ofgem Making a positive difference for energy consumers

Proposed variation:	**Distribution Connection and Use of System Agreement (DCUSA) DCP160 – Non-half hourly (NHH) notional capacity**		
Decision:	The Authority[1] has decided to reject[2] this modification[3]		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	18 October 2016	Implementation date:	n/a

Background

The Common Distribution Charging Methodology (CDCM) is based on an assumption that the incremental costs facing DNOs are determined by consumption at times of system simultaneous maximum load. The CDCM seeks to identify the costs imposed by customers at different voltages of connection at times of system peak to determine costs based upon capacity (kVA). The majority of costs in the CDCM are converted to unit charges (p/kWh) by reference to each tariff group's load characteristics (load and coincidence factors). Other costs, ie those at network levels at or near to the voltage of connection, are converted to capacity charges (p/kVA/day) for half hourly (HH) settled consumers, or fixed charges (p/MPAN/day) for non-half hourly (NHH) consumers. These charges are converted using aggregate capacities for both HH and NHH consumers.

The aggregate capacities for HH settled consumers are derived based upon their agreed maximum import capacities (MICs) whereas the aggregate capacities for NHH consumers are derived from their maximum demand.

The proposal argues that HH and NHH consumers are treated differently in that HH consumers pay for the costs of unused or spare capacity (the difference between their respective MICs and their actual maximum demands) whereas NHH consumers do not.

The modification proposal

DCP160 seeks to more closely align the treatment of HH and NHH consumers by determining a notional NHH capacity which includes a degree of unused or spare capacity comparable to the unused or spare capacity paid for by HH consumers.

DCP160 was raised by UK Power Networks Ltd on 8 January 2013. It proposes to introduce a notional spare capacity requirement to be applied to average maximum demand when calculating NHH tariffs. It proposes that for each NHH group the average maximum demand used in the calculation of charges should be increased by a factor to allow for spare capacity. The factor proposed is the ratio of the capacity and the maximum demand from a similar HH tariff.

The proposal was discussed by a working group and was subject to two industry consultations. Most respondents considered that the difference between agreed MICs and actual maximum capacities was 'reserved' rather than 'spare' capacity. They argued that they are guaranteed their agreed MIC and that they have the option to benefit from lower charges by reducing it. A minority of respondents did not agree with this rationale and considered the difference to be spare capacity or an unused allocation of contracted capacity.

[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] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] 'Change' and 'modification' are used interchangeably in this document.

Although the majority of respondents thought the calculation method proposed for the allocation of a notional capacity to NHH consumers was appropriate, several thought otherwise because:

- The ratio is not based on similar consumers and therefore their demand patterns are not comparable.
- NHH consumers do not have a choice about the capacity that will be allocated to them.
- It may result in NHH consumers being charged for a capacity that is much higher than the network has been designed for.
- It can create the perverse situation whereby the more that LV HH consumers reserve on the network, in excess of requirements, the more that NHH consumers will be charged which, in turn, may reduce charges for LV HH consumers.

While a minority of respondents considered the proposal better facilitates DCUSA charging objective 1 and/or 3, the majority of respondents considered that this proposal did not better facilitate any of the DCUSA Charging Objectives.

The working group's impact analysis indicated that for NHH consumers, including domestic consumers, the fixed charge component would increase by approximately £1 to £2 per year per MPAN for most consumers[4]. Capacity charges for LV HH metered consumers would fall.

DCUSA Parties' recommendation

The Change Declaration for DCP160 indicates that all parties were eligible to vote on DCP160. Votes were cast in the DNO, IDNO/OTSO and Supplier party categories (no votes were cast in the DG party category).[5] There was majority (>50%) support for the proposal and for its proposed implementation date from the DNO party category. The IDNO/OTSO and supplier parties voted against the proposal and its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP160 is rejected. The outcome of the weighted vote is set out in the table below:

DCP160	WEIGHTED VOTING (%)							
	DNO[6]		IDNO/OTSO[7]		SUPPLIER		DG[8]	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	66%	34%	0%	100%	25%	75%	n/a	n/a
IMPLEMENTATION DATE	79%	21%	0%	100%	25%	75%	n/a	n/a

While parties were largely supportive of the need for this type of change and the principles behind the change proposal, most did not feel that in its current state it better facilitated DCUSA Charging Objective 3. Reasons provided include:

- The proposal may not reflect the network planning process.
- HH unutilised capacity is considered reserved and should be paid for by those consumers who reserve it.
- The basis for determining the notional spare capacity for NHH consumers is not based on similar HH consumers.

They also felt other changes to the CDCM have been raised that largely alleviate the initial issue the proposer was trying to resolve and that this change is no longer necessary.

[4] For two DNO areas (ENWL and SPEN SPD) the change will be less than £1 and for one DNO area (SSEPD SHEPD) it will be just over £4 per year.
[5] There are currently no gas supplier parties.
[6] Distribution Network Operator
[7] Independent Distribution Network Operator/Offshore Transmission System Operator
[8] Distributed Generation

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 12 September 2016. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- Implementation of the modification proposal will not better facilitate the achievement of the DCUSA Charging Objectives.[9]

Reasons for our decision

We consider this modification proposal will not better facilitate DCUSA Charging Objective 3 and has a neutral impact on the other relevant objectives.

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

We have considered the concerns raised by respondents to the industry consultations and by members of the working group. We do not believe that this proposal has effectively addressed these concerns.

We have not been provided with sufficient evidence to conclude that unutilised capacity should be defined as either 'spare' capacity or 'reserved 'capacity. We agree that there are some differences in how the capacity is treated including:

- For HH consumers the MIC capacity is guaranteed whether or not they use it, whereas for NHH no such guarantee exists.
- HH consumers have an opportunity to lower their MICs and thereby reduce their charges whereas NHH consumers cannot.

These differences suggest to us that the difference between the MIC and the maximum utilised capacity for HH consumers is closer to a definition of 'reserved' capacity and that the MIC should therefore be subject to charging regardless of the actual utilised capacity. We agree with the majority of the consultation respondents that HH consumers are paying for unutilised capacity whereas NHH consumers are not. However, the opportunities that HH consumers have in this regard are not available to NHH consumers. This suggest to us that they should not be charged on a similar basis as set out in this proposal.

We consider that the Change Report does not demonstrate that network design for NHH consumers reflects a level of unutilised capacity for NHH consumers that is comparable to the unutilised capacity for HH consumers. We note the concern raised by one consultation respondent that the resulting notional NHH capacity could exceed that allowed for in the network's design. This could result in NHH consumers being charged for additional capacity that is not available to them. For these reasons we are not persuaded that the proposed additional charges on NHH consumers would more accurately reflect the costs they impose on the networks.

We also note the concern raised that this proposal could create the perverse situation whereby an increase in the HH unutilised capacity, eg by a fall in HH demand or an

[9] 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.

increase in the aggregate MIC, will result in an increase in charges for NHH consumers, which, in turn, will reduce capacity charges for HH consumers. We are not convinced that such an outcome can be regarded as more reflective of the costs imposed on the network.

Although we agree that unutilised capacity is treated differently for HH and NHH consumers we are not persuaded that the proposed solution better facilitates the DCUSA Charging Objectives.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification proposal DCP160: *Non-half hourly (NHH) notional capacity* should not be made.

Andrew Self
Head of Electricity Network Charging, Energy Systems
Signed on behalf of the Authority and authorised for that purpose