



## **DCUSA CONSULTATION**

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### **DCP 161 – Excess Capacity Charges**

## **1 PURPOSE**

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators.
- 1.2 Parties to the DCUSA can raise a DCUSA Change Proposal (“DCP”) to amend the Agreement. DCPs should better facilitate the DCUSA General Objectives and/or Charging Objectives of the DCUSA document.
- 1.3 Amendments to DCUSA may only be made with the consent of a majority proportion of Parties to the DCUSA, through a voting process, or (where applicable) the Gas and Electricity Markets Authority (GEMA).
- 1.4 This document is a consultation issued in accordance with Clause 11.14 of the DCUSA and seeks industry views on Change Proposal DCP 161 – Excess Capacity Charges.
- 1.5 The Consultation has been issued to DCUSA Parties, DCMF Distribution List and Ofgem.
- 1.6 Parties are invited to consider the Change Proposal detailed in this consultation and submit comments using the form attached as Attachment C to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **22 November 2013**.

## **2 INTENT OF DCP 161 – EXCESS CAPACITY CHARGES**

- 2.1 DCP 161 has been raised by Electricity North West and the intent of this proposal is to improve the cost reflectivity of the excess capacity charge calculation within the CDCM and EDCM by removing the customer contributions and adding in any additional costs that should be attributed to this charge. The Proposer would also like to be considered on applying the excess capacity charge on either a monthly, seasonal or time of day basis.

## **3 BACKGROUND**

- 3.1 When customers connect to a DNOs network the Maximum Import Capacity (MIC) and Maximum Export Capacity (MEC) that will be applied to their site are agreed . The DNO will determine how much it costs to provide this capacity and the customer will pay a proportion of this cost (the customer contribution).
- 3.2 Within the CDCM, the capacity element of the tariff is discounted to take into account

any contributions made by customers when they connected to the DNO's network. The excess capacity charge is set at the same level as the capacity charge and consequently this rate also takes account of the customer contributions element.

- 3.3 When a customer exceeds their MIC/MEC they will pay for the additional capacity used at the excess capacity rate. The working group has identified that the excess capacity rate is discounted by customer contributions, but typically the customer has not made any contribution to this cost. Consequently, the working group believes that the excess capacity charge is not cost reflective and should not be discounted for customer contributions.
- 3.4 Within the EDCM the excess capacity charge is also set at the same rate as the capacity charge (except where Demand Side Management has been agreed) and these rates are site specific. However, customer contributions are not taken into account when calculating the capacity charge which is not consistent with the methodology used in the CDCM.
- 3.5 To improve the cost reflectivity of capacity and excess capacity charges within the EDCM, the Working Group is consulting on whether the CDCM principle should be applied. To achieve this, the Working Group is consulting on the principle that the capacity element of the EDCM is reduced to take account of customer contributions and that the excess capacity charge remains unchanged (as it currently does not include customer contributions).
- 3.6 A further issue identified by the Working Group is the application of the excess capacity charge. This charge is applied for the month in which the breach occurs. This means that there is a potential gaming opportunity for customers to set their MIC/MEC at an artificially low level and only pay for the additional capacity they require in the months they require it.
- 3.7 DNOs use the MIC/MECs to assist in managing the capacity of their networks. If these are set artificially low, it could lead to DNOs underestimating the capacity required on their networks and not having sufficient capacity to meet the peak network requirements.
- 3.8 The Working Group has looked at a number of options on how an excess capacity charge could be applied and is consulting on these options. These options are outlined

below:

**Option 1:** To apply the excess capacity charge on a seasonal basis. This would enable higher excess capacity charges to be applied when the network is at greatest risk of having insufficient capacity to meet the P2/6 resupply requirements following an outage within the year (e.g. November-February). Under this option the excess capacity charge would be set at the same level as the capacity charge for the remainder of the year (e.g. March-October). In setting the excess capacity charge on a seasonal basis, the principle used would be for the DNO to recover the same annual revenue if a customer exceeded their capacity by the same amount in each month. This would be achieved as the difference between the normal capacity rate and exceeded capacity rate would be multiplied by 3 (to reflect the period Mar-Oct) and then added back on to the capacity rate between Nov-Feb the excess capacity price would be derived as follows:

- The excess capacity charge is derived by removing customer contributions from the CDCM.
- The excess capacity charge is set at the existing capacity rate for March to October (2/3 of the year).
- The excess capacity charge for November to February would be scaled up by a multiple of 3 to take account of the lower rate that is applied for the remainder of the year.

**Option 2:** To apply the excess capacity charge on a time of day basis. This would enable higher excess capacity charges to be applied when the network is at greatest risk of having insufficient capacity to meet the P2/6 resupply requirements following an outage within day (e.g. 14:00-20:00). Under this option the excess capacity charge would be set at the same level as the capacity charge for the remainder of the day. In setting the excess capacity charge on a time of day basis, the principle used would be for the DNO to recover the same annual revenue if a customer exceeded their capacity by the same amount in either time period. The excess capacity price would be derived as follows:

- The excess capacity charge is derived by removing customer contributions from the CDCM.
- The excess capacity charge is set at the existing capacity rate for the off-peak period (e.g. 20:00-14:00 equating to 75% of the day).
- The excess capacity charge for the peak time period (14:00-20:00) would be scaled up to take account of the lower rate that is applied during the off-peak time period.

**Option 3:** To apply a scaling factor to the excess capacity charge that reduces the benefit of customers agreeing a lower MIC/MEC than they require and then only paying for the excess capacity charge within the month where the MIC/MEC is breached. The scaling factor would be derived as follows:

- The excess capacity charge is derived by removing customer contributions from the CDCM.
- Within each DNO region all customers would be identified who had exceeded their MIC/MEC in the previous year.
- The DNO would determine the average number of months where these customers exceeded their MIC/MEC in the previous year (e.g. 3.5 months).

- The DNO would apply this scaling factor to the excess capacity charge to ensure they recover the equivalent annual amount from excess capacity charges for these customers. The same scaling factor would apply for all Customers within that DNO region.

**Option 4:** To apply the excess capacity charge based on the maximum exceeded capacity over the last 12 month period. Under this option if a customer exceeds their capacity, they will continue to pay for this additional capacity for the next 12 months. This option was previously used by some DNOs before the introduction of the CDCM in April 2010.

3.9 The Working Group are also consulting on whether, instead of levying higher exceeded capacity charges, DNOs should enforce the connection terms on customers breaching the MIC/MECs, ultimately through de-energisation.

#### **4 DCP 161 – WORKING GROUP CONSIDERATIONS**

4.1 The Working Group is comprised of Distributor, Supplier and other interested Parties, as well as Ofgem representation acting as independent experts; it is noted that all DCUSA Parties were invited to attend the Working Group.

4.2 The Working Group also issued a Request for Information (RFI) to enable them to complete their impact assessment of the potential solutions to address the issues of DCP 161. The collated responses to the RFI are included as Attachment B.

#### **5 PROPOSED LEGAL TEXT**

5.1 The Working Group have not finalised the legal text for DCP 161 as they are requesting views on the principles of the CP before progressing it further. Following a review of the responses to this consultation, the Working Group will develop the legal text and will issue this for consultation at a later date.

#### **6 PROPOSED IMPLEMENTATION DATE**

6.1 The Working Group has revised the proposed implementation date for DCP 161 to 01 April 2015.

#### **7 CONSULTATION**

7.1 Parties are asked to consider the intent and impact of DCP 161 and answer the following consultation questions:

1. Do you agree with the intent of DCP 161?
2. Do you agree with the principles of DCP 161?

3. Do you think that instead of levying higher exceeded capacity charges, DNOs should enforce the connection terms on customers breaching the MIC/MECs?
4. Do you believe that any changes to the calculation of excess capacity charges should be made to both the MIC and MEC or just the MIC? Please provide comments.
5. If DCP 161 is approved and implemented do you anticipate a substantial increase of queries relating to excess capacity charges for DNOs or Suppliers? If so, please provide supporting comments and estimates of the potential impact.
6. If DCP 161 is approved and implemented do you feel that there may be more volatility in revenue recovered from excess capacity charges? If so, please give details.
7. Do you feel that removing customer contributions from the excess capacity charge within the CDCM will lead to this being a more cost reflective element of the charge?
8. Do you feel that including customer contributions within the EDCM capacity charge should be considered as part of DCP 161? Please provide supporting comments.
9. There are different options of how this charge can be calculated and applied as explained within paragraph 3.8. Please provide comments on all the options listed, and your preferred option.
10. If this DCP 161 is approved it is believed that customers (who are charged a tariff containing a capacity element) will need to be informed of the impact. Is this feasible and how would you envisage this communication taking place?
11. Do you believe there is a material impact for networks from customers currently exceeding their MIC/MEC? Please provide supporting comments.
12. Are there any -unintended consequences of applying these changes?
13. Do you agree with the implementation date for DCP 161 of 1 April 2015? If not, please provide supporting comments.
14. Are there any alternative solutions or matters that should be considered by the Working Group?
15. Are you aware of any wider industry developments that may impact upon or be impacted by this CP? If so, please provide supporting comments.

7.2 The Consultation response form (Attachment C) should be submitted to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than 22 November 2013. Parties are asked to provide as much relevant detail as possible to enable the DCUSA Panel to understand the comments and the reasons behind them.

7.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

## **8 NEXT STEPS**

8.1 Following the end of the consultation period the Working Group will review and consider the responses. Following this, the Working Group will develop the legal text and send this out to Industry consultation before issuing its final report setting out the proposed variations to the DCUSA Panel for progression to Party voting.

8.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3014.

## **9 APPENDICES**

- Attachment A – DCP 161 ‘Excess Capacity Charges’
- Attachment B – DCP 161 Request for Information - Responses
- Attachment C – Response Form