

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP139 – Non-Application of FCP charge for Category 0000 Customers		
Decision:	The Authority ¹ directs that proposal DCP139 should not be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	6 December 2012	Implementation Date:	n/a

Background to the modification proposal

The EHV Distribution Charging Methodology (EDCM) for import is used by the Distribution Network Operators (DNOs) to calculate the distribution use-of-system (DUoS) charges to be paid by higher voltage demand customers. The EDCM charges for import are made up of two main components. There is a component based on the assets that each customer uses. For this component, all DNOs use Network Use Factors (NUFs)³ to calculate a site site-specific component. The other is a locational component based on the cost of future reinforcements. For the locational component, the DNOs use one of the two following methods to calculate these charges -

- Some DNOs use the Long-Run Incremental Cost (LRIC) method. This uses site specific data (as for NUFs), and models the flows caused by each customer through the network.
- The other DNOs use the Forward Cost Pricing (FCP) method. This models the network as a series of zones (unlike for NUFs), with each zone containing a group of customers and assets.

FCP works on the principle that any customer in a zone could trigger reinforcement and that all customers in that zone would benefit from the reinforcement. On this basis, the DNOs that use FCP argue that all customers should pay charges related to these reinforcement costs. They have stated that they think that this is appropriate because the zonal approach mirrors the approach to network planning. They argue that reinforcements are built based on the needs of a zone, so costs should be allocated on a zonal basis rather than on a site-specific basis. However, some parties think that this is inappropriate, and argue that the EDCM model should use the same (i.e. site-specific) assumptions for both components of the charge. Furthermore, they argue that the difference introduces inconsistencies that result in some customer categories receiving non-cost-reflective charges.

The modification proposal

This modification proposal (DCP139) was raised by British Gas (the proposer) on 9 July 2012. It seeks to remove the FCP locational charge from a certain category of customers called 0000 ("quad-zero") customers within the methodology. This category represents those customers that are connected directly to a Grid Supply Point (GSP; a substation that links the transmission network to a distribution network). The proposer argues that the FCP charge for 0000 customers is not cost-reflective and that the charge is based on an inconsistency in the FCP version of the EDCM.

Paragraph 13.10 of Schedule 17 to the DCUSA states: "Category 0000 demand Connectee are deemed not to use any network assets other than sole use assets". This refers to the calculation of NUFs. It means that 0000 customers are charged for this

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ A Network Use Factor (NUF) compares how much an EDCM demand customer uses a particular network asset compared to the average Common Distribution Charging Methodology (CDCM) customer, and allocates the costs accordingly.

element on the assumption that they use no shared-use network assets. However, the FCP part of the methodology applies a locational FCP charge to 0000 customers, which implies that they would be (partly) responsible for, and would benefit from, reinforcement work at their level of the network. The proposer believes that this difference between the approach to NUFs and FCP for 0000 customers is inconsistent. DCP139 proposes that 0000 customers should not pay the FCP locational charge.

The proposer believes that DCP139 will better facilitate DCUSA Charging Objectives 3.2.3 and 3.2.4,⁴ and DCUSA General Objective 3.1.1.⁵ The proposer considers that removing the FCP charge from 0000 customers would better facilitate DCUSA charging objective 3.2.3, and DCUSA General Objective 3.1.1, by improving the cost-reflectivity of the charges. The proposer considers this would be achieved: for 0000 customers, by removing what it considers to be an inappropriate charge; and for other EDCM customers taken in aggregate, because the amount of revenue recovered would align more closely with the amount of revenue that they attract to the EDCM revenue pot. The proposer also suggests that this issue may have been an oversight during implementation of the methodology and that DCUSA charging objective 3.2.4 could therefore be better facilitated, by allowing DNOs to take account of this issue.

This issue was raised during the assessment process for DCP109, 'Implementation of the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM)'. We noted in our decision letter that the status of 0000 customers is the type of issue that could be raised for consideration under open governance.⁶

A Working Group was established to develop and assess the change proposal. A consultation was issued in August 2012. All respondents indicated that they understood and supported the intent of the proposal. Respondents were however split in their views on whether the proposal would better facilitate the DCUSA Objectives. Some said that DCP139 would not better facilitate the DCUSA Charging Objectives; others considered that it would better facilitate combinations of DCUSA Charging Objectives 3.2.1, 3.2.3 and 3.2.4, and DCUSA General Objectives 3.1.2 and 3.1.3.

DCUSA Parties' recommendation

The Change Declaration for DCP139 indicates that DNO, IDNO/Offshore Transmission System Operator (OTSO), Supplier and Distributed Generation (DG) parties were eligible to vote on DCP139. In the DNO category, there was unanimous rejection of the proposal and its proposed implementation date. In the supplier category, there was majority (>50%) support for the proposal and its proposed implementation date. No votes were cast in the IDNO and DG categories. In accordance with the weighted vote procedure, the recommendation to us is that DCP139 is rejected. The outcome of the weighted vote is set out in the table below:

DCP139	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	0	100	n/a	n/a	67	33	n/a	n/a
IMPLEMENTATION DATE	0	100	n/a	n/a	67	33	n/a	n/a

⁴ The DCUSA Charging Objectives are set out in Part A of standard licence condition 22A of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

⁵ The DCUSA General Objectives are set out in Part A of standard licence condition 22 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

⁶ Decision letter on DCP109 - Implementation of the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM):

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=73&refer=Licensing/ElecCodes/DCUSA/Changes>

Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 1 November 2012. We have also reviewed 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 change proposal DCP139 will not better facilitate the achievement of the DCUSA Charging Objectives.

Reasons for our decision

The Change Report states that some members of the Working Group do not believe that DCP139 better meets the DCUSA objectives. However, other members of the Working Group consider that it better facilitates DCUSA General Objective 3.1.3 and DCUSA Charging Objective 3.2.3.

This section provides our reasons for rejecting the change proposal against the DCUSA Charging Objectives which, in our view, are relevant to our decision. We consider that the proposal is neutral in relation to the other DCUSA Charging Objectives. As the proposed change is restricted to the EDCM, we do not consider the DCUSA General Objectives to be relevant to our decision.

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

Some members of the Working Group believe that DCP139 better facilitates this objective by improving the cost reflectivity of charges to customers. However, the DNOs that use FCP say that 0000 customers are partly responsible for reinforcement at this network level. They therefore conclude that it is cost-reflective for 0000 customers to pay the FCP charge.

We do not think it has been demonstrated that the approach proposed in DCP139 would necessarily result in more cost-reflective charges. In particular, it is not clear that simply removing the FCP charge in its entirety from 0000 customers will give more cost-reflective charges. This approach gives no consideration of the extent to which a 0000 customer actually drives reinforcement of the assets at its network level. For example, the networks are designed in order to provide the level of security of supply that is required by the P2/6 planning standard.⁷ Therefore, under certain outage conditions, as well as some normal running conditions, a 0000 customer would use network assets other than those that connect it directly to the GSP. By extension, a 0000 customer contributes to the need for future reinforcements (that are needed in order to maintain the required security of supply) and should also arguably contribute to these costs along with other customers. We also note that there are some cases of “meshed” networks where assets are operated in parallel, so it is not a straightforward matter to say that a particular 0000 customer does not use particular assets. For example, a 0000 customer might routinely draw power from two GSPs if there is a circuit linking them.

For these reasons, it is not clear to us that the proposal is more cost reflective than the status quo.

Also, we note the view that DCP139 would improve the cost-reflectivity of charges for other EDCM customers in aggregate. The proposer argues that this is because their charges would reflect more closely the amount that they attract to the EDCM revenue

⁷ Available from the Energy Networks Association (ENA).

pot, i.e. certain costs that the DNO attributes to EDCM generators. This would only be the case if the method used to derive the pot were more cost-reflective than the method used to allocate it. This has not been demonstrated. We would agree that it would be helpful if the same approach were used for calculating the revenue pot and for allocating it amongst customers' charges.

On balance, and based on the evidence presented to us, we do not consider that the proposal better facilitates this objective.

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

The proposer stated - and this was echoed by some other parties - that DCP139 would better facilitate this objective by allowing the DNOs to take account of the inconsistency and hence to remove incorrect charges.

We interpret this objective as referring to major changes that will affect the DNOs businesses, e.g. the impact of significant uptake of a new technology or a large change in consumers' use of the networks. Therefore, we consider that the proposal is neutral in respect to this objective as it does not relate to a development in the DNOs' businesses.

Further thoughts

The fact that the FCP approach is different to the NUF approach is intentional. FCP is based on different principles, and reflects the views of some DNOs that FCP is the appropriate approach to allocating reinforcement costs. The treatment of 0000 customers is not a "discrepancy" between FCP and the NUFs, but is part of this difference in approaches. In our view, to make changes to FCP on the grounds of removing the difference between FCP and the NUF approach (e.g. as proposed by DCP139) would constitute a decision to alter some of the principles of FCP. If such changes are made to the approach of FCP, they should only be made after consideration of the wider issues and implications. Some of these wider issues were raised by the Working Group, as discussed below.

The Working Group said that the arguments could be extended to other customer categories, and not just 0000 customers. The Working Group considered that there were other customer categories (classified according to their position on the network) that could also be deemed to use no (or low amounts of) assets at particular network levels. Some Working Group members saw this as evidence that FCP could be improved more generally; others saw it as evidence that DCP139 challenged the principles of FCP. The Working Group felt that this wider issue should be investigated, but that it was beyond the scope of DCP139. We understand that this issue has been raised with the Methodologies Issues Group (MIG), and will be considered in due course. Some members of the Working Group said that DCP139 should be implemented as soon as possible, but others said that changes should not be made for one customer category until the wider issue has been considered and a comprehensive solution (if appropriate) could be implemented.

The Working Group also noted certain related issues that could be considered by the MIG. These included differences between the demand from which the FCP charge is calculated and how the FCP charge is levied.

We think that it is appropriate for the MIG to consider all customer categories that have been raised in the Working Group, and also the related issues. This might lead to a

change being proposed which includes other customer categories, and which assesses the cost-reflectivity of the proposed changes in charges across all customers.

The Working Group noted that DCP139 was designed to address an issue for a small number of customers. It discussed concerns that a “piece-meal” approach to modifications could introduce inconsistencies in the charging models. However, it felt that other modifications had been proposed that would amend the methodology for some customers but not others. It cited the example of DCP130, *‘Removing the inconsistency between HH UMS and NHH UMS tariffs’*. We consider that this comparison is not correct. DCP130 has come from the MIG 22 Working Group⁸ that has considered the wider issue of the difference in charges for all customer types that settle half-hourly as opposed to non-half-hourly. The MIG 22 Working Group is seeking to develop solutions for all affected customers. DCP130 is one part of that overall approach, and other modification proposals could be drawn up in due course. We consider that a similar approach would be appropriate for considering further the issues that have been raised by this change proposal.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP139: *‘Non-Application of FCP charge for Category 0000 Customers’* should not be made.

Andy Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose

⁸ The MIG 22 Working Group was established by the MIG to consider issues with half-hourly (HH) and non-half-hourly (NHH) CDCM tariffs.