

DCUSA Direction

Direction issued by the Gas and Electricity Markets Authority (the Authority) to the holders of an electricity distribution licence in relation to the Significant Code Review under the Targeted Charging Review

On 4 August 2017 the Authority published a notice pursuant to Standard Licence Condition (**SLC**) 22 of the electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989 that it was commencing a Significant Code Review (**SCR**) under the Targeted Charging Review (**TCR**), setting out the scope of the SCR and the reasons why it considered it to be appropriate.

On 21 November 2019 the Authority published its conclusions on the TCR SCR (the **TCR Decision**¹). In that document the Authority indicated it was issuing a Direction to the holders of an electricity distribution licence² (the **DNOs**) in relation to the TCR SCR in respect of the raising of one or more DCUSA modification proposals to modify the Use of System Charging Methodologies in Schedules 16 to 18 of the DCUSA and associated provisions.

In accordance with paragraph 22.9E(a) of SLC C22 the Authority hereby directs the DNOs to raise one or more code modification proposals in the terms and for the reasons set out in the Annex hereto (the **Direction**). The Authority directs that the DNOs raise the necessary code modification proposal(s) in sufficient time to enable the modifications to be effective as of 1 April 2022.

This Direction³, together with the TCR Decision, constitute notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Andy Burgess

Deputy Director, Energy Systems Transition
Signed for and on behalf of the Authority
21 November 2019

¹ Further background to the TCR SCR can be found in the TCR Decision.

² Holders of an electricity distribution licence with section B of that licence in effect.

³ Unless the context otherwise requires, words or expressions in these Directions have the meaning ascribed to them in the DCUSA.

Annex

Direction issued to DNOs in relation to the TCR SCR

The Direction to bring forward proposals to modify the DCUSA is in relation to residual charges.

Reasons for the Direction

- 1) The reasons for the Direction are set out in the TCR Decision and the associated Impact Assessment and should be read in that context. Without prejudice to the generality of the reasoning set out in the TCR Decision and for ease of reference, we refer below to particular elements of that reasoning in relation to specific elements of the Direction.
- 2) In particular, the Authority considers for the reasons set out in Chapter 3 (Decision on Residual Charges) of the TCR Decision that proposals should be developed to reform the residual charging provisions.
- 3) These reforms are to ensure that network costs are recovered fairly from network users and to reduce harmful distortions which impact competition and the efficiency of the electricity market.

Terms of the Direction

- 4) The Authority hereby directs that the DNOs must raise one or more proposals to modify the DCUSA (the **Proposal(s)**) in accordance with the relevant terms specified below in sufficient time to enable the Proposal(s) to be effective as of 1 April 2022. The DNOs must not withdraw such Proposal(s) unless it has first obtained the Authority's consent to do so.
- 5) Consistent with the reasons for the Direction specified in the TCR Decision, the terms are intended to enable the DNOs and industry to bring forward relevant proposals to modify the DCUSA under the Proposal(s) with a view to addressing the respective issues identified below.

Issues: Residual Charges

- 6) The issues that are to be resolved with the reform of the residual charges as they relate to consumers subject to distribution use of system (DUoS) residual charges are explained in Chapter 3 of the TCR Decision (Decision on Residual Charges) in particular, paragraphs 3.3 to 3.5.
- 7) Residual charges are levied once forward-looking charges have been applied, to recover the remaining allowed revenue for network companies set under the Authority's price controls. Under the current charging system, there are incentives to reduce exposure to residual charges. One of the actions that a network user can take to reduce exposure is through installing and usage of on-site generation. Residual network charges can distort investment and operational decisions and in so doing increase system and consumer costs.

There is also an adverse effect on consumers when charges fall increasingly on users who are least able to change their energy usage, for example those who do not have on-site generation.

- 8) In summary, the issue is to ensure that network costs are recovered fairly from network users, in a way which reduces harmful distortions.
- 9) These issues relate to the furtherance of the Applicable DCUSA Objectives, as provided in SLC 22.2.
- 10) There may be circumstances, in particular for EHV-connected consumers, where regional differences in consumer types lead to substantially different distributions of consumers in a DNO region and result in very low consumer numbers in some bands. Therefore, it is considered desirable that consideration is given to whether alternative options can be developed to address this.
- 11) There may be circumstances in which there is merit in consumers being reallocated to a different residual charging band. For example, where there has been a significant change in use. Therefore, the Authority considers it desirable that consideration is given to the need for an exceptions process to enable consumers to apply for reallocation to a different charging band.

Terms: Residual charges

- 12) The Proposal(s) must set out:

Final demand

- 13) that applicable residual charges must be applied to final demand consumers only.
- 14) the definition of 'final demand' is as follows "*Final Demand means electricity which is consumed other than for the purposes of generation or export onto the electricity network*". Therefore, generation only and storage only sites will not pay residual charges.

Single site

- 15) that the residual fixed charge is to be levied on a single site basis.
- 16) the definition of 'site', having regard to paragraph 3.54 (10) of the TCR Decision.

Fixed charge – distribution-connected consumers

- 17) that there will be a single fixed DUoS residual charge for domestic LV-connected consumers; and

18) that there will be a set of single fixed DUoS residual charges for distribution-connected consumers within each of the following distribution-connected groups (except unmetered supplies):

- a. EHV-connected consumers;
- b. HV-connected consumers;
- c. Non-domestic LV-connected consumers with an agreed capacity as the basis for their current charge; and
- d. Non-domestic LV-connected consumers without an agreed capacity.

19) the fixed DUoS residual charge that will apply to consumers within each of the above groups will be determined by reference to the charging band to which they are allocated as set out in paragraph 20 below.

Charging bands– non-domestic distribution-connected consumers

20)

- a. that there will be four charging bands for each of the non-domestic distribution-connected consumer groups (set out in paragraph 18 a. to d. above), the boundaries for which will be set at the 40th, 70th and 85th percentiles; and
- b. that the percentiles for each band boundary will be determined by consumer numbers on a GB-wide basis on the basis of:
 - i. increasing agreed capacity levels for consumers connected to the EHV and HV distribution networks and LV-connected consumers with an agreed import capacity; or
 - ii. increasing net consumption volumes for LV-connected consumers without an agreed capacity.

21) that the band boundaries for distribution-connected consumers will be established on a GB wide basis and consumers will be allocated to bands based on industry agreed capacity where available, or final consumption data, as applicable. In setting and allocating users to charging bands, regard must be had to paragraph 3.54(9) of the TCR Decision relating to redundant connection capacity.

22) that the data to be used for consumer allocation will relate to and be averaged over a period of no less than 24 months prior to the setting of the applicable residual charges, or longer if the requisite data can be made readily available at proportionate cost.⁴ For any consumers for whom data is not available for a period of 24 months, the process for new consumers in paragraph 23 below is to be followed.

23) that a process must be established to allocate 'new' consumers and consumers for whom the appropriate data is not available to be the relevant charging band, based on an assessment of their agreed capacity or consumption, as applicable. The process shall make use of such information as is available to best estimate the expected usage of the

⁴ Based on data aggregation needs currently outlined in the Balancing and Settlement Code.

consumer, e.g. by taking an average of all of the data that is available, or based on an understanding from such sources as are considered appropriate of the typical profile of a similar consumers.

Unmetered

24)that DUoS residual charges for unmetered consumers will be derived considering their net consumption volume or agreed capacity on the basis of their 'profiled' demand and the applicable charging methodology.

Allocation of DUoS residual charges

- 25) that applicable residual charges for each licensed area for consumers are allocated to the different voltage levels, according to the total net consumption volumes of all consumers at each voltage level.
- 26) that residual charges for each voltage level are allocated further to charging bands according to the total net consumption volumes for all consumers in each charging band.
- 27) that the allocated proportion of the residual charges for each charging band is divided equally among all consumers in that band with all consumers in a charging band paying the same level of fixed charge.
- 28) that allocation to unmetered supply will be by net volumes.

Disputes

- 29) an appropriate process to manage any disputes in relation to consumers' residual charges, using and building upon (as necessary) any disputes processes already in place in the relevant industry code(s) and ensuring that the process should be efficient and proportionate. In developing the process, the DNOs must consider any data which may be needed to support this process and ensure the process has clear interfaces with such other processes as may be relevant.

Further arrangements

- 30) appropriate arrangements to develop the following:
- a. the frequency and relevant units of the fixed charge, considering a proposal of a pence/site/day structure;
 - b. the mechanism to identify which sites should be classified as final demand for the purposes of determining residual charges. In doing so, the DNOs must have regard to paragraph 3.55(2) of the TCR Decision;
 - c. any consequential changes that may be required in relation to residual charges for Independent Distribution Network Operators (IDNOs), consumers connected to private wire and complex sites, noting that the Authority expects that the IDNO charging regime (which operates via a Relative Price Control) to continue to function as it does today; and
 - d. the systems and processes to implement the Proposal(s). In doing so, the DNOs must have regard to paragraph 3.55(4) of the TCR Decision.

Reviewing charging bands

- 31) appropriate arrangements to review the charging bands to ensure they remain fit for purpose, reflecting the requirements set out in paragraph 3.54(11) and 3.57 to 3.58 of the TCR Decision.

Specific issues for the DNOs to consider

- 32)

- a. an assessment of whether there may be circumstances, in particular for EHV-connected consumers, where regional differences in consumer types lead to substantially different distributions of consumers in a DNO region and result in very low consumer numbers in some bands (having regard to paragraph 3.56(1) of the TCR Decision); and
- b. if this is found to be the case, develop and bring forward alternative modification proposals for options to address this, which could include:
 - i. regionally-derived boundaries, rather than GB-wide boundaries; or
 - ii. combining bands when a minimum number of consumers would be in a particular band.

33) such alternative modification proposals as it considers necessary following consideration of whether there should be mechanisms available for dealing with situations where there have been changes in use or ownership of a site. This should include an exceptions process to apply for reclassification of a user to another band in tightly defined circumstances, where substantial changes in usage occur, resulting in significant changes in the level of agreed capacity required (having regard to paragraph 3.56(3) of the TCR Decision).

General requirements

34) In preparing the Proposal(s), the DNOs must:

- a. work and cooperate with NGENSO (who are subject to a similar direction to bring forward a proposal to modify the Connection and Use of System Code (CUSC) to give effect to the TCR Decision (the CUSC Direction)) to ensure that a consistent approach is taken to issues or matters common to both Directions and to facilitate the timely progression of their respective code modifications proposals. Issues or matters common to both Directions include, but are not limited to i) final demand; ii) single site; and iii) the review of charging bands. Such co-operation might include (but would not be limited to) participation in the working groups for the modification proposals being developed under the respective Directions;
- b. include such modifications to Section 1A (Definitions and Interpretation) of DCUSA and any other associated provisions as required as a result of the Proposal(s); and
- c. have regard to (and to the fullest extent practicable comply with) the SCR Decision Principles as defined in paragraph 3.50 of the TCR Decision.

35) In order to ensure that the Proposal(s) is / are capable of implementation by 1 April 2022, the Authority directs the DNOs to present a detailed plan, no later than 21 December 2019 or such later date with the approval of the Authority, setting out how it intends to work with other DNOs, NGENSO and other relevant industry stakeholders to ensure that the Proposal(s) is / are submitted to the Authority (for decision) in good time to allow for implementation of the relevant code modifications by 1 April 2022.

Miscellaneous Terms

- 36) For the avoidance of doubt, the Proposal(s) put forward by the DNOs pursuant to this Direction are intended to facilitate and not preclude (a) any further consideration of the relevant issues; and / or (b) development of the Proposals under the DCUA Modification Process so that it addresses the issues identified above in a way that better achieves the purposes and objectives of the Proposal(s) as set out in this Direction.
- 37) In addition to the Proposal(s), the DNOs must raise any such consequential proposals for modification to the DCUSA or other industry codes (to the extent the DNOs are able to raise modifications to such codes), as are required for the purpose of giving effect to the proposals specified above.
- 38) Modification proposals developed pursuant to this Direction must serve the TCR SCR objectives and relate to the specific issues the TCR SCR seeks to address.
- 39) In order to keep the Authority apprised of progress under this Direction (in particular, but not limited to progress against the detailed plan referred to in (paragraph 35 above), the Authority directs the DNOs to advise it (in a timely manner) of potential issues arising which could prevent the Proposal(s) being effective as of 1 April 2022 along with information as to its proposed steps to address any such issues.