

Proposed modification:	Distribution Connection and Use of System Agreement (DCUSA) DCP248 and DCP248 Alternative (DCP248A): Providing protection for customers against being charged inappropriate capacity charges during the implementation of P272		
Decision:	The Authority ¹ directs that the DCP248 modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	25 April 2016	Implementation date:	4 May 2016

Background

The Balancing and Settlement Code (BSC) modification P272 requires that Profile Class (PC) 5-8 customers become half-hourly (HH) settled subject to suitable installed metering. For associated Distribution Use of System (DUoS) charges, DCUSA modification DCP179⁴ was developed to create new measurement classes for PC 5-8 customers that are migrated to HH settlement. The relevant DUoS tariff shall be applied to these customers once they have migrated to their new measurement class where capable metering has been installed. Those sites that have a current transformer (CT) meter will migrate to a HH DUoS tariff which has a capacity charge element and will therefore be required to have an agreed Maximum Import Capacity (MIC).⁵ Ordinarily, MICs are agreed with the distribution network operator (DNO) at the time of enquiry for a new connection, or requested as a change to the previously agreed capacity and included within a connection agreement. As a result of P272, over 70,000 customers migrating to HH settlement will need to be assigned a MIC, the majority of which have no MIC or individual connection agreement.

Although there is engagement with migrating customers on this issue, there is a risk that customers could be disadvantaged in several ways:

- They may be subject to standard capacity charges for a MIC in excess of their requirements;
- They may be subject to excess capacity charges set at a higher rate than MIC charges if their MIC is set at a level that is too low for their requirements⁶; and/or
- They may lose their capacity rights at a site because a default MIC is applied and deemed to be accepted, which may be lower than a historically agreed MIC which the customer wishes to retain.

DCUSA modification DCP248 has been raised to address these risks by providing protection to customers in the setting of their MICs.

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

² 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ <https://www.ofgem.gov.uk/publications-and-updates/distribution-connection-and-use-system-agreement-dcp179-amending-cdcm-tariff-structure>

⁵ Sites with whole current (WC) meters will be migrated to an aggregate DUoS tariff with no separate capacity charge.

⁶ DCP161 removes the customer contributions discount from excess capacity charges with the result that excess capacity charging rates may be higher than MIC charging rates. The risk of migrating customers being overcharged has been removed as a result of the deferral of the implementation date of DCP161. Further details about DCP161 can be found at: <https://www.ofgem.gov.uk/publications-and-updates/distribution-connection-and-use-system-agreement-dcusa-dcp161-excess-capacity-charges> and our decision to defer its implementation at: <https://www.ofgem.gov.uk/publications-and-updates/decision-defer-implementation-dcp161>

The modification proposal

DCP248 was raised by British Gas on 9 September 2015. Following an initial consultation on 20 November 2015, which included several options for consideration to address these risks, an alternate proposal (DCP248A) based on one of the options was also raised by British Gas on 20 January 2016.

DCP248

DCP248 proposes to allow those customers affected by P272 a grace period of at least 12 months to agree their MIC which would then be applied from the date of change in measurement class. During this grace period, billing would be based on an initial MIC value derived using each DNO's individual approach.⁷ Under this approach, customers are afforded the opportunity in the 12 months following the change of measurement class to reduce their MIC value and have it applied retrospectively from the date of change of measurement class. After the 12-month grace period, the protection would cease and any further changes to the MIC will be in accordance with existing procedures. This protection is not provided to those customers who have signed a connection agreement in the last 12 months since they have already engaged with their respective DNO and agreed an appropriate MIC value. These customers will be able to change their MIC on completion of the twelve months (unless their Connection Agreement contains provisions to the contrary) with their revised MIC then reflected in future DUoS charges.

DCP248A

DCP248A proposes setting the MIC value to zero for a period of 12 months. Capacity charges would, in this period, be set on the basis of excess capacity charges based upon the customer's maximum demand for each month. This process would apply to all relevant customers, including those that have signed a connection agreement within the last 12 months. At the end of, or at any point within, the 12-month period, customers would be afforded the opportunity to agree a MIC value with the DNO, or the DNO will determine a MIC using the data available. This option would apply to all relevant customers, regardless of whether or not the DNO has a maximum demand or historically agreed MIC value for them. This proposal offers no retrospective credit or rebilling opportunity.

Consultation

The DCP248 workgroup consulted on DCP248 during November and December 2015. This consultation presented four options for consideration. Overall, there were 15 respondents to the consultation, six from DNOs (one from each DNO group company), two from independent DNOs (IDNOs) and seven from suppliers. The majority of responses supported one particular option (option 1) that forms the basis of DCP248, while some responses supported another option (option 3) that forms the basis of DCP248A. The remaining two options were not well supported and not taken forward as further alternates.⁸

The majority of respondents felt that both DCP248 and DCP248A better facilitate charging objectives 2, 3 and 4.

⁷ DNOs have proposed varying approaches for setting initial MIC values for CT metered sites affected by P272. Some DNOs are deeming a capacity based on customers' Maximum Demand (MD) data (ie not related to any MIC values held by them) while others are using the historic values they hold for the MIC at the site. Where no historic MIC values are available other alternative approaches are used, eg MD data and default values.

⁸ Of the remaining two options (options 2 and 4), no respondents supported option 2 and only one respondent supported option 4. Option 4 was regarded by the workgroup as overly complex with no additional benefit to customers and potentially discriminatory.

The consultation and the responses raised several issues:

The effectiveness of DCP248 and DCP248A relies on the degree to which customers are engaged in the process, so they are made aware of the implications of P272 and what actions they can take to ensure they have an appropriate MIC. Customer engagement has been difficult because the MIC is a value agreed between the DNOs and their customers yet most DNOs do not hold data for these customers. On the other hand, suppliers have contracts with their customers and therefore hold data relating to them. Consequently, it is likely that many customers may not have engaged with their respective DNOs as they may not have received the intended communications. Some suppliers have shared their customer migration plans with the DNOs. More access to the migration plans and sharing customer contact information would facilitate improved engagement with affected customers.

One DNO party objected to the proposals on the grounds that it has maintained accurate records of agreed MIC values for its customers even though MIC charges are not currently applied. This party considers that DCP248/DCP248A will create an unnecessary additional administrative burden on it and potentially create confusion.

Some respondents expressed concerns that, under DCP248, while end customers could seek a retrospective reduction in their MIC, and while there is no guarantee that suppliers would pass through those retrospective payments, any dispute that arises as a result thereof would be governed by the individual terms and conditions of their contract with their supplier.

DCUSA Parties' recommendation

The Change Declaration for DCP248 and DCP248A indicates that DNO, IDNO/OTSO, Supplier and DG parties were eligible to vote on the modifications. For the majority of the party categories that were eligible to vote, the sum of the weighted votes of the groups in each party category which voted to accept DCP248 was more than 50%. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP248 is accepted. For the majority of the party categories that were eligible to vote, the sum of the weighted votes of the groups in each party category which voted to accept DCP248A did not exceed 50%. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP248A is rejected. The outcomes of the weighted votes are set out in the tables below:

DCP248	WEIGHTED VOTING (%)							
	DNO ⁹		IDNO/OTSO ¹⁰		SUPPLIER		DG ¹¹	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	64%	36%	0%	100%	79%	21%	n/a	n/a
IMPLEMENTATION DATE	92%	8%	0%	100%	82%	18%	n/a	n/a

DCP248A	WEIGHTED VOTING (%)							
	DNO ¹²		IDNO/OTSO ¹³		SUPPLIER		DG ¹⁴	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	0%	100%	50%	50%	78%	22%	n/a	n/a
IMPLEMENTATION DATE	0%	100%	50%	50%	80%	20%	n/a	n/a

⁹ Distribution Network Operator

¹⁰ Independent Distribution Network Operator/Offshore Transmission System Operator

¹¹ Distributed Generation

¹² Distribution Network Operator

¹³ Independent Distribution Network Operator/Offshore Transmission System Operator

¹⁴ Distributed Generation

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 3 March 2016. We have considered and taken into account the vote of the DCUSA Parties on the proposal and the alternative proposal which is attached to the Change Declaration. We have concluded that:

- of the two options, implementation of modification proposal DCP248 will better facilitate the achievement of the DCUSA Charging Objectives than DCP248A,¹⁵ and
- directing that modification DCP248 be made is consistent with our principal objective and statutory duties.¹⁶

Reasons for our decision

The workgroup felt that DCP248 and DCP248A better facilitated DCUSA Charging Objectives 2, 3 and 4 and have a neutral impact in respect of the other DCUSA charging objectives. We have considered DCP248 and DCP248A against DCUSA Charging Objectives 2, 3 and 4 and set out our views below.

DCUSA Charging Objective 3.2.2 '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)'

The DCP248 workgroup generally agreed that a common approach when dealing with customers to agree an enduring MIC as set out by DCP248 and DCP248A will better facilitate this objective. Some workgroup members felt that competition is not better facilitated unless customers are provided with full details on their supplier energy bill.

There is no evidence to suggest that implementing this modification would adversely impact competition in the generation and supply of electricity or that it will restrict, distort or prevent competition in the generation and supply of electricity. However, no evidence was provided that it will facilitate this objective. On that basis, we consider that implementing either DCP248 or DCP248A is neutral in respect to this charging objective.

DCUSA Charging Objective 3.2.3 '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'

The majority of the workgroup agreed that both proposals better facilitate this objective by affording customers the opportunity to set a MIC appropriate for their needs rather than relying on previous, potentially outdated, connection agreements or default values. Provided all customers are migrated before April 2017, we agree with this assessment.

We note, however, that some customers may not be migrated by 1 April 2017. Under DCP248A, this may result in those customers having a MIC of zero and being subjected to excess capacity charges. From April 2018, when DCP161 takes effect, this would result in excess capacity charges higher than would be incurred if they had an appropriate MIC.

¹⁵ The DCUSA Charging Objectives (Relevant Objectives) are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

¹⁶ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

We also note that many, but not all, customers may already have MICs in place, although these may not necessarily be appropriate for them. Nevertheless, applying these MICs in the first instance, but providing an opportunity for retrospective adjustment, may result in charges more appropriate to those customers' needs than resetting the MICs to zero for a period of 12 months during which time a new MIC can be agreed.

Both proposals rely on the degree to which customers are engaged in the process. It is unfortunate that customer engagement has not been as good as we believe it could be and that some of the identified risks have arisen from a lack of cooperation between suppliers and DNOs in sharing customer contact details and migration plans. We believe that DCP248 is less reliant on customer engagement than DCP248A and, bearing in mind the difficulties experienced to date in this regard, we consider DCP248 better facilitates this objective compared to DCP248A.

The workgroup and consultation responses identified the risk that suppliers may not necessarily pass through any retrospective credits to their customers as provided for in DCP248. The workgroup concluded that this is outside DCUSA's sphere of control. We expect suppliers to pass any retrospective credit to their customers in accordance with the individual terms of their agreements with their customers. Overall, we consider that DCP248 better facilitates this objective compared to DCP248A.

DCUSA Charging Objective 3.2.4 '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'

DCP248 and DCP248A are a response to the implementation of P272 which requires all PC 5-8 customers to become HH settled where capable metering has been installed. This requires the assignment of a MIC for any site with a CT meter. Both DCP248 and DCP248A provide for this development in the DNOs' businesses.

We recognise that the MIC data held by DNOs varies considerably. One DNO, which has historically maintained records of agreed MIC values, even though MIC charges do not apply, considers these proposals unnecessary. However, we recognise that most DNOs are not in this position. A common solution is required to offer protection to customers.

Both DCP248 and DCP248A have been raised to provide protection to customers during the implementation of P272. However, DCP248 would likely mean moving more quickly to the MIC values required to underpin HH settlement. The move to HH settlement is also a development in the DNOs' business and so we consider that there is a reasonable likelihood that DCP248 better facilitates this objective.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP248 *'Providing protection for customers against being charged inappropriate capacity charges during the implementation of P272'*, be made.

Frances Warburton
Partner, Energy System Integration

For and on behalf of the Gas and Electricity Markets Authority and authorised for that purpose