologies equally share the discounted residual costs across all residual charging bands.

Text Commentary

- 4.3 This change modification proposes to
1. Introduce a new definition of a 'High capacity, low utilisation' or 'Peaky' customer. A customer is eligible to be considered as a 'peaky' customer for the purpose of setting their network charges if they meet the following criteria based on the previous year's data
 - a. Customers who have their residual charges calculated based on capacity rather than consumption

- b. Customers whose peak capacity is >500% of baseload capacity and demand > peak capacity/5 endures for no more than 10% of the year (based on half hourly averaged meter reads)
 - c. Customers whose proportion of their total electricity bill set by TCR residual charges is > 33%
2. Introduce a discount for 'peaky' customers. Customers who are identified as being 'peaky' have a maximum 85% discount applied to their residual charges (85% is based precedents set by similar exemption criteria that customers can apply for such as Climate Change Levy available to Energy Intensive Industries.).
3. The remainder of the residual bill is reallocated and distributed to all customers, across all residual charging bands and voltage levels in order to reduce the additional cost on one set of customers.
4. As the proposed discount to the residual charge is to be distributed across other non-domestic customer groups we believe that it is imperative that any assessment of eligibility is not conducted solely by a licenced party and needs some element of independence. Therefore we propose that the authority or other suitable body (E.G DCUSA) conducts eligibility assessment through an application process, certifies and informs the relevant parties directly (supplier and DNO) that a site is eligible for the residual discount, including any renewal/extension process (to be defined).

5 Code Specific Matters

Reference Documents

5.1 The background to the development of this Change Proposal was discussed during the following meetings of the Distribution Charging Methodologies Development Group (DCMDG):

- [DCMDG Meeting 53](#)
 - During which the topic of TCR Impacts on Customer Sites with Low Consumption – High-Capacity ratios was raised by a broker/consultancy, who flagged that at least one of their customers is concerned that their business may no longer be viable with the added costs due to TCR on top of the current market conditions.
- [DCMDG Meeting 55](#)
 - During which the a draft of this CP was reviewed by members of the DCMDG, who provided feedback on a number of points which was taken on board and prior to its submission.

6 Relevant Objectives

	DCUSA General Objectives	Identified impact
<input type="checkbox"/>	1. The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks	None
<input checked="" type="checkbox"/>	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
<input type="checkbox"/>	3. The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences	None
<input type="checkbox"/>	4. The promotion of efficiency in the implementation and administration of the DCUSA	None
<input type="checkbox"/>	5. Compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

	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 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	None
<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	None
<input type="checkbox"/>	5. That compliance by each DNO Party with the Charging Methodologies facilitates compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators; and	None

<input type="checkbox"/>	6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	None
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6.1 This proposal seeks to facilitate the DCUSA General and Charging Objectives by removing the distortion inadvertently added by the TCR which penalises ‘peaky’ customers who need a large capacity rarely and will threaten the financial stability of these customers if not rectified.

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 This proposal does not impact any current SCR, but does revisit the methodology introduced by the TCR.

Does this Change Proposal Impact Other Codes?

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

Consideration of Wider Industry Impacts

7.2 No wider industry impacts have been identified

Confidentiality

7.3 This Change Proposal document is non-confidential

8 Implementation

Proposed Implementation Date

8.1 This proposer would like to see this Change Proposal be implemented before TNUoS residual charges are set in January 2023 and therefore, proposes implementation of this Change Proposal should occur in December 2022 and hence why this proposal is seeking urgent status.

9 Recommendations