



DCUSA CHANGE REPORT

DCP 189 - Un-expired Capitalised O&M

Executive Summary

DCP 189 seeks to exempt EDCM customers with un-expired capitalised Operation and Maintenance (O&M) payments from paying the fixed charge component associated with the direct operating cost element of the sole use asset charges in their import charges. This will prevent such customers paying twice for the same service.

This document presents the Change Report for DCP 189 and invites respondents to vote on the proposed change.

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 189 - Un-expired Capitalised O&M. 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.
- 1.2 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 **9 October 2014**.

2 BACKGROUND AND SUMMARY OF DCP 189

- 2.1 SP Distribution (SPD)/SP Manweb (SPM) have a number of EHV Distribution Charging Methodology (EDCM) customers who had paid upfront capitalised O&M (Operation and Maintenance) at the point when they connected. Ofgem have granted SPD/SPM a derogation allowing them to exempt these customers from paying the fixed charge component associated with the direct operating cost element of the Sole Use Asset (SUA) charge. This is to prevent these customers from contributing again to the O&M costs.
- 2.2 The derogation which SPD/SPM has been granted is time limited and Ofgem has advised the DNO that it should seek to bring about an enduring solution by means of an amendment to the EDCM. SPD/SPM has therefore raised DCP 189 seeking to exempt EDCM customers with un-expired capitalised O&M payments from paying the fixed charge component associated with the direct operating cost element of the SUA charges in their import charges. Full details of the Change Proposal are provided in the CP Form (Attachment 3).
- 2.3 The Working Group have identified that the principle in the Change Proposal should be extended to pre- 2005 distributed generators and this was covered in the DCP 189 consultation. More information on this is provided in section 5 below.
- 2.4 It should be noted that there has been a significant amount of discussion on capitalised O&M for pre-2005 DG connected customers before the EDCM methodology was

approved. Attachment 4 details some of the events associated with the introduction of the EDCM.

3 WORKING GROUP

3.1 The DCUSA Panel established a Working Group to assess DCP 189. The group consists of Distributor 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.

3.2 The Working Group carried a consultation to give DCUSA Parties and other interested organisations an opportunity to review and comment on DCP 189.

4 DCP 189 CONSULTATION

4.1 There were six responses received to the DCP 189 consultation, all of which were from DNOs. The Working Group discussed each of the responses and its comments are summarised alongside the collated Consultation responses in Attachment 5.

4.2 A summary of the responses received, and the Working Group's conclusions are set out below.

Question 1 - Do you understand the intent of the CP?

4.3 The Working Group noted that all respondents understood the intent of the CP.

Question 2 - Are you supportive of the principles established by this proposal?

4.4 The Working Group noted that five of the six respondents were supportive of the principles established by the proposal.

4.5 The sixth respondent explained their concern that the CP may set a precedent for reviewing the 2005 connection / use of system boundary policy. In response, the Working Group noted that applying blanket exemption on import would be consistent with Ofgem's decision to apply a blanket exemption on export, as the sole use assets are now split between import and export under the EDCM.

Question 3 - Do you agree that the default position under DCP 189 should be that all exempt pre-2005 EDCM generators should be exempt from the fixed charge component of the SUA charges in their import charges?

- 4.6 The Working Group noted that five of the six respondents agreed that the default position under DCP 189 should be that all exempt pre-2005 EDCM generators should be exempt from the fixed charge component of the SUA charges in their import charges.
- 4.7 The sixth respondent reiterated their concern regarding reviewing previous connection / use of system policy decisions.

Question 4 - Do you agree that the treatment of O&M for customers that have requested assets above the minimum scheme is out of scope for DCP 189?

- 4.8 The Working Group noted that all respondents to this question agreed that the treatment of O&M for customers that have requested assets above the minimum scheme is out of scope for DCP 189. Two of the respondents suggested that this area should be covered by the Common Connection Charging Methodology.

Question 5 - Do you agree with the Working Group's recommendation to not amend tariffs retrospectively?

- 4.9 It was noted that respondents unanimously agreed that tariffs should not be adjusted retrospectively.

Question 6 - Do you agree with the proposed approach to customers providing evidence where they believe that they have paid upfront O&M?

- 4.10 The Working Group noted that respondents unanimously agreed with the proposed approach set out in the consultation document. More details on this approach are set out in section 5 below.
- 4.11 The group observed that an Authority decision on DCP 189 may not be received before November 2014 and DNOs will need to know which customers are impacted by December 2014 in order to calculate the April 2015 tariffs. As this would leave limited time for customers to bring forward evidence, the group discussed whether the implementation of DCP 189 should be delayed by a year to give customers additional time. It was noted that only a small number of impacted customers would need to bring forward evidence, as the majority of impacted customers already have an exemption under the export side and thus will not need to provide evidence. For this reason, the

group agreed that the implementation of the CP should not be delayed as it would delay the majority of impacted customers from benefiting from the CP.

- 4.12 The Working Group noted that under DCP 189 if evidence is not brought forward in time for the next set of tariffs then the exemption could be applied to the following year's tariffs.

Question 7 - Are there any unintended consequences of this proposal?

- 4.13 Five respondents to this question did not identify any unintended consequences.
- 4.14 One respondent explained their concern that the CP could trigger revisiting of the 'correct' use of system charges for any site where there has been a change in the connection / use of system boundary since the site was connected. The Working Group noted that they had discussed concerns around the reviewing of previously agreed charges against question two.

Question 8 - Do you consider that the proposal better facilitates the DCUSA objectives?

- 4.15 Five of the respondents to the consultation agreed that the CP better facilitates the DCUSA objectives. The following table details which objectives these respondents specifically stated as being better facilitated.

DCUSA General Objectives	No. Of Respondents that agree it is better facilitated	DCUSA Charging Objectives	No. Of Respondents that agree it is better facilitated
Objective 1	0	Objective 1	0
Objective 2	0	Objective 2	0
Objective 3	5	Objective 3	5
Objective 4	0	Objective 4	0
Objective 5	0	Objective 5	0

- 4.16 One respondent explained that they do not feel that there is enough evidence that DCP 189 better meets the objectives and the CP could distort competition to the extent that some EDCM customer's charges would be adjusted where an equivalent customer under the CDCM would not.
- 4.17 The Working Group discussed this comment and observed that there is no such thing as an equivalent customer between the EDCM and CDCM as they have different characteristics. It was also highlighted that the EDCM is site specific whilst the CDCM is

averaged, thus as they are different methodologies customers will be charged differently.

Question 9 - Do you have any comments on the proposed legal text?

- 4.18 Five respondents did not have any comments on the proposed legal text. One respondent highlighted that the paragraph numbering may need to be corrected and an action was taken to look into this.

Question 10 - Are there any alternative solutions or matters that should be considered?

- 4.19 Five respondents did not identify any alternative solutions or matters.
- 4.20 One respondent stated that they feel that the 'blanket' application of the EDCM to demand customers was the correct and transparent approach, and followed how previous policy changes had been applied. The Working Group noted that it had discussed this area against consultation question two.

Question 11 - Are you supportive of the proposed implementation date of 1 April 2015?

- 4.21 Five respondents to this question agreed with the proposed implementation date of 1 April 2015, although two highlighted that to enable this an Ofgem decision on the CP would need to be received in time for setting the April 2015 Distribution Use of System tariffs.
- 4.22 One respondent suggested that consideration should be given to allowing a reasonable lead time for customers to provide auditable evidence. The respondent suggested that 1 April 2016 would allow a reasonable time period for customers to be contacted and provide the required auditable evidence. The Working Group discussed this comment and observed that delaying the implementation date would prevent the majority of customers that will get a blanket exception from benefiting from the CP for a year. For this reason, the Working Group agreed not to amend the proposed implementation date.

Question 12 - Do you have any comments on the proposed EDCM model?

- 4.23 The Working Group noted that there were no comments on the DCP 189 updated EDCM models that were issued with the consultation document.

Question 13 - Please state any other comments or views on the Change Proposal.

- 4.24 The Working Group noted that consultation respondents did not have any additional comments on the CP.

5 WORKING GROUP ASSESSMENT OF DCP 189

- 5.1 The DCP 189 Working Group discussed the proposal over a number of meetings, taking into account the responses received to the DCP 189 industry consultation. The topics discussed by the Working Group and the group's conclusions are detailed below.

Scope of DCP 189

- 5.2 SPD/SPM's derogation applies to some customers that are demand-only and also some that are pre-2005 Distributed Generators. DCP 189 was raised with a view to introducing an enduring solution for these particular customers.

- 5.3 During its discussions on the Change Proposal the DCP 189 Working Group identified that under the EDCM all pre-2005 Distributed Generation (DG) customers have a time limited exemption on all export charges including O&M but may be picking up O&M costs through their import DUoS charges, even if they have already paid O&M upfront. The Working Group considered whether it is appropriate that DCP 189 should apply to these customers too. In considering this the group noted the following points:

- There were various consultations undertaken on how to treat pre-2005 DGs when the EDCM was established and therefore this area has previously been discussed.
- Information on which customers have paid capitalised O&M is not available for all customers, consequently Ofgem has exempted all pre-2005 generators from paying capitalised O&M on their export.
- If no action is taken then customers that have already paid capitalised O&M may be paying additional contributions towards O&M. However, if the charge is removed for all DG customers because the data is not available to identify the specific ones that have already paid, then the shortfall of allowed revenue that is not collected would need to be recovered from all other customers.

- Under earlier charging methodologies customers were able to choose whether they wished to pay upfront capitalised O&M. It should not be assumed that all customers chose to pay it.
- Where a customer has paid capitalised O&M this generally related to sole use assets. There may be occasions where capitalised O&M was paid towards joint use assets but the Working Group determined that this is out of scope, as the intent of DCP 189 is limited to sole use assets.

5.4 The Working Group concluded that pre-2005 EDCM generators that currently have an exemption should be included within the scope of DCP 189. In other instances, there should not be an assumption that upfront O&M has been paid and evidence will be required to qualify.

Identifying Affected Customers

- 5.5 The majority of the Working Group believe that the default position under DCP 189 should be that all exempt pre-2005 EDCM generators should be exempt from the fixed charge component of the SUA charges in their import charges.
- 5.6 As an alternative to this approach, it was suggested that the pre-2005 DG customers that opted in to the EDCM should still receive an exemption under DCP 189, i.e. these customers would not pay the O&M element of the fixed charge on both their import and export. It was suggested by a Working Group member that this approach may conflict with Ofgem's decision on pre-2005 EDCM generators.
- 5.7 Based on the consultation responses the Working Group agreed that all pre-2005 generators that are entitled to an exemption on their export will receive an exemption on their import under DCP 189.
- 5.8 For demand only EDCM customers the Working Group agreed that a pragmatic approach would be to place the obligation on the customer to provide evidence where they believe that they have paid upfront O&M. The DNO can then consider each request on a case by case basis.

- 5.9 The Working Group noted that this approach would need to be communicated to EDCM customers so that they are aware of it and could bring forward evidence. It was suggested that this could be achieved through the Distribution Charging Methodologies Forum (DCMF) and DCMF distribution list. The group noted that customers will need to provide evidence by the end of November in any given year, to be included in charges for the following April.
- 5.10 It was noted that the proposed solution applies only to the sole use asset of EDCM customers.
- 5.11 The sole use assets of schemes where the customer has requested assets above the minimum scheme are not included, because the O&M for these sites is based on network rates and not operation costs. The Working Group noted that a consequential changes could be raised to address the treatment of O&M for customers that connect above the minimum scheme either through the:
- Common Connection Charging Methodology, such that where customers connect above the minimum scheme they do not pay capitalised O&M; or
 - The EDCM such that these customers do not pay O&M on the sole use assets above the minimum scheme.
- 5.12 The majority of Working Group members believe that the treatment of O&M for customers that have requested assets above the minimum scheme is out of scope for DCP 189. It was noted that consultation respondents agreed with this view.

Application of DCP 189

- 5.13 Under normal circumstances all DCUSA changes are applied going forward. It is the view of the Working Group that should DCP 189 be implemented, it is only at the point of implementation of DCP 189 where applicable customers will have their tariffs adjusted and retrospective refunds should not be given.
- 5.14 It was noted that it would be for Ofgem to direct if a retrospective change was to be applied. The group discussed this area with Ofgem and was advised that in general while

Ofgem can apply changes retrospectively this will only occur in very specific circumstances, namely:

- Where there had previously been deliberate intent to apply something that was known to be wrong;
- Where it was reasonable to foresee that the application of something was wrong; or
- Where Ofgem had been clear throughout that the intention was to retrospectively apply the modification if approved.

5.15 This does not preclude Ofgem from taking into account comments received in response to the DCP 189 consultation. It was noted that consultation respondents unanimously agreed that DCP 189 should not be applied retrospectively.

6 IMPACT OF DCP 189

6.1 The Working Group has updated the LRIC and FCP EDCM models to reflect the proposed solution. The updated models are provided as Attachment 6.

6.2 The updated models have been used to calculate the impact of DCP 189. As the populated models contain confidential customer data they cannot be published but the spreadsheet provided as Attachment 7 contains information on the impact of the proposed change on all EDCM customers. EDCM customers can identify their sites using the Line Loss Factor Class (LLFC) or their MPANs.

6.3 The information in the impact analysis is based on the best data available to DNOs and the number of customers affected may change if evidence is received that a customer is entitled to an exemption.

6.4 The Working Group have agreed that the discount applied to the fixed charge for eligible EDCM customers in respect of capitalised O&M payments should be recovered from all customers (i.e. CDCM and EDCM customers).

- 6.5 As the capitalised O&M payments are recovered from CDCM as well as EDCM customers this will have a small impact on CDCM tariffs. The Working Group recognises that this will be a minimal impact.

7 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

- 7.1 The Working Group has assessed the CP against the DCUSA objectives and the Working Group members agree that the following DCUSA Objectives are better facilitated by DCP 189.

- **General Objective Three – The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences**

- 7.2 General Objective Three is better facilitated as this CP demonstrates that DNOs have reviewed the methodology and made changes where necessary to ensure that the resultant charges reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its distribution business as specified in Standard Licence Condition 13.2 (b) of the Distribution Licence.

- **Charging Objective Three – 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**

- 7.3 Charging Objective Three is better facilitated as the change proposal will result in charges to customers that better reflect the costs incurred by DNOs in their distribution business. This will be achieved by ensuring that customers are not charged by the DNO for ongoing operation and maintenance of the network where they have already paid for this element upfront when they connected to the network. This change was raised originally to address a specific DNO derogation, and developed to ensure that this derogation could be removed and an enduring solution implemented. The SPM and SPD derogation letters are provided as Attachment 8 and 9 respectively.

8 PROPOSED IMPLEMENTATION DATE

8.1 The proposed implementation date for DCP 189 is 1 April 2015.

9 DCP 189 LEGAL DRAFTING

9.1 The proposed legal text for DCP 189 is provided as Attachment 1.

10 IMPACT ON GREENHOUSE GAS EMISSIONS

10.1 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 189 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

11 ENGAGEMENT WITH THE AUTHORITY

11.1 Ofgem has been fully engaged throughout the development of DCP 189 as a member of the Working Group.

12 PANEL RECOMMENDATION

12.1 The Panel approved this Change Report at its meeting on **17 September 2014**. 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 189.

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

Activity	Target Date
Change Report approved by DCUSA Panel	25 September 2014
Change Report issued for voting	25 September 2014
Voting closes	9 October 2014
Change Declaration	13 October 2014
Authority Decision	17 November 2014
DCP 189 Implemented	1 April 2015

13 NEXT STEPS

- 13.1 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 **9 October 2014**.
- 13.2 The CP has been classed as a Part 1 matter and therefore will go to the Authority for determination after the voting process has completed.
- 13.3 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 2842.

ATTACHMENTS

- Attachment 1 – DCP 189 Legal Text
- Attachment 2 – Voting Form
- Attachment 3 – CP Form
- Attachment 4 – EDCM Timeline
- Attachment 5 – Consultation and Collated Responses
- Attachment 6 – Updated LRIC and FCP EDCM Models
- Attachment 7 – Impact Assessment
- Attachment 8 – SPD Derogation Letter
- Attachment 9 – SPM Derogation Letter