

Proposed modification:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP289/289A/289B – Creation of Distribution Charging Methodology Development Group</b>		
Decision:	The Authority <sup>1</sup> directs DCP289 be made <sup>2</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	24 August 2017	Implementation date:	5 days following Authority consent

## Background

Our Code Governance Review (Phase 3) (CGR3) built on previous code governance reviews we have undertaken.<sup>3</sup> It identified further governance reforms aimed at ensuring that the governance arrangements of all industry codes deliver changes in an efficient and timely way. It also aimed to promote transparency and accessibility for all industry parties. It looked at a range of areas, including governance of charging methodologies.

In our CGR3 Final Proposals,<sup>4</sup> we set out that all relevant papers for the various electricity distribution charging forums<sup>5</sup> should be accessible on the DCUSA website. We noted this would be a first stage towards providing greater access to understanding what these charging forums do so that all parties can make effective use of them. We also encouraged relevant parties, as a next step, to explore how to bring the relevant charging groups under DCUSA governance.

During November 2016, the Electricity Networks Association issued a consultation on which charging forum to place under DCUSA governance arrangements.<sup>6</sup> This proposal was raised following consideration of responses to that consultation.

## The modification proposal

UK Power Networks (the proposer) raised DCP289 "Creation of Distribution Charging Methodology Development Group" on 16 December 2016 as an urgent change proposal. DCP289 proposes new DCUSA provisions to create the Distribution Charging Methodology Development Group (DCMDG), a new standing issues working group, for the Use of System Charging Methodologies and related topics within DCUSA. It is proposed that the DCMDG will provide a structured environment to discuss and address issues, and develop solutions related to these charging methodologies.

The modification also seeks to introduce a new schedule into the DCUSA setting out the structure and operation of the group. The objectives of the DCMDG are set out in the legal text accompanying this modification and include:

- meeting periodically with any person whose interests are materially affected by one or more of the Use of System Charging Methodologies.

<sup>1</sup> 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.

<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> Code Governance Review. Available at: <https://www.ofgem.gov.uk/licences-codes-and-standards/codes/industry-codes-work/code-governance-review>

<sup>4</sup> Code Governance Review (Phase 3): Final Proposals. Available at: [https://www.ofgem.gov.uk/system/files/docs/2016/03/code\\_governance\\_review\\_phase\\_3\\_final\\_proposals\\_2.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/03/code_governance_review_phase_3_final_proposals_2.pdf)

<sup>5</sup> Distribution Charging Methodologies Forum (DCMF), DCMF Methodologies Issues Group (DCMF MIG) and Commercial Operations Group (COG).

<sup>6</sup> November 2016's Meeting Minutes of the DCMF Methodologies Issues Working Group. Available at: <http://www.enegynetworks.org/electricity/regulation/distribution-charging/distribution-charging-working-groups.html>

- reviewing issues relating to the Use of System Charging Methodologies that are submitted to it by the Panel or by way of DCMDG Issue Forms.
- carrying out a pre-assessment of issues and providing the Panel with an early view as to the potential impact of Change Proposals that may be proposed from time to time.

Detailed Terms of Reference will be developed separately to allow flexibility.

DCP289 proposes that the DCMDG would have an independent chair who would be appointed for a 12-month term and that meetings would be held monthly. Minutes and meeting papers would be published on the DCUSA website. It proposes that each month the DCUSA panel will receive a report giving a summary of the key issues and progress being made, including a task list or workplan for the DCMDG.

Under DCP289, the costs of these changes would be met by all DCUSA parties, in line with other relevant costs under the DCUSA.

The majority of the Working Group considered that DCP289 better facilitated DCUSA general objective “d”<sup>7</sup>, as it would ensure that current discussions and debates relating to the Use of System Charge setting would be open to all.

Some parties did not agree with the proposed funding arrangements. As a result, an alternate modification DCP289A was raised by British Gas on 23 January 2017. DCP289A does not seek to vary any provisions proposed in DCP289 other than the funding arrangements. The proposer considered that the DCMDG should be funded by the Distribution Network Operators (DNOs) through their price control revenue allowances, in line with the current arrangements for the forums the group proposes to replace.

In response to the Working Group consultation, a second alternate, DCP289B, was raised by Western Power Distribution on 7 April 2017. DCP289B proposed that DCMDG is fully funded by the DNOs until the end of RIIO-ED1 (31 March 2023) and subsequently by all DCUSA parties.

### DCUSA Parties’ recommendation

In the majority of party categories where votes were cast (no votes were cast in the DG party category)<sup>8</sup>, there was majority support for the proposals and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP289, DCP289A and DCP289B are accepted. The outcome of the weighted vote for each modification is set out in the tables below:

#### **DCP 289**

DCP 289	WEIGHTED VOTING (%)							
	DNO <sup>9</sup>		IDNO/OTSO <sup>10</sup>		SUPPLIER		DG <sup>11</sup>	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	50%	50%	80%	20%	n/a	n/a
IMPLEMENTATION DATE	81%	0% <sup>12</sup>	100%	0%	100%	0%	n/a	n/a

<sup>7</sup> General objective d: “the promotion of efficiency in the implementation and administration of the DCUSA”.

<sup>8</sup> There are currently no gas supplier parties.

<sup>9</sup> Distribution Network Operator.

<sup>10</sup> Independent Distribution Network Operator/Offshore Transmission System Operator.

<sup>11</sup> Distributed Generation.

<sup>12</sup> Two DNO Parties have not voted for in this category.

## **DCP 289A**

<b>DCP 289A</b>	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	52%	48%	100%	0%	100%	0%	n/a	n/a
IMPLEMENTATION DATE	81%	0% <sup>13</sup>	100%	0%	100%	0%	n/a	n/a

## **DCP 289B**

<b>DCP 289B</b>	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	52%	48%	50%	50%	80%	20%	n/a	n/a
IMPLEMENTATION DATE	81%	0% <sup>14</sup>	100%	0%	100%	0%	n/a	n/a

Voting Parties were asked to provide a preferred solution when voting to accept all variations, which is indicated below:

- **DCP 289** – 33.4%
- **DCP 289A** – 35.4%
- **DCP 289B** – 31.2%

### **Our decision**

We have considered the issues raised by the proposals, the Change Declaration and the Change Report dated 20 July 2017. We have also considered and taken into account the vote of the DCUSA Parties on the proposals which are attached to the Change Declaration. We have concluded that:

- implementation of DCP289, DCP289A or DCP289B would better facilitate the achievement of the Applicable DCUSA objectives compared to the current arrangements.<sup>15</sup>
- on balance, implementation of DCP289 would best facilitate the relevant objectives.
- directing that DCP289 is approved is consistent with our principal objective and statutory duties.<sup>16</sup>

### **Reasons for our decision**

We consider DCP289, 289A and 289B impact Applicable DCUSA Objective (d) and have a neutral impact on the other applicable objectives.

#### ***Applicable DCUSA Objective (d) – the promotion of efficiency in the implementation and administration of the DCUSA arrangements***

We agree with the Working Group and respondents to the industry consultation that DCP289 and each of the alternatives better facilitates Applicable objective (d). The ability for industry to establish the proposed DCMDG should increase access to information and transparency on charging methodology issues, thereby facilitating engagement and reducing potential barriers to entry.

<sup>13</sup> Two DNO Parties have not voted for in this category.

<sup>14</sup> Two DNO Parties have not voted for in this category.

<sup>15</sup> The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

<sup>16</sup> The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

As the DCMDG will be a single point for charging methodology issues, it may have the potential to prompt attendance and engagement, particularly of small parties and new entrants, and may reduce the cost of attendance (by reducing the number of different groups where charging issues are considered).

The DCMDG will provide an opportunity, where appropriate, to discuss, analyse and raise charging methodology issues. This should enable a cohesive approach to be taken and allow modifications to be well-developed prior to submission into the DCUSA modification process.

In our CGR3 Final proposals, we set out that the sponsorship of charging forums by panel members was a way to increase understanding of the work of charging forums. DCP289 requires the DCMDG to report directly to the Panel. In particular, following each meeting a report will be provided to the Panel giving a summary of key issues discussed, progress being made. This should support the Panel in following the progress of charging issues that may result in future modifications.

### *Funding*

We note the comments made by some respondents that, as the costs of administering the existing charging forums are paid for by the DNOs, this should continue. This option is proposed under DCP289A, and until the end of RIIO-ED1 under DCP289B.

We recognise that DNOs currently pay the costs associated with existing charging forums. We note that any such (efficiently incurred) costs would, under the current arrangements, ultimately be paid for by users of distribution networks (including relevant DCUSA parties) through the network charges they pay. We further note that these costs are not material - and may be expected to be further reduced by bringing together multiple, existing groups into one group under DCUSA. We do not agree with the comments of some respondents that, under DCP289, the costs would be recovered twice. In addition, we note that the Charging Methodologies are part of the DCUSA and are subject to the standard DCUSA modification process.

It is not clear to us that it would be proportionate, in this case, to establish an alternative funding mechanism (under DCUSA) for the costs of managing this one area within the code. We also note that it is in the interests of all DCUSA parties that an effective pre-modification process is available, that should support delivery of robust charging modifications in consumers' interests.

We do not consider we have been provided with evidence to demonstrate the need for different funding arrangements for this one area of the DCUSA (pre) modification process, compared to similar arrangements covering other DCUSA issues. However, this is something that could be kept under review, if appropriate.

We consider that all of the options better facilitate this objective and, on balance, that DCP289 best facilitates General Objective (d) of the DCUSA.

### **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP289: 'Creation of Distribution Charging Methodology Development Group' be made.

**Lesley Nugent**

**Head of Industry Codes and Licensing, Consumers & Competition**

Signed on behalf of the Authority and authorised for that purpose