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|------------------------|---|----------------------|-----|
| Proposed modification: | <b>Distribution Connection and Use of System Agreement (DCUSA) DCP158 and DCP158A – DNO DUoS re EDNOs</b> |                      |     |
| Decision:              | The Authority <sup>1</sup> has decided to reject modification DCP158 and DCP158A <sup>2</sup>             |                      |     |
| Target audience:       | DCUSA Panel, Parties to the DCUSA and other interested parties  |                      |     |
| Date of publication:   | 5 February 2014   | Implementation Date: | n/a |

## Background to the modification proposal

On 10 November 2011 the Gas and Electricity (Internal Markets) Regulations<sup>3</sup> (the Regulations) came into force. The Regulations enabled certain customers connected to Distribution Exemption Holders<sup>4</sup> (DEHs') networks to choose their electricity supplier.<sup>5</sup>

Distribution Network Operators (DNOs) recover the costs of running their network by charging suppliers Distribution Use of System (DUoS) charges. DNOs use customers' consumption data in calculating their charges. Customers on DNO networks have meters that enable the DNOs to calculate these charges. Customers on DEH networks have meters which enables the DEH to calculate their electricity consumption but this information is not available to the DNO.

In order for the DNO to calculate DUoS charges for the supplier of a DEH's network there is usually a meter at the boundary between the DNO and the DEH. The DNO will use this to measure consumption for the entire DEH's network in order to calculate the DUoS for the Supplier to the DEH's network.

However, where a customer on a DEH's network is able to contract with a Supplier of their choice a different set of arrangements come into effect. DNOs are required to provide these customers with a metering point administration number (MPAN) and offer metering point administration services. Consequently a meter would be installed, which amongst other things, would enable the DNO to calculate DUoS charges for a third party supplier.

## The modification proposal

DCP158 was raised by UK Power Networks (UKPN) (the "proposer"). DCP158A was raised by Electricity North West Limited (ENWL). They seek to standardise the charging arrangements for DNO DUoS in the scenario where a customer connected to a DEH's network chooses to use a third party supplier.

DCP158 and DCP158A are described briefly below. More detail on both options is provided in the Change Report.<sup>6</sup>

Under DCP158 the DNO would apply a total DUoS charge, as measured by a non-settlement MPAN located at the boundary between the DNO and the DEH, to the DEH's

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

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

<sup>3</sup> Gas and Electricity (Internal Markets) Regulations SI 2011/2704

<http://www.legislation.gov.uk/ukpga/2000/27/contents>

<sup>4</sup> Distribution exemption holder is defined under section 64 of the Electricity Act 1989 as "a person who (a) is distributing electricity for the purpose mentioned in 4(1)(bb) of the Electricity Act 1989; and (b) is authorised to do so by an exemption".

<sup>5</sup> Prior to the Regulations coming into force, these customers were only able to receive their electricity from the owner of the network to which they are connected (the DEH). For example, in the case of a newsagent in an airport this may be the airport operator.

<sup>6</sup> <http://www.dcusa.co.uk/Extranet/CP.aspx?id=179>

Supplier. Any third party suppliers serving customers on the DEH network would not receive a DUoS Charge from the DNO.

The DEH's Supplier would then pass the DNO's DUoS charges on to the DEH (as they would today). Using data from the individual MPAN(s) located at the premises of customers seeking third party supply, the DEH's Supplier would be able to provide the DEH with an additional data set that would subtract the consumption of these customers from the gross DUoS charges.

The DEH could then decide whether to pass through (or absorb) the DUoS charges incurred by customers using a third party supplier. However, any decision to pass these charges through would be implemented outside the DEH's use of system charging methodology for their own network.<sup>7</sup>

DCP158A differs from DCP158 in that the DNO would charge the DEH's Supplier based on the electricity consumption of the DEH net of any consumption by customers using a third party supplier. In addition, the DNO would charge third party suppliers serving customers on the DEH's network. The DNO would calculate DUoS charges for these customers using the consumption values associated with the customers' MPANs. The third party suppliers would recover these costs from their customers directly.

DCP158 and DCP158A would apply to both existing and new DEH connections to a licensed distributor's network.

### DCUSA Parties' recommendation

The majority of DNOs and IDNO/OTSO's who voted, voted to accept DCP158 and to reject DCP158A. A majority of the electricity suppliers who voted rejected DCP158 and DCP158A. In accordance with the weighted voting procedure, the recommendation to us is that both DCP158 and DCP158A be rejected. The outcome of the weighted votes are set out in the tables below:

| DCP158              | WEIGHTED VOTING (%) |        |           |        |          |        |        |        |              |        |
|---------------------|---------------------|--------|-----------|--------|----------|--------|--------|--------|--------------|--------|
|                     | DNO                 |        | IDNO/OTSO |        | Supplier |        | DG     |        | Gas supplier |        |
|                     | Accept              | Reject | Accept    | Reject | Accept   | Reject | Accept | Reject | Accept       | Reject |
| CHANGE SOLUTION     | 91%                 | 9%     | 100%      | 0%     | 40%      | 60%    | n/a    | n/a    | n/a          | n/a    |
| IMPLEMENTATION DATE | 91%                 | 9%     | 100%      | 0%     | 20%      | 80%    | n/a    | n/a    | n/a          | n/a    |

| DCP158A             | WEIGHTED VOTING (%) |        |           |        |          |        |        |        |              |        |
|---------------------|---------------------|--------|-----------|--------|----------|--------|--------|--------|--------------|--------|
|                     | DNO                 |        | IDNO/OTSO |        | Supplier |        | DG     |        | Gas supplier |        |
|                     | Accept              | Reject | Accept    | Reject | Accept   | Reject | Accept | Reject | Accept       | Reject |
| CHANGE SOLUTION     | 9%                  | 91%    | 0%        | 100%   | 20%      | 80%    | n/a    | n/a    | n/a          | n/a    |
| IMPLEMENTATION DATE | 9%                  | 91%    | 0%        | 100%   | 20%      | 80%    | n/a    | n/a    | n/a          | n/a    |

### Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 23 December 2013. We have considered and taken into account the vote of the DCUSA Parties on the proposal.

DCP158 and DCP158A propose to make changes to Schedules 16 and 17 of the DCUSA as well as other elements of the agreement. We have therefore considered DCP158 and

<sup>7</sup> DEHs can only use the methodology to calculate charges for the use of their own network.

DCP158A against the General DCUSA Objectives<sup>8</sup> and the DCUSA Charging Objectives as applicable. We have concluded that implementation of the change proposal DCP158 or DCP158A will not better facilitate the General DCUSA Objectives or the DCUSA Charging Objectives.<sup>9</sup>

### **Reasons for the Authority's decision**

We have assessed the proposals against DCUSA General Objective 3.1.1 and DCUSA Charging Objectives 3.2.1 and 3.2.2 below. We consider that the proposals have a neutral impact on the other objectives.

#### **DCUSA General Objective 3.1.1 – the development, maintenance and operation by each of the DNO Parties and IDNO (Independent Distribution Network Operator) Parties of an efficient, co-ordinated, and economical Distribution System**

The proposer considers that general objective 3.1.1 would be met by ensuring that standard charging practices are in place following the introduction of the Regulations.

We agree with the proposer on the importance of developing a standard process for the allocation and recovery of DNO's DUoS costs incurred by DEH customers using a third party supplier. Once a customer on a DEH network decides to choose their own Supplier all parties should know from the outset how DNO DUoS charges will be recovered. The alternative of developing charge recovery processes on an ad hoc basis is unlikely to lead to a more efficient, co-ordinated, and economical Distribution System.

However, we have a number of concerns regarding the proposals. We note that both the DCP158 and DCP158A processes would require an increase in the number of data sets and forms to be exchanged. They would also modify the use of some industry forms or require information specific to DEH networks to be included on generic industry forms. This will increase the administrative burden on all parties and could potentially be disproportionate and introduce greater scope for error.

We note that the DCUSA working group tried to involve a number of DEHs, but that only two DEHs were involved in the consultation process. If approved, the proposal will affect a wide variety of DEHs, including small networks such as caravan sites and housing associations as well as large networks such as ports and airports. Due to the limited involvement to date with DEHs, we are concerned about introducing new obligations when those affected may be unaware of the changes and their likely impact.

The proposer considers that general objective 3.1.1 would be better met by ensuring a consistent approach is adopted across different DEH and DNO networks. We accept this premise and support the intent of the change proposals. However, we consider that processes that are put in place should be clear and simple to implement, and it has not been demonstrated to us that this is the case for these proposals. Therefore we consider that general objective 3.1.1 would not be better facilitated.

#### **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**

The working group considered that DCP158 and DCP158A would better facilitate charging objective 3.2.1 because the proposals seek to address issues where the DUoS billing and

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<sup>8</sup> The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

<sup>9</sup> This decision will not prevent customers connected to a DEH's network seeking supply from a third party.

formal data provision arrangements currently in place may not be sufficient for DEH networks where a different metering system has been adopted.

As noted above we consider that both DCP158 and DCP158A would increase the scope for error and the administrative burden on all parties. Therefore, we consider that charging objective 3.2.1 would not be better facilitated by the introduction of either DCP158 or DCP158A.

**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)**

The Working group considered that DCP158 and DCP158A better facilitate 3.2.2 and noted that one reason the Regulations were introduced was to increase competition by allowing customers connected to DEH's networks to choose their supplier.

As noted above there is an increased administrative burden associated with DCP158 and DCP158A. We consider that this might disincentivise some suppliers from agreeing to supply customers on DEHs' networks. These burdens could reduce competition to supply these customers. We consider this means that charging objective 3.2.2 would not be better facilitated.

**Additional Comments**

We support the intention of DCP158 and DCP158A but we consider it is important that that the main parties affected by the proposals are sufficiently involved in their development. We recognise that the owner of a number of DEH networks was represented on the working group and that two owners of DEH networks participated in the consultation process. Further, we recognise that the working group raised this change proposal with a number of DEH holders by writing to them. However, we consider more involvement with a wider number of DEHs would be beneficial in developing a standard process.

In our decision on DCP124<sup>10</sup> we noted that an industry forum should be established to develop standard connection terms to apply to DEHs who do not have a valid bilateral agreement in place. We further noted that this body should also consider the wider ramifications of the introduction of competition in supply on DEH's networks on the DCUSA and other industry agreements. A date for the first meeting of this forum is currently being established. We consider that the issues associated with DCP158 and DCP158A could be discussed further in this forum. Parties can express an interest in attending this industry forum by sending an email to: [licence.exempt@ofgem.gov.uk](mailto:licence.exempt@ofgem.gov.uk).

**Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification proposal DCP158 and 158A: '*DNO DUoS re EDNOs*' should not be made.

**Andrew Burgess**

**Associate Partner, Transmission and Distribution Policy**

Signed on behalf of the Authority and authorised for that purpose

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<sup>10</sup> This modification sought to place standard connection terms, as set out in the National Terms of Connection, on DEHs who do not have a bilateral connection agreement in place with a DNO. Our decision can be found at this link: <https://www.ofgem.gov.uk/ofgem-publications/84504/dcp124decision15november2013.pdf>