

Modification Proposal:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP234 – Merging the PCDM and extended PCDM</b>		
Decision:	The Authority <sup>1</sup> directs this modification <sup>2</sup> be made <sup>3</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	3 August 2016	Implementation Date:	1 April 2018

## Background

The distribution network in Great Britain consists of 14 distribution service areas (DSAs), each operated by a distribution network operator (DNO). There are some smaller networks within these DSAs, which are owned by licenced distribution network operators (LDNOs). An LDNO can be either an independent distribution network operator (IDNO) or a DNO operating outside of its own DSA.

The charges the LDNOs pay the respective DNOs to operate within their DSA are discounted to reflect the fact that the LDNO provides the 'last mile' of the distribution network. The discount factors are calculated using the Price Control Disaggregation Model (PCDM) for customers connected at high and low voltages and the Extended PCDM for customers connected at extra high voltage.

The PCDM and Extended PCDM models are used to calculate a percentage split between direct and indirect costs. This split is used to allocate costs between the DNO and the LDNO at the network level where the LDNO assets connect to the DNO network. Currently DNOs need to update both models to calculate the discounts that apply to LDNO tariffs. The methodologies which determine the discounts are contained in three separate places within the DCUSA, leading to duplication.

## The modification proposal

DCP234 seeks to replace the PCDM and extended PCDM models with one model and associated guidance. It also proposes to create a new schedule in DCUSA which contains the legal text relating to the calculation of discounts used in LDNO charging. This is currently contained in Schedules 16, 17 and 18. DCP234 was raised by Electricity North West Ltd.

The working group issued a consultation document in March 2016. There were seven responses to the consultation - six from DNOs and one from an IDNO. All supported the principle of DCP234.

## DCUSA Parties' recommendation

The Change Declaration for DCP234 indicates that all parties were eligible to vote on DCP234. In each party category where votes were cast<sup>4</sup>, there was unanimous support for the proposal and for its proposed implementation date. No votes were cast in the supplier and DG party categories and one vote was cast in the IDNO category. In accordance with the weighted vote procedure, the recommendation to us is that DCP234 is accepted. The outcome of the weighted vote is set out in the table below:

<sup>1</sup> 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.

<sup>2</sup> Change' and 'modification' are used interchangeably in this document.

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

<sup>4</sup> There are currently no gas supplier parties

DCP234	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO <sup>5</sup>		SUPPLIER		DG <sup>6</sup>	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	100	0	100	0	n/a	n/a	n/a	n/a

## Our decision

We have considered the issues raised by the proposal and the Change Declaration<sup>7</sup> and Change Report dated 17 June 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 facilitate the achievement of the DCUSA Charging Objectives<sup>8</sup> better; and
- directing that the modification be made is consistent with our principal objective and statutory duties<sup>9</sup>.

## Reasons for our decision

We consider DCP234 will facilitate DCUSA Charging Objectives 3.2.1 and 3.2.2 better and have a neutral impact on the other relevant objectives. We note that one respondent believes that this modification also has the potential to more easily enable changes to be brought forward to facilitate DCUSA Charging Objective 3.2.3, in the long run. Although this change may make it easier for parties to bring forward changes in the future this specific proposal has no material impact on charges and we therefore consider it to be neutral with respect to charging objective 3.2.3.<sup>10</sup>

### ***DCUSA Charging Objective 3.2.1 – that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence***

We agree with the views of the respondents and the working group on Charging Objective 1. DNOs will only need to populate one PDCM model to remain compliant with the DCUSA, and this will improve efficiency in the application of the charging methodologies. Consolidation of legal text relating to LDNO charging in a new schedule will simplify the governance process and make it easier for stakeholders to bring forward changes. We note that a model population guidance document has been issued to ensure that all DNOs populate the model on a consistent basis.

### ***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)'***

<sup>5</sup> Independent Distribution Network Operator/Offshore Transmission System Operator

<sup>6</sup> Distributed Generation

<sup>7</sup> The Change Declaration is dated 12 July 2016

<sup>8</sup> 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.

<sup>9</sup> 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.

<sup>10</sup> 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 also agree with respondents and the working group that DCP234 may make it easier for new market entrants to follow and understand the process of PDCM discounts. It will therefore promote competition in supply, generation and in provision of those distribution network activities carried out by LDNOs. However, the actual impact on competition would be very slight.

### **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP 234: *Merging the PCDM and extended PCDM* be made.

**Andrew Burgess**

**Associate Partner - Energy Systems Integration**

Signed on behalf of the Authority and authorised for that purpose