

# Distribution Charging Methodologies Development Group (DCMDG) - Meeting 81

21 November 2024 at 10:00 via Microsoft Teams

	Attendees	Company
1.	Ahna Taylor [AT]	SSE Energy Supply
2.	Andy Malley [AM]	Ofgem
3.	Charles Mott [CM]	SSEN
4.	Chris Barker [CB]	ENWL
5.	Chris Ong [CO]	UK Power Networks
6.	David Fewings [DF]	Inenco
7.	Diandra Orodan [DO]	BU-UK
8.	Dimuthu Wijetunga [DW]	Shell
9.	Donald Preston [DP]	SSEN
10.	Donna Jamieson [DJ]	Independent Distribution Connection Specialists
11.	Ed Grimsey [EG]	BUUK
12.	Edda Dirks [ED]	SSE Generation
13.	Emma Robinson [ER]	E.ON
14.	Georgia Preece [GP]	Northern Powergrid
15.	Harrison Hunter [HH]	Cornwall Insight
16.	Itunu Akin-Olawale [IAO]	ENWL
17.	James Knight [JK]	British Gas
18.	Jen StClair-Hughes [JSH]	ESP Utilities Group
19.	Kara Burke [KB]	Northern Powergrid
20.	Kyran Hanks [KH]	Waters Wye
21.	Lee Stone [LS]	E.ON
22.	Lorna Murray [LM]	ScottishPower Energy Networks
23.	Mark Fletcher [MF]	SHELL
24.	Monique Pereira [MP]	Indigo Power
25.	Nik Wills [NW]	Stark
26.	Pamela Howe [PH]	Northern Powergrid
27.	Robbie Lees [RL]	Independent Distribution Connection Specialists
28.	Ryan Farrell [RF]	Northern Powergrid
29.	Seun Adedapo [SA]	National Grid Electricity Distribution
30.	Simon Vicary [SV]	EDF
31.	Tony Collings [TC]	Ecotricity
32.	Victoria Burkett [VB]	SSE Energy Supply
33.	William Jago [WJ]	E.ON
34.	Zviko Chigwedere [ZC]	St Clements

<b>Secretariat</b>	
Dylan Townsend [DT] (Chair)	ElectraLink
Alysson Peña [AP] (TechSec)	ElectraLink
<b>Apologies</b>	
None	

## 1. Administration

- 1.1 The Chair asked members if they were comfortable for this Working Group to be recorded. No members objected to this request. The purpose of this recording is purely to aid the Technical Secretariat in producing an accurate report of the meeting. The recording will be deleted after the minutes are approved.
- 1.2 The Working Group reviewed the “Competition Law Guidance” and it was noted that all members agreed to be bound by the Competition Law Guidance for the duration of the meeting.
- 1.3 There were no apologies noted for this meeting.
- 1.4 Attendees reviewed the draft minutes from the meeting held on 17 October 2024 and members agreed that these were an accurate summary of the meeting.
- 1.5 The Chair provided updates on the open actions contained in the actions log which was issued with the meeting papers.
- Action 78/01: The Secretariat to set up a subgroup to support the import capacity charges for storage facilities issue raised by OH from Thrive Renewables. The Chair informed that other matters took priority and therefore this has yet to be actioned and will be done as soon as possible. Action ongoing
  - Action 78/02: The secretariat to schedule a further meeting for the Private Network Subgroup at which Ofgem will attend to assist in agreeing next steps. The Chair noted the above statement applied to again and therefore this has yet to be actioned and will be done as soon as possible. Action ongoing.
- 1.6 Members had no further comments.

## 2. Introduction

- 2.1 The Chair welcomed the DCMDG attendees to the 81<sup>st</sup> DCMDG meeting.

## 3. DCMDG Forward Work Plan and Issues Log

- 3.1 The group reviewed the DCMDG Forward Work Plan and Issues Log, during which the following points were covered:

### **DCMDG-Issues:**

- There were no new issues raised and no further updates on the two issues currently contained within the log.

### **Charging Related Change Proposals:**

- **DCP 325: 'Reviewing the requirements of Sections 35A, 35B, Schedule 15 and Schedule 20':** The working group is scheduled to meet on 12 December 2024 to review consultation responses, meaning that there is a live consultation currently out for industry feedback.
- **DCP 388 'Amendments to Facilitate Appropriate Residual Charging for Sites with a Mix of Final and Non-Final Demand':** No further movement on this proposal, which looks at amendments to facilitate appropriate residual charging for sites with a mix of final and non-final demand.
- **DCP 412 'Allocation of banding for TCR Charges for 'Peak' Final Demand Customers':** is progressing towards its end of its assessment by the Working Group as the Change Report is expected to be presented to the Panel in December for approval to be issued for Party voting. A member noted that the next meeting is scheduled for 25 November.
- **DCP 420 'Provide targeted relief from residual charges for electric vehicle charging sites':** The most recent meeting was held on 19 November 2024 to review consultation responses. Another meeting is planned to finish the review and to also look to agree which solution(s) were preferred and to start taking one or more forward for development. A member mentioned that the next meeting is tentatively scheduled for the end of November or early December.
- **DCP 423 'LDNO Discounts for negative scaling':** This proposer is considering withdrawing the Change Proposal due to potential unintended consequences that was flagged during the review of consultation responses.
- **DCP 424 'Use of System charging for complex sites':** remains on hold pending further work by the P441 workgroup on the BSC side of things. A member mentioned that the workgroup development for P441 is likely to start again shortly but also that the potential delay to the MHHS Programme timelines might cause a delay to the development of P441 which would affect DCP 424.
- **DCP 440 'Consuming "de-energised" sites':** The group met on 13 November 2024 to review RFI responses and a draft of the change report. The Working Group are aiming to have the Change Report ready in time for the December Panel meeting.
- **DCP 443 'Excess Capacity':** The next meeting is scheduled for 22 November, where the Working Group are intending to finalise an RFI which would then be issued shortly thereafter.
- **DCP 438 'Rate of Return Change Proposal':** Is currently awaiting a decision by Ofgem, and following the Panel meeting on 20 November, it has been clarified that the expected decision date has been revised to 11 December due to competing priorities. AM mentioned that they are hoping to publish the decision sooner if possible, to which a member highlighted the importance of the decision being made before 11 December due to that being too late for the DNOs to incorporate into their processes for setting charges.
- **DCP 439: 'Backdating Tariff Changes':** Is currently awaiting a decision by Ofgem, and following the Panel meeting on 20 November, it has been clarified that the expected decision date has been revised to 28 February 2025, due to the complexity of the change. A member raised a concern about the impact this might have on the production of the LC-14 charging statements if the decision is made after the tariffs have been published. Members discussed the complexities and potential implementation issue and agreed that if the decision comes in

at that point in time, then the Charging Statements would not be updated until the next time tariffs are being set.

- **DCP 445 'Implementation of Market-wide Half Hourly Settlement (MHHS) Arrangements'**: since the last DCMDG meeting, DCP 445 had been issued for voting and the voting period had closed, with the result being that Parties voted to accept both the proposed solution and implementation date and therefore recommended to the Authority that the change be approved. It was noted that DCP 445 is now with Ofgem for approval and that a decision is expected by the end of November.
- **DCP 437: 'To Shorten the DUoS Pricing Notice Periods'**: Is currently awaiting a decision by Ofgem, and following the Panel meeting on 20 November, it has been clarified that Ofgem are intending to send it back for further work as they want to see more analysis on the impact to Suppliers and consumers with respect to the 'risk premia' that Suppliers had advised would be increased as a result of the change being approved. A member raised concerns about the request for the Working Group to undertake analysis on the level of 'risk premia' that Suppliers might add, noting that this type of information is likely to be deemed commercially sensitive and thus, it may be more appropriate for Suppliers and/or consumers to respond directly to Ofgem and not form part of the analysis completed by the Working Group. Related to DCP 437, one member asked about the derogation related to ARPs, that had been put before the Panel which was requested on the basis of DCP 437 being approved. The Chair confirmed that the Panel approved derogation, but noted that as it only takes effect if DCP 437 is approved, that the net result is likely to be that the derogation never becomes effective.

#### **DCMDG External Activities:**

- **DUoS SCR (Distribution Use of System Significant Code Review)**: The Chair briefly mentioned the latest Charging Futures Forum (CFF) was held on 2nd October, and that this had been included in the updates.
- **Market-Wide Half-Hourly Settlement (MHHS)**: The Chair made reference to the fact that DCP 445 has been raised and as such had been included as an update.
- **Energy Code Reform**: The Chair confirmed that the government had published its response to the consultation on code manager licensing and secondary legislation and that this had been added as an update.
- **FSO (Future System Operator) Implementation**: The Chair noted that the FSO (now known as the Independent System Operator and Planner) had been fully implemented on the 1st of October 2024. This includes the introduction of the National Energy System Operator (NESO), as well as the new Electricity System Operator (ESO) Licence and the Gas System Planner (GSP) license. With these changes now in effect, the Chair noted that as agreed during the last meeting, this item had been removed from the log.
- **Connections Reform**: The Chair briefly touched on the connections reform, stating that while there had been significant activity on the transmission side, no concrete changes impacting DCUSA had been identified.
- **Electric Vehicles**: The Chair pointed out that DCP 420, which relates to electric vehicles, was raised and consultation was still ongoing and that this had been included against this item.

## 4. Ofgem Update

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- 4.1 The Chair noted that AM from Ofgem had joined the meeting, and invited AM to provide the Ofgem update.

### **CDCM and EDCM Issues**

- 4.2 AM explained that over the last couple of weeks, the team have spent quite a lot of time on the work that's come out of Ofgem's call for input on changes to CDCM and EDCM to make sure that they can produce sensible tariffs properly. It was noted that this work has come about following the implementation of the TCR as well as factors such as larger than normal changes to DNOs allowed revenue between charging years, mean that the charging methodology models got to a point where if they were recovering too much money from the forward-looking components of the charges, the models started producing errors rather than the expected tariffs. In the case of the CDCM because there wasn't a way for them to scale charges down properly, some consumer classes would receive negative fixed charges as credits that would then need to be paid for by everyone else, which is an unfair outcome.
- 4.3 The net result of the work over the last 12 to 18 months around this issue is that Ofgem have now set out some guidance (<https://www.ofgem.gov.uk/publications/managing-effects-surplus-residual-charges-guidance>) to DNOs who are affected by this about how Ofgem want them to, to resolve that. Ofgem are of the understanding that DNOs may be looking to potentially raise a Change Proposal to codify a firm fix for the issue but also cautioned whether, given all the other work going on that might impact charges in the future, industry might want to have a think about whether a firm fix would be because of the potential changes that might come into play over the next few years, which may result in the fix being less appropriate.

### **Ofgem's review of charges related to 'Cost Recovery'**

- 4.4 AM explained that Ofgem are doing some additional thinking on how to treat cost recovery charges, but are doing so from the viewpoint of making sure that any potential changes that come about due to the ongoing REMA work or from the DUoS SCR are factored in. AM noted that Ofgem have started to look at cost recovery and not just in the network charging sense, but across the industry more generally and that Ofgem intend to say more on that in the near future.
- 4.5 AM went on to note that the cost recovery element of DUoS charges was something that industry spent a lot of time on as part of the TCR work over the last couple of years and that resulted in a lot of good background work. The question is, now that the some of the numbers are a bit bigger and some of these system costs are broader across the system, if the same conclusions stand. This work will also be taking into account a lot of the feedback that has been received on standing charges.
- 4.6 AM suggested that the question for industry is about whether they want to raise or continue to develop changes which might then need to be updated again if there are changes that come about due to the thinking being done on cost recovery, and if some changes do continue, if there is a way that they can be sectioned off.

- 4.7 In terms of current DCUSA changes that might be impacted, AM noted that there doesn't appear to be a reason why DCP 412 and DCP 420 shouldn't go ahead full steam as they are dealing with pressing issues that are relatively discreet and are important and have got clear definitions of what they are seeking to achieve. With respect to DCP 388 and the work that had started to develop under the private networks sub-group, both of which are to some degree in a holding pattern, AM indicated that industry might want to think about whether they do want to advance those kinds of issues which are effectively TCR implementation issues at a time when we're thinking about cost recovery in case there are tweaks to the TCR, which means that industry would need to revisit them again in the future.
- 4.8 In summary, AM concluded that the request from Ofgem is that industry be sensitive to the topic of current or future changes being progressed, and if there's a change that comes up and is dealing with processes, cost reflective charges, or say links to the price controls then there's probably merit in those being dealt with, but where a change is specifically about TCR implementation, then those who are involved should be thinking whether or not pausing that work is the right thing to do in light of the unknowns related to ongoing items such as REMA, the DUoS SCR and/or any output from Ofgem's think with respect to Cost Recovery.

### **Ofgem's work related to the regulatory arrangements for IDNOs:**

- 4.9 The Chair asked if AM could provide an update on work that was happening related to the regulatory arrangements for IDNOs, specifically, EHV charges for IDNOs as well as transmission-connected IDNOs.

#### *Transmission Connected IDNOs*

- 4.10 It was noted that some IDNOs are looking to be directly connected to the transmission network, meaning that there wouldn't be a host DNO and that this setup raises questions about how these IDNOs should be regulated and how they should set their charges.
- 4.11 AM emphasized that while there are benefits to having transmission-connected IDNOs, such as potential cost savings and enabling new business models, there are also concerns about ensuring fair contributions to transmission costs and avoiding distortions in the market. It was noted that the current regulatory framework does not clearly address transmission connected IDNOs, making it essential for the industry to come together to discuss and develop a consensus on how to handle these connections. This includes ensuring transparency and avoiding potential issues that could arise from different treatment of users depending on their connection type.
- 4.12 AM highlighted the importance of industry engagement in addressing the challenges posed by transmission connected IDNOs. He suggested that industry stakeholders, including IDNOs, DNOs, and consumers, should collaborate to develop a clear and transparent approach to regulating and charging for these connections. AM suggested that this would likely be preferable as compared to a scenario where, if the industry does not come together to address these issues, Ofgem might have to step in and make determinations, which could be less favourable than a consensus-driven approach.
- 4.13 It was noted that the discussions on transmission connected IDNOs is likely to be more applicable to a forum on the transmission side of things, and emphasised the importance of including IDNO stakeholders and consumers who see themselves as IDNO connectees, as well as NESO as the Electricity System Operator (ESO). Following on from that, it was suggested that a subgroup of the DCMDG or the current private networks subgroup are probably not the best place for these discussions.

#### *EHV Charging Methodologies for IDNOs:*

- 4.14 The Chair questioned if there was any further thinking that Ofgem had done regarding EHV Charging Methodologies for IDNOs, as this was the other component of the broader regulatory frameworks for IDNOs that Ofgem had been looking into.
- 4.15 The discussion highlighted that there are existing methodologies for IDNOs to charge for EHV connections. These methodologies have been approved by Ofgem and include different approaches depending on whether the host DNO assists in calculating the EHV tariff using their models or if the IDNO mirrors the DNO's boundary tariff and adds a reasonable rate of return.
- 4.16 One member mentioned that while there are methodologies in place, the transparency of these charges could be improved. It noted that some IDNOs have methodologies that involve taking the DNO's boundary tariff and adding a reasonable rate of return if the DNO cannot assist in calculating the EHV tariff.
- 4.17 The discussion concluded that while there are methodologies for EHV charging, there is a need for greater transparency and potentially more standardised approaches. One member indicated that there is ongoing communication with Ofgem and IDNOs, and it is believed that IDNOs are broadly supportive of publishing more transparent prices.
- 4.18 It was suggested that the industry should continue to monitor and potentially refine these methodologies to ensure they remain fair and transparent. It was noted that there is a sub-group set up under the auspices of the Independent Networks Association (INA) and DJ stated that she would report back if there were any significant developments or changes in this area.

## 5. MHHS Update

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- 5.1 The Chair noted that the Change Report for DCP 445 'Implementation of Market-wide Half Hourly Settlement (MHHS) Arrangements' had been issued for voting and voting had closed and that the Change Proposal is now with Ofgem for decision. .
- 5.2 The Chair also reminded members that MHHS Change Request (CR) 55, which is looking to shift the current M10-milestone out by 6.5 months, could, if approved, mean that DCP 445 is implemented later than originally expected due to its implementation date being pinned to the M8 milestone, which itself is linked to the M10 milestone which CR55 seeks to amend.

## 6. Private Networks Subgroup Update

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- 6.1 In terms of an update related to the private network subgroup, the Chair noted that this had been covered earlier in the meeting as part of the Ofgem update but reconfirmed that the intent will be to have what will likely be one final meeting to close off discussions for now but that this had not yet happened due to periods of annual leave

## 7. 'AAR Lessons Learnt' Subgroup Update

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- 7.1 The Chair noted that post the October DCMDG meeting, that he had a very good conversation with VB separately on the topic of whether or not there was a need to continue the discussion within the subgroup. It had been agreed that the work done to date and conversations during the October DCMDG meeting meant that there was less of a need to continue discussion but that the next steps would be to formalise the content that was issued out via email into guidance that could be added to the website in due course and to involve the sub-group in the review and approval of said guidance.

## 8. Any Other Business (AOB)

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8.1 The Chair asked if there were any other business to be discussed.

**Forward views on Impacts of Clean Power 2030 Plan on DUoS Charges:**

8.2 One member raised explained that following NESO's recommendations to the government on how to achieve Clean Power by 2030, it would appear to be clear that in order to achieve this target, there would need to be some serious upgrades in the power transportation system. Whilst NESO has focused on the transmission network they have admitted that upgrades would be required at distribution network level too. Given this, the member put forward the suggestion that DNOs may well have already started thinking about the necessary changes and associated costs as part of government's Clean Power 2030 programme and was wondering whether any DNO members would be able share their views or any background work they are currently doing on this subject.

8.3 A DNO member responded by explaining that as it currently stands, between now and the end of RIIO-ED2, it was unlikely for there to be much in the way of impacts to charges, as allowed revenues have already been set. It was noted that there are elements known as 're-openers' available but not all that many and in any case, a DNO looking to utilise a re-opener would need to put a case forward to Ofgem for approval and there would potentially be a need for public consultation. It was explained that there may well be conversations happening within DNO organisations related to future investment in the networks but that such conversations happen at very senior levels and members are not privy to them. Further details will become clearer closer to the time that the DNOs start submitting information related to the RIIO-ED3 Price Control submissions.

## 9. Agenda Items for the Next Meeting

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9.1 No new items were requested to be added and therefore the Chair noted that for the time being, the agenda will contain the current standing items.

## 10. DNO Operational Matters

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10.1 The Chair asked the DCMDG members if there were any DNO Matters to be raised, there were none.

## 11. Date of Next Meeting

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11.1 The next DCMDG meeting will be held on 19 December 2024 via Microsoft Teams / Teleconference.