

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP152 – Implementation of the combined EDCM for import and export charges		
Decision:	The Authority ¹ directs that proposal DCP152 be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	19 February 2013	Implementation Date:	1 April 2013

Background to the modification proposal

Distribution Network Operators (DNOs) levy Distribution Use of System (DUoS) charges on users of the electricity distribution networks. The DNOs have developed two common methodologies to calculate these charges. One of these methodologies is the Extra High Voltage (EHV) Distribution Charging Methodology (the EDCM)³, which applies to certain large customers that are at “Designated EHV Properties”.⁴

Since 1 April 2012, the DNOs have used a version of the EDCM (called “the EDCM for import”) to calculate DUoS charges for demand at Designated EHV Properties. The EDCM for import was put under DCUSA open governance via DCP109.⁵ This allows DCUSA parties (and any other party with our permission) to propose modifications to the methodology. In November 2012, we approved the DNOs’ proposal (called “the EDCM for export”) for calculating charges for generation at Designated EHV Properties.⁶ In December 2012, we confirmed that a condition attached to our approval had been satisfied,⁷ and the EDCM for export should therefore be used by the DNOs for calculating DUoS charges for 1 April 2013 onwards.

Standard condition 22A of the DNOs’ licences requires the DNOs to put the EDCM for export under the open governance of the Distribution Connections and Use of System Agreement (DCUSA) by 1 April 2013. The DNOs decided that this obligation could be met by putting into the DCUSA a single methodology (called “the combined EDCM”) that incorporated both the EDCM for import (currently under DCUSA open governance) and the EDCM for export (which we approved in November 2012). This combined EDCM is the same as these two currently-approved methodologies, and would result in the same charges.

The modification proposal

DCP152 was raised by the proposer, Northern Powergrid (NPG), on 8 August 2012. The main purpose of the proposal is to put the combined EDCM under DCUSA open governance. The proposer stated that this will allow the DNOs to meet their obligation under standard condition 22A of the Electricity Distribution Licence to put the EDCM for export into the DCUSA by 1 April 2013. The proposer also stated that DCP152 would allow the existing DCUSA text for the calculation of import charges to be updated to reflect the consequences of implementing the EDCM for export, and would allow the DCUSA text to be improved to add clarity and remove inconsistencies.

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.

³ There are two versions of the EDCM. They are the same in all respects apart from the one. In that one part, some DNOs use the Forward Cost Price (FCP) version, and the others use the Long Run Incremental Cost (LRIC) version. For simplicity, in this document we refer to the EDCM, meaning both versions. Both versions calculate import and export charges.

⁴ Designated EHV Properties are defined in standard condition 13B.6 of the Electricity Distribution Licence.

⁵ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=73&refer=Licensing/ElecCodes/DCUSA/Changes>

⁶ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=855&refer=Networks/ElecDist/Policy/DistChrgs>

⁷ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=870&refer=Networks/ElecDist/Policy/DistChrgs>

A DCUSA Working Group was established with Supplier, Distributor and Ofgem representatives. It issued a consultation to DCUSA parties on 17 September 2012, and submitted a change report to the DCUSA Panel in December 2012. Parties were invited to vote by 11 January 2013.

DCUSA Parties' recommendation

The Change Declaration for DCP152 indicates that DNO, IDNO/OTSO⁸, DG⁹ and Supplier parties were eligible to vote on DCP152. In each party category where votes were cast (no votes were cast in the DG party category), there was unanimous support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to us is that DCP152 is accepted. The outcome of the weighted vote is set out in the table below.

DCP152	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0	100	0	n/a	n/a
IMPLEMENTATION DATE	100	0	100	0	100	0	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 15 January 2013. We have also considered and taken into account the vote of the DCUSA Parties on the proposal. We have concluded that:

- implementation of the change proposal DCP152 will better facilitate the achievement of the DCUSA General Objectives¹⁰ and the DCUSA Charging Objectives¹¹; and
- directing that the change is approved is consistent with our principal objective and statutory duties.¹²

Reasons for our decision

This decision on DCP152 is about whether the inclusion of the combined EDCM (including the EDCM for export) in the DCUSA will better facilitate the DCUSA Objectives, as opposed to approving the EDCM itself. We have already taken that step in our letters of November 2012 and December 2012 (referenced above).

For the EDCM for export, its inclusion in the DCUSA is not a change to the charging methodology; the DCUSA does not currently contain an equivalent methodology. As a result of our decision to approve the EDCM for export, the DNOs will set charges using the EDCM for export from 1 April 2013, regardless of whether that methodology is in the DCUSA. Therefore, we have primarily assessed DCP152 against the DCUSA General

⁸ Independent Distribution Network Operators/Offshore Transmission System Operators

⁹ Distributed Generation

¹⁰ The DCUSA General Objectives are set out in Part A of standard licence condition 22 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

¹¹ The DCUSA Charging Objectives are set out in Part A of standard licence condition 22A of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

¹² 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.

Objectives, consistent with our assessment of modification proposals on similar issues, e.g. DCP109: “Implementation of the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM)”.¹³ DCP152 would also affect the text describing the calculation of import charges (which is already in the DCUSA). The DCP152 proposer stated that these changes were limited to consequential deletions or additions that followed from the inclusion of the export methodology, and changes that added clarity and remove inconsistencies. We have considered this aspect of DCP152 against the DCUSA Charging Objectives. In our view, DCP152 would better facilitate the DCUSA Objectives that are listed below. We consider that DCP152 is neutral with respect to the other Objectives.

DCUSA General Objective 3.1.1: the development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks

If the combined EDCM is put under DCUSA open governance then parties would be able to raise modification proposals to the EDCM for export. These would help ensure that it continues to generate cost-reflective charges that encourage efficient use of the distribution networks, and continues to meet the needs of network users. We consider that DCP152 better facilitates this objective.

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 Licences

This proposal is necessary for the DNO parties to meet their obligations under standard condition 22A.12 (and 22.A.2) to incorporate the EDCM for export charges into the DCUSA by 1 April 2013. Therefore, DCP152 better facilitates this objective.

DCUSA General Objective 3.1.4: the promotion of efficiency in the implementation and administration of this Agreement

The combined EDCM allows customers (and potential customers) to see in one methodology how charges are calculated for a Designated EHV Property. Also, it will be easier to ensure that any future changes to the import or export (or both) parts do not result in issues for the remainder of the methodology. We consider that putting the combined EDCM into the DCUSA better facilitates this objective.

We note the Working Group’s point that the EDCM user manual is outside of DCUSA open governance and will have to be updated by the Common Methodologies Group (CMG). We encourage the DNOs to ensure that the EDCM user manual is kept up-to-date, and that it is easily accessible to interested parties.

DCUSA Charging Objective 3.2.2: 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)

As discussed above, the DNOs developed a combined EDCM that included the EDCM for import (already in the DCUSA) and the EDCM for export. DCP152 would not change the calculation of import charges, but would make changes to the text which deals with the

¹³<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=73&refer=Licensing/ElecCodes/DCUSA/Changes>

EDCM for import under the DCUSA. The proposer stated that these are consequential deletions or additions that follow from the inclusion of the export methodology, and changes that add clarity and remove inconsistencies. Under open governance, it is appropriate for the industry participants to ensure that the drafting is correct. We have been assured by the DNOs that the changes to the EDCM for import are limited to these two categories. We note that these changes have been reviewed by the working group and by some respondents to the consultation, and that they have not raised concerns relating to the EDCM for import.

We note that one party considered that it would be clearer to separate the methodologies for demand and generation charges into different sections. However, we agree with the DNOs that there are advantages to having the text together for the combined EDCM. It describes the import and export calculations together for a site. We consider that this improves accessibility for suppliers, other network operators, and customers (including generators), hence reducing barriers to competition in the markets for supply, network provision, and generation. Therefore, we consider that the changes to the text relating to the EDCM for import better facilitate this objective.

Decision notice

In accordance with standard condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP152: "*Implementation of the combined EDCM for import and export charges*" be made.

Andy Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose