

Proposed variation:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP179 – Amending the CDCM Tariff Structure</b>		
Decision:	The Authority <sup>1</sup> directs that proposal DCP179 be made <sup>2</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	15 October 2014	Implementation Date:	1 April 2015

## Background to the modification proposal

Smart meters are currently being rolled out for gas and electricity with an intended implementation date for all consumers of 2020. Smart and advanced meters are capable of recording half-hourly (HH) consumption and can be read remotely. The more accurate and timely data delivered from these meters is expected to facilitate lower consumer bills and stronger competition in the retail market. Since 6 April 2014, larger non-domestic consumers have been required to have meters capable of recording HH consumption.

The industry considers that the current electricity distribution use of system (DUoS) charges are a disincentive for customers to move to HH settlement because:

- the current HH tariff may not be appropriate for all customer types. This means some customers could end up paying charges that do not match their consumption pattern and the costs they impose on the network; and
- currently, all HH settled customers receive site specific bills. Distribution Network Operators (DNOs) have identified a need to upgrade their systems to process a significant increase in site specific bills.

## The modification proposal

On 12 June 2013, Electricity North West Limited (ENWL) raised DCP179. This proposed to amend the existing tariff structure under the Common Distribution Charging Methodology (CDCM) by introducing new HH metered tariffs. The new tariffs would:

- be specifically for customers in Profile Classes (PC) 1-8;<sup>3</sup>
- remove discrepancies between non-half hourly (NHH) and HH tariffs, which currently act as a disincentive for customers to move from NHH to HH charges; and
- enable aggregate billing for specific groups of HH metered customers.

Under the current tariff structure, the low voltage (LV) HH tariff contains capacity and reactive charges and has been designed for customers with an agreed maximum import capacity<sup>4</sup> (MIC). Most customers in PC 1-8 do not have an agreed MIC and should therefore not be charged explicit capacity charges.

Under the current charging arrangements, customers on HH tariffs receive site specific DUoS bills. The DNOs have identified that they will need to upgrade their systems if there is a significant increase in the number of customers receiving site specific bills. To address this, the DCP179 working group proposed splitting LV customers by meter type

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' 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> Profile classes are set out on Page 2 of the following document: [http://www.elexon.co.uk/wp-content/uploads/2013/11/load\\_profiles\\_v2.0\\_cqi.pdf](http://www.elexon.co.uk/wp-content/uploads/2013/11/load_profiles_v2.0_cqi.pdf)

<sup>4</sup> Maximum import capacity is defined on page 26 of the DCUSA: <http://www.dcusa.co.uk/DCUSA%20Document%20Public%20Version/DCUSA%20v6%203%20Section%201A%20Preliminary.pdf>

such that those with current transformer (CT) meters will receive site specific bills and those with whole current (non-CT) meters<sup>5</sup> will be aggregate billed.

The final proposal submitted to us for decision proposes to make the following changes to the CDCM tariff structure:

- add an LV Network Domestic tariff (aggregate billing);
- add an LV Network Non-Domestic Non-CT tariff (aggregate billing);
- amend the current LV HH tariff definition so it only applies to customers with CT metering installed (site specific billing); and
- rename the LV Generation NHH tariff to show that it will also apply to HH metered generators with aggregate billing.

The new tariffs are only made up of unit rates and fixed charges, which is consistent with the NHH tariffs. There will still be some difference because the HH tariffs include three unit rates (red, amber and green), while the NHH tariffs only include one or two.

Under the new arrangements, CT metered customers, who choose to be HH settled would be placed on the LV HH tariff, which includes capacity and reactive charges. However, DNOs may not currently have an agreed MIC with all of these customers. We note the DNOs propose to liaise with customers to establish a MIC and have agreed a process to address this in the interim, which assumes a capacity value equal to the year-to-date maximum capacity (re-assessed monthly).

The working group recognised that introducing DCP179 would cause some tariff disturbance (ie some customers' tariffs would increase and others decrease). For example, currently customers with non-CT metering who are on the LV HH tariff have elected to pay capacity and reactive charges. Under DCP179, these customers would have to move to one of the new tariffs, as the LV HH tariff will be restricted to CT metered customers. The working group's analysis showed that, although on average customers would receive a reduction of 14.6%, some customers would potentially face an increase in their charges.

#### Interaction with Balancing and Settlement Code (BSC) modification P300

Settlement is the process of comparing the amount of energy that an electricity supplier has arranged to be put on the network with the amount that their customers have consumed. Under these arrangements, sites are assigned to one of five Measurement Classes,<sup>6</sup> which identify how they are settled. Customers with HH metering and maximum demand of less than 100 kilowatts (kW) can elect to be HH-settled and are allocated to Measurement Class E. Under the current arrangements, all HH-settled customers are billed on a site specific basis. There is not a mechanism in the BSC to identify HH-settled customers who should receive aggregate bills.

Therefore, although DCP179 will introduce new HH tariffs for customers in PC 1-8, there needs to be new Measurement Classes created under the BSC before they can be used. To facilitate this, ENWL raised BSC modification proposal P300 in March 2014.<sup>7</sup> P300 amends the Measurement Classes to enable aggregate billing for customers on the LV Network Domestic and LV Network Non-Domestic Non-CT tariffs.

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<sup>5</sup> CT and non-CT (also known as whole current) meters are defined in Schedule 2B(D) of the DCUSA:  
<http://www.dcuda.co.uk/DCUSA%20Document%20Public%20Version/11.DCUSA%20v6%202014%20Schedule%202B.pdf>

<sup>6</sup> Measurement Classes are defined on page 49 of BSC Annex X-2:  
[http://www.elexon.co.uk/wp-content/uploads/2014/03/Section\\_X\\_Annex\\_X-2\\_v34.0.pdf](http://www.elexon.co.uk/wp-content/uploads/2014/03/Section_X_Annex_X-2_v34.0.pdf)

<sup>7</sup> P300 'Introduction of new Measurement Classes to support Half Hourly DCUSA Tariff Changes'

The purpose of P300 is to enable aggregate DUoS billing and does not mandate migration to HH metering or that suppliers must use the new Measurement Classes. We received the P300 Final Modification Report in September 2014, and we have today issued our decision to approve P300.<sup>8</sup>

### DCUSA Parties' recommendation

The Change Declaration for DCP179 indicates that all parties were eligible to vote on DCP179. In each party category where votes were cast (no votes were cast in the distributed generation (DG) party category),<sup>9</sup> there was majority support for the proposal but not for the proposed implementation date. In accordance with the weighted vote procedure, the recommendation to us is to accept DCP179 but reject the implementation date. The outcome of the weighted vote is set out in the table below:

DCP179	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO <sup>10</sup>		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0	80	20	n/a	n/a
IMPLEMENTATION DATE	87	13	50	50	80	20	n/a	n/a

### Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 10 September 2014. We have considered and taken into account the vote of the DCUSA parties on the proposal which is attached to the Change Declaration and concluded that:

- implementation of the change proposal DCP179 will better facilitate the achievement of the DCUSA General<sup>11</sup> and Charging Objectives;<sup>12</sup> and
- directing that the change is approved is consistent with our principal objective and statutory duties.<sup>13</sup>

### Reasons for our decision

We note that DCP179 requires P300 in order to take effect and, in our view, it is appropriate to consider the benefits in light of our approval of P300. Therefore, our decision on DCP179 takes into account our direction today that P300 should be made. We consider this proposal will better facilitate Charging Objectives 3.2.3 and 3.2.4 and General Objective 3.1.4 and has a neutral impact on the other applicable objectives.

***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***

We consider that the change proposal better meets this objective. Under the current distribution charging methodology, NHH and HH tariffs are derived on a different basis,

<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/p300-introduction-new-measurement-classes-support-half-hourly-dcusa-tariff-changes-dcp179>

<sup>9</sup> There are currently no gas supplier parties.

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

<sup>11</sup> The applicable General Objectives (General Objectives) are set out in Standard Licence Condition (SLC) 22.2 and are also set out in Clause 3.1 of the DCUSA.

<sup>12</sup> The Applicable Charging Methodology Objectives (Charging Objectives) are set out in SLC 22A Part B of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

<sup>13</sup> The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

which results in different charges. This proposal will reduce both the discrepancy between tariff types and the disincentive for customers with HH meters moving to HH settlement. We note that the main difference between the NHH and HH tariffs will be the impact of the move from one or two unit rates to three unit rates. By moving to three unit rates, customers should have greater control over their charges, as they may be able to move consumption to time bands with lower charges.

We note that there will be some tariff disturbance, which we consider is a consequence of removing potential barriers to customers moving from NHH to HH settlement. However, on balance, we consider that removing discrepancies between NHH and HH tariffs and removing capacity charges for customers without a MIC outweighs the temporary disturbance in tariffs.

***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***

In our RIIO-ED1<sup>14</sup> strategy decision<sup>15</sup> we noted that, as we move towards smart grids and the low carbon economy, we expect the DNOs to introduce greater incentives for consumers to move their consumption away from network peak. By introducing a voluntary HH DUoS tariff for domestic customers, DCP179 is a step towards the implementation of such incentives. Therefore, we consider that this change better meets this objective.

However, we note that work stream six of the Smart Grid Forum<sup>16</sup> is currently exploring options to incentivise domestic customers to move their demand away from network peak. These solutions are likely to be viable once the smart meter roll out is complete. DNOs are fully engaged in this work and over time we expect them to further improve the incentives for domestic customers as part of the move towards smart grids.

We consider DCP179 is an interim step towards the implementation of smart grids for distribution by removing barriers to customers moving to HH settlement. This will facilitate realisation of the benefits of any future demand side response developments for electricity distribution customers.

***DCUSA General Objective 3.1.4 – the promotion of efficiency in the implementation and administration of the DCUSA arrangements***

We note that DCP179 proposes changes to sections of the DCUSA which do not directly relate to the charging methodologies. We consider that these consequential changes better meet this objective by ensuring DCP179 is implemented correctly. Properly reflecting the proposed changes will ensure the DNOs and IDNOs are able to continue operating their networks in an efficient and coordinated way.

We further note the proposed changes to the legal text include several square brackets where the CDCM, EHV Distribution Charging Methodology and Annual Review Pack versions and their dates of issue will be inserted when the legal text is incorporated into DCUSA.

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<sup>14</sup> Electricity distribution price control which will set regulatory arrangements from April 2015 to March 2023

<sup>15</sup> See pages 21-22: <https://www.ofgem.gov.uk/ofgem-publications/47068/riioed1decoutputsincincentives.pdf>

<sup>16</sup> Further information available at: <https://www.ofgem.gov.uk/electricity/distribution-networks/forums-seminars-and-working-groups/decc-ofgem-smart-grid-forum/work-stream-six>

### Implementation date

Under the weighted vote procedure, the DCUSA parties' recommendation to us was to reject the implementation date for DCP179. We note this was because the IDNO party category did not accept the implementation date, due to concerns that P300 would not be finalised in time for a 1 April 2015 implementation. We acknowledge that the new tariffs being put in place by DCP179 cannot be used until new Measurement Classes are introduced under P300. However, we consider that staggering the implementation dates to enable customers to be moved when the tariffs become available, is appropriate.

### **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP179: '*Amending the CDCM Tariff Structure*' be made.

**Andrew Burgess**

**Associate Partner, Transmission and Distribution Policy**

Signed on behalf of the Authority and authorised for that purpose