

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP311 – Clarification of NUF cap and collar calculations		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	17 July 2018	Implementation date:	1 April 2020

Background

DCP311 proposes to modify schedules 17 and 18 of the DCUSA, to address two issues:

- **Data:** the existing legal text is not clear regarding which years of data should be used when calculating Network Use Factor (NUF) caps and collars for use in the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM). This could lead to inconsistent practices between the DNOs.
- **Overlap:** a one-year overlap was built into the three-year average used to calculate cap and collar NUFs for 2023/24 to 2025/26 charges over the preceding three-year period which, in the Proposer’s view, should be removed.

NUFs determine the allocation of DNO costs and demand scaling to EDCM import tariffs (i.e. demand). The NUFs are subject to caps and collars to limit the impact of outliers.

The modification proposal

The proposal was raised by Northern Powergrid (‘the Proposer’), a DNO, in October 2017. It aims to rectify the two defects described above by replacing the current tables and text with what the Proposer considers are clearer and more future-proof definitions for cap and collar calculations. The Proposer considers that the proposal better facilitates relevant charging objectives one, three and six, and that it has a neutral impact on objectives two, four and five.

DCUSA Parties’ recommendation

In each party category where votes were cast (no votes were cast in the IDNO/OTOS, DG and Gas Supplier party categories),⁴ there was unanimous support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP311 is accepted. The outcome of the weighted vote is set out in the table below:

DCP311	WEIGHTED VOTING (%)									
	DNO ⁵		IDNO/OTOSO ⁶		SUPPLIER		DG ⁷		Gas Supplier	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
Change solution	100%	0%	n/a	n/a	100%	0%	n/a	n/a	n/a	n/a
Implementation date	100%	0%	n/a	n/a	100%	0%	n/a	n/a	n/a	n/a

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 There are currently no gas supplier parties.

⁵ Distribution Network Operator

⁶ Independent Distribution Network Operator/Offshore Transmission System Operator

⁷ Distributed Generation

Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 12 June 2018 and Change Report dated 11 April 2018. We have also considered and taken into account the vote of the DCUSA Parties on the proposal attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the Applicable DCUSA objectives;⁸ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.⁹

Reasons for our decision

We consider this modification proposal will better facilitate Applicable Charging Methodology Objectives one, three and six, and has a neutral impact on two, four and five.

First Applicable Charging Methodology Objective – that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider¹⁰ of the obligations imposed on it under the Act and by its licence

Consultation respondents and voting parties argued that this objective was better met because the proposal would ensure that DNOs would be able to comply with the legal text of the DCUSA by removing the inconsistencies and ambiguities in the existing text and creating greater clarity.

We agree with this reasoning. We also note that to maintain transparency and ease of access to cap and collar values, these will be referenced within the EDCM user manual rather than directly in the DCUSA schedules 17 and 18, as has been the case so far.

Third Applicable Charging Methodology Objective – that compliance with the Relevant Charging Methodology results in charges that, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by a Distribution Services Provider in its Distribution Business

Data

Data from the reference periods is used in the calculation of NUF caps and collars. The proposed change would ensure that the latest and most up to date available network data is always used when calculating the caps and collars. We agree with this position.

Overlap

Consultation respondents and voting parties argued that this objective was better met because the proposal would remove a year's overlap of the three-year reference period for charging years 2023/24 to 2025/26 with the reference period for the previous three charging years (aim 2).

⁸ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

⁹ 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.

¹⁰ Distribution Services Provider: 'means any Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence have effect (whether in whole or in part).'

We note that the Working Group consultation asked whether respondents knew of any reason for the current overlap of the three-year caps and collars reference periods (by one year), which was introduced in the legal drafting changes made to DCUSA for a previous modification proposal, DCP138.¹¹

None of the respondents were able to provide any reasons and one believed that the overlap was a legal drafting error. The Working Group considered that the overlap was unnecessary and needed to be corrected. We have not been provided with any reasoning for maintaining the overlap, and we therefore accept the Working Group position.

Correcting the overlap may alter the caps and collars for charging years 2023/24 to 2025/26. The Working Group highlighted that a quantified analysis of the impact of this change could not be completed because the NUFs for the full three-year reference period are not yet available, and hence the caps and collars cannot be calculated at present.

Instead, the Working Group carried out a qualitative impact assessment. Their findings were that the majority of customers would not be affected because their NUFs would fall between the cap and the collar. As NUFs only apply to demand charges, the impact on generation dominated customers would depend on their level of imports. For demand dominated customers with NUFs above the cap or below the collar value, a reduction in these values would reduce the customers' demand scaling, and vice versa.

Our position

We understand that the proposed change may have a potentially beneficial or adverse impact on customers for the specific period of 2023/24 to 2025/26. We do, however, note that two of the three reference years which are used for averaging would remain unchanged which is likely to limit the impact of the change.

Overall, we consider that by meeting both its aims, the change will improve cost-reflectivity as it would result in the most recently available data being used for the calculation of caps and collars *in all cases* (including for the period 2023/23 to 2025/26). We therefore consider that objective three is better met by the change.

Sixth Applicable Charging Methodology Objective - compliance with the Relevant Charging Methodology promotes efficiency in its own implementation and administration

Consultation respondents and voting parties considered that this objective was better met because the proposal would ensure that the legal text is unambiguous, and the calculation of caps and collars for the next round of tariff setting later this year for 2020/21 can be carried out efficiently. We agree with this reasoning; we consider that the proposed changes avoid the risk of inconsistent approaches by the DNOs when calculating NUF caps and collars.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP311: *Clarification of NUF cap and collar calculations* be made.

Chris Brown

Head of EST Strategy and Emerging Issues

Signed on behalf of the Authority and authorised for that purpose

¹¹ https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/dcp138_final_decision_letter_0.pdf