

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP090 – Nested Networks		
Decision:	The Authority ¹ directs that proposal DCP090 be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested Parties		
Date of publication:	6 December 2011	Implementation Date:	February DCUSA release 2012

Background to the modification proposal

Embedded distribution network operators ('EDNO') own and operate relatively small electricity distribution systems connected to the larger regional distribution systems operated by Distribution Network Operators ('DNO'). EDNOs include Independent Distribution Network Operators ('IDNO') and DNOs operating outside of their distribution area.

Under the current charging arrangements EDNOs levy the same use of system ('UoS') charges on customers connected to their networks as the local DNO. The EDNO is then charged in respect of each customer connected to its network by the DNO. This charge is calculated by discounting the 'all the way' charge levied on the end customer, based on the voltage level at which the EDNO connects to the DNO network. The higher the voltage at which the EDNO is connected to the DNO network, the greater the discount will be. In order to facilitate these charging arrangements the EDNO is required to share the relevant billing information with the DNO.

An EDNO distribution system connected to the DNO distribution system via one or more other EDNO distribution systems is referred to as a 'Nested Network'. Under the current billing and charging arrangements, a Nested Network shares information with the DNO only, and the DNO charges the Nested Network as if the upstream EDNO distribution system was part of the Nested Network. The upstream EDNO receives no data from the Nested Network and is unable to charge for the services it provides.

The modification proposal

ESP Electricity Limited raised DCP090 on 13 April 2011. Legal text was developed for the proposal and submitted to a Workgroup for consideration prior to the DCUSA parties' vote.

DCP090 proposes to create a new schedule in the DCUSA which will put in place billing arrangements for Nested Networks, in order that upstream EDNOs that provide voltage transformation assets have the necessary billing information to calculate and levy charges on Nested Networks.

DCP090 does not deal directly with the charges upstream EDNOs will levy on Nested Networks. However, the Workgroup has made clear that it is intended that the upstream EDNO will charge the Nested Network the difference between the charge the DNO is currently able to levy on the Nested Network, and the charge the DNO would be able to levy if the upstream EDNO's distribution system formed part of its distribution system.

For example, if the upstream EDNO is connected to the DNO at HV and the Nested Network is connected to the upstream EDNO at LV, then:

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

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

- the DNO would charge the Nested Network as if it was connected to the DNO at HV; and,
- the upstream EDNO would charge the nested network the difference between the charge the DNO levies (ie for connection at HV) and the charge the DNO would levy if the Nested Network was connected to it at LV.

DCUSA Parties' recommendation

The Change Declaration for DCP090 indicates that DNO, IDNO/OTSO, Supplier and Distributed Generation (DG) parties were eligible to vote on DCP090. In the DNO and Supplier categories there was unanimous support for the proposal. In the IDNO/OTSO category 67% voted to accept the modification and 33% voted to reject it. No votes were cast in the DG party category.

One IDNO voted to reject the modification on the grounds that the benefits derived from Nested Networks sharing information with upstream EDNOs was likely to be outweighed by the burden of providing that information.

In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP090 is accepted. The outcome of the weighted vote is set out in the table below:

DCP090	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	67	33	100	0	N/A	N/A
IMPLEMENTATION DATE	100	0	67	33	100	0	N/A	N/A

The Authority's decision

The Authority has considered the issues raised by the proposal and the Change Declaration dated 1 November 2011. The Authority has considered and taken into account the vote of the DCUSA Parties on the proposal which is set out in the Change Declaration. The Authority has concluded that:

1. implementation of the change proposal DCP098 will better facilitate the achievement of the DCUSA General objectives³; and
2. directing that the change is approved is consistent with the Authority's principal objective and statutory duties⁴.

Reasons for the Authority's decision

We consider that allowing information to be shared between EDNOs in a Nested Network scenario will provide the opportunity for EDNOs to develop charges that result in a more equitable distribution of revenue between EDNOs.

We agree that the proposal better facilitates the DCUSA General Objectives for the following reasons.

³ The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 (a) to (d) of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

⁴ The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

DCUSA General Objective 3.1.1 'the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System'

We note the DCUSA Panel's view that the proposal better facilitates General Objective 3.1.1 on the grounds that allowing the upstream EDNO to recover its costs will make its distribution system more economical. We do not believe that the evidence provided supports this view. Nor is it set out how the proposed changes to the billing arrangements or the changes to charging arrangements that these will allow, affect whether EDNO distribution systems are economical. On the basis of the evidence provided, our view is that the proposal has no affect on this General Objective.

DCUSA General Objective 3.1.2 'the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity'

We consider that under the current arrangements Nested Networks do not pay for the use of voltage transformation assets provided by an upstream EDNO. This may provide Nested Networks with a competitive advantage over the upstream EDNO networks that connect them to the DNO's distribution system. While both the upstream EDNO networks and the Nested Network will incur costs in providing a supply of electricity to customers connected to the Nested Network, only the Nested Network will recover any of these costs. Providing the opportunity to develop a more cost reflective distribution of revenue will encourage a level playing field for EDNOs operating in a Nested Networks scenario, which in turn will facilitate the promotion of competition in the distribution of electricity.

DCUSA General Objective 3.1.3 'the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licenses'

EDNOs are required by Standard Condition 13 of the License to have in force at all times a UoS charging methodology which results in charges that reflect, as far as is reasonably practicable, the costs incurred by the licensee. By not sharing information between EDNOs operating in a Nested Networks scenario (ie between the upstream EDNO networks and the Nested Network) we believe that it will not be possible for all EDNOs to develop UoS charging methodologies that result in cost reflective charges in those situations. We consider that by requiring information to be shared between EDNOs, the proposal will help EDNOs to develop UoS charging methodologies that result in more cost reflective charges and, therefore, better facilitate General Objective 3.1.3.

DCUSA General Objective 3.1.4 the promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it.

We do not consider that the proposal affect this General Objective.

DCUSA General Objective 3.1.5 compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

We do not consider that the proposal affect this General Objective.

Additional thoughts

We have also considered one IDNO's view that the benefits of sharing information between a Nested Network and an upstream EDNO will be outweighed by the costs to the Nested Network of doing so. They provided evidence that in some situations the cost incurred by the Nested Network in providing information to the upstream EDNO would outweigh the charges levied on it by the upstream EDNO. Rather than carrying out a

wider cost benefit analysis the Workgroup agreed that each party would indicate whether it believed the proposal would provide a benefit by virtue of their vote on the modification. All other parties, including a majority of EDNOs, voted in favour of the proposal.

Given that the direct costs and benefits of the proposal fall on the EDNOs themselves, we believe that EDNO parties are best placed to judge whether the costs of implementing DPC090 are outweighed by its benefits. In light of this and the views of the majority of EDNOs, we consider that it is likely that the benefits of the proposal outweigh the costs to EDNOs.

We also note that the proposal provide for the upstream EDNO to waive the requirement on the Nested Network to provide information. In our view, if and when it is uneconomical for EDNOs to share information between each other, they should be able to come to an agreement not to do so.

Finally, we wish to make clear that EDNOs do not yet have charging arrangements in place to calculate UoS charges for Nested Networks. We expect that relevant EDNOs will bring forward the necessary proposals to modify their UoS charging methodologies prior to levying any charges on Nested Networks.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP090: '*Nested Networks*' be made.

Rachel Fletcher

Acting Senior Partner - Smarter Distribution and Governance

Signed on behalf of the Authority and authorised for that purpose