

Consultation

Consultation on our minded-to decision in respect of DCP 412

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We are seeking views on our current position to reject Distribution Connection and Use of System Agreement (“DCUSA”) Change Proposal 412 (“DCP 412”), in line with the DCUSA Panel’s recommendation. The Proposal would lower fixed charges for a particular group of high-capacity, low-utilisation (HCULU) users, with the resulting costs redistributed to other users. While our analysis suggests the overall impact on other users would be small, we have not seen sufficient evidence that HCULU status identifies and suitably treats those most affected by affordability pressures, or that the Proposal would improve competition between Suppliers.

This consultation provides an overview of the Proposal and change process, and discusses the benefits and risks we have identified in line with relevant frameworks which have led to our minded-to decision.

Consultation Consultation on our minded-to decision in respect of DCP 412

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Consultation Consultation on our minded-to decision in respect of DCP 412

Contents

Executive Summary.....	5
1. Introduction.....	7
Purpose of this consultation	7
Background and relevant policy context	8
Consultation stages	9
How to respond	10
Your response, data, and confidentiality	10
How to track the progress of a consultation.....	11
2. Current Network Charging Arrangements.....	12
3. Cost Allocation and Banding.....	16
4. The DCP 412 Proposal	20
HCULU definition	20
Implications for residual costs.....	21
Differences between Alternative Proposals	22
5. DCP 412 Workgroup process and DCUSA Panel recommendations	24
Understanding change to DCUSA	24
Workgroup Consultation 1	25
Workgroup Consultation 2.....	25
Further engagement	26
DCUSA Panel recommendation	27
6. Our Assessment and Minded-to Position.....	28
Assessment of ACO (1) – DNO Obligations	28
Assessment of ACO (2) – Competition.....	30
Assessment of ACO (3) – Cost-reflectivity	37
Assessment of ACO (4) – Developments in DNO business.....	39
Assessment of ACO (5) – EU compatibility.....	40
Assessment of ACO (6) – Administration	43
Our assessment against our Principal Objective and Statutory Duties	44
Implementation Date	46
7. Impact Assessment	47
Limitations of the impact assessment.....	47
Our impact assessment	49
8. Conclusions and Next Steps	53

Consultation Consultation on our minded-to decision in respect of DCP 412

Summary of Questions	54
Send us your feedback	55
Appendix 1. Privacy policy	56

Consultation Consultation on our minded-to decision in respect of DCP 412

Executive Summary

We are minded-to reject Distribution Connection and Use of System Agreement (“DCUSA”) Change Proposal 412 (“DCP 412”), in line with the DCUSA Panel’s recommendation.¹ The Proposal would lower fixed charges² for a particular group of high-capacity, low-utilisation (HCULU) users, with the resulting costs redistributed to other users. While our analysis suggests the overall impact on other users would be small, we have not seen sufficient evidence that HCULU status identifies and suitably treats those most affected by affordability pressures, or that the Proposal would improve competition between Suppliers.

We are minded-to reject the proposal because we do not believe that it better facilitates any of the objectives that we use to assess proposed changes to the charging methodology (Applicable Code Objectives, ACOs), and do not conclude that the Proposal has any positive impact on consumers’ interests. We consider the proposal has a number of potential drawbacks, including that:

- There is insufficient evidence of the competition benefit described in the Change Report, where increased affordability for HCULU users improves the competitive standing of their suppliers;
- HCULU status is not an evidenced proxy for affordability challenges or financial hardship;
- Re-banding is likely not an effective means of resolving the competitive distortion described;
- Reducing charges for HCULU users changes the costs faced by others, potentially including other users facing affordability challenges.

Our minded-to rejection of DCP 412 does not mean that we consider the wider issues it raises should be ignored. We recognise that the impact of charge design on different sectors raises wider questions that cannot be resolved through this Proposal alone. These issues are better considered holistically, including through the Cost Allocation and Recovery Review (CARR)³ as it moves into consideration of non-domestic arrangements, alongside the Government’s wider Industrial Strategy.⁴

¹ You can read the DCP 412 Change Report at [Allocation of banding for TCR Charges for ‘Peak’ Final Demand Customers – DCUSA](#)

² The use of fixed charges to recover residual costs was a key direction of the Targeted Charging Review (TCR). You can read more about the TCR at [Targeted Charging Review: Decision and Impact Assessment | Ofgem](#)

³ You can read more about the CARR at [Energy system cost allocation and recovery review | Ofgem](#)

⁴ You can read more about Government industrial strategy at [Industrial Strategy - GOV.UK](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

Further to the specific questions outlined in each section of the consultation, we are keen to receive views on:

- Whether the Proposal would deliver the benefits proposed;
- The impact of the existing charging arrangements on sites with significant capacity holdings, but relatively low consumption; and
- The role of changing network fixed charges in redistributing costs between users.

We would like views from people with a commercial interest in electricity transmission and distribution use of system residual charges, including non-domestic customers, suppliers, and network operators.

The closing date for responses to this consultation is 11 December 2026. Responses should be sent via email to duos@ofgem.gov.uk with the subject line “DCP 412 Consultation Response”.

Consultation Consultation on our minded-to decision in respect of DCP 412

1. Introduction

Electricity users pay network charges, including fixed charges. These make up a large part of standing charges. After Ofgem's recent TCR reforms, some users who do not use much electricity, but draw a lot of power when they do, consider charges to be too high. These users with high capacity but low overall consumption are in the same bands as heavier users, so pay more per unit of energy. A proposal called DCP 412 would move these peaky users into a different group to reduce their charges, but this would increase costs for others.

Purpose of this consultation

We are consulting on our minded-to decision to reject the Proposal, including alternatives identified within the Change Report. This consultation focuses on our assessment of the DCP 412 options submitted to us for decision against the DCUSA ACOs and seeks views as to the extent to which stakeholders agree with our assessment of the evidence currently before us.

The purpose of this consultation is to provide industry and all stakeholders the opportunity to respond and provide feedback to our minded-to decision and analysis, prior to making a final decision. We have considered the responses to the DCP 412 Working Group consultation and sought clarifications from the DCUSA code administrators where necessary.

We have decided to issue this consultation for the following reasons:

- Validating our understanding and reasoning against the relevant objectives;
- Developing additional evidence; and,
- Ensuring transparency and awareness.

Understanding the sensitivities of this decision, we are keen to consolidate our understanding of the impact of this proposal on customers who consider themselves affected by the issues raised in this Proposal, their suppliers, other users of the electricity network, and electricity network operators. Responses provided following the consultation will be reviewed and taken into consideration when preparing the final decision document.

Section 2 provides a high-level overview of the existing network charging arrangements that DCP 412 seeks to change, including a summary of the Targeted Charging Review. This is intended for the benefit of respondents who may wish to better understand how network charges work. No questions are asked in this section.

Section 3 elaborates on this, and provides a summary of how the residual charging bands are used to allocate cost to different users of the electricity system. This is

Consultation Consultation on our minded-to decision in respect of DCP 412

relevant to understanding the effect of DCP 412 on network revenue recovery, including changes in cost for HCULU users and others. It asks whether the reader agrees with our interpretation of existing system rules, and whether there is additional context that could support our decision-making.

Section 4 describes the mechanism and process of the DCP 412 Proposal, including the alternative proposals put forward by members of the working group. It asks whether we have accurately characterised the Proposal's problem definition and intended solution.

Section 5 describes how the Proposal has come to Ofgem, and what frameworks are used in assessing whether a Proposal should be implemented or rejected. It notes how the Proposal changed through working group development, further feedback we have heard from affected customers, and the DCUSA Panel's recommendation. No questions are asked in this section.

Section 6 sets out our working assessment of the Proposal. It explores key themes, data, and concerns presented in the Change Report, and finds that none of the modification proposals would better facilitate the achievement of the ACOs, and all of the proposals should therefore be rejected. In turn, we look at Distribution Network Operator (DNO) licence obligations, competition, cost-reflectivity, developments in DNO business, compatibility with retained European Union regulations, and ease of administration. It then has regard to our principal objective and statutory duties. It asks whether the reader agrees with our assessment against each of the ACOs individually and collectively, and why.

Section 7 describes the limitations of the impact assessment presented in the Change Report, and provides additional analysis of the effect that the Proposal would have on network cost recovery. It asks whether the reader considers the approach we have taken to have accurately reflected the impacts of the Proposal.

Section 8 provides a conclusion. No questions are asked in this section.

Background and relevant policy context

Users of the shared electricity system pay Distribution Use of System (DUoS) and Transmission Network Use of System (TNUoS) charges. All Final Demand⁵ users pay a residual charge which helps to ensure that the network operators can fund their activities. This is usually levied as a fixed daily fee, which can make up a large part of the standing charge consumers face.

⁵ As defined under DCUSA Schedule 32, in simple terms meaning a site where power is used for purposes other than generation or storage.

Consultation Consultation on our minded-to decision in respect of DCP 412

Following the Targeted Charging Review (TCR) reform programme that implemented this fixed daily fee structure, some customers with occasional and intensive usage consider that their energy costs are now excessively high. To address the high energy costs of these customers, a proposal was raised that would, if approved, change how costs are allocated to these customers.

Households pay a residual charge that is the same for all households in a region, and doesn't vary with the size of the property or its consumption.

Non-domestic users are grouped into tiers (known as Bands) and pay based on the size of their connection or usage. The smallest non-domestic users pay residual charges based on annual consumption. Larger non-domestic customers pay residual charges based on capacity held. Capacity broadly reflects how much power users can take from the system at any one time, and so users who have larger capacity holdings are placed in higher bands. Overall, the charges follow the principle that users pay the same charges as the other users in their bands, and the costs assigned to each band reflects that band's share of the overall volumes used on the system. This is intended to provide a broadly fair reflection of a user's share of the overall costs, while minimising distortive behaviour given the unavoidable nature of such costs. We will discuss the methods used to allocate users and costs to bands in Section 3.

Some users hold large amounts of capacity, but do not consume lots of energy consistently; instead, they make occasional and intensive use of power from the grid. This means that they have low load profiles.⁶ Some such users have argued that the TCR's approach to allocating costs was unduly harmful to them. This is because, despite having lower consumption than other users with the same capacity needs, their standing charge liability is the same as those they are banded alongside. As a result, their energy costs are higher per-unit of electricity consumed than those of their peers.

The charging methodologies are defined within multi-party industry agreements, which can be amended through a representative voting process and require approval from Ofgem. For DUoS charges and the Band allocation methodology used to determine TNUoS standing charges, the relevant agreement is the Distribution Connection and Use of System Agreement (DCUSA). The DCUSA includes a set of Applicable Code Objectives (ACOs), against which proposed modifications are assessed and which Ofgem considers as part of its decision-making process.

Consultation stages

Stage 1 Consultation open: 16 October 2026.

⁶ The load profile is the ratio between average and maximum demand over a given time period: a high load profile means that the connection is being used consistently and intensively.

Consultation Consultation on our minded-to decision in respect of DCP 412

Stage 2 Consultation closes (awaiting decision). Deadline for responses: 11 December 2026.

Stage 3 Responses reviewed and published alongside the final decision document.

Stage 4 Consultation outcome (decision or policy statement): We aim to take our final decision before 20 January 2027, however this is subject in part to the level of detail contained in the consultation responses. We will provide a further update to industry on timing once we have assessed responses.

How to respond

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on the front page of this document.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website.

Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 1.

If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We

Consultation Consultation on our minded-to decision in respect of DCP 412

will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

How to track the progress of a consultation

1. Find the web page for the call for input you would like to receive updates on.
2. Click 'Get emails about this page', enter your email address and click 'Submit'.
3. You will receive an email to notify you when it has changed status.

A consultation has three stages: 'Open', 'Closed (awaiting decision)', and 'Closed (with decision)'.

2. Current Network Charging Arrangements

Electricity networks connect users and generators and are paid for through network charges. Charges inform users about the cost of using the networks in different ways and bring in the revenue needed to pay for the network. The parts used solely to bring in revenue are called “residual” charges and are designed to recover costs with as little behaviour change as possible. They are usually fixed charges, following a recent set of reforms by Ofgem called the Targeted Charging Review (TCR). Fixed network charges are a significant component of standing charges. Ofgem regulates the total revenue networks can collect through Price Controls to protect consumers, and “residuals” are there to ensure the full revenue allowed under the Price Control is collected.

- 2.1 This section provides a high-level overview of the existing network charging arrangements that DCP 412 seeks to change, including a summary of the Targeted Charging Review.
- 2.2 In Great Britain, network charges for use of the electricity system are structured in two parts. The first (forward-looking) charge accounts for how user behaviour drives system costs. These charges typically relate to the concept of marginal costs – that a reasonable way to assign costs to users is to look at how system costs change when you add that user’s activity. Some users of the system add to shared costs less than others (perhaps because of their size or location), so should contribute less. A variety of models are used to estimate user impacts and allocate costs appropriately to millions of consumers in Great Britain.
- 2.3 The second (residual) part of network charges accounts for the need to ensure the overall amounts of money needed to fund the networks are recovered from their users, to ensure the system is financially sustainable and the network companies can carry out the obligations that their price controls require of them. The total amount of money in a price control is regulated and set by Ofgem to ensure it is justified and contributes to a safe and resilient system that meets consumer needs.
- 2.4 The TCR included a review of how these residual network charges are set and recovered. The aim of the TCR was to ensure that these charges are recovered from users in a way that meets the TCR Principles of:
 - Reducing harmful distortions;
 - Fairness; and,
 - Proportionality and practical considerations.

Consultation Consultation on our minded-to decision in respect of DCP 412

- 2.5 A core principle of the residual has been that the recovery of costs should minimise distortion to efficient and ordinary interaction with the electricity network. Recovering all the money needed to run the system should be done in a way that doesn't lead to users behaving in a way that makes that system more expensive or lead to inefficient behaviour in related markets.
- 2.6 It is important that the two roles of network charges are designed carefully to work together. If the forward-looking charges are accurately reflecting users' marginal costs, then the addition of other charges (such as when we need to recover the remaining Price Control revenue) will make them less accurate. If charges are less accurate, then the response by system users may not be efficient. An example of this might be that a customer is charged a higher cost for using power at peak times than the costs they actually cause, resulting in the customer reducing their use of the system more than is efficient for the system. It is also important that residual charges can be practically implemented, so care must be taken to design a workable system.
- 2.7 Following this principle, residual charges for electricity transmission and distribution networks are recovered in a least-distortive manner. Fixed charges are broadly seen as the least distortive, as in a given year, users will pay the same for that element of the bill regardless of behaviour. This means the information they receive and the ongoing decisions they make will predominantly be based on the forward-looking charges and the other elements of their supply contract, but not the residual elements. The TCR identified banded standing charges (or "fixed charge", levied as p/MPAN/day⁷) as the most practical and appropriate manner to achieve this for demand customers⁸. This reflects that some network costs are unavoidable and cannot be reduced based on changes in demand or generation patterns. The TCR took effect for distribution network charges in April 2022, and transmission network charges in April 2023.
- 2.8 The residual is a significant part of the system costs that must be recovered. The distribution residual recovered from low and high voltage users in 2026/27 is £64.3m, out of a revenue total of £7.11bn (0.9%). The revenue needs of different distribution network operators are varied, resulting in different standing charges across regions. The transmission residual in 2026/27 is £6.26bn, out of an allowed revenue total of £7.61bn⁹ (82.3%) and is the same across Great Britain.

⁷ An MPAN (Meter Point Administration Number) is a unique ID for each electricity meter, allowing companies to track customer billing correctly.

⁸ With the exception of unmetered supplies.

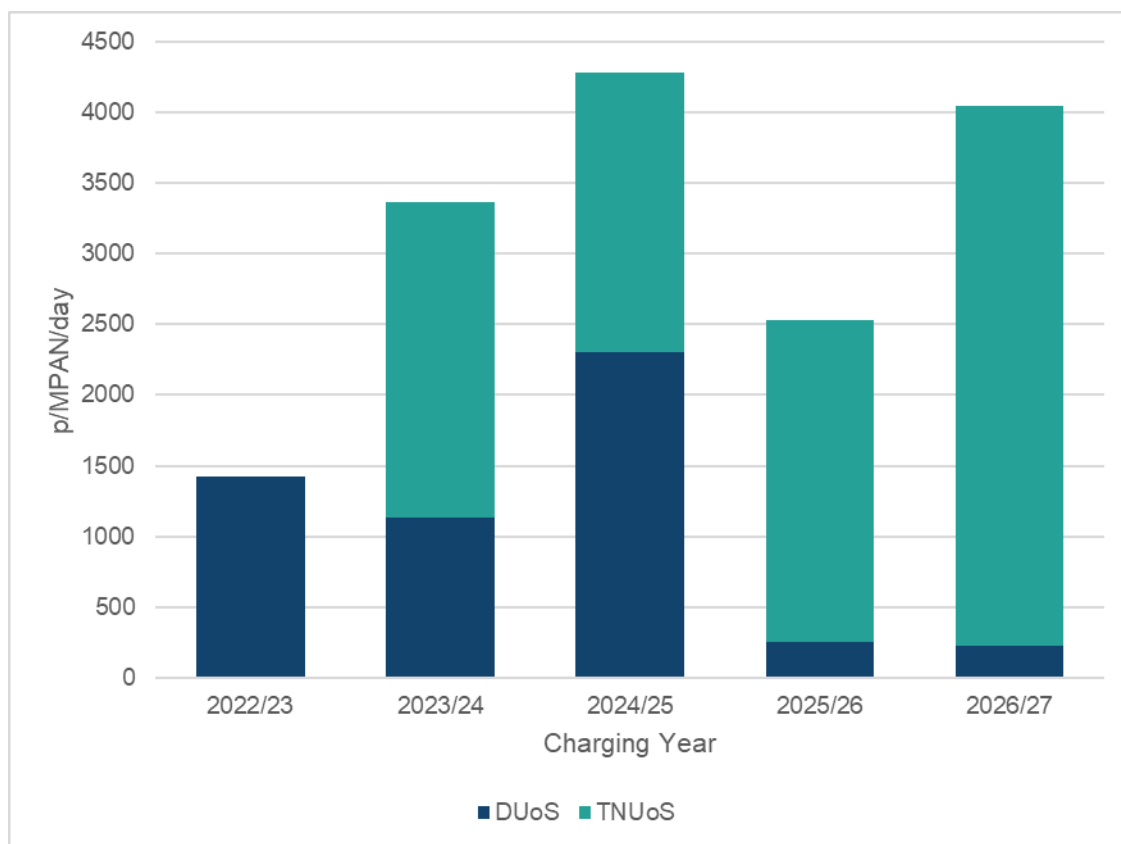
⁹ You can read about how transmission network charges are set at [Transmission Network Use of System \(TNUoS\) Charges | National Energy System Operator](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

- 2.9 The amount of money that the residual charges are required to recover reflects the difference between the amount of money brought in by forward-looking charges and that allowed by the price control. As a result, they can be thought of as a top-up required to ensure networks recover their full revenues.¹⁰
- 2.10 The level of the residual has changed since the implementation of the TCR, leading to different sizes of standing charge across years. This is because of a combination of changes to network revenue requirements and forward-looking charge design that mean that the “top-up” needed changes over time. While regional and yearly variations in standing charges is an important consideration for some customers and have drawn attention to the concerns raised in this document, this is not considered in the scope of this proposal or consultation. Generally, distribution residual charges have decreased in recent years, while transmission residual charges have increased. The allocation of both is governed by similar rules, and the methodology used to assign users to bands at distribution is also used to “band” them for transmission charges. Changes to the residual banding methodology can therefore affect charges for using the distribution system and for using the transmission system.
- 2.11 Figure 1, below, shows changes to the Distribution and Transmission residual network fixed charges for the largest capacity-holding businesses (greater than 250kVA)¹¹ on the low-voltage (LV) network in one region since April 2022. DUoS residual charges were reformed from 2022, whereas TNUoS residual charges were reformed from 2023.

¹⁰ In ordinary conditions, residuals are needed to top up charges to meet the allowed revenues. In some cases, residual charges can bring customer charges down to prevent too much money being recovered. More information on this issue is available at [Managing the effects of surplus residual charges guidance | Ofgem](#)

¹¹ kVA (kilovolt-ampere) is a measure of apparent power used to describe the capacity of a site

Consultation Consultation on our minded-to decision in respect of DCP 412**Figure 1: Fixed residual charge composition for LV4 customers, East Midlands
2022-2026**

3. Cost Allocation and Banding

Non-domestic users are grouped into bands (based on capacity or consumption). Larger users are placed in higher bands. Each band pays a share of total residual costs equal to its share of system use. The cost is split evenly across all sites in that band, so higher bands usually have higher fixed charges per site. Users in the same band pay the same fixed charge. This approach aims to balance different elements of fairness: groups of similar users pay similar amounts, while larger users pay more overall than those in groups of smaller users.

This model has been criticised by some users, as users with low usage but high capacity may pay the same as higher users, and because users either side of a band boundary can face different charges despite being similar. Users facing a large fixed charge may have a lower ability to reduce their costs.

- 3.1 This section provides a summary of how the residual charging bands are used to allocate cost to different users of the electricity system.
- 3.2 Before the TCR, residual costs were collected through charges that sophisticated users were able to avoid. Such costs did not disappear when a user avoided them but instead shifted onto customers who – because of affordability or practicality – were less able to adapt. We understood that this could contribute to a feedback loop that could harm vulnerable consumers. Instead, fixed charges were adopted as a practical means to ensure that every user makes a fair, non-distortive contribution to system costs. More background on the rationale for fixed charges can be found in the TCR final decision and impact assessment.
- 3.3 Non-domestic users face tiered or “banded” residual charges to reflect that the system includes users that span a range of sizes. This approach broadly ensures that users make an appropriate and equitable contribution to the costs of the system.
- 3.4 Customers are firstly grouped into cohorts based on their voltage level. For non-domestic users, there are four distribution network connected voltage level groups, covering low voltage users without agreed capacity, low voltage users with agreed capacity, high voltage users and extra-high voltage users. There are also users directly connected at transmission, who face transmission residuals but not distribution residuals, as they are not connected to the distribution network.
- 3.5 For each voltage level group there are four percentile-based bands, which are set with reference to users’ capacity holdings where this data is available. For low-voltage or transmission connections, where agreed capacity data is not available,

Consultation Consultation on our minded-to decision in respect of DCP 412

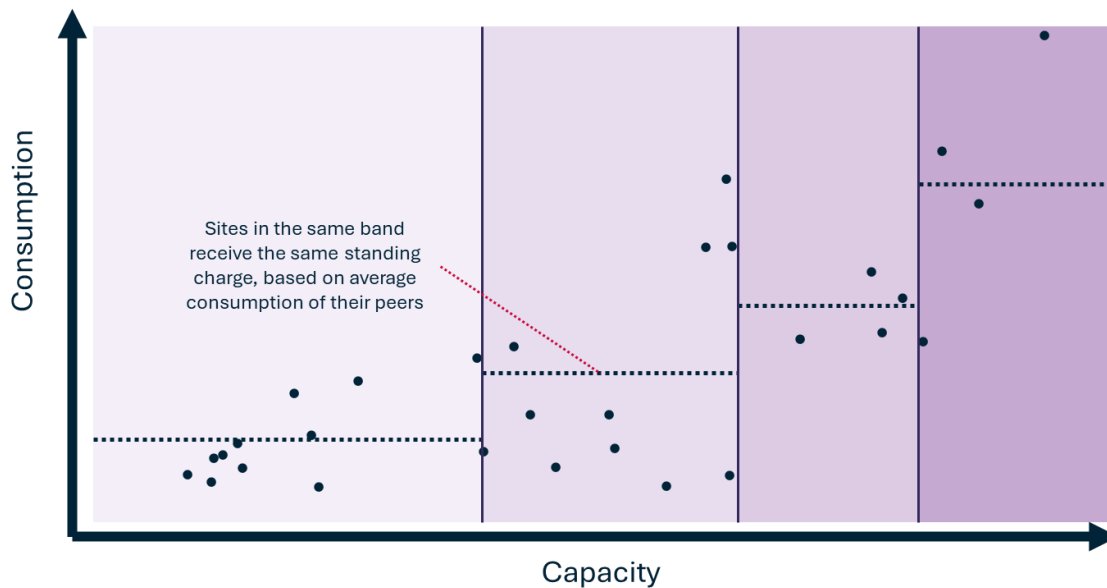
users are banded by consumption. The band boundaries are set at the 40th, 70th, and 85th percentiles. This approach was intended to ensure that larger users make a larger contribution than smaller users.

- 3.6 The share of system consumption by each band is matched to the share of residual costs that each band should contribute, for example, a band drawing 7% of consumption on the system is responsible for 7% of residual costs. The cost allocated to a band is divided by the number of sites in that band, resulting in a per-site fixed charge. Higher bands typically have fewer users with greater overall consumption, meaning that the fixed charge per site is larger.
- 3.7 Allocated this way, the residual fixed charge can be understood as being set by reference to the mean average consumption of users of a similar connection size. Two users with identical connections in the same region therefore pay the same fixed charge, regardless of how much they individually use.
- 3.8 The use of bands allows fixed charges to be used while reflecting the variation in users across the system. It flows from a decision in the TCR that “a single charge within segments might be considered to be less equitable where there was significant range of users within a segment.”¹² Bands mean that similar users pay similar amounts, but different amounts from users sufficiently different from them. In the TCR decision, we identified this approach as an appropriate means of achieving a balance of equality within bands, and equity across bands.
- 3.9 Figure 2, below, uses mock data to illustrate the relationship between consumption and capacity in residual cost allocation. The four shaded segments represent each Band (set against capacity on the x axis) with the horizontal dashed lines representing average consumption (y axis) within that band. The residual fixed charge is set with respect to this average consumption.

¹² In the original context, a segment meant any approach to categorising and charging the customer base such as banding. See paragraph 3.118 of the TCR decision document.

Consultation Consultation on our minded-to decision in respect of DCP 412

Figure 2: Relationship between capacity, consumption, residual band, and residual charge value



3.10 Sites with greater capacity holdings are grouped in higher bands. Increased band is correlated to increased consumption, but individual sites may sit above or below the average. Some may sit relatively close to band boundaries, which are an inevitable consequence of any system that uses bands.

3.11 While bands may be a useful way for segmenting users on capacity, there may be cases where a site's consumption within that band is much lower or higher than what might be expected. It may also be the case that some users may face the same charges as users that are somewhat different, or different charges to users that have a measure of similarity. This reflects the fixed nature of the banding model (with the benefits referred to in 3.2) which provides charges that do not change with user behaviour and which provide advantages for a cost recovery charge.¹³

¹³ The nature of fixed charges provides advantages for a cost recovery charge, with revenue easy to forecast and charges avoidable only by leaving the system. The likelihood of leaving the system was considered in the TCR Large User analysis to be very low in most cases for most users, as while many users react strongly to price, leaving the system is not possible or very difficult for most users. However, the TCR Decision did note the possibility of further refinement to "help reduce distortions further". We note some government policy schemes exist to mitigate the impact of electricity network costs on non-domestic customers, but that stakeholders considering themselves "Peaky" are often unable to access these. See the relevant TCR annex at [Annex 6 - large users \(PDF, 398.96KB\)](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

3.12 The residual banding and allocation methodology was implemented through changes DCP 358 and DCP 360 in DCUSA, and CMP 343 in the Connection and Use of System Code (CUSC).¹⁴

3.13 Users with low consumption and whose residual charge band is based on their maximum import capacities (MIC) have argued that this allocation of costs is unfair. This is because their standing charge costs are set by reference to users who have similar capacity needs to them, but who do not have similar levels of consumption. The non-marginal design of the bands can be argued to favour sites with above-average utilisation, and disfavour those with below-average utilisation. There are clear parallels to the policy discussion on the fairness of standing charges for domestic customers.

Questions

Q1. Do you agree with our interpretation of existing system rules, and can you think of any additional information in this context that could better support our decision-making?

¹⁴ For DCP 358, see [Ofgem Targeted Charging Review Implementation: Determination of Banding Boundaries - DCUSA](#)

For DCP 360, see [Ofgem Targeted Charging Review Implementation: Allocation to Bands and Interventions - DCUSA](#)

For CMP 343, see [CMP343 and CMP340: 'Transmission Demand Residual bandings and allocation for 1 April 2022 implementation \(CMP343\)' and 'Consequential changes for CMP343 \(CMP340\)' | National Energy System Operator](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

4. The DCP 412 Proposal

DCP 412 proposes to reduce residual standing charges for customers that require a large electricity connection but only use it occasionally, and uses a method to see if users qualify for this. To qualify, a customer must show they use close to all of their supply capacity at some times, but have low overall usage across the year. If they do qualify, customers would be moved down one charging band. This would reduce bills for the qualifying customers, and add costs for other users. There are 3 options presented within the Change Report, which vary based on how backdating of tariffs would work.

- 4.1 On 11 October 2022, E.ON UK (the ‘proposer’) raised DCP 412, which seeks to amend Schedule 32 of the DCUSA to allow some users with occasional and intensive usage to be allocated to a band alongside smaller connections. This intends to reduce the standing charge liability of such sites. The proposer argues that by recognising and addressing the different impact of standing charges on different customers in this way, the proposal better facilitates competition. The proposer argues it does this by reducing bills to support customer resilience and ability-to-pay, in turn reducing risk for their suppliers. The proposal intends to reduce an alleged distortion in the supply market between suppliers who serve “peaky” customers and those who do not.

HCULU definition

- 4.2 Early in the workgroup process, percentage discounts for customers based on the residual cost share of the electricity bill were discussed. Following workgroup development, a solution of lower charges through changing the band allocation process for eligible customers was proposed instead. This change was made to reduce the proposal’s complexity.
- 4.3 Under the final proposals raised by the workgroup, DCP 412 would introduce a two-part technical definition to be used in determining which sites are eligible for reallocation. A customer in Band 2, 3, or 4 must apply to be considered for assessment against this definition:
- Firstly, a High Capacity Usage test is undertaken where a site’s capacity utilisation must be greater than or equal to 90% over at least one half-hour over a 12-month period: this seeks to ensure that the site’s usage is intensive and that classification is limited to those with appropriately sized grid capacity arrangements, rather than those with oversized capacity.

Consultation Consultation on our minded-to decision in respect of DCP 412

- Secondly, a Low Utilisation test is undertaken that assesses if a site's load factor is less than or equal to 10% over the same 12-month period: this seeks to ensure that, in conjunction with the previous requirement, the pattern of usage is occasional.
- The customer must also declare to the DNO that they believe their arrangements and usage to be reasonable and appropriate for the nature of their business.

Taken together, these tests serve to show that a user is, in the course of their normal business, a "peaky site" - an intensive user of capacity with a relatively low consumption. The proposal does not afford discretion to DNOs in this assessment.

- 4.4 An occasional and intensive user that meets both conditions is referred to as a High Capacity Usage, Low Utilisation or HCULU user. DCP 412 would change how HCULU users are treated in residual band allocation. Instead of being allocated to a band based on their MIC holding, they would be allocated to the next-lowest band (e.g., a Band 3 user who is classed as HCULU is moved to Band 2). A customer cannot be moved below Band 1.
- 4.5 Therefore, when there is a residual shortfall, a HCULU user would be charged a lower fixed rate than a non-HCULU user with the same capacity, as they are in a lower band.

Implications for residual costs

- 4.6 Reallocating a customer from one band to another has a number of cost implications for different users of the system:
- Firstly, the network operators receive less revenue than expected in the year of re-banding due to the reduced residual charge income. This is referred to as "under-recovery". This occurs because charges are set in advance based on an assumption of how much each user will contribute. This money is then recovered in later years by temporarily increasing the allowed revenue to meet the shortfall.
 - Secondly, the users in the higher band that a site is moved out of will see an increase in their residual charge on an enduring basis. Although there is overall less residual attributable to the Band, there are fewer users to spread costs between and a higher average consumption, because a low-consumer user has left the cohort.
 - Thirdly, the users in the lower band that the user moves into will experience a change to their residual charge on an enduring basis. We would typically expect this to be a reduction in charges, as though there is overall greater

Consultation Consultation on our minded-to decision in respect of DCP 412

residual attributable to the Band, there are more users to spread costs between, and likely a lower average consumption. In some cases there may be a marginal increase, if the site moving is sufficiently large that it increases the overall average consumption of the band it moves to.¹⁵

- 4.7 The following information box provides a worked example of how DCP 412 would identify and treat a HCULU customer:

Example

A site in the East Midlands is assigned to the LV Site Specific Band 3 tariff, with an MIC of 170kVA, a Maximum Demand of 163kVA, and a low year-round load profile of 0.025. The initial Band placement of this site is correct, with Band 3's thresholds being greater than 150kVA and less than or equal to 250kVA. The annual consumption of the site is 37.2MWh¹⁶, compared to the Band mean of 252.3MWh: the site uses 15% of the energy of its peers.

The site's Maximum Demand is greater than 90% of its MIC, and its load factor lower than 10%, so it is classed as HCULU and moved on request to Band 2. In Band 2, the site would use 23% of the energy of its peers. The customer's future contribution to transmission and distribution residual costs would reduce from 1553p/day to 1222p/day under 2026/27 rates. The movement causes increased per-site cost to users in Band 3, and decreased per-site cost in Band 2. Any rebate is funded through network revenues, requiring additional cost to all consumers the following year.

Differences between Alternative Proposals

- 4.8 The Original Proposal for DCP 412 was supplemented by two Alternative Proposals. The three proposals differ on whether re-banding should apply retrospectively, and how far back this might apply.
- 4.9 Under the Original Proposal, using a one-off test, backdating may include up to 12 months before the time of assessment (i.e., the observation window), plus up to 6

¹⁵ Consider the example where a LV Band 3 site of 151kVA (the smallest possible size) at a load factor of 7.25%, within the boundaries of HCULU categorisation. This site would have an annual consumption of 99,207kWh, which is lower than the average consumption of Band 2 at 158,877kWh. Re-banding the site would reduce the average consumption and therefore the residual charge of Band 2 users. In contrast, a site with the same (or greater) load factor at 250kVA (the largest possible size) would have an annual consumption of 164,250kWh: re-banding this site would increase the average consumption and residual charge of Band 2 users. We see from this example that in some cases, the re-banding of HCULU users can increase the cost faced by users in their new band.

¹⁶ MWh (Megawatt-hour) is a measure of energy used.

Consultation Consultation on our minded-to decision in respect of DCP 412

months if the customer had applied in the 6 months following implementation of the Proposal.

4.10 Under Alternative Proposal 1, using a rolling test, backdating may include up to 1 April 2023 (when the residual charging methodology came into effect), plus up to 6 months if the customer had applied in the 6 months following implementation of the Proposal.

4.11 Under Alternative Proposal 2, no retrospective re-banding occurs. Using a one-off test, the customer is re-banded from the time of assessment onwards (not including the observation window). There is no transitional period.

Questions

Q2. Have we accurately characterised the proposal's problem definition and intended solution? If not, what additional information would help to better inform our decision-making?

Consultation Consultation on our minded-to decision in respect of DCP 412

5. DCP 412 Workgroup process and DCUSA Panel recommendations

DCP 412, like all code modifications, has a single proposer, then is developed and consulted on by a workgroup. After further discussion, the proposal was considered by the DCUSA Panel. The proposer has argued that DCP 412 would help with high capacity but low utilisation by reducing their residual charges, suggesting this would be a way of improving competition. Within the formal process, the majority of stakeholders did not believe DCP 412 better facilitated the DCUSA objectives. A majority of DCUSA parties concluded DCP 412 options did not improve on the current arrangements, and recommended they be rejected. In this section Ofgem has sought to take account of other views it has received from stakeholders.

Understanding change to DCUSA

- 5.1 For a change to the DCUSA to be approved, it must be demonstrated that the change better facilitates the relevant DCUSA Objectives. There are six charging objectives described in DCUSA, which are linked to the standard licence conditions of DNOs.¹⁷ Because DCP 412 is likely to have a material impact if approved, it has come to the Authority for decision following a vote by DCUSA parties. The relevant DCUSA Objectives are the key framework through which proposed changes are assessed.
- 5.2 Ofgem’s principal objective is to protect the interests of current and future gas and electricity consumers, and within this objective promoting effective competition wherever appropriate, including through regulation of markets and networks.¹⁸ The promotion of effective competition requires Ofgem to consider the extent to which the interests of consumers would be protected by that manner of carrying out its functions and whether there is any other manner (whether or not it would promote effective competition) in which Ofgem could carry out its functions which would better protect the interests of consumers. Ofgem also has a range of statutory duties to have regard to various consumers and

¹⁷ The Distribution Licence Standard conditions can be found at [Distribution Licence Standard conditions](#). The section “Condition 13 Charging Methodologies for Use of System and connection Part B” outlines 5 Relevant Objectives in relation to the Charging Methodology. The DCUSA Document, which can be found at [DCUSA Digital Document v18.6](#), mirrors these, with the addition of an administrative efficiency objective, making a total of 6 DCUSA Charging objectives.

¹⁸ The majority of Ofgem’s statutory duties are outlined in [Utilities Act 2000](#), but also in [Electricity Act 1989](#), [Gas Act 1986](#), [Energy Act 2023](#) and other legislation.

Consultation Consultation on our minded-to decision in respect of DCP 412

considerations regarding the markets. When we assess Proposals, we are required to consider them against our statutory duties and principal objective and against the relevant DCUSA Objectives.

- 5.3 In the DCP 412 Change Report, the proposer considered that DCP 412 would better facilitate Applicable Objective (2)¹⁹, the code objective relating to competition in relevant areas. The proposer considered that DCP 412 would reduce the cost to supply peaky customers, improving competition between suppliers. While fairness and affordability were recognised by the DCP 412 working group and consultation respondents as a pertinent theme to the discussion, the DCUSA framework does not describe this as an objective of the charging methodologies in its own right.

Workgroup Consultation 1

- 5.4 A workgroup consultation was issued on 3 August 2023, and received 15 non-confidential responses.
- 5.5 Eight of the responses were supportive of the principles of DCP 412. Seven respondents were not supportive of the principles of DCP 412.
- 5.6 Seven of the responses believed that the proposal would better facilitate the DCUSA charging objectives, with six identifying benefits to the first DCUSA charging objective. Five of the responses did not believe that the proposal would better facilitate the DCUSA charging objectives. Three further responses expressed ambiguity, including one who considered that the charging objectives were not an appropriate framework to assess change.
- 5.7 In both consultations, fairness was understood as a key rationale both in favour and against the proposal.
- 5.8 After the first consultation, the proposal was changed significantly. The initial proposal had been to allow significant discounts to the residual charge on the basis of occasional and intensive capacity usage and the proportion of the customer's electricity bill attributable to the residual charge.

¹⁹ DCUSA Charging Objective (2) reads: "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)"

Consultation Consultation on our minded-to decision in respect of DCP 412**Workgroup Consultation 2**

- 5.9 A second workgroup consultation was issued on 10 July 2024, and received 15 non-confidential responses. The second consultation used the revised method for identifying and treating peaky customers, later presented in the Change Report.
- 5.10 The majority of responses in the second consultation did not believe that the proposal would better facilitate the DCUSA charging objectives. Two respondents considered it to be better against the first DCUSA objective, with one further saying that it would be better against the third DCUSA objective.

Further engagement

- 5.11 In addition to the working group's standard engagement procedures, direct feedback regarding this proposal has been received from non-domestic consumers and their representatives.
- 5.12 These consumers represent a cross-section of non-domestic users with occasional and intensive consumption, who feel that their fixed charge is disproportionately high. At present, these sites are not included within the scope of existing energy network cost support schemes. Those consumers described severe adverse public and commercial consequences of these standing charges and raised concerns that the impact of unaffordable rates could not be absorbed, resulting in an increased cost of service provision. We have heard that this has driven particular economic harms detailed below:
- Broader inflationary effects – where the cost of electricity inputs into broader increases in costs faced by British consumers, such as in food prices;
 - Uncompetitive pricing internationally – where British companies are unable to effectively compete with peers outside of Great Britain due to differences in energy costs, with implications for economic growth and sovereign capability;
 - Slower decarbonisation – where occasional and intensive usage of the grid is characteristic of electrified processes, high fixed costs may discourage or prevent the adoption of new low-carbon technologies; and,
 - Taxpayer burden – where services that are procured by local or national governments become more expensive, which, where the provision of these services is essential, can impose increased cost on taxpayers or result in reduced spending on other priorities;
- 5.13 We appreciate the input provided by consumers and representatives for their considered engagement with this policy discussion.

Consultation Consultation on our minded-to decision in respect of DCP 412

5.14 Some active change proposals, namely DCPs 420²⁰ and 454²¹, would, if approved, provide different residual cost allocation treatment for public electric vehicle charge points. While electric vehicle charging infrastructure can be understood to have similar characteristics to peaky sites in terms of capacity and utilisation patterns, these modifications will be treated separately and are not in scope of this consultation or later decision. It may be possible that some electric vehicle charge points would meet the conditions for HCULU status.

DCUSA Panel recommendation

5.15 DCUSA parties vote on whether to accept or reject change proposals like DCP 412. The outcome of the vote will act as a recommendation to Ofgem. DCUSA parties vote separately on each solution and on the implementation date. Voting procedure is weighted to account for the different roles of DCUSA Parties. Solutions are assessed against the baseline of status quo arrangements.

5.16 In a voting process that concluded on 13 March 2025, the majority of DCUSA Parties considered that DCP 412 (including Alternative Proposals) would not better facilitate the DCUSA objectives when compared to the baseline and therefore recommended its rejection. Out of 22 votes, 2 voted for the original proposal, 1 voted for Alternative Proposal 1, and 8 voted for Alternative Proposal 2. There were no votes in favour of multiple proposals. 11 voted to reject DCP 412.

5.17 Parties considered whether the proposed timetable would be workable if the Authority decided to approve any of the three solutions. DCUSA Parties voted to accept the implementation date of DCP 412.

Table 1: DCUSA Panel voting outcomes for DCP 412

Aspect	Supplier	Supplier	DNO	DNO	IDNO	IDNO
Vote	Accept	Reject	Accept	Reject	Accept	Reject
Original Proposal	0%	100%	12%	88%	0%	100%
Alternative 1	20%	80%	0%	100%	0%	100%
Alternative 2	40%	60%	40%	60%	0%	100%
Implementation Date	60%	40%	57%	42%	0%	100%

²⁰ See [Provide targeted relief from residual charges for electric vehicle charging sites - DCUSA](#)

²¹ See [Provide enduring targeted relief from residual charges for electric vehicle charging sites - DCUSA](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

6. Our Assessment and Minded-to Position

We are minded to reject all versions of DCP 412 and consider, on balance, that they do not better facilitate the DCUSA Charging Objectives. We do not consider the Proposals to help the DNOs carry out their obligations (ACO1), or to be responding to a development in their businesses (ACO4). We do not consider cost-reflectivity, except in the broadest sense, to be relevant for cost-recovery residual charges (ACO3), and the Proposals do not aid in legal or regulatory compliance (ACO5). These are therefore neutral.

While we agree it may benefit some consumers, we think that the proposal is negative against the competition objective (ACO2), particularly as it doesn't provide evidence that HCULU status is a good proxy for affordability and may introduce new distortions. We consider options with backdating to be negative for efficiency of administration (ACO6), and the option without backdating broadly neutral against that objective.

- 6.1 We have considered the issues raised by the modification proposal and the Change Report dated 18 March 2025. We have also taken into account the responses to the industry consultation(s) on the modification proposal which are attached to the Change Report, and some of the information provided to us by some affected consumers. We have considered the votes of the DCUSA Parties on DCP 412.
- 6.2 Our consideration of the cost of implementing DCP 412, and therefore the relative merits against the Applicable Code Objectives and our Principal Objective and Statutory Duties, is informed by the impact assessment provided in the Change Report, as well as our additional analysis using this evidence base as summarised in Section 7.
- 6.3 We are minded-to conclude that none of the modification proposals would better facilitate the achievement of the ACOs, and all of the proposals should therefore be rejected. Our reasoning on our minded-to decision is set out below, along with questions inviting feedback on our interpretation of the proposals' effectiveness.

Assessment of ACO (1) – DNO Obligations

We recognise the views from some users that DCP 412 could reduce charges they see as unfairly high, though our view is that DCP 412 is neutral against this objective as the Electricity Act or Distribution Licences do not clearly require DNOs to take account of issues such as fairness. We do not consider the TCR Direction's requirements to be relevant to the assessment of this proposal. Therefore, the change does not affect DNOs' ability to meet their legal or licence obligations.

Consultation Consultation on our minded-to decision in respect of DCP 412

The first objective is “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 Act²² and by its Distribution Licence”.

Summary of views

- 6.4 Two voting parties believed that the change proposal would better facilitate ACO (1), as the introduction of an assessment and re-banding process would help to alleviate disproportionate residual charges being applied to peaky customers.
- 6.5 Some respondents to the workgroup consultations framed DCP 412 as a refinement on the implementation of the TCR. This implied that the proposal carried on from Ofgem’s TCR Significant Code Review Direction, which had mandated change to the charging methodologies using a power described in DNO licences.²³ However, voting parties generally understood the Proposal to be counter to the intent of the TCR framework.

Our minded-to assessment

- 6.6 We believe DCP 412 to be neutral against the first objective.
- 6.7 It is not clear to what extent the Electricity Act 1989 and the terms of the Distribution Licences place obligations on the Distribution Network Operators to consider fairness, economic growth, or the financial position of and services provided by certain non-domestic customers.
- 6.8 The Direction associated with the TCR stated that “there may be circumstances in which there is merit in consumers being reallocated to a different charging band. For example, where there has been a significant change in use. Therefore, the Authority considers it desirable that consideration is given to the need for an exceptions process to enable consumers to apply for reallocation to a different charging band.”
- 6.9 HCULU users likely do not meet the example condition of “significant change in use” given in the Direction, as our understanding is that these sites continue to operate in a similar way to how they did before the TCR.
- 6.10 This Direction also mandated that such proposals be raised to modify the DCUSA to be effective as of 1 April 2022. DCP 412 was raised 6 months after this date and received by the Authority more than 3 years after this date. Unless compelling

²² Meaning the Electricity Act 1989

²³ Distribution Standard Licence Condition C22, as used in the TCR SCR legal instrument found in the [Direction to licensees – DCUSA \(PDF, 347.67KB\)](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

reasons arise for making an exception, the proposal should not be considered within the envelope of work described in the Direction.

Questions

Q3. Do you agree with our assessment against the first Applicable Charging Objective? Please elaborate on your reasoning.

Assessment of ACO (2) – Competition

We assess DCP 412 to be negative overall against the competition objective. While the Proposal may lower costs for some eligible customers, evidence of an existing distortion in supplier competition concerning the supply of these customers is absent. Furthermore, HCULU status and re-banding is not evidenced as a means to address such concerns in a way that would support competition, with costs would be transferred to other users in an unqualified way.

The proposal's criteria are based on load patterns, not on affordability or financial hardship, so it may help some customers who do not need support while missing others who do, and in doing so would increase costs for other users who themselves may have affordability challenges.

The second objective is “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)”.

Summary of views

- 6.11 The proposer believed that the change proposal would better facilitate the second objective. This is because the existing scheme of tariffs might be seen to restrict the activities of customers that would be eligible for HCULU status, as it imposes a disproportionately high tariff that makes their operations less economically viable. They argue that this then has a distorting effect on the supply market as potential suppliers to that customer group are disadvantaged relative to those suppliers that are focused on the supply of other customer groups.
- 6.12 Two voting parties stated that a positive case for DCP 412 to better facilitate ACO (2) had not been evidenced, while one respondent believed that the change proposal could have a negative effect. The latter argued that the change would introduce a potential distortion in competition, where eligible customers receive reduced charges compared to similar, non-eligible customers.

Consultation Consultation on our minded-to decision in respect of DCP 412

Our minded-to assessment

Eligible user considerations

- 6.13 The purpose of DCP 412 would be to improve the circumstances of eligible customers through the re-banding mechanism. The proposer's argument is that if the lower band has a lower charge, then a reduced cost of electricity for a non-domestic customer constitutes a reduced cost of business. Lower standing charges may reduce the likelihood of payment difficulties among customers, including those who are placed under financial strain by current charging arrangements. In turn, this reduction in costs could improve the competitive position of suppliers serving eligible customers.
- 6.14 This argument articulated by the proposer is broadly constructed along the assumption that peaky usage patterns present an affordability risk where cost is allocated based on capacity need and that this risk can manifest as an obstacle to competition in the supply of electricity. However, it is not clear whether the solutions raised in DCP 412 are effectively designed to approximate the ability-to-pay (and therefore the risk-to-supply) of peaky or non-peaky customers.

Supplier competition

- 6.15 The argument presented suggests that the holding of peaky customers causes a distortive effect to competition in the supply of electricity. It is not clear to what extent this distortion is apparent or likely to cause harm to consumers, or whether the risk presented by peaky customers is sufficiently distributed across the energy system such that the actual risk or damage to suppliers is negligible. We do not have information on the concentration of peaky customers in portfolios of different suppliers, or information on whether these users are identified as being higher risk by suppliers in their business processes.
- 6.16 In principle, to the extent that holding HCULU customers presents additional risk to a supplier due to the way they are charged, but that does not link to a real-world increased risk when compared to other users, a selective discount could be seen as levelling the playing field. Doing so may improve supplier competition, as undue additional costs to serve would be detrimental to suppliers if the customers presenting extra risk were not well distributed across the suppliers. It would also place customers in a more comparable position with other users in terms of their ability to bear electricity costs. If, on the other hand, additional costs to serve were reflecting increased risks, a selective discount would not improve competition.
- 6.17 In the case of residual charges, the costs concerned are not intended to reflect costs in a narrow sense but ensure consistent recovery of the revenues across all users so that the charges in aggregate reflect the allowed revenues needing to be

Consultation Consultation on our minded-to decision in respect of DCP 412

collected. If DCP 412 was to make the case that load factor or volumes were a key secondary cost-driver, we would expect the solution to include additional charges for higher load factors or volume users as well as lower charges for lower load factor users or lower volume users. The change report does not include evidence for load factor or volumes to be a key cost driver in this way, and the solution seeks to reflect only lower load factor as a condition for lower charges. We therefore do not find evidence that load factor is a relevant driver, or that the proposal is particularly concerned with supplier competition in a consistent or symmetrical way. We do not find any real justification for the discount-only approach taken.

- 6.18 The argument that selective re-banding supports competition assumes that the value of a reduction in residual fixed charge costs applied to a customer of moving from a higher band to a lower band is equivalent to the value of any undue additional costs incurred to an efficient supplier of having a HCULU customer in their portfolio. We think that these costs are not likely to be effectively substitutable or equivalent. The difference in rates between charging bands is not set with reference to the risk position of individual suppliers or customers.
- 6.19 Each HCULU customer's risk to supply is different. Therefore, the extent of discount (or other intervention) required for each customer such that they are equally risky for a supplier to hold is variable. We believe that a blunt discounting approach through the re-banding mechanism is not an appropriate means to account for differences in the cost to supply.
- 6.20 If the discount to residual charges exceeds the value of any such additional undue costs faced by the suppliers of HCULU customers, the proposal would distort competition by conferring an advantage on those suppliers. It would also increase costs faced by other users in a non-cost-reflective manner, undermining effective competition and potentially increasing the risk to supply other users. In the case that the discount is less than the value of undue costs faced, intervention would not fully resolve the alleged distortion but would cost other customers less. For these reasons, the remedy provided by the solution does not appear well-matched to the problem it proposes to solve, as in addition to only reflecting a purported additional cost in cases where it reduces the costs allocated to consumers, and not when it adds to their charges, this solution only alters charges in set amounts that do not relate to the specific customer, rather than in a directly linked, proportionate manner.
- 6.21 The potential for the proposal to reduce the level of distortion between suppliers is not a sufficient basis in and of itself to approve the proposal, given the lack of supporting evidence to show both the extent to which a distortion currently exists or the extent that this intervention would reduce market distortion. Given the lack of clarity that the reduction would be cost reflective, even if such evidence is

Consultation Consultation on our minded-to decision in respect of DCP 412

provided, we would need to take into account whether this resulted in a discount to a genuine cost, which might have competition distortion impacts. A lack of quantification of this effect makes it difficult to judge with confidence whether the implementation of the proposal would result in a greater level of distortion than currently exists.

- 6.22 In any case, the argument assumes that fixed network charges are a suitable mechanism to employ in addressing such a disparity in supplier competition. We understand that Suppliers employ a variety of methods to effectively account for the risk associated with supplying customers. Network charges are a component of the cost of supplying customers, but we would not consider it appropriate for changes to network charges to be the primary route for addressing issues in the retail market without direct evidence that network charges are distortive. It has not been demonstrated by the Proposer that network charges should be the primary means of supporting Supplier risk management, nor that alternative approaches are unsuitable in this instance.

Benefits from reducing grid defection

- 6.23 There are arguments to support targeted discounts for certain users to reduce the risk of them leaving the system, or encourage relevant users to join the system rather than obtain power from other sources than the regulated networks. Reducing standing charge costs for some users may benefit the wider user base by reducing the risk of ‘defection’ (leaving or significantly reducing usage) from the system. Where ongoing charges are sufficiently high some businesses may cease operations or rely instead on behind-the-meter generation rather than continuing to take supply from the grid. If these users leave the system, non-marginal costs must be recovered from a smaller group of users. Lower charges for these users at risk of defection could support them to remain connected and continue contributing to fixed network costs. The additional contribution that would be made by other grid users to support a partial discount of a HCULU site may be less than the additional contribution that would be required to fund the network in that site’s absence. To that extent, the discounted charges may mean revenue is collected more efficiently overall. Our impact assessment, detailed in section 7 of this document, suggests that the cost of a partial discount under the HCULU scheme is limited.

- 6.24 For an intervention to this effect to be efficiently designed, the discount in charges for at-risk customers should be set to both maximise their contribution and prevent their defection. Like our understanding of the supplier competition argument, we do not consider that using the cost difference between two residual bands as a discounting value is appropriate in this way. The cost difference between bands was not designed to capture such a value, which is particularly

Consultation Consultation on our minded-to decision in respect of DCP 412

clear given that the cost difference can significantly range in scale (including to negative values) and that each HCULU customer's grid defection likelihood (and therefore efficient discount value under this argument) is different.

- 6.25 If such an intervention is applied at a significant scale without regard to the increased costs faced by other users, the affordability of other such treatments can become unmanageable and itself contribute to a risk of defection for users who are unable to claim support. Future unmoderated intervention on this precedent may result in inefficient outcomes.

Scope of proposal

- 6.26 There may be customers who do not meet the criteria of the proposed HCULU assessment, but whose charges are not affordable, and so are at risk of non-payment, as well as users that do meet the criteria but do not face affordability challenges. Users with broadly occasional and intensive electricity needs may face similar standing charge affordability problems as those who do pass the HCULU assessment, and therefore present a similar risk to competition in supply as outlined above, but without the prospect of relief from DCP 412. The thresholds set out in DCP 412 are strictly and arbitrarily defined and are not set with reference to affordability or risk despite the stated intent of addressing potential distortive effects of unaffordable electricity tariffs. Ultimately, DCP 412 has a problem definition that centres affordability, but as affordability is not considered by the methodology in the solution, this relevant difference cannot be taken into consideration. As users are being differentiated by one metric for the purpose of reflecting differences on an entirely different metric, without an evidence base to show the correlation of these attributes, it is unclear that competition will be better facilitated by the change.
- 6.27 We also note that the methodology, including the observation period for ascertaining whether a site is HCULU, is narrowly defined, and so sites that fit the spirit of the Proposal may not technically qualify. This is likely to be particularly problematic in contexts where the load profile and capacity utilisation of a site is unpredictable or largely outside of the control of the customer. In assessing whether a single-sector sample of sites would be eligible for HCULU re-banding, it was determined that 60% would not be eligible for HCULU status according to the two-part definition. This was because the Agreed Supply Capacity had been sized according to exceptional need over multi-year periods, but had not been sufficiently utilised in the assessment window. This meant that the defined criteria would not be appropriate to some of the relevant cases of customer concern. While a loose definition is not productive to correctly identifying customers in need due to the risk of gaming, the technical terms chosen in DCP 412 may therefore exclude key user constituencies.

Consultation Consultation on our minded-to decision in respect of DCP 412

- 6.28 The design of the HCULU test may also result in different outcomes for users on the basis of how their Agreed Supply Capacity may have been set. Where additional headroom may have been factored into the setting of the ASC, potentially on the advice of the DNO²⁴, variation of the level of buffer could affect the likelihood of qualifying for HCULU status. In some cases, the level of ASC may have been with reference to values determined during the P272 migration process²⁵, which may no longer be appropriate. While it is for the customer to set an ASC appropriate to their needs, variation in how this is understood and applied in reality could lead to materially different outcomes for consumers, with significant financial impacts for sites concerned. DCP 412 includes a requirement for the relevant customer to confirm that their MIC is set at a level which is appropriate to its business needs and explain the reasons for this, emphasising the importance of supporting customers to engage with the electricity system in an efficient manner.
- 6.29 There may be customers who meet the criteria of HCULU assessment, but who are not at risk of non-payment and do not raise the risk profile of their supplier. These users would benefit from a discounted standing charge, changing cost allocation for other users of the electricity system without necessarily contributing to a more even playing field for competition between suppliers. It is not clear how many of these customers there might be.
- 6.30 In the absence of evidence that DCP 412 is better aligned to ability to pay of specific eligible users, DCP 412 does not appear to support competition by reducing disparities in the risk associated with supplying customers, if the customers aided may not be well targeted and the additional costs are simply moved to other users who may themselves have limited ability-to-pay.
- 6.31 The TCR was first consulted on in 2017 and fully implemented in 2023. The TCR emphasised a relationship between capacity and cost contribution in a way that may have been unfamiliar to many users. However, given the time that has passed, we would expect businesses to have adapted to those changes in most cases.²⁶ We think it is reasonable to argue that for many users, volumes of energy are well-aligned to short-term ability to pay, as users would tend not to use volumes they cannot afford. On the other hand, capacity holdings may be tied more closely to longer-term decisions around plant setup and installed

²⁴ Workgroup discussion for DCP 412 implied differences in DNO approaches to setting MIC against Maximum Demand over the previous 12 months, ranging from no advisory buffer to an additional 10%.

²⁵ P272 required a determination of MIC using previous customer data, with implementation taking effect from 1 April 2017.

²⁶ Furthermore, services to optimise capacity holdings are available on the market, such as through energy efficiency improvements, energy storage, and sharing of connections between multiple parties.

Consultation Consultation on our minded-to decision in respect of DCP 412

equipment. We consider that users are likely to have been able to update processes and prices over the time since implementation, but invite feedback on these issues, and particularly on whether capacity holdings are particularly disconnected from ability to pay. We note work in this area by CARR and change proposals such as DCPs 420, 454, and 466, which each consider residual banding treatment.

Retrospectivity

6.32 The Original and first Alternative Proposal allow for backdating of tariffs over a monitoring and post-implementation window. Where backdating currently exists in network charging, this is for the purpose of correcting erroneous charges. We consider there to be a high bar for any retrospective applications of changes, and where retrospective application of changes have been approved in recent years, it has been to clarify the text relating to existing approaches, not introduce new approaches²⁷. As a general principle, retrospective application of change should otherwise be avoided, as they can undermine market confidence, raise risks against transparency, and introduce unnecessary administrative burden. With respect to DCP 412, we consider options with retrospective application to perform worse against this objective than options without retrospectivity.

Wider user impacts

6.33 DCP 412 emphasises the implicit disbenefit and competitive distortion effect of low load profile users under the existing cost allocation methodology. In contrast, it gives no consideration to the inverse of the implicit benefit experienced by sites with high load profiles and their suppliers. If it is the case that low load factor users are riskier to supply than other users, it follows that high load factor users may be less risky, as users with higher than the average consumption of their band have their residual cost contribution effectively lowered by the presence of others. We have not seen evidence these users are particularly valuable to suppliers due to lower risk to supply. We note that the discount that would be introduced by the DCP 412 solution is not balanced out by any equivalent new process to change the cost contribution of the highest-consuming users in a band.

6.34 Given the fixed nature of residual network costs, a reduction in one user's contribution is met with an increase of cost to others. While the change report and our quantitative analysis (described in Section 7) does present some

²⁷ See [Decision on CMP425: Billing Demand Transmission Residual By Site | Ofgem](#), where a code modification that clarified code text to properly reflect the pre-existing TCR policy intent for fixed charge application to single sites was provided with retrospective application.

Consultation Consultation on our minded-to decision in respect of DCP 412

consideration of the increased cost contribution of non-HCULU users, it is not clear whether this is justified in leading to an improvement in competitive outcomes. Addressing the apparent disadvantage of the suppliers of HCULU users with an increased cost to the rest of the consumer base may result in broader affordability challenges, which may only be beneficial to the system to the extent that the peaky users continue to contribute some costs rather than nothing at all.

Overall assessment

- 6.35 We recognise that for users with large capacity holdings but low use of the system, fixed charges could form a disproportionately large part of their electricity bills compared to pre-TCR changes, particularly when combined with capacity charges.
- 6.36 We find this Proposal to be negative against this objective overall. We agree that this proposal may provide relief for certain users, but does not effectively improve competition. While it adds a distinction to recognise HCULU users, it does not evidence a link between HCULU status and affordability or present evidence to support improved supplier competition by showing that HCULU users are more vulnerable to failure and so riskier to supply. We consider that a case has not been effectively made that competition will be better facilitated, and find in principle that some elements of competition (as relevant to retrospectivity and additional, non-targeted cost to others) may be detrimentally affected. We also note that in our engagements with stakeholders, HCULU status was not expected to apply to a number of sites who considered themselves to be facing affordability challenges. We consider that for a positive assessment against this objective, strong further evidence of the link between HCULU identification, treatment and adverse competition between suppliers would be required.

Questions

- Q4. Do you agree with our assessment against the second Applicable Charging Objective? Please elaborate on your reasoning.

Consultation Consultation on our minded-to decision in respect of DCP 412**Assessment of ACO (3) – Cost-reflectivity**

While there was some support for the proposal as it could reduce residual charges for some customers, there was also opposition to the idea that users with the same connection capacity would pay different charges based on usage.

We consider the proposal neutral against the objective as residual charges are not intended to reflect user behaviour, but to recover shared network costs fairly and practically with minimum distortion. We think residuals, and questions of fairness, are more appropriately considered under our statutory duties than this objective.

The third objective is “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”.

Summary of views

6.37 One DCUSA voting party believed that the proposal would better facilitate the third objective, as it would help to alleviate the potential for a disproportionate residual charge being applied to peaky customers.

6.38 One DCUSA voting party believed that the proposal would negatively impact the third DCUSA objective, as two users with the same connection arrangements would pay different costs solely because of how often they use their contracted capacity.

Our minded-to assessment

6.39 We consider the proposal to be neutral against the third objective. This is consistent with our established approach to residual charges. Changes to residual charging should focus on minimising distortions to competition and enabling efficient recovery of network revenues. Residual charges are not directly attributable to specific users or behaviours on a direct or long-run marginal cost basis. Cost-reflectivity is relevant in residual charges to whether they recover the allowed revenue needed for network operation. Therefore, they recover a wider cost base using principles of least competition distortion and fairness.

6.40 In the TCR decision, capacity was considered to be an appropriate basis for determining customer segmentation, reflecting heterogeneity between users at the same voltage level. By adjusting for the size of a user in this way, the TCR allowed for the development of an approach that reasonably approximated the demand of different users on the system, and provided a broad, universal model that could be simply implemented.

Consultation Consultation on our minded-to decision in respect of DCP 412

- 6.41 We have not seen evidence that the DCP 412 approach of adjusting bands to account for certain users' load factors, or why the adjusted proposed model for peaky users would be more reflective of any system costs incurred. If there was such evidence, these differences should be captured in cost-reflective charges for capacity or unit rates, not residual charges.
- 6.42 It may also be the case that including elements to the residual charges that incentivise users to minimise their load factor may drive inefficient behaviour that the TCR had aimed to limit. Insofar as DCP412 provides parameters users must stay within to reduce residual exposure, we consider there is the potential for distortive incentives here.
- 6.43 The Original and first Alternative Proposal allow for backdating of tariffs over a monitoring window. Where backdating currently exists in network charging, this is for the purpose of correcting erroneous charges. Notwithstanding the point that we do not think cost-reflectivity applies to residuals, except in broad terms, if a HCULU customer was originally allocated to the correct charging band under existing process, it is not clear how it would be a cost-reflective outcome to backdate any changes in band to before the time when the relevant change in legal text took effect.

Questions

- Q5. Do you agree with our assessment against the third Applicable Charging Objective? Please elaborate on your reasoning.

Assessment of ACO (4) – Developments in DNO business

No views were presented with regards to this objective, and we consider the objective neutral.

The fourth objective is “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”.

Summary of views

- 6.44 No views were provided with respect to the fourth objective.

Our minded-to assessment

- 6.45 Capacity-based banding and residual charge allocation was a significant development for how distribution networks recover costs from consumers. While the effects of this new cost structure on consumers have been most sharply felt by peaky users across sectors, promoting a greater depth of policy engagement

Consultation Consultation on our minded-to decision in respect of DCP 412

on how these users interact with the system, this does not equate to a new customer- or system-side change to the role and function of DNOs.

- 6.46 We consider this objective appropriately used for implementation of regulatory developments, rather than consumer issues, which are better captured by competition and cost-reflectivity objectives. We consider the proposal to be neutral against the fourth DCUSA objective.

Questions

- Q6. Do you agree with our assessment against the fourth Applicable Charging Objective? Please elaborate on your reasoning.

Assessment of ACO (5) – EU compatibility

Concern raised about the proposal included that it might conflict with European rules relating to non-discrimination and avoiding unrelated policy costs. We consider the relevant concerns to be better addressed in the competition and cost-reflectivity objective assessments, and so that the proposal is neutral on this objective.

The fifth objective is “that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators”.

Summary of views

- 6.47 The Change Report noted that the proposal could, if implemented, be in conflict with key retained European regulation concerning the treatment of network charges. Regulation (EU) 2019/943 states in Article 18, Paragraph 1: “Charges applied by network operators for access to networks, including charges for connection to the networks, charges for use of networks, and, where applicable, charges for related network reinforcements, shall be cost-reflective, transparent, take into account the need for network security and flexibility and reflect actual costs incurred insofar as they correspond to those of an efficient and structurally comparable network operator and are applied in a non-discriminatory manner. Those charges shall not include unrelated costs supporting unrelated policy objectives.”
- 6.48 It further states in Article 18, Paragraph 7: “Distribution tariffs shall be cost-reflective taking into account the use of the distribution network by system users including active customers. Distribution tariffs may contain network connection capacity elements and may be differentiated based on system users' consumption or generation profiles. Where smart metering systems have been

Consultation Consultation on our minded-to decision in respect of DCP 412

deployed, the regulatory authority shall consider time-differentiated network tariffs when fixing or approving transmission tariffs and distribution tariffs or their methodologies and, where appropriate, time-differentiated network tariffs may be introduced to reflect the use of the network, in a transparent, cost efficient and foreseeable way for the final customer.”

- 6.49 The change report further included a DCUSA Panel decision on a request for legal guidance by the DCP 420 Working Group, which identified Article 18 of the regulation (EU) 2019/943 as a potential cause for concern. The decision noted a degree of similarity to DCP 412, but noted key differences in that “DCP 420 is seeking to change the charging arrangements for a very specific subset of customers (i.e., publicly accessible EV charging stations) and DCP 412 is seeking to change the charging arrangements for any customers whose consumption patterns fit a particular set of criteria”. Ultimately, the DCP 412 Change Report did not include a commissioned view from DCUSA Panel on whether the proposals were discriminatory and therefore non-compliant with (EU) 2019/943.
- 6.50 Three DCUSA voting parties raised concerns that the proposal could result in discriminatory outcomes.
- 6.51 One party considered that the proposal could lead to an issue of discrimination between half-hourly (HH) settled customers and non half-hourly (NHH) settled customers. Because the solution is only applicable to HH customers with load factors and capacity utilisation metrics that could be calculated by the DNO, it excludes those under other settlement regimes who would have no route available to assess and receive any benefit from the proposed discount.
- 6.52 DCUSA voting parties also engaged with the questions of competition and cost-reflectivity, which are explored in greater detail under ACOs (2) and (3).

Our minded-to assessment

- 6.53 Discrimination is a relevant question to consider in our assessment of the proposal. Many of Ofgem’s decisions on network charging result in cost transfers between different users of the electricity system and can result in justified proportionate and differential treatment between different actors.
- 6.54 In our consideration of Section 8 of the Change Report, we note a number of views from stakeholders that the proposal is explicitly discriminatory in identifying and selecting for peaky customers who then have access to a lower standing charge rate than a peer with the same capacity.
- 6.55 We would also note the relevance of the purported market distortion described in our consideration of ACO (2):

Consultation Consultation on our minded-to decision in respect of DCP 412

- Firstly, that there is implicit unfair discrimination between suppliers with and without peaky customers under the existing regime, due to the increased risk profile of these users affecting broader performance in competition;
- Secondly, that there is implicit unfair discrimination within the existing cost allocation structure which disadvantages peaky users themselves;

6.56 As explained below, based on these interpretations of discrimination, we do not consider the Proposal to raise issues relevant to ACO (5) that are not already covered in the objectives relating to competition and cost-reflectivity.

6.57 Some previous decisions have determined which users of the electricity network should contribute less to residual network costs: DCPs 359²⁸ and 387²⁹ established a framework where all demand users contribute, unless that demand is for the purpose of re-export or the provision of certain electricity system services (non-final demand users). We do not believe that non-final demand users are an appropriate analogue to HCULU customers. No code modification has allowed for a reduced contribution to the residual of a particular segmentation of users outside of the context of significant change to a site's relationship to the network.

6.58 In other cases of non-domestic customers seeking to reduce their contribution to ongoing energy network costs, support has been made available through specific intervention outside of the remit or framework of the electricity network charging rules. Key examples include the Network Charging Compensation Scheme³⁰ and the Assistance for Areas with High Electricity Distribution Costs (AAHEDC)³¹ scheme. Instead, these have usually taken effect through supplier levy regimes. These support frameworks are therefore not subject to the same standard of discriminatory application and can accommodate the fulfilment of policy objectives outside of the usual business of network operators.

6.59 Regarding the risk of discrimination between customers based on settlement type, we believe that an extension of the mechanism described in the Proposal would not be appropriate for NHH customers with low load profiles. A peaky site without any reference to capacity held is, in the context of existing cost allocation rules, simply a low-consumption site. The existing framework therefore places low-consuming peaky sites in the same cost category as other low-consuming sites. The alleged defect and solution are therefore not applicable in NHH cost

²⁸ See [Ofgem Targeted Charging Review Implementation: Customers - who should pay? - DCUSA](#)

²⁹ See [Amendment to the Definition of Non-Final Demand Site to Align with CUSC - DCUSA](#)

³⁰ See [Network Charging Compensation Scheme - Elexon](#)

³¹ See [Assistance for Areas with High Electricity Distribution Costs \(AAHEDC\) | National Energy System Operator](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

allocation, meaning that the proposal cannot be described as discriminatory in this aspect.

- 6.60 Where cost-reflectivity is relevant to Regulation (EU) 2019/943, the performance of the proposal against this principle is assessed in our consideration of ACO (3).
- 6.61 While the regulation does allow for differentiation of tariffs on the basis of consumption profiles, we are not convinced that this is fully applicable to the proposal. This is because the consideration of consumption profiles for only some demand users appears to be selectively applied to peaky users, rather than taking into account the heterogeneity of network users including users with consistently low or high consumption relative to capacity held.
- 6.62 Therefore overall, we do not consider the proposal to raise issues relevant to ACO (5) that are not already covered in the objectives relating to competition or cost-reflectivity. As ACO(5) is not engaged, we consider the Proposal to be neutral against this objective.

Questions

- Q7. Do you agree with our assessment against the fifth Applicable Charging Objective? Please elaborate on your reasoning.

Assessment of ACO (6) – Administration

We consider that options where charges are changed retrospectively would significantly increase administration costs, but consider the second alternative broadly neutral as changes are mainly one-off and can be integrated into standard processes.

The sixth objective is “that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.”

Summary of views

- 6.63 Two DCUSA voting parties believed that the proposal would negatively impact the sixth objective. They argued that the proposal would introduce a complex and potentially lengthy review process when assessing the HCULU eligibility, requiring manual oversight. The original proposal and first alternative proposal were considered to be more burdensome owing to the retrospective changes to tariffs required.
- 6.64 One DCUSA voting party further believed that data collection, assessment, and settlement would change significantly as a result of the implementation of Market-wide Half-Hourly Settlement (MHHS).

Consultation Consultation on our minded-to decision in respect of DCP 412

Our minded-to assessment

- 6.65 We consider the Original Proposal and first Alternative Proposal to be negative against the sixth objective due to the significant levels of administrative effort needed to rebill users for previous periods. We consider the second Alternative Proposal to be broadly neutral against the sixth objective, as while some administrative change will be needed, they are largely one-off process changes that can be integrated into the usual tariff processes, and automated rather than labour-intensive.
- 6.66 Recent industry discussion has considered the interaction between the data held by industry parties and feasibility of backdating tariffs³². Data processes are likely to change in light of MHHS, which may introduce complexity in assessing site eligibility and changing residual bands. This is particularly relevant for the Original Proposal and first Alternative Proposal, which may rely on extended observation periods and provide for backdated changes to tariffs across data regimes.
- 6.67 It is plausible that a system that accurately identified affordability issues might reduce administrative overheads, and so be positive against this objective. Such a system might reduce queries and disputes, as well as potentially reducing the level of unpaid network charges that might be associated with business bad debt or supplier failure (although we have not seen evidence that such risks are significant). As we are not convinced this solution provides an effective way of identifying ability-to-pay (rather than identifying certain load factors) we do not think any options are positive against ACO (6).

Questions

- Q8. Do you agree with our assessment against the sixth Applicable Charging Objective? Please elaborate on your reasoning.

Our assessment against our Principal Objective and Statutory Duties

- 6.68 When determining on a DCUSA proposal, we have regard to our principal objective to protect the interests of existing and future consumers and the statutory duties when exercising our regulatory functions that are expressly applied to us. While the ACOs provide a useful framework for assessing proposed changes to the charging methodologies, we consider that DCP 412 raises specific issues that warrant a degree of separate consideration. This section focuses on

³² See [Distribution Connection and Use of System Agreement \(DCUSA\) DCP439 decision | Ofgem](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

the statutory duties most directly relevant to the proposal. In our assessment of ACO(2) we have addressed the absence of support for the Proposal impacting users' affordability and that the mechanism (re-banding) does not reflect affordability and financial hardship in a constructive manner with regards to competitive outcomes. Those matters are also considerations for why we do not conclude that the Proposal has any positive impact on consumers' interests.

- 6.69 In carrying out our duties, we must have regard to the principle that regulatory activities are targeted only at cases in which action is needed. As we identified in our assessment against the ACOs, we are not convinced that the proposal effectively addresses an alleged distortion in the supply market. The identification and re-banding of HCULU customers may not be a proportionate or well-suited intervention against the apparent elevated risk to suppliers of holding customers with unaffordable energy costs.
- 6.70 In the circumstances of this Proposal, in considering our principal objective, we believe we can take account of how our decision may promote economic growth.³³ This does not override the statutory duties expressly stated to apply to us. Some peaky non-domestic customers may benefit from the proposal and be better able to contribute to economic growth. However, other customers would have to contribute more in network charges, including customers who may also be contributors to economic growth or who are otherwise vulnerable to energy costs. The efficient allocation of system costs can provide a foundation for growth in both the energy sector and wider economy. We have not been provided with any economic modelling or seen convincing evidence that the proposed change would proportionately address the apparent defect in a manner that supports consumer interest in economic growth, or, more generally, that bespoke treatment for some classes of user through the charging regime is an appropriate way for promoting growth compared to other possible interventions.
- 6.71 Again, under the circumstances of this Proposal, in considering our principal objective, we believe we can take account of the interest of consumers in facilitating net zero.³⁴ In the first workgroup consultation, some respondents believed that the proposal could be applicable to electric vehicle (EV) charging points. However, the working group later concluded that the likelihood of such sites meeting the HCULU assessment criteria was very low, and did not identify any material impact on greenhouse gas emissions arising from the

³³ As set out in Section 108 of the Deregulation Act 2015.

³⁴ Properly, the interests of existing and future consumers, including "their interests in the Secretary of State's compliance with the duties in sections 1 and 4(1)(b) of the Climate Change Act 2008 (net zero target for 2050 and five-year carbon budgets)."

Consultation Consultation on our minded-to decision in respect of DCP 412

implementation of DCP 412. While the broader decarbonisation of transport and proper funding of electricity network operation is relevant to this interest, we agree with the findings of the working group and do not believe that an approval or rejection of this proposal would result in significant positive or negative effects against these goals.

- 6.72 One important theme raised through the second workgroup consultation and in stakeholder feedback has been the effect of the TCR and DCP 412's potential implementation on the interests of individuals residing in rural areas. The residual banding methodology and change proposal are applied irrespective of location, although we have heard that flood risk management bodies and agricultural and horticultural growing and processing facilities (i.e., predominantly rural activities) are among the consumer base who are particularly susceptible to high costs and supplier risk under DCP 412's problem definition. The capacity-based banding methodology applies to non-domestic customers, but can be argued to have consequential secondary impacts on rural individuals through reduced economic performance of businesses and pressure on public funding mechanisms.³⁵
- 6.73 We must have regard to the strategic priorities set out in the Strategy and Policy statement when carrying out our regulatory functions.³⁶ With respect to network charging, this includes the need to balance several competing principles such as cost-reflectivity and fairness, including the idea that there should be no undue discrimination between network users.

Implementation Date

- 6.74 According to the change report, DCP 412 would be implemented 10 working days following Authority approval.
- 6.75 However, this may not be the same as the effective date from which a customer can be moved to a lower Band or rebated. The effective date depends on the alternative adopted. If approved, the effective date and conditions of any monitoring and assessment period for the HCULU assessment should be clearly communicated to candidate customers and their representatives.
- 6.76 We have no comment on the implementation date of DCP 412 into DCUSA legal text, if approved.

³⁵ Some flood risk management bodies are statutory public bodies, funded by levies on local authorities (then recouped through council tax or additional funding) and agricultural landowners. Such levies can cause additional cost to taxpayers or deprioritisation of other services. More detail on additional funding can be found here [Internal Drainage Board levy support grant 2025 to 2026 - GOV.UK](#)

³⁶ See [Strategy and policy statement for energy policy in Great Britain - GOV.UK](#)

Consultation Consultation on our minded-to decision in respect of DCP 412

Questions

Q9. Do you have views on our discussion on the points relating to our Principal Objective and Statutory Duties?

Q10. If DCP 412 is approved, do you think that it should be implemented and effective 10 days after Authority decision? Do you consider a specific alternative date to be more appropriate? Please provide supporting rationale.

Q11. Are there any other material considerations, not covered by the change report or this consultation, that you wish to raise?

Q12. To what extent do you agree with our assessment of DCP 412 against the applicable charging objectives, taken collectively? Please provide your detailed reasoning and any evidence in support of this.

Q13. Can you provide any further evidence to inform our understanding of any supplier competition effects of the status quo and of this proposal?

Q14. Can you provide any further evidence to inform our understanding of how the proposal or status quo may impact upon the facilitation of any other of the DCUSA charging objectives?

7. Impact Assessment

In addition to the evidence provided in the DCP 412 Change Report, we have developed additional analysis (principally on Alternative 2) to better understand the quantitative impact of re-banding HCULU customers within the residual charging framework. We apply both distribution and transmission cost estimates to inform our decision-making, finding that the cost of the scheme on other users is slight, and that network companies may slightly underrecover revenue. Without evidence on the effectiveness of re-banding on HCULU customers and wider system efficiency, the benefits of the intervention are not possible to quantify. This means any cost, however low, may not be justifiable.

As set out in Section 6, our assessment of DCP 412 against the Applicable Code Objectives and our Principal Objective and Statutory Duties takes account of the changes in cost recovery as a result of the re-banding of HCULU customers. This assessment draws on the impact assessment in the Change Report and is informed by the additional analysis presented in this section.

Limitations of the impact assessment

7.1 The DCP 412 workgroup produced an impact assessment to broadly estimate the costs transferred to other users as a result of the proposal. This was included in

Consultation Consultation on our minded-to decision in respect of DCP 412

the DCP 412 Change Report and included analysis on the effect that DCP 412 would have on consumer tariffs, if it were implemented³⁷ under each alternative.

- 7.2 We do not consider this impact assessment to provide a complete and accurate view of the effects of change on HCULU and non-HCULU users of the electricity system. Firstly, the data incorrectly conflates final tariff fixed charges with residual fixed charges. The residual charge is a small part of the total fixed charge.³⁸ This also results in an incorrect distinction between LV Site Specific tariffs and LV Sub Site Specific tariffs: in reality, the relevant residual charge calculation is shared.
- 7.3 Secondly, the impact assessment does not accurately simulate the effects of re-banding a customer. It sums the fixed charge contribution of HCULU sites and shares that cost between the number of customers left in the respective previous bands. In reality, re-banding a customer results in a change to the number of customers in each band and the amount of power consumed by each band, resulting in a new balance of system cost allocation. A correctly modelled residual fixed charge should therefore reflect the changed balance of users and usage, taking into account HCULU customers who have moved out of and moved into each relevant band. As HCULU users would only move down a band and not up, the total system recovery in the year of re-banding would be slightly less than otherwise, resulting in a shortfall that must be paid for by all consumers in the following years. In the long run, the new allocation would result in a zero-sum effect across the system, but enduring higher or lower charges for customers in affected bands.
- 7.4 Thirdly, the impact assessment only considers DUoS fixed charges. The CUSC stipulates that the transmission demand residual tariff is allocated to customers using the banding procedure described in DCUSA³⁹. As a consequence, DCP 412 would affect the setting of transmission charges. As Figure 1: Fixed residual charge composition for LV4 customers, East Midlands 2022-2026 suggests, the transmission demand residual can be a greater part of a user's fixed charge than the distribution equivalent, and therefore more relevant to the concerns raised by customers. As a result of our view of the quality and relevance of the data, we have taken the decision to supplement it with further additional TNUoS analysis of a basic nature to support this minded-to decision.

³⁷ See DCP 412 Change Report Attachment 8 – DCP 412 Two-Step Process Impact Assessment

³⁸ The fixed charge can also include the charge for assets on the same voltage level as the customer, which do not vary with residual band or capacity.

³⁹ See CUSC 14.15.156-165

Consultation Consultation on our minded-to decision in respect of DCP 412

- 7.5 The impact assessment also uses an unweighted average fixed charge as an assumed residual tariff for each band. We do not consider this to be an effective point of comparison, due to significant regional variation in the residual cost. A site in a region with a greater residual cost would see a bigger effect from DCP 412 than the same site in a region with a small residual cost.
- 7.6 Importantly, the impact assessment provided does not seek to contextualise the effect of the status quo or DCP 412 in terms of the alleged defect or benefits to change. The assessment looks at the costs transferred between users, but does not balance this with analysis or assumptions about the benefits that change would bring, or specify a mechanism for benefits to be realised. To that extent, it assesses only costs, not potential benefits. Taken together, the impact assessment does not provide quantitative evidence for consumer benefit such that would support approval of DCP 412. For instance, the impact assessment does not support to any degree the notion that a reduction in network charges for some users would support competition between suppliers of customers with different risk profiles, nor does it support the notion that such a reduction would better facilitate consumer outcomes taken more broadly.

Our impact assessment

- 7.7 We have adapted the working group's impact assessment into a model simulating the residual cost allocation methodology for both DUoS and TNUoS, in order to remedy some of the previously identified shortcomings of the working group impact assessment.
- 7.8 According to this analysis, the impact on customers in aggregate is likely to be very slight. The small number of HCULU sites mean that the share of consumption between bands does not significantly change as a result of their re-banding, even when assuming the greatest permissible level of utilisation. In regions where there is a residual shortfall, all tariffs that use the capacity-based banding approach experience an increase in charges. In regions where there is a residual surplus, all tariffs that use the capacity-based banding approach experience an increase in residual credit received. The size of the change to each residual tariff rate is dependent on the size of the local residual cost and number of sites.
- 7.9 This analysis does not separately assess the effects of the Original Proposal or Alternative Proposal 1, as the extent of backdating of tariffs is dependent on the eligibility of sites over a longer observation window, which may span multiple charging years, fixed charge rates, and band boundaries. Data used by the working group in the original impact assessment has not been made available due to technical limitations. Such backdating would result in a greater net residual shortfall (or surplus, where residual tariffs are negative) as a result of reallocation.

Consultation Consultation on our minded-to decision in respect of DCP 412

- 7.10 We would consider the costs of the Original Proposal and Alternative Proposal 1 to be greater than Alternative Proposal 2, as these options, by extending the period of backdating to various degrees, increase the level of support given to eligible users. We therefore think that any cost benefit assessment of those options should be more negative than for Alternative Proposal 2, as the costs of backdating on other users are greater.
- 7.11 Our analysis does not consider the impact of the proposal on EHV-connected customers, as no workgroup data on the number of HCULU sites at that voltage level were available to draw from. Customers connected directly to the transmission system are not in scope of DCP 412.
- 7.12 The analysis also does not suppose that the availability of the HCULU scheme would change customer behaviour to qualify.
- 7.13 Table 1 summarises the effects of DCP 412 Alternative 2 to 2026 tariffs in actual terms, demonstrating the effect of re-banding:

Table 2: Changes to tariffs after HCULU re-banding

Tariff name	Minimum change in DUoS tariff (p/MPAN/day)	Maximum change in DUoS tariff (p/MPAN/day)	Change in TNUoS tariff (p/MPAN/day)
Domestic Aggregated or CT with Residual	0.00	0.00	0.00
Non-Domestic Aggregated or CT Band 1	0.00	0.00	0.00
Non-Domestic Aggregated or CT Band 2	0.00	0.00	0.00
Non-Domestic Aggregated or CT Band 3	0.00	0.00	0.00
Non-Domestic Aggregated or CT Band 4	0.00	0.00	0.00
LV Site Specific Band 1	-0.68	1.24	2.11
LV Site Specific Band 2	-0.81	2.61	2.71
LV Site Specific Band 3	-0.88	2.46	2.31
LV Site Specific Band 4	-3.62	5.63	4.76
HV Site Specific Band 1	-3.51	11.45	10.17

Consultation Consultation on our minded-to decision in respect of DCP 412

HV Site Specific Band 2	-6.71	13.62	19.63
HV Site Specific Band 3	-6.23	19.57	18.68
HV Site Specific Band 4	-30.43	47.22	83.44
Unmetered Supplies (p/kWh)	0.00	0.00	0.00

7.14 Domestic customers, non-domestic customers on aggregated tariffs, unmetered supply, and transmission-connected users are not immediately impacted by DCP 412. However, they may contribute to any revenue correction in future years, meaning that they could pay more towards standing charge costs.

7.15 As a result, the impact on HCULU customers of moving from one band to another is similar to a simple rate change. An High Voltage (HV) Site Specific Band 4 HCULU user would go from a TNUoS daily fixed charge of 52303.52p/MPAN/day to a Band 3 rate of 18354.50p/MPAN/day under the assumptions of our impact assessment.

7.16 However, the proposal would result in small amounts of over-recovery of DUoS in 4 regions, under-recovery in 10, and under-recovery of TNUoS. These would then flow through into future revenue requirements.

7.17 Table 2 summarises the effects of DCP 412 Alternative 2 to revenue recovery in-year. Some regions have negative residual values in the sample year, so the HCULU scheme would lead to an over-recovery of network cost. These values do not net to nil, as they refer to variation against localised allowed revenue needs:

Table 3: Effect of HCULU rebanding on revenue recovery

Region	Net residual shortfall (-) or surplus (+) as a result of reallocation
East Midlands	-£24,318.77
North West	+£82,227.36
Eastern	-£4,551.13
London	+£160,964.74
Midlands	-£57,978.17
Northern	-£22,504.10
Yorkshire	-£84,026.97
Southern	+£88,980.82

Consultation Consultation on our minded-to decision in respect of DCP 412

Northern Scotland	+£22,979.03
Southern Scotland	-£124,777.54
North Wales and Mersey	-£130,496.55
South East	-£8,177.75
South Wales	-£15,737.16
South Western	-£5,901.59
Transmission	-£4,145,484.07

7.18 The revised impact assessment presented does not seek to develop the argument that a reduction in cost for some users could better facilitate competition. It also does not seek to assess the suitability of the HCULU definition in doing so.

7.19 Overall, the impact assessment suggests that the cost of a HCULU scheme would be small, with small associated cost increases for non-HCULU users, and that impacts on the ability of the network to recover cost would not be significantly detrimentally affected.

Questions

Q15. Do you consider our approach to impact assessment to have considered relevant information with respect to the effect of re-banding?

Consultation Consultation on our minded-to decision in respect of DCP 412

8. Conclusions and Next Steps

We consider this Proposal to have identified a problem for some customers, in that the use of capacity to band users means significantly different users can face similar charges through TCR fixed charges. We also think that a broader issue is evident, in that volumes bought are considered by some users to be more strongly linked to their perception of fair use than capacity is. We think there are questions for broader work, including the Cost Allocation and Recovery Review, on whether volumes or other metrics are better linked to ability-to-pay than capacity, recognising that capacity is more linked to business-specific processes while volumes tend to be more linearly linked with energy spend.

That said, we do not consider the DCP 412 solution to be a suitable one. As set out in the assessment against the ACOs, we do not think the options articulated represent an improvement against the baseline such that these can be accepted. The most important shortfall is that benefits to competition are not articulated, with no real evidence that HCULU status is a good proxy for affordability or that suppliers face different competitive outcomes from supplying these sites versus others. We further consider that the alternatives with backdating bring additional risk of harm to competition and the efficient administration of the charging methodologies.

We consider that the quantitative impact of these proposals are relatively low. For DUoS fixed rates, consequences of re-banding for the largest customers, assuming the greatest permissible size of HCULU site, range from a decrease of 30p/day to an increase of 47p/day. The effect on in-year revenue recovery for the distribution networks is small, ranging from a £160,000 surplus to a £130,000 shortfall. The impact on TNUoS fixed rates and recovery is higher due to a significantly larger demand residual, resulting in an increase of 83p/day for the same customers and a shortfall of over £4 million. We would likely not consider these impacts on wider users to be of a disproportionate level if there were demonstrable competition benefits, but in that area we do not consider there to be a principles-based justification.

We are therefore minded to reject all proposals. To inform a final decision on this work, we invite responses on the questions included in this consultation, but also on specific areas where stakeholders consider arguments relating to the ACOs to have been missed.

Consultation Consultation on our minded-to decision in respect of DCP 412**Summary of Questions**

- Q1. Do you agree with our interpretation of existing system rules, and can you think of any additional information in this context that could better support our decision-making?
- Q2. Have we accurately characterised the proposal's problem definition and intended solution? If not, what additional information would help to better inform our decision-making?
- Q3. Do you agree with our assessment against the first Applicable Charging Objective? Please elaborate on your reasoning.
- Q4. Do you agree with our assessment against the second Applicable Charging Objective? Please elaborate on your reasoning.
- Q5. Do you agree with our assessment against the third Applicable Charging Objective? Please elaborate on your reasoning.
- Q6. Do you agree with our assessment against the fourth Applicable Charging Objective? Please elaborate on your reasoning.
- Q7. Do you agree with our assessment against the fifth Applicable Charging Objective? Please elaborate on your reasoning.
- Q8. Do you agree with our assessment against the sixth Applicable Charging Objective? Please elaborate on your reasoning.
- Q9. Do you have views on our discussion on the points relating to our Principal Objective and Statutory Duties?
- Q10. If DCP 412 is approved, do you think that it should be implemented and effective 10 days after Authority decision? Do you consider a specific alternative date to be more appropriate? Please provide supporting rationale.
- Q11. Are there any other material considerations, not covered by the change report or this consultation, that you wish to raise?
- Q12. To what extent do you agree with our assessment of DCP 412 against the applicable charging objectives, taken collectively? Please provide your detailed reasoning and any evidence in support of this.
- Q13. Can you provide any further evidence to inform our understanding of any supplier competition effects of the status quo and of this proposal?
- Q14. Can you provide any further evidence to inform our understanding of how the proposal or status quo may impact upon the facilitation of any other of the DCUSA charging objectives?
- Q15. Do you consider our approach to impact assessment to have considered relevant information with respect to the effect of re-banding?

You may also wish to send us general feedback on our presentation of this document, as detailed on the following page.

Consultation Consultation on our minded-to decision in respect of DCP 412

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this consultation. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

Consultation Consultation on our minded-to decision in respect of DCP 412

Appendix 1. Privacy policy

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name, address, and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e., a consultation.

4. With whom we will be sharing your personal data

Personal data will not be shared with organisations other than Ofgem.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for three months after a final decision is published by the Authority on DCP 412.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically

Consultation Consultation on our minded-to decision in respect of DCP 412

- tell us if we can share your information with third parties
- tell us your preferred frequency, content and format of our communications with you
 - to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/> or telephone 0303 123 1113.

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision-making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, view our Ofgem privacy policy.