

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP137 – Introduction of locational tariffs for the Export from HV Generators in Areas identified as generation dominated		
Decision:	The Authority ¹ has decided to reject ² this modification ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	11 February 2015	Implementation date:	n/a

Background

Since 1 April 2010, Distribution Network Operators (DNOs) have calculated Distribution Use of System (DUoS) charges for customers connected to their networks at high voltages (HV) and low voltages (LV) using a Common Distribution Charging Methodology (CDCM). One of the CDCM's underlying principles is that generators should receive credits when they export. This is because it may allow DNOs to defer or avoid network reinforcement (and associated costs) that would otherwise be needed to meet demand from customers.

However, it is possible that an area with substantial generation could itself drive the need for network investment, rather than potentially deferring or removing it.

In 2009, we approved the CDCM, subject to a number of conditions the DNOs needed to meet. These included a condition that DCUSA parties should consider the principles that should apply when charging generators in situations where they trigger network reinforcement (and how generator dominated areas are to be defined). The DNOs commissioned a report to investigate the issue of generation dominance and submitted this to us in June 2011.⁴ The findings of the report include the following:

- there is a strong case not to introduce a highly complex locational charging regime to address generation dominance;
- there may be a case for a simpler charging regime limited to the impact made by HV generation; and
- careful consideration needs to be paid to the advantages and disadvantages that are more difficult to quantify, namely:
 - whether suppliers would pass the costs on to generation customers;
 - the potentially negative effect that locational charging could have on the simplicity, transparency and predictability of charges; and
 - the interaction of locational charges with other energy policies (eg. reducing generation growth, even in demand-led areas).

The modification proposal

DCP137 was proposed by Electricity North West Limited. The DCP137 working group considered that generation dominance needed to be addressed because:

- Generators currently receive credits for export on the basis that it provides a benefit to the network by offsetting or deferring costly network reinforcement.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

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

³ 'Change' and 'modification' are used interchangeably in this document.

⁴ Frontier Report: <https://www.ofgem.gov.uk/ofgem-publications/91106/frontier-enafinalreport-01-04-11-stc.pdf>

- At present, the CDCM offers p/kWh credits to connected generation customers, regardless of where they are located on the network. In addition to these credits, generation customers may also pay fixed (p/MPAN/day) or reactive (p/kVArh) charges.
- Where generation ceases to provide a benefit (and in fact could trigger network reinforcement), credits should be reduced or removed.

The report commissioned by the DNOs proposed a test for identifying where generation dominance might occur. The DCP137 working group developed a second test to validate whether generation loading is higher than demand loading (ie. confirming generation dominance over local demand).

Using the results of the two tests, the working group proposed the introduction of a location-variable regime to reduce credits to those HV generators exporting to primary substations in areas defined as generation dominant. The reduction would vary depending on the level of generation dominance. This new regime would be restricted to HV-connected generators as the workgroup considered that generation from LV-connected generators would be absorbed locally before burdening local distribution assets.

DCUSA Parties' recommendation

The Change Declaration for DCP137 indicates that all parties were eligible to vote on the proposal. In each party category where votes were cast (no votes were cast in the distributed generation (DG) party category),⁵ there was majority support for the proposal. However, the majority of DNO and supplier parties did not support the proposed implementation date. In accordance with the weighted vote procedure, the recommendation to us is that DCP137 is accepted but that the implementation date of 1 April 2015 is rejected. The outcome of the weighted vote is set out in the table below:

DCP137	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO ⁶		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	75	25	100	0	100	0	n/a	n/a
IMPLEMENTATION DATE	48	52	100	0	0	100	n/a	n/a

Ofgem consultation

On 7 November 2014, we issued a consultation, stating that we were 'minded to' reject the proposal. We gave a number of reasons, including our concern about the impact that the proposed change may have on further growth of renewable generation, and the balance between generation and demand growth, on distribution networks.

We received eight responses to our consultation. All respondents supported our 'minded to' reject position. Respondents provided a number of different reasons for their support. These are summarised below:

- the benefits of introducing the DCP137 change are unlikely to outweigh the increased complexity in charges;
- it may be premature to make the change at this time, given the low number of primary substations identified as potentially generator dominated by some DNO respondents. However, there should be continued monitoring of the impact of any growing generation dominance;

⁵ There are currently no gas supplier parties.

⁶ Independent Distribution Network Operator/Offshore Transmission System Operator.

- the proposal would be a departure from average charging within the CDCM, as it introduces locational charging for one group of customers only, which is absent in the rest of the methodology;
- the risk of price volatility would increase (eg. primary substations could be classed as generator dominated in one year but then revert back to being demand dominated in the next);
- possible detrimental impact on investment, which could in turn affect the growth of renewable generation in Great Britain; and
- it may be more appropriate to undertake a wider review of DUoS charging arrangements for generators.

Our decision

We have considered the issues raised by the proposal as set out in the Change Report and the Change Declaration dated 10 September 2014. We have also taken into account all the responses to our consultation as well as the vote of the DCUSA Parties on the proposal, which is attached to the Change Declaration. We have concluded that implementation of the modification proposal will not better facilitate achievement of the DCUSA Charging Objectives.⁷

Reasons for our decision

We do not consider that it has been sufficiently demonstrated that this modification proposal will better facilitate achievement of the DCUSA Charging Objectives.

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)

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

The DCP137 working group argued that the proposal facilitates competition through more cost reflective charges for generation. Cost reflectivity is achieved by reducing or removing the incentive for HV generators to export energy at primary substations which are currently, or are likely to become, generator dominated.

We support the underlying principle that, where generation drives reinforcement, it may not be appropriate for those generators to continue receiving credits, as they no longer provide the same benefit to the network. However, we do not consider that the working group has sufficiently demonstrated that the proposed solution is more cost reflective. This would particularly be the case where existing generators, who are still providing a benefit to the network by offsetting local demand, start seeing their credits reduced up to seven and half years in advance of when the primary substation is forecast to become generator dominated.

We also note the views of a number of parties that the increased complexity in the charging methodology and the additional administrative burden on DNOs and suppliers of

⁷ The DCUSA Charging Objectives (Relevant Objectives) are set out in both Standard Licence Condition 22A Part B of the Electricity Distribution Licence and Clause 3.2 of the DCUSA.

reflecting the proposed changes would outweigh any gain in cost reflectivity for a small percentage of generator dominated areas. Suppliers and consumers have indicated a preference for simpler and more transparent charges and we do not consider that the change proposal would deliver sufficient benefits to warrant the increase in complexity in this case.

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 working group considers that DCP137 facilitates this objective better by reflecting the degree to which a network is generator dominated and by reducing credits over time as growth in generation increases. While we note that some DNOs have identified areas that are, or are likely to become, generator dominated in the next ten years, we have not been provided with evidence to demonstrate that these are sufficient to warrant introducing this proposal now. DNOs should keep this situation under review and consider proposing an appropriate change at a future point in time when there is more evidence of benefits to support the case for change.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, we have decided that modification proposal DCP137: *‘Introduction of locational tariffs for the Export from HV Generators in Areas identified as generation dominated’* should not be made.

Andrew Burgess

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Signed on behalf of the Authority and authorised for that purpose