

## Distribution Connection and Use of System Agreement (DCUSA) DCP438 Rate of Return Change Proposal

<b>Decision:</b>	The Authority <sup>1</sup> directs that this modification be made <sup>2</sup>
<b>Target audience:</b>	DCUSA Panel, Parties to the DCUSA and other interested parties
<b>Date of publication:</b>	25 November 2024 <sup>3</sup>
<b>Implementation date:</b>	26 November 2024

### Background

Distribution Network Operators (DNOs) are licensed companies that own and operate the network which distributes energy to homes and businesses in Great Britain. There are 14 geographically defined Distribution Service Areas (DSAs) within GB, each operated by a licensed DNO.

DNOs are regulated in several ways. As regulated natural monopolies, they are subject to a price control, which sets out how much revenue they can recover from users of the system. They are also subject to regulation on how charges and tariffs can be produced. The current program of price controls for DNOs is called RIIO-ED2<sup>4</sup>, which replaced a previous price control called RIIO-ED1.

The methodology for producing charges is set out in Distribution Connection and Use of System Agreement (DCUSA) (the code to which this modification proposal applies), specifically Schedule 16. It has been identified that there are several references in the Schedule 16 that refer to RIIO-ED1 and so are out of date. Industry discussion on this DCUSA change proposal has focused on where updates are needed, and the most appropriate changes to make.

<sup>1</sup> 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.

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

<sup>3</sup> This document will be initially distributed by Electralink.

<sup>4</sup> [Network price controls 2021-2028 \(RIIO-2\) - Electricity distribution price control 2023-2028 \(RIIO-ED2\) | Ofgem](#)

## **The modification proposal**

DCP438: Rate of Return Change Proposal ('the Proposal') was raised by National Grid Electricity Distribution ('the Proposer') on 27 February 2024. The Proposer identified that parts of the DCUSA, covering four specified sections of legal text, contain out of date references.

The Proposal provides relevant updates to remove reference to previous price control periods and in particular removes references to the RII0-ED1 price control period, as it is no longer relevant. Following workgroup discussions, the Proposal also changes the approach of the text regarding naming price control items to ensure that the changes are future proofed against any format changes to the price control documents such as the Price Control Financial Model (PCFM).

### *Workgroup discussions*

The workgroup agreed with the need for the Proposal. According to the minutes of workgroup meeting one<sup>5</sup> there were discussions about the mechanisms by which the PCFM and Financial Handbook documents are updated, and the implications for proposed legal texts changes that would enact the changes identified by the Proposal as being necessary. The workgroup agreed that the Proposal could progress to consultation stage and expressed a preference for earlier, rather than later implementation, to bring in the legal text changes for use in tariff setting for the earliest possible charge setting period. The workgroup agreed that this Proposal should be assessed against the DCUSA Charging Objectives<sup>6</sup>.

### *Consultation responses*

The consultation was issued on 7 May 2024. Six DNOs responded to the consultation, which included eight questions. The consultation respondents understood and agreed with the purpose of the Proposal, and no further text changes were identified as being necessary.

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<sup>5</sup> [DCP-438-Working-Group-Meeting-01-Draft-Minutes-v1.0.pdf](#)

<sup>6</sup> [Electricity Distribution Consolidated Standard Licence Conditions \(ofgem.gov.uk\)](#)

Feedback from the consultation was broadly supportive of the Proposal, although some uncertainty was noted regarding the transfer beyond the RIIO-ED2 Pricing Period. It was also noted that the legal text assumed that DNOs would have access to the relevant copy of the PCFM to be used for calculating final charges for the first year of RIIO-ED3 at a time when it was likely DNOs would still be working on final business plan submissions for that price control.

To address these concerns, following the consultation, the workgroup discussed two proposed options put forward by a respondent to future-proof the text and ensure it would function in later price controls and during the transition period between price controls.

These options were:

1. specify the use of the most recent year and the latest published PCFM;  
or
2. allow the DNO to prepare a forecast of the value to be used.

On balance it was agreed by the workgroup that the second option was preferable, and the workgroup agreed relevant changes to the legal text in line with this approach.

### **DCUSA Parties' recommendation**

All DNO, IDNO and Supplier Parties, based on weighted votes for each party category, voted in favour of implementing the proposed solution and stated that it better facilitated the DCUSA Charging Objectives.

In each party category where votes were cast,<sup>7</sup> 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 the Proposal is approved. The outcome of the weighted vote<sup>8</sup> is set out in the table below:

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<sup>7</sup> There are currently no gas supplier parties. No votes were cast in the CVA Registrant party category.

<sup>8</sup> [DCP 438 Working Group - DCUSA](#)

#### DCP438 Weighted Voting (%)

	DNO <sup>9</sup> Accept	DNO Reject	IDNO <sup>10</sup> Accept	IDNO Reject	Supplier Accept	Supplier Reject
CHANGE SOLUTION	100%	0%	100%	0%	100%	0%
IMPLEMENTATION DATE	100%	0%	100%	0%	100%	0%

### Our decision

We have considered the issues raised by the Proposal and the Change Declaration and Change Report dated 15 July 2024. We have considered the workgroup discussions and the consultation responses. We have also 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 Proposal will better facilitate the achievement of the DCUSA Charging Objectives;<sup>11</sup> and
- directing that the modification is approved is consistent with our principal objective and statutory duties.<sup>12</sup>

### Reasons for our decision

We have concluded that the Proposal will better facilitate DCUSA Charging Objectives 1-4 and 6 and has a neutral impact on DCUSA Charging Objective 5. We believe that the Proposal better facilitates these objectives as it removes outdated references to the previous price control and future proofs the text of the DCUSA in reference to future price control periods.

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<sup>9</sup> Distribution Network Operator

<sup>10</sup> Independent Distribution Network Operator

<sup>11</sup> The DCUSA Charging Objectives are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence.

<sup>12</sup> 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 workgroup considered the DCUSA Charging Objectives to be better facilitated, but detailed reasoning was not provided in most cases. In the consultation, two parties signalled their agreement with the workgroup's assessment that this proposal better facilitate five of the six objectives, while one respondent expressed a broad agreement that the objectives were better facilitated. Two respondents specifically stated that DCUSA Charging Objectives 1-4 and six were better facilitated due to the removal of text that is no longer relevant, but did not give further reasoning. The final respondent set out that the objectives are better facilitated due to the promotion of efficiency in the implementation and administration of the agreement, which corresponds to DCUSA Charging Objective six.

In the party votes, as set out in the consolidated voting statements<sup>13</sup>, the DCUSA Charging Objectives were again cited, but no reasoning was provided. Our assessment against each specific objective is set out below.

***Applicable DCUSA Charging Objective One - 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***

Workgroup and consultation respondents considered the Proposal to better facilitate this objective, but detailed reasoning was not provided. It is our view that effective and transparent references to the price controls are necessary for the DNOs to carry out their obligations to set tariffs. We also agree that references to the RIIO-ED1 price control are no longer relevant, so it is appropriate that this text be changed to reflect these developments. In amending these out of date references, we believe that this Proposal better facilitates the discharge of DNOs obligations and takes steps to future-proof against future price control periods. We therefore agree it better facilitates DCUSA Charging Objective One.

***Applicable DCUSA Charging Objective Two – 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)***

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<sup>13</sup> [DCP 438 Working Group - DCUSA](#) Party vote sheet attached to Change Declaration document.

As with other objectives, workgroup and consultation respondents considered the Proposal to better facilitate this objective but did not provide detailed reasoning. We consider that this proposal allows DNO parties to produce tariffs that reflect relevant inputs from the current price control period in a clear and sufficiently transparent way. To the extent that a lack of clarity here, or insufficient transparency, could distort or restrict competition, we agree that this proposal will have a positive impact against this objective. We would therefore agree this objective is better facilitated by the Proposal when compared to the baseline arrangements.

***Applicable DCUSA 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***

As with other objectives, workgroup and consultation respondents considered the Proposal to better facilitate this objective but did not provide detailed reasoning. We consider that as RIIO-ED1 is no longer in operation, it is appropriate that the text is amended to reflect this accordingly. The Proposal ensures the charging methodologies correctly reflect the relevant price control, and so will allow the DNO parties to produce tariffs that reflect the costs of their distribution businesses as set out in the revenue-restricting price controls. While the removal of the text will not have a direct impact on costs, it allows tariffs that draw from the correct costs in the price control to be produced without uncertainty. We therefore agree this objective is better facilitated by the Proposal.

***Applicable DCUSA Charging Objective Four – 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***

As with other objectives, workgroup and consultation respondents considered the Proposal to better facilitate this objective but did not provide detailed reasoning. We find that updating the text to represent that RIIO-ED1 is no longer in operation and removing

its reference ensures that this Proposal is consistent with this objective and reflects the change in the relevant price control that the DNO parties are subject to. Change to the text brings the DCUSA into line with current business practice. We therefore consider that the Proposal better facilitates this objective.

***Applicable DCUS Charging Objective Six - compliance with the Relevant Charging Methodology promotes efficiency in its own implementation and administration***

In line with other objectives, workgroup and consultation most respondents considered the Proposal to better facilitate this objective but did not provide detailed reasoning. One respondent noted that this Proposal specifically promotes efficiency in implementation and administration. Bringing the text into line with current industry practices and removing the outdated use and reference to RIIO-ED1 is reasonably expected to promote efficiency of administration and reduce confusion. We therefore consider that the Proposal better facilitates this objective.

***Principle objective and statutory duties***

The Authority is obligated to consider the impact of the Proposal against our principal objective and statutory duties. We do not consider there to be any impacts arising from the implementation of this Proposal that run counter to our duties. We consider implementation of the Proposal to be consistent with the Authority's principal objective and statutory duties.

**Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP438: Rate of Return Change Proposal be made.

**Implementation**

This Proposal had an original proposed implementation date of 7 November 2024. Unfortunately, it was not possible to prepare this decision for that date. Instead, we

would ask that this change be implemented at the earliest opportunity. We therefore direct an implementation date of 26 November 2024.

**Andrew Malley**

**Head of Distribution & Residual Charging**

Signed on behalf of the Authority and authorised for that purpose