

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP410 – Fairer re-assessment of the allocation of Final Demand Sites prior to subsequent price control periods (DCP410)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	22 February 2023	Implementation date:	Five working days from decision date

Background

In November 2019, we published our Decision (and associated Direction) on the Targeted Charging Review (TCR) Significant Code Review.³ Once the Decision is implemented, the costs of operating, maintaining and upgrading the electricity grid will be spread more fairly and, through reducing harmful distortions, will save consumers approximately £300m per year, with anticipated £4bn-5bn consumer savings in total over the period to 2040.

The TCR included a review of how residual network charges are set and recovered. The aim of the TCR is to ensure that these charges are recovered from network users in a way that meets the following principles (TCR Principles):

- reducing harmful distortions;
- fairness; and
- proportionality and practical considerations.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf

We decided that residual charges should apply to Final Demand⁴ consumers and that residual charges will be fixed charges. For domestic consumers, we decided that there will be a single transmission residual charge, and a single distribution residual charge within each of the 14 distribution licensed areas. For distribution and transmission connected non-domestic consumers, we decided that a structure of banded fixed charges should be used for residual charges. The changes were implemented in April 2022 for distribution residual charges and will be implemented for transmission residual charges in April 2023⁵.

Alongside our TCR Decision⁶, we issued Directions (the 'TCR Directions'⁷) to National Grid Electricity System Operator (NGESO) and Distribution Network Operators (DNOs) to raise one or more modifications to the Connection and Use of System Code (CUSC) and Distribution Connection and Use of System Agreement (DCUSA), respectively, to implement the TCR Decision.

As a result of our TCR Directions, DCUSA change proposals: DCP358 and DCP360⁸ were raised and accepted. A summary of these decisions follows:

- a) DCP358 added a new schedule to DCUSA (Schedule 32 - Residual Charging Bands⁹) to define residual charging bands for non-domestic users. DCP358 also set out the process for reviewing charging bands prior to each electricity transmission price control period; and
- b) DCP360 introduced a process to allocate customers to charging bands ahead of each electricity transmission price control period (as defined in DCP358) and reallocate customers, where necessary, into different charging bands within the price control period, in defined exceptional circumstances. DCP360 also introduced a tightly defined disputes process to ensure that market participants have the opportunity to challenge their band allocation and have it amended, where appropriate.

⁴ Final Demand is defined as "electricity which is consumed other than for the purposes of generation or export onto the electricity network". The CUSC modification CMP334 defined this term and other relevant terms. We approved CMP334 on 30 November 2020, though it will not have any effect until CMP343 is implemented.

⁵ We decided in our approval of CMP343 WACM2 that there would be four residual charging bands transmission connected users: [CMP343 Decision.pdf](#)

⁶ <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-decision-and-impact-assessment>

⁷ [DCUSA Direction \(ofgem.gov.uk\)](#)

⁸ [DCP358: Determination of Banding Boundaries and DCP360: Allocation to Bands and Interventions](#)

⁹ [DCUSA Schedule 32](#)

The methodology for the allocation of users to residual charging bands for each transmission price control period is set out in paragraphs 4.1 and 4.2 of Schedule 32 of the DCUSA.¹⁰ Where 24 months worth of data is available it requires that DNO/IDNO parties allocate Final Demand Sites to a residual charging band based on their average Maximum Import Capacity (MIC)¹¹ or average annual import consumption over 24 months (the exception being Non-Half Hourly (NHH) settled sites allocated based on the most recent Estimated Annual Consumption¹²). Where 24 months worth of data is not available, paragraphs 4.1 and 4.2 set out that the average over the period for which data is available or other available information that is appropriate for a typical profile of a similar site to make a best estimate can be used.

The exceptional circumstances in which users may be reallocated to a different band within a price control period are set out in paragraph 6 of Schedule 32 of the DCUSA. Within paragraph 6 it specifies that where the MIC and/or consumption at a Final Demand Site has increased or decreased by more than 50% in comparison to the MIC and/or consumption which was used for the purposes of the allocation the applicant is seeking to have changed, a Final Demand Site may be reallocated to a different charging band.¹³ Reallocation can also occur as a result of a change in the voltage of the site, a move from one of the groups defined in paragraph 1.5 to another (i.e., category of Non-Domestic Premises) or as a result of the dispute process outlined in paragraph 7.17 of Schedule 32 of the DCUSA.

Mis-allocation issue

Under the current arrangements, where a Final Demand Site is reallocated within the 24-month period used for the assessment for a site's allocation for the subsequent price control, the site could be allocated to a band which is not reflective of their usage. This is because the MIC or consumption figures prior to the reallocation could distort the average of the 24-month period used for the assessment.

¹⁰ [DCUSA Schedule 32](#)

¹¹ The Maximum Import Capacity (MIC) is the agreed capacity from the Connection Agreement, as billed in each month.

¹² Estimated Annual Consumption is, for each Settlement Register, an estimate of Consumption over a year.

¹³ We note that DCP389 is seeking to amend the legal text in paragraph 6 of Schedule 32 of the DCUSA, proposing change to the process by which a user qualifies for a 50% change in MIC or consumption and therefore an exceptional circumstances band reallocation.

The modification proposal

National Grid Electricity Distribution (the 'Proposer') raised modification DCP410 (the 'Proposal') on 17 June 2022. The Proposal seeks to allow DNO/IDNOs to take any reallocation that occurs during the 24-month assessment period into account when allocating sites to residual charging bands for the subsequent transmission price control period.

DCP410 proposes to achieve this by making amendments to Section 4 of Schedule 32 of the DCUSA as follows:

- a) The change will apply where a Final Demand Site has been reallocated to a different charging band within the 24-month assessment period used for allocating sites for the next price control period; and
- b) The average calculated for the purpose of the assessment will be calculated using data from the date the band reallocation became effective, until the end of the standard 24-month assessment period.

The Proposer considers this modification to be positive against the Second DCUSA Charging Objective.

DCUSA Parties' recommendation

In each party category where votes were cast (no votes were cast in the IDNO, Supplier or CVA Registrant party category),¹⁴ there was unanimous support for the Proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP410 is accepted. The outcome of the weighted vote is set out in the table below:

¹⁴ There are currently no gas supplier parties.

DCP410	WEIGHTED VOTING (%)				
	DNO ¹⁵	IDNO ¹⁶	SUPPLIER	CVA ¹⁷ REGISTRANT	GAS SUPPLIER
CHANGE SOLUTION	100% Accept	N/A	N/A	N/A	Not Eligible
IMPLEMENTATION DATE	100% Accept	N/A	N/A	N/A	Not Eligible

Our decision

We have considered the issues raised by the Change Declaration dated 13 December 2022 including the responses to the Working Group consultation. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the Applicable DCUSA objectives;¹⁸ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.¹⁹

Reasons for our decision

We consider the Proposal will better facilitate the second DCUSA Charging Objective and has a neutral impact on the other applicable objectives.

Second DCUSA Charging Objective – 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 the participation in the operation of an Interconnector (as defined in the Distribution Licences)

¹⁵ Distribution Network Operator

¹⁶ Independent Distribution Network Operator

¹⁷ Central Volume Allocation

¹⁸ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹⁹ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

The DCP410 consultation received six responses, all of which supported the principle of the Proposal. The majority of respondents cited the Proposal as better facilitating competition by ensuring sites are allocated in a fair and appropriate way.

Subsequently, the Working Group considered that the second DCUSA Charging Objective would be better facilitated by the Proposal because it will allow sites to be allocated to an appropriate residual charging band based on a fairer assessment of the average capacity or consumption (as appropriate). This will help ensure similar treatment of sites of similar sizes and therefore help facilitate effective competition among similar end users.

Views then received from DCUSA Parties that voted were consistent with the Working Group, agreeing that DCP410 would better facilitate the second DCUSA Charging Objective for the same reason.

Our position

We agree with the view conveyed by the Working Group and DCUSA Parties that DCP410 will better facilitate the second DCUSA Charging Objective. In our view, the current legal text means that the reallocation of a Final Demand Site could be undermined at the next price control allocation if the change occurred during the 24-month period used for the assessment. The status quo presents a potential distortion to competition between similar sites, which the Proposal helps to mitigate.

Interactions

The Change Declaration highlighted that should the separate change proposals DCP389 and DCP407 also be approved, a further change might be required to ensure that the approved solutions work consistently together, given that all proposals are making changes to Schedule 32 of the DCUSA and have been developed in parallel. We note that we have approved DCP389 on 22 February 2023 and that DCP407 is currently with the Authority for decision. Should a further change proposal(s) be required, we will consider such a proposal on its merits once received.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP410: *Fairer re-assessment of the allocation of Final Demand Sites prior to subsequent price control periods* be made.

Tom Kenyon-Brown

Head of Electricity Network Charging

Signed on behalf of the Authority and authorised for that purpose