

Kevin Woollard  
DCUSA Panel Chair  
2-3 Golden Square  
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London  
W1F 9HR

Date: 21 October 2015

Dear Kevin

### **Decision to defer implementation of DCP161**

Thank you for carrying out a consultation on this potential deferral. We note your email of 9 October 2015 advising us<sup>1</sup> that you, as the DCUSA Panel, do not have a view on the potential impact of DCP161 when considered alongside other changes.

We have considered the initial proposal from Western Power Distribution and the responses to your consultation. In accordance with Clause 14.8.1 of the Distribution Connection and Use of System Agreement, we direct that a new implementation date of 1 April 2018 be substituted for the original implementation date of 1 April 2016.<sup>2</sup>

### **Reasons for our Decision**

We note that the majority of respondents to your September consultation were supportive of our 'minded to' position to agree with this request. This reflects the potential impact it could have on customers migrating to half hourly (HH) settlement under P272.<sup>3</sup> Profile class 5-8 customers with current transformer meters will incur capacity charges that are based on their agreed maximum import capacity (MIC). Many of these customers do not currently have an agreed MIC and, where it is not possible to identify one, the DNOs propose to use default values. The DNOs will then work with customers to identify a more accurate MIC, as maximum demand data becomes available. In the interim, there is a risk that some customers will exceed the default MIC and incur excess capacity charges. Given the use of default values, these customers may not actually be exceeding the "right" level of capacity for them, and therefore excess capacity charges would unreasonably penalise them. Most respondents identified this risk as being the principal reason why they supported deferring implementation of DCP161.

A few respondents were not supportive of our minded to position and we have considered the issues they raised. In particular, they consider that deferring the implementation date will mean that customers who exceed their agreed MIC will continue to benefit from the discount that is currently included in excess capacity charges. This means that other customers will continue to pay a cross subsidy through marginally higher charges than they would otherwise face. In addition, one respondent has suggested that deferring DCP161 will be detrimental to DCUSA charging objective three.<sup>4</sup> When we approved DCP161, we acknowledged that customers who do not exceed their agreed MIC are cross subsidising

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<sup>1</sup> The terms 'the Authority', 'Ofgem', 'we' and 'us' 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> Balancing and Settlement Code modification: P272 – Mandatory Half Hourly Settlement for Profile Classes 5-8

<sup>4</sup> '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'

those who do and considered that it would be more cost reflective to remove the discount for customer contributions from excess capacity charges. We understand the point made by those who oppose deferral of the implementation date of DCP 161 and continue to support our original decision that implementing DCP161 better facilitates charging objective three. However, we consider the potential impact that removing the discount from excess capacity charges could have on customers affected by P272 is the greater concern.

One respondent suggested that it would actually be more beneficial to implement DCP161 on 1 April 2016 because they believe the majority of customers will only engage with their DNO once there is an impact on their bills. Another respondent considered that approval of P322<sup>5</sup> has reduced the need to defer implementation of DCP161, as it provides additional time for DNOs to agree appropriate MICs. Although we recognise that the DNOs have been working to contact customers and encourage them to contact their DNO, if they wish to change their MIC, we remain concerned that a significant number of customers will not understand the potential impact of changes to their charges. We also consider that, for many customers, the changes may be sufficient to encourage them to engage with their DNO without the addition of excess capacity charges.

We have considered the issues associated with deferring the implementation date for DCP161. On balance we believe the status quo where many customers contribute a very small amount towards the discount on excess capacity charges is preferable to a situation where a smaller number of customers are subject to higher excess capacity charges based upon a MIC that may not be set at the right level. Therefore, we confirm our minded to position that implementation of DCP161 is deferred until 1 April 2018.

**Ian Rowson**

**Associate Partner – Regulatory Finance and Compliance**

Signed on behalf of the Authority and authorised for that purpose.

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<sup>5</sup> Balancing and Settlement Code modification: P322 – Revised Implementation Arrangements for Mandatory Half Hourly Settlement for Profile Classes 5-8