Part A: Generic

DCUSA Change Proposal (DCP)	At what stage is this document in the process?
# DCP 342: ## Removal of residual charging for storage facilities in the EDCM *Date raised: 31 January 2019* *Proposer Name: Tony McEntee* *Company Name: Electricity North West* *Company Category: DNO*	**01 – Change Proposal** **02 – Consultation** **03 – Change Report** **04 – Change Declaration**

Purpose of Change Proposal:

The intent of this change proposal is to amend the application of residual charging in respect of storage generators in the EDCM.

Governance:

The Proposer recommends that this Change Proposal should be:

- Treated as a Part 1 Matter
- Treated as a Standard Change
- Proceed to a Working Group

The Panel will consider the proposer's recommendation and determine the appropriate route.

Impacted Parties: DNOs, IDNOs, Suppliers and DG Parties

Impacted Clauses: Section 18 of DCUSA Schedules 17 and 18 (clauses 18.18 to 18.21)

Contents

Indicative Timeline

The Secretariat recommends the following timetable:

Initial Assessment Report	20 February 2019
Consultation Issued to Industry Participants	TBD
Change Report Approved by Panel	17 July 2019
Change Report issued for Voting	19 July 2019
Party Voting Closes	09 August 2019
Change Declaration Issued to Authority	13 August 2019
Authority Decision	17 September 201
Implementation	01 April 2021

Any questions?

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1 Summary

What?

Changes are required to the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM) to ensure that storage facilities are not subject to residual charges for demand where the intent is to export the energy taken back onto the system.

Why?

Residual charges exist to ensure that distributors recover their allowed revenue. They generally recover sunk costs in respect of historic investments into network infrastructure for the purpose of serving demand customers. In July 2017, the Government and Ofgem published their Smart Systems and Flexibility Plan[1] where they identified a number of policy and regulatory barriers to the further deployment of storage. In order to address these Ofgem identified a number of actions which included that storage facilities should not pay the 'demand residual' element of network charges at transmission and distribution level (page 11 of the publication document).

Ofgem issued an open letter on 23 January 2019[2] on the implications of charging reform on electricity storage. In this letter they requested that modification would be brought forward to promptly address residual charging for storage in the CDCM and EDCM.

How?

The detail for the solution should be developed by a working group, but it is initially envisaged that this change will be implemented by making changes to section 18 of DCUSA Schedules 17 and 18 (clauses 18.18 to 18.21) to amend the application of residual charging for storage facilities.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/633442/upgrading-our-energy-system-july-2017.pdf

[2] https://www.ofgem.gov.uk/publications-and-updates/open-letter-implications-charging-reform-electricity-storage

2 Governance

Justification for Part 1 Matter

This Change Proposal (CP) should be considered as a Part 1 Matter as it will impact storage facilities, Suppliers and demand consumers to the extent that any revenue shortfall will be reflected as an increase to demand tariffs.

Requested Next Steps

This Change Proposal should:

- Be treated as a Part 1 Matter;
- Be treated as a Standard Change; and
- Proceed to a Working Group.

3 Why Change?

Storage facilities are treated as embedded generators with charges calculated in the EDCM has an associated import capacity, with an import tariff calculated in respect of that import capacity. The export tariff for embedded generators does not attract any element of residual charging, whilst the associated import tariff attracts residual charging in the same way as the charges for a demand only customer. As a result, EDCM storage facilities are paying residual charges for import, with the level of residual charge paid varying dependent on:

- the size of the import;
- the unit volume expected to be imported by the customer in the relevant DNO's peak super-red period (the forecast of which is used in the calculation of residual charges); and
- the level of residual revenue of the DNO licensee to whose network the generator is connected.

More traditional forms of embedded generation generally have small import capacities, and so residual charging on the demand element is relatively small. Storage facilities have a much higher import capacity (generally equal to their export capacity) and so residual charging on the demand element represents a significant charge.

This means that traditional forms of embedded generation are charged much lower demand residual charges as a result of their small import connections to the DNO network compared to storage operators because of their much larger import connections to the DNO network. As a result, storage would not be competing on a level playing field with other forms of embedded generation.

Any reduction in residual charges paid by EDCM embedded generators will be recovered from the remainder of EDCM demand customers.

The new tariffs will only apply to storage facilities not co-located with final demand. Where a Supplier requests that a DNO applies these reduced tariffs, it must provide assurance to the DNO that the storage facility is exempt from final consumption levies.

Part B: Code Specific Details

4 Solution and Legal Text

Changes will be required to Schedules 17 and 18 of DCUSA, which detail the Forward Cost Pricing (FCP) and Long Run Incremental Cost (LRIC) variants of the EDCM respectively. The treatment of residual charging is dealt with in clauses 18.18 to 18.21.

Legal Text

The Working Group should draft legal text appropriate for the solution developed.

5 Code Specific Matters

Reference Documents

Connection and Use of System Code (CUSC) modification CMP 280 – 'Creation of a New Generator TNUoS Demand Tariff which Removes Liability for TNUoS Demand Residual Charges from Generation and Storage Users'[3] is currently progressing through the CUSC modification process to address the same issue in the Transmission Network Use of System (TNUoS) charging framework.

On 23 January 2019 Ofgem published an Open Letter[4] on implications of charging reform on electricity storage.

6 Relevant Objectives

DCUSA Charging Objectives	Identified impact
☒ 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	Positive

[3] https://www.nationalgrideso.com/codes/connection-and-use-system-code-cusc/modifications/creation-new-generator-tnuos-demand-tariff

[4] https://www.ofgem.gov.uk/publications-and-updates/open-letter-implications-charging-reform-electricity-storage

☒ 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
☒ 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	Positive
☒ 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	Positive
☐ 5 that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
☐ 6 that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration..	None

Charging Objective One: Standard Licence Condition four of the electricity distribution licence requires that distributors operate their businesses in a way that does not distort competition in the generation of electricity. This CP will ensure that storage facilities connected at EHV are able to compete on a level playing field with traditional embedded generation technologies, and so will avoid a distortion to competition in the generation of electricity.

Charging Objective Two: This CP will ensure that storage facilities connected at EHV are able to compete on a level playing field with traditional embedded generation technologies, and so will avoid a distortion to competition in the generation of electricity.

Charging Objective Three: This CP will increase the cost-reflectivity of tariffs for storage facilities by ensuring they are not exposed to residual charges.

Charging Objective Four: DNOs are seeing an increase in the number of applications for the connection of storage facilities to their networks. This CP will ensure that such storage facilities can compete on a level playing field with other embedded generators.

7 Impacts & Other Considerations

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

This CP has a significant crossover with the Targeted Charging Review (TCR) Significant Code Review (SCR) which is currently being progressed by Ofgem, which is looking at residual charging more generally. Ofgem

has indicated that it views this change as a 'quick win' which can be progressed in isolation whilst the TCR looks at the issue of residual charging more fundamentally.

Does this Change Proposal Impact Other Codes?

BSC	☐
CUSC	☐
Grid Code	☐
MRA	☐
SEC	☐
Other	☐
None	☒

Consideration of Wider Industry Impacts

No other wider industry impacts have been identified other than those indicated in the above proposal.

Confidentiality

Non-confidential

8 Implementation

This change should be implemented as soon as possible. Use of System charges were published for 2020/21 in December 2018; hence the earliest a change to Use of System charges can be made is 01 April 2021. Charges for 2021/22 will be published in December 2019, so in order to achieve this, an Ofgem decision will be required by 30 September 2019 in order to comply with DCP 293 – 'Charging Methodology Cut-Off Date'[5].

In order to avoid a distortion between the CDCM and EDCM, it would be preferable if the implementation date of this change were to align with that of DCP 341.

Proposed Implementation Date

The proposed implementation date for this CP is 01 April 2021.

5 https://www.dcusa.co.uk/Lists/Change%20Proposal%20Register/DispForm.aspx?ID=318&Source=https%3A%2F%2Fwww%2Edcusa%2Eco%2Euk%2FSitePages%2FActivities%2FChange-Proposal-Register-Archive%2Easpx%23InplviewHash35f4ef25-f112-41cb-9311-dac2d3455147%3D&ContentTypeId=0x0100684A1DE09E1F9740A444434CF581D435

9 Recommendations