

# Distribution Charging Methodologies

## Development Group (DCMDG) - Meeting 82

19 December 2024 at 10:00 via Microsoft Teams

Attendees	Company
Adam McNae [AMN]	Book Green Supply
Ahna Taylor [AT]	SSE Energy Supply
Alexander Pentecost [AP]	Eclipse Power Networks
Amanda McFarlane [AMF]	Aurora Utilities
Andrew Malley [AM]	Ofgem
Chris Barker [CB]	ENWL
Chris Ong [CO]	UK Power Networks
David Fewings [DF]	Inenco
Diandra Orodan [DO]	BU-UK
Donald Preston [DO]	SSEN
Donna Jamieson [DJ]	Independent Distribution Connection Specialists
Ed Grimsey [EG}	BUUK
Edda Dirks [ED]	SSE Generation
Georgia Preece [GP]	Northern Powergrid
Hannah Penfold [HP]	ESP Utilities Group
James Knight [JK]	British Gas
Jen StClair-Hughes [JSH]	ESP Utilities Group
Karl Maryon [KM]	Drax
Kyran Hanks [KH]	Waters Wye
Lee Stone [LS]	E.ON
Mark Fletcher [MF]	SHELL
Mark Knights [MK]	Juvo Energy
Matthew Smith [MS]	TBC
Monique Pereira [MP]	Indigo Power
Nik Wills [NW]	Stark
Pamela Howe [PH]	Northern Powergrid
Rustam Ellis-Majainah [REM]	OVO
Ryan Farrell [RF]	Northern Powergrid
Tony Collings [TC]	Ecotricity
Victoria Burkett [VB]	SSE Energy Supply
Zviko Chigwedere [ZC]	St Clements
Secretariat	
Dylan Townsend [DT] (Chair)	ElectraLink
Alysson Peña [AP] (TechSec)	ElectraLink

Apologies	
Emma Clark	SSEN

## 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 DCMDG Members 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 was one apology for the meeting, being Emma Clark (SSEN).
- 1.4 Attendees reviewed the draft minutes from the meeting held on 21 November 2024, during which it was noted that one amendment was requested. The amendment was to paragraph 4.3, where it was suggested to include a link to the guidance document that was mentioned which related to how Ofgem expects DNOs to manage issues with the models when setting their tariffs for the 26/27 charging year (<https://www.ofgem.gov.uk/publications/managing-effects-surplus-residual-charges-guidance>). Members noted that they had not had sight of said guidance via the normal Ofgem communications.
- 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 explained asked members to consider the original action related to the issue raised by Thrive Renewables regarding import capacity charges for storage facilities and whether or not it was the best course of action or if something different could be done. It was noted that the action was to set up a subgroup to discuss whether the issue is about resolving a current problem or if it requires a more fundamental change in methodology which in turn would determine whether a change proposal is pursued or if the issue is effectively put on hold, pending the outcomes of the DUoS SCR as well as other industry developments such as REMA. The Chair explained that because the sub-group is really just a way of seeking views on that specific question, whether a simple poll or survey (e.g., via Microsoft Forms) could be used to gather opinions from members or if a simple show of hands during this or the next meeting might also suffice.
  - Members discussed the question, during which the following points were covered:
    - A suggestion that it might be best to first understand what Thrive Renewables had in mind for the next steps as it might be important to know their perspective before deciding on the approach.
    - A view that the issue might fit within the broader context of charging reviews, particularly those related to batteries and also expressed concern about offering benefits to storage facilities that might not be available to others, suggesting that any changes should be considered within the wider charging review activities.
    - That it would be important to align any changes with transmission charges and considering the overall impact on and across the networks.

- That the issue could fit within the Distribution Use of System (DUoS) Significant Code Review (SCR) but that the SCR is currently delayed, and therefore potentially revisiting the issue when AM has joined the call.
  - That the issue could be seen as somewhat comparable to the discussions about charges for peaky customers as electric vehicle (EV) charging sites. Although it was clarified that the issue with storage facilities is about import capacity charges, which are different from the residual (fixed) charges being discussed for peaky customers or EV charging sites.
  - It was noted that members had a preference to the forming a subgroup to discuss the issue in more detail and come to a consensus on the next steps.
- 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.
  - The Chair flagged that during a previous meeting, an action probably should have been recorded relating to a discussion that took place with respect to the implementation of DCP 414. It was noted that DCP 414 aims to ensure that customers who have Advanced Current Transformer (CT) metering and are to transition to half-hourly settlement as part of MHHS, are not penalised in terms of the maximum import capacity they are charged for. The process involves determining a maximum import capacity based on a year-long data period and includes requirements on both distributors and suppliers and also sets out, at a high-level, how each should communicate with the other. Specifically, that Clause 19.14, states that that DNOs/IDNOs need to provide contact details to Suppliers and that this should be taken as a proactive requirement and is to facilitate the agreement on the maximum import capacity for affected customers. Clause 19.14 also sets out that Suppliers need to identify which customers are impacted by the transition and contact them with the necessary information (described in Clause 19.15) and they must also confirm to the DNOs/IDNOs which customers are impacted.
  - Some members noted that they were under the impression that Suppliers would be reaching out to the DNOs/IDNOs and asking for the appropriate contact details but the Chair confirmed that this isn't the case. into account
  - As part of the prior discussion on this topic, the expected process had been set out and a suggestion was agreed that the Chair would draft an email to parties or place the contents of such an email into a document that could then be uploaded on the website.
  - The Chair clarified that the process involves several steps, including:
    - **Proactive Communication by Networks:** DNOs and IDNOs should proactively contact suppliers with the necessary contact details that can be passed on to customers.
    - **Identification of Impacted Customers:** Suppliers need to identify which customers are impacted and contact them with the required information.

- **Confirmation to Networks:** Suppliers must confirm to the networks which customers are impacted. This confirmation would likely be done through bilateral communication, such as email and that an agreed format would be useful
- **12-Month Assessment Period:** Once the migration starts, the networks will begin a 12-month assessment period to determine the maximum import capacity based on the data over that period and will use the contact details provided by the Suppliers, to contact the customers at the end of the 12 month period in order to confirm the maximum import capacity that will be applicable to their site.
- **Documentation and Guidance:** The Chair mentioned setting up a table to outline the steps and timelines for each party involved and suggested circulating this around for comments and finalisation.

#### **ACTION:**

- 1.6 Members had no further comments.

## Introduction

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

## 2. DCMDG Forward Work Plan and Issues Log

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- 2.1 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:**

- The Chair ran members through the updated related to charging methodology Change Proposals, with a specific focus on the progress since last meeting and next steps for each proposal as set out in the Forward Work Plan and Issues Log.

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

- The Chair explained that he had taken an action as part of the DCUSA Panel meeting, to update their horizon scanner and that as it shares many of the same items as this tab within the Forward Work Plan and Issues Log, that any updates to the Panel's Horizon Scanner would be made to the DCMDG External Activities tab too.
- AM noted that it would probably be wise to add some content relating to the governments release of their Clean Power 2030 Action Plan: [Clean Power 2030 Action Plan: A new era of clean electricity](#)

## 3. Ofgem Update

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

### **DNO Derogations related to publication of charges**

- 3.2 AM mentioned that Ofgem might need to grant derogations that shorten the 15 month notice period for DNO to provide for amendments to their charges and is a result of the work previously conducted by Ofgem for which they had issued guidance to DNOs with respect to the process DNOs should follow to manage excessive surplus residual charges when setting final tariffs for the 2026 to 2027 charging year.
- 3.3 AM confirmed that multiple derogation applications had been received to date and Ofgem would be publishing their decisions on these as soon as possible.
- 3.4 The Chair noted that if Ofgem grant a derogation as a result of a DNO requesting one, then that only covers them for the Charging Methodology Models and not for production of the Annual Review Pack (ARP), which is solely governed under the DCUSA. Therefore, a DCUSA derogation would be needed to cover the ARP and that such an application had been presented to the DCUSA Panel during their meeting held the day prior.
- 3.5 The Chair confirmed that the Panel had determined to grant the derogation to the Parties listed within the application (being all DNOs), specifying that it would only take effect for any DNOs who Ofgem grants derogations to for setting charges.

### **Prioritisation of Industry Led Changes**

- 3.6 AM explained to members, that industry need to consider they should be raising new changes or in some cases continue to develop existing changes which might end up being made redundant or otherwise unneeded if there are changes that come about due to the thinking being done on REMA as well as general cost recovery. The point being made was that industry needs to be cognisant of wasting time and resources on general issues at a time when Ofgem are 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.
- 3.7 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.
- 3.8 Some members voiced concern that items such as the issues surrounding the surplus residuals and even import capacity charges for storage sites are likely to be high priority for industry and questioned whether putting these on the backburner for so long was the right decision. AM noted that he is aware that DNOs would like to raise a change to make the solution to surplus residuals more permanent, which Ofgem may be open to, but that any change that gets raised, should be assumed to be at risk that of being completely redundant if changes that REMA or other work brings in means that cost recovery looks different than it does currently.

### **Cost Recovery Review**

- 3.9 As part of the update Ofgem provided relating to their review of standing charges (<https://www.ofgem.gov.uk/publications/standing-charges-update-our-review>), Ofgem have confirmed that they have set up a new project to review and assess the recovery of system wide energy costs, such as electricity and gas network costs. The project will develop proposals that balance efficiency, fairness, and simplicity in future charging and pricing models, with the intention of protecting existing and future consumers through the increased investment the energy system needs in the coming years.
- 3.10 Ofgem expect that the review will consider the mix between standing charges and unit rates, the relationship with consumers' ability to pay, and how pricing should reflect the additional cost that high energy needs can create. Alongside this, Ofgem are also considering whether the regional differences in standing charges should remain or whether there is a different option that would better protect consumers overall.
- 3.11 Ofgem have advised that this work will take some time as they see it as important that they make the right decision on how these costs will be recovered. Further details this review will be published early in 2025.

## 4. Residual Charges for Carbon Capture and Storage (CCS) Sites

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- 4.1 The Chair explained that this item had come about due to an email into the DCUSA inbox from Juvo Energy, who were looking to obtain a steer if Carbon Capture and Storage (CCS) plants were to be added to an existing Non-Final Demand Site, would they, given the definition of Non-Final Demand Site, still be considered as a Non-Final Demand Site. The Chair introduced MK from Juvo Energy and invited MK to provide members with some more background information regarding CCS plants.
- 4.2 MK explained that throughout much of 2024, they have been talking about CCS quite substantially across both the energy from waste sector as well as the Combined Cycle Gas Turbines (CCGT) sector, which are the main types unabated power generation within the power generation sector. Mark provided members with some background to CCS, which were as follows:
- Carbon capture Storage will take away about 40% of the energy output that generators with a CCS plant next to them be able to generate, or in other words, such generators will lose 40% of their output.
  - This means that there's a significant cost and investment in doing so.
  - But there is a subsidy that's going to pay back for some of the investment in CCS and the government, in the last week or two just announced a £21 billion fund to deliver the subsidy.
  - The CCS will run in tandem with a with a generation site, meaning that each generation facility will have a CCS plant attached to it and which will use the power from the generator to operate.
  - However, there are times where that generation will not function, due to some downtime for maintenance, or generation is lost temporarily for some other reason and in the time it takes for the generator to become operational again, there will be some associated import directed towards the CCS plant via the generators import connection.
  - There are about 70 Energy from Waste plants in the UK and there's about 30 CCGTs, meaning roughly 100 plants overall.

- The industry has been given £21 billion by the government to invest in such sites and the impact of not having the generator continue as a Non-Final Demand Site is in the region of half a billion over 15 years of subsidy.
- The effect of losing £500m as part of that generator not being classed as a Non-Final Demand Site would simply fall into the fixed subsidy recovery category, and that effectively falls onto the taxpayer eventually through the recovery of these subsidy mechanisms.
- This was the reason for raising the matter with the DCMDG members and so that members were aware of it and could potentially provide a steer on the issue.

4.3 The Chair summarised the contents of the paper, which effectively asked members to consider whether such an arrangement (i.e., a generator that is currently considered a Non-Final Demand Site attaches a CCS site to itself, most likely via private wire connection) would still be considered as import for or directly relating to electricity storage and or electricity generation and not for import for another activity.

4.4 The Chair noted that there are some secondary points that might also be worth considering, such as a scenario where a CCS site is separate from the generator (i.e., is a single site in its own right) but that is solely providing services to a generator (i.e., a Non-Final Demand Site). And a final scenario that relates to a CCS site that is solely providing services to an industrial site (i.e., a Final Demand Site).

4.5 One member explained their view that they didn't feel that such sites would fall within the current definition of a Non-Final Demand Site and so they would be likely be considered a Final Demand Site if they added a CCS plant. However, the member expressed support for amending the Non-Final Demand Site definition to cater for sites that fall under the first category (i.e., a generator co-located with a CCS plant) and not cater for either of the other two categories. The member also pointed out that some CCS schemes have a commercial angle, which means they shouldn't be classed as a Non-Final Demand Site and that this distinction is likely to be important for determining which category is appropriate.

4.6 Another member agreed that this is an issue that's very pertinent and should be clarified, and not only at a distribution level, but also at the transmission level and on the latter, asked if MK had thought about raising via the Transmission Charging Methodology Forum (TCMF). MK advised that he had not yet done so, but confirmed that he'd be keen to ensure that the issue is pushed through in a uniform way and agreed that it probably does need to be raised at the TCMF.

4.7 One member asked if Ofgem had been approached for their initial view on the issue to which MK responded that he had not yet approached Ofgem but would follow up with them, potentially through the Chair.

4.8 Another member suggested that if a meeting or workshop with Ofgem and MK were to take place, it would be beneficial for the group to be informed and involved to which other members also expressed interest in, to gain a better understanding of the issue.

4.9 The following next steps were noted:

- The Chair confirmed, that as had been agreed earlier in the meeting, that he would forward the paper through to AM and alongside this would also include it as an agenda item for the January meeting.

- The Chair will note to AM that members would prefer to be involved in any discussions on this topic and therefore, if there were to be some general discussions on the topic with Ofgem, that some members would definitely like to be involved in these.
- Members should consider whether to address the related issues through a single change proposal or multiple proposals, considering the different configurations of CCS sites.

## 5. MHHS Update

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- 5.1 The Chair noted that the Authority's decision for DCP 445 'Implementation of Market-wide Half Hourly Settlement (MHHS) Arrangements' was received on 26 November 2024, which has also been published on the website. This follows on from the Change Declaration that was issued to Ofgem on 08 November 2024.
- 5.2 The Authority approved DCP 445, which means that the proposed solution (variation) will be made. The Chair noted that the implementation date for DCP 445 will be the same date as the M8 Milestone ('Code Changes Delivered') in the baselined MHHS Implementation Timetable that was subject to a recently approved Programme Change Request (CR055) to extend the M10 Milestone, which the M8 Milestone is linked to, by 6.5 months (i.e., from 07/03/2025 to 24/09/2025).
- 5.3 One member also pointed out that there may be some mop-up changes coming through, to which the Chair confirmed that this is a likely scenario but that any such changes are likely to be quite minor in nature.

## 6. Private Networks Subgroup Update

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- 6.1 In terms of an update related to the private network subgroup, ED, who raised the issue originally, suggested, given the previous updates that this is this is not to continue right now and that it had been planned to be closed down and alongside the fact that the final meeting had not yet taken place over the last few months now that it ought to be closed down. ED suggested that a note to that effect could be issued to member of the sub-group. The Chair agreed with this suggestion.

## 7. 'AAR Lessons Learnt' Subgroup Update

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- 7.1 The Chair noted that he had made a start on formalising the content that was issued out via email into guidance that could be added to the website and that once completed, the document would be issued to the sub-group for their review and approval and the output would be communicated to the DCMDG membership more broadly.

## 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 pointed out there is a planned DCUSA Stakeholder Engagement Day being held on 14 January 2025 in central London and as they planned to attend wanted to bring it to the attention of all members in case some did not know about it. The Chair confirmed that this is indeed happening on the date advised and noted that there are still a few spaces left so if members are interested and have not responded and would like to participate, they can let the Chair know in order to secure a place.

## 9. Agenda Items for the Next Meeting

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- 9.1 The Chair noted that the item related to Residual Charges for Carbon Capture and Storage (CCS) Sites would be included again and that the Private Networks Subgroup Update would be removed.

## 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 16 January 2025 via Microsoft Teams / Teleconference.