



**DCUSA INITIAL CONSULTATION
DCP 205 - Recovery of Costs Due To Load and
Generation Increases from Existing Customers
in RIIO-ED1**

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. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.
- 1.2 This document is a Consultation issued to DNO, IDNO, Suppliers, Consumer Focus, ELEXON, MCCG, DG DNO Steering Group and any other interested Parties and the Authority in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 205 – 'Recovery of costs due to load and generation increases from existing customers'.
- 1.3 Respondents are invited to consider the options set out in this document and the associated questions within this consultation. Comments should be submitted using the response form provided as Attachment 1 to DCUSA@electralink.co.uk by **4 August 2014**.
- 1.4 This consultation will be followed by a second consultation on the specific legal drafting of the option(s) identified through this Initial Consultation.

2 DCP 205 – RECOVERY OF COSTS DUE TO LOAD AND GENERATION INCREASES FROM EXISTING CUSTOMERS

- 2.1 DCP 205 has been raised by Electricity North West Limited (ENWL) to make changes to Schedule 22 of DCUSA (Common Connection Charging Methodology) with regards to the socialisation of reinforcement costs currently funded by connecting customers.
- 2.2 The CP seeks to make changes to the Common Connections Charging Methodology to take account of Ofgem policy for RIIO-ED1 in relation to recovery of costs for reinforcement of the network due to load and generation increases from existing customers.
- 2.3 This change has come about following Ofgem's " Strategy decision for the RIIO-ED1 electricity distribution price control: Outputs, incentives and innovations" (<https://www.ofgem.gov.uk/ofgem-publications/47068/riioed1decoutputsincentives.pdf>). The relevant extract from this, following the original document numbering, is included for completeness below:

"Recovery of costs due to load and generation increases from existing domestic customers

3.32. In practice DNOs currently recover the cost of network reinforcement triggered by load growth at existing domestic premises through distribution use of system (DUoS) charges. This is because they are unable to identify which individual customers are driving the costs. However, since they are allowed to charge individual customers, there is the potential for inconsistent treatment across DNOs.

Our decision

3.33. Ideally, DNOs would recover costs from those customers who impose them. However, since this is currently not practicable we have decided that until DNOs have a means to accurately identify the customers who trigger cost, they will continue to recover the costs of any reinforcement caused by load or generation growth by domestic (as defined in the electricity distribution licence) and small business (profile class 3-4) customers through DUoS charges. DUoS charges are paid by all customers as part of their overall bill to reflect the costs of transporting electricity through the distribution network.

3.34. This decision will apply to all equipment installed in existing domestic or profile class 3-4 properties, including where that equipment is part of multiple installations made by a landlord.

3.35. Given the projected take up of low carbon technologies by domestic customers over time, we consider that there needs to be a consistent policy across all DNOs. Otherwise customers may be unaware of connection charges which they are liable for and face these charges only after they have installed devices.

3.36. At present the only practical policy which can apply across the board is for DNOs to recover the costs of reinforcement from all customers through DUoS charges. Without access to granular data or installing costly monitoring equipment, the only means DNOs have for identifying domestic or small business customers who may trigger reinforcement are through the types of appliances they install. DNOs are working, through the Energy Networks Association (ENA), to receive advanced notification of when certain devices are installed. However, they will not know with confidence when these devices are used and hence whether they are triggering costs.

3.37. Socialising the cost of reinforcement to accommodate domestic growth means that customers who are not adopting high energy consumption equipment may, in effect, be paying for those who do through raised DUoS charges. This reflects current practice of funding reinforcement costs through DUoS charges where DNOs cannot identify the customers who trigger these costs. A system that targets upfront connection costs at individual domestic and small business customers may not only be impracticable, but also costly as DNOs would need to identify and approach individual customers. The impact of that approach would be likely to increase DNOs' overall costs which are passed through to all consumers.

3.38. We recognise that socialising reinforcement costs may insulate domestic and small business customers from the financial consequences of their actions, rather than actively encouraging them to properly manage their demand. However, this will be an interim measure until sufficient smart metering data is available to identify those who trigger reinforcement and incentivise them to manage their consumption in order to avoid reinforcement. A key element of our

smart grid project (outlined above) will be to understand how incentives on these customers to manage demand can be introduced. This goes to the heart of what form a future smart grid should take and how it should interact with customers."

- 2.4 To enact this approach in all DNOs licences, Ofgem is finalising the new Standard Licence Condition 13C (SLC13C). This, as currently drafted and already consulted on, clarifies the Relevant Customer and restriction on the recovery of Reinforcement Costs stating that:

"13C.3 A person is a Relevant Customer in relation to a Domestic or business premises if he is the owner or occupier of those premises and those premises:

- a) are connected to the licensee's Distribution System by a low-voltage single-, two- or three- phase service fused at 100 amperes or less per phase and with whole-current metering;*
- b) are already connected to the licensee's Distribution System and supplied with electricity through a Registered Metering Point when the requirements of the owner or occupier of the premises cause Reinforcement Costs to arise; and*
- c) do not require any modification to their Physical Connection, except for a Looped Service, where any modification to an existing Looped Service provides the owner or occupier of the premises with a low-voltage single phase service fused at 100 amperes or less per phase and with whole-current metering.*

[..].

13C.6 The circumstances referred to in paragraph 13C.5 are where the Reinforcement Costs are caused by a Relevant Customer connecting, or allowing to be connected, at its premises:

- a) generation equipment with a rated output greater than 16 amperes per phase (including the connection of generation equipment of 16 amperes or less per phase where the aggregate capacity of installed generation equipment at the premises is greater than 16 amperes per phase); or*
- b) equipment which the licensee has a reasonable expectation will fail to meet the equipment standards which have been clearly set out in the Distribution Connection Use of System Agreement."*

- 2.5 However Ofgem would not implement the above condition if this CP is able to implement its intentions via DCUSA and the CCMS by 1st April 2015.

3 WORKING GROUP ASSESSMENT

- 3.1 The DCUSA Panel established a Working Group to assess DCP 205. This Working Group consists of DNO, Customer and Ofgem representatives.
- 3.2 Members noted that the new Standard Licence Condition 13C (SLC13C), clarifies the Relevant Customers (13C.3) that this modification should apply to. As this has been drafted and consulted on, this definition does not require to be considered further.

- 3.3 Members noted that the new Standard Licence Condition 13C (SLC13C) goes on to clarify restriction on the recovery of Reinforcement Costs (13C.6), requiring the Working Group to assess and consider how to clearly set out these restriction in the Distribution Connection Use of System Agreement.
- 3.4 The Working Group went on to consider how to clearly set out a common methodology that all DNOs will adhere to in the CCCM to identify that equipment that a DNO would have a reasonable expectation will fail to meet the equipment standards, and how that equipment may be clearly set out in the Distribution Connection Use of System Agreement
- 3.5 Listed in the following table are four options that could act as a solution for this, with their relative advantages and disadvantages.

3.6

Options	Likely format in CCCM	Advantages	Disadvantages
Causing disruption to other Users	Simple statement that equipment of an unusual nature or non-standard for a domestic or small business environment may incur additional costs and requirement that customer or installer contact the DNO to confirm before installation to confirm.	<ul style="list-style-type: none"> • Simple to draft • Future proofed • DNOs must have proof /evidence 	<ul style="list-style-type: none"> • Open to interpretation • Customers may not know in advance of purchase in order to make an informed decision • Relies on DNO being able to identify location of equipment causing issue
Causing disruption to other Users with costs to rectify in excess of a High Cost Cap	As above but with additional proviso that customer will only pick up reinforcement cost in excess of £x/kW.	<ul style="list-style-type: none"> • Simple to draft • Future proofed • DNOs must have proof /evidence Only when significant costs will they be charged to connecting customers 	<ul style="list-style-type: none"> • Open to interpretation • Customers may not know in advance of purchase in order to make an informed decision • Relies on DNO being able to identify location of equipment causing issue
Equipment Standard	List of specific British Standard or European Union standards that equipment would require to be compliant with (like a kite mark) e.g. BS EN 61000-3-2 and BS EN 61000-3-3 Equipment standards	<ul style="list-style-type: none"> • Customers more likely to know before they purchase any equipment as there will be a list of standards • Unambiguous • Consistent • Greater transparency 	<ul style="list-style-type: none"> • May take significant time to develop industry standards • Future proofing effort required • Could cause a signal resulting in discouraging adoption of certain equipment • Removes DNO discretion to act in the customers interest
No current exclusion for any equipment installed by existing customers.	No additional drafting required	<ul style="list-style-type: none"> • Simple • No cost risk for customers purchasing equipment 	<ul style="list-style-type: none"> • Inconsistent with generic charging policy • More expensive for DUoS Customers • Does not send a price signal

4 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

- 4.1 The Working Group considers that this CP better facilitates DCUSA General Objective 3:

“The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences”.

- 4.2 The Working Group considers that this CP is better facilitated by DCUSA General Objective three as this change seeks to fulfil a proposed draft licence condition which is due to be implemented on the 01 April 2015. It is noted that the draft licence conditions for those companies who have been Fast Tracked has been consulted upon. The Working Group also considers that this CP better facilitates DCUSA Charging Objective 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)”

Each DNO is obliged under Standard Licence Condition 13.1 to at all times have in force a Connection Charging Methodology which includes the Common Connection Charging Methodology. The DNO Licences define a Connection Charging Methodology as ‘a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that apply....in relation to connections, for determining the Licensee’s Connection Charges’

The Working Group considers that this CP better facilitates DCUSA Charging Objective 1, as implementation within DCUSA will facilitate a proposed draft Standard Licence Condition (SLC) which is proposed to be enforced on the 01 April 2015.

5 Implementation Date

- 5.1 The proposed implementation date for DCP 205 following this and a further consultation on legal drafting is 01 April 2015 in accordance with the timescales to be in place for RIIO ED1.

6 DCP 205 – Consultation Questions

6.1 The Working Group is seeking views on the questions set out below:

Question Number	Question
1	Do you understand the intent of the CP?
2	Are you supportive of the principles of the CP?
3	<p>Do you have any comments and preferences on the four options in order to capture and exclude from this charging change “equipment of an unusual nature or that it would be non-standard in a normal domestic or small business environment”. Please provide comments for each option.</p> <ul style="list-style-type: none"> a) Causing disruption to other Users b) Causing disruption to other Users with costs to rectify in excess of a High Cost Cap c) Equipment Standard d) No current exclusion for any equipment installed by existing customers.
4	<p>Do you consider that the proposal better facilitates the DCUSA General Objectives? Please give supporting reasons.</p> <ol style="list-style-type: none"> 1. The development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System. 2. The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity. 3. The efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences. 4. The promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it. 5. Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European

	Commission and/or the Agency for the Co-operation of Energy Regulators.
5	<p>Do you consider that the proposal better facilitates the DCUSA Charging Objectives? Please give supporting reasons.</p> <ol style="list-style-type: none"> 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 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) 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 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 5. That compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.
6	Are there any unintended consequences of this proposal?
7	Are there any alternative solutions or matters that should be considered?
8	Please state any other comments or views on the Change Proposal.

- 6.2 Responses should be submitted using Attachment 1 to dcusa@electralink.co.uk no later than **4 August 2014**.
- 6.3 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.

7 NEXT STEPS

- 7.1 Responses to the Consultation will be reviewed by the DCP 205 Working Group who will use the responses to aid them in the progression of the CP.
- 7.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email to dcusa@electralink.co.uk or telephone 020 7432 3016.

APPENDICES

- Attachment 1 – Response Form
- Attachment 2 – DCP 205 CP Form