

# DCP 423 Working Group - Meeting 04

31 July 2024 at 10:00 - Web-Conference

Attendee	Company
<b>Working Group Members</b>	
Charles Mott [CM]	SSE
Chris Ong [CO]	UKPN
Kara Burke [KB]	NPg
Liam Sweeney [LS]	Ofgem
Monique Pereira [MP]	Indigo
Thomas Holderness [TH]	Ofgem
<b>Code Administrator</b>	
Andy Green [AG] (Chair)	ElectraLink
George Kestner [GK]	ElectraLink
Mel Kendal [MK] (Technical Secretariat)	ElectraLink
<b>Apologies</b>	
Tom Cadge [TC]	BU-UK

## 1. Administration

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- 1.1 The Working Group reviewed the “Competition Law Guidance” and “Terms of Reference”. All Working Group members agreed to be bound by the Competition Law Guidance for the duration of the meeting and agreed to the Terms of Reference.
- 1.2 The Working Group reviewed the previous meeting minutes and agreed them to be an accurate reflection of the discussions held.
- 1.3 An action log has been created and all updates are provided in **Appendix A**.

## 2. Purpose of the Meeting

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- 2.1 The Chair explained that the purpose of this meeting is to review and discuss the collated Consultation responses within the Working Group and agree next steps.

## 3. Review of Collated Consultation Responses

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- 3.1 The Chair invited the Working Group to discuss and review the collated Consultation responses. The document was shared live on screen during the meeting. The Chair noted that there were nine responses to the Consultation in total.
- 3.2 The key updates can be found below:
- 3.3 **Q1**
- 3.4 The Chair informed the group that all respondents answered ‘yes’ to understanding the intent of the CP; however, one respondent did state that they have concerns regarding the recovery of any shortfall. Until further clarification is provided to this one respondent, they will not yet respond to the other Consultation questions at this present time (leaving 8 responses in total post-question 1).
- 3.5 The Chair stated that the approach that was taken within DCP 328 was ultimately rejected by the authority and is something that needs to be considered.
- 3.6 **Q2**
- 3.7 The Chair informed the group that all 8 remaining responses are supportive of the principles that support this CP.
- 3.8 One respondent did state that they do not believe that considerations such as the margin available to industry parties are directly relevant. They also stated that they did agree that the change would improve cost reflectivity and that it would ensure there are no restrictions, distortion or prevention of competition in the distribution of electricity.
- 3.9 **Q3**

3.10 The Chair informed the group that all respondents (bar one) were not aware of any rationale as to why there is a negative margin for a tariff component.

3.11 One respondent provided a number of potential rationales, but ultimately stated that these would not be relevant. The Working Group discussed this and agreed that the rationales would be out of scope. A formula was also provided by this respondent which the Working Group may revisit at a later date.

3.12 **Q4**

3.13 The Chair informed the group that all respondents (bar one) could not provide any examples of the issue explained happening.

3.14 The one respondent stated that there were higher LDNO tariffs compared to All the Way tariffs for the same tariff in one area (standing charges) for April 2023; however, they are not aware of other scenarios where the same issue could occur.

3.15 **Q5**

3.16 The Chair informed the group that two respondents suggested an alternative solution for the Working Group to consider.

3.17 One respondent mentioned the approach being used within DCP 328 being rejected by the Authority, and suggested an alternative approach which would be to calculate the discount factors/tariffs as proposed, and to add a final adder at the end of any calculation of charges (suggested 0.13% as used by the Working Group).

3.18 The Working Group discussed the above and noted that the suggested 0.13% as the true percentage may be smaller. One member suggested it may be closer to 0.01% and £30k (as opposed to 0.13% and £500k). The Chair agreed to take an action to follow this up to have this validated.

3.19 If the latter is the case (0.01%/£30k) then the Working Group agreed that the alternative approach would no longer be necessary.

**ACTION 04/01: The Secretariat to validate whether the calculation should be 0.13% and £500k or 0.01% and £30k.**

3.20 Another respondent stated that they do not agree that the proposed solution addresses the root cause of the issue and believes it may introduce new distortions to competition in distribution as it seeks to address others. Following this, the respondent provided an alternative approach may be to change the floor applied to fixed charges in the event of negative residual.

3.21 The Working Group discussed this and agreed to take this approach offline for review and feedback at the next Working Group meeting.

**ACTION 04/02: All members to review both UKPN and ENWL's suggested alternative approaches offline and feedback to the group at the next meeting.**

3.22 **Q6**

- 3.23 The Chair informed the group that two respondents do not agree with the chosen approach to follow the same process as DCP 328 and have both provided their alternative approaches within Question 5.
- 3.24 Responses were noted by the Working Group.
- 3.25 **Q7**
- 3.26 The Chair informed the group that only one respondent provided comments on the modelling that has been conducted for DCP 423. The respondent stated that under the modelled solution the IDNO margin does not reflect the forward looking and residual elements of the All the Way tariff, and they believe this may indicate a potential distorting impact of the proposed solution.
- 3.27 The Working Group noted the above comments and agreed to revisit this at a later date (along with the suggested alternate approach suggested under Q5).
- 3.28 **Q8**
- 3.29 The Chair informed the group that all respondents did not have any comments on the draft legal text.
- 3.30 **Q9**
- 3.31 The Chair informed the group that all respondents (bar two) agreed that the solution better facilitates the DCUSA Objectives 1,2 and 3.
- 3.32 One respondent stated that they believe the solution better facilitates the DCUSA Objectives 2 and 3, whilst the other respondent does not believe that the solution better facilitates any of the DCUSA Objectives. They stated that they feel more analysis of the current and future impacts on parties under competition law would be required to determine if the objectives are better facilitated.
- 3.33 The Working Group noted this, and the Chair agreed to take an action to speak with the respondent offline.

**ACTION 04/03: The Secretariat to speak with the ENWL respondent offline.**

- 3.34 **Q10**
- 3.35 The Chair informed the group that all respondents (bar one) were not aware of any wider industry developments that may impact upon or be impacted by this CP.
- 3.36 One respondent stated that Ofgem is intending to issue an open letter at the end of June 2024 which will include alternative approaches for dealing with negative residual situations. They stated that such changes may supersede the solution put forward by this change or result in new approaches to scaling which negate the requirement for this change.
- 3.37 The Working Group discussed this and agreed to take an action to review [Ofgem's open letter](#) offline and feedback to the group regarding next steps. The Chair noted that alternative solutions can also be considered moving forward.

**ACTION 04/04: All members to review Ofgem's open letter offline and feedback to the group.**

3.38 **Q11**

3.39 The Chair informed the group that the majority of the respondents stated that the implementation date should be 2026/2027. The need for a derogation could mean that 2027 would be more appropriate.

3.40 One respondent stated it should be implemented as soon as possible, whilst another respondent stated, if accepted, it should be implemented for the next pricing publication.

3.41 **Q12**

3.42 The Chair informed the group all respondents did not provide any other comments.

## 4. Agenda Items for Next Meeting

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4.1 The Working Group discussed the next steps, and the following items were captured:

1. The Secretariat to review the calculation.
2. The Working Group to review the alternative approaches provided by UKPN/ENWL offline.
3. The Working Group to review [Ofgem's open letter](#).

## 5. Any Other Business

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5.1 The Chair asked the group whether there were any other items of business to discuss.

5.2 There were no other items raised.

## 6. Date of Next Meeting - TBC

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6.1 The next Working Group meeting is TBC.

6.2 The Secretariat agreed to take an action to check the availability of the Proposer and issue a doodle poll to the Working Group for the next meeting.

**ACTION 04/05: The Secretariat to check the availability of the Proposer and issue a doodle poll to the Working Group for the next meeting.**

## 7. Attachments

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- Attachment 1\_DCP 423 Workplan

## APPENDIX A

### New and Open Actions

Action Ref.	Action	Owner	Update
04/01	The Secretariat to validate whether the calculation should be 0.13% and £500k or 0.01% and £30k.	Secretariat	New Action.
04/02	All members to review both UKPN and ENWL's suggested alternative approaches offline and feedback to the group at the next meeting.	Working Group	New Action.
04/03	The Secretariat to speak with the ENWL respondent offline.	Secretariat	New Action.
04/04	All members to review Ofgem's open letter offline and feedback to the group.	Working Group	New Action.
04/05	The Secretariat to check the availability of the Proposer and issue a doodle poll to the Working Group for the next meeting.	Secretariat	New Action.

### Closed Actions

Action Ref.			Update
03/01	TC to check whether discounts should apply to the EDCM.	TC	Closed.
03/02	The Secretariat to update the activity table of dates.	Secretariat	Closed.
03/03	The Secretariat to make the necessary updates to the draft Consultation and circulate to the Working Group for review offline.	Secretariat	Closed.

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**DCUSA**