

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP134 – Implementation of notice in DCUSA for changes to Distribution time-bands		
Decision:	The Authority ¹ directs that proposal DCP134 be made ²		
Target audience:	DCUSA Panel, parties to the DCUSA and other interested parties		
Date of publication:	13 November 2012	Implementation Date:	1 December 2012

Background to the modification proposal

Under DCUSA Schedule 16 each Distribution Network Operator (DNO) Party has the responsibility for determining three distribution 'time bands'. Time bands are distinct blocks of time to which charges for using the distribution system can be applied. The current red, amber and green time bands in DCUSA are intended to influence the consumption patterns of consumers. This price signal is intended to encourage consumers to reduce consumption at peak times and encourage consumption when the network is under used. Each time band may be divided into any number of sections.³

At present, DCUSA does not specify how changes to the time bands may be made and there is therefore a possibility that time bands may be changed at short notice.

The modification proposal

DCP134 was raised by a Supplier Party, Npower (the proposer), in May 2012 following discussion at the annual review meeting of the Common Distribution Charging Methodology (CDCM). The change proposal seeks to provide certainty and predictability and mitigate against any potential risks associated with price shocks caused by sudden time band changes.

DCP134 proposes to insert obligations within Schedule 16 of the DCUSA to specify when time band changes can be made and to require that notice should be provided of any changes. It also seeks to clarify how much notice should be provided, i.e. a minimum of 15 months, and where this notification should be made to ensure that relevant parties are aware of the intended change to time bands.

The proposer considers that this change would better facilitate DCUSA General Objectives 3.1.2 and 3.1.3 and DCUSA Charging Objectives 3.2.1 and 3.2.2.

DCUSA Parties' recommendation

The Change Declaration for this change proposal indicates that DNO, IDNO/Offshore Transmission System Operator (OTSO), Supplier and Distributed Generation (DG) parties were eligible to vote on DCP134.

In each party category where votes were cast (no votes were cast in the DG party category), there was majority or unanimous support for the proposal and its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to us was that DCP134 should be accepted. The outcome of the weighted vote is set out in the table below:

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

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

³ We note that DCUSA modification proposal DCP130 seeks to introduce seasonal time bands.

DCP134	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		Supplier		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	82	18	100	0	100	0	n/a	n/a
IMPLEMENTATION DATE	82	18	100	0	100	0	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 9 October 2012. We have considered and taken into account the vote of the DCUSA Parties on the proposal, which is attached to the Change Declaration. We have concluded that:

1. implementation of the change proposal DCP134 will better facilitate the achievement of the DCUSA Charging Objectives; and
2. directing that the change is approved is consistent with our principal objective and statutory duties.⁴

Reasons for our decision

We note that this change proposal received majority support from voting parties. We are also satisfied that the consultation was sent to the appropriate mix of relevant stakeholders and interest groups, including smaller suppliers for whom certainty and predictability in charges is important.

One DNO Party raised issues in response to the consultation relating to the effect DCP134 may have on cost reflectivity, particularly over the long term and given the length of the notice period proposed. They considered there was potential for delayed responsiveness by DNOs, citing that the notice period could restrict DNOs' ability to keep time band signals appropriate for areas outside the EHV Distribution Charging Methodology (EDCM), e.g. load management or changing customer behaviour.

The DNO Party felt that there were wider industry implications of this change, namely that low carbon network schemes and demand side management schemes would affect customer behaviour and thus potentially affect time bands/demand profile.

This Party therefore did not support the proposed solution and implementation date set out in the change proposal. However, they broadly agreed with the intent and principles of the change proposal.⁵

We do not agree with the concerns raised by this Party for the reasons set out below. However, we appreciate that there needs to be a balance between predictability and cost reflectivity. We note that low carbon networks and demand side management schemes are not part of the DCUSA and are therefore outside the scope of this change proposal.

⁴ 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.

⁵ This Party suggested an alternative solution whereby time bands set or revised at indicative tariffs should be the same for final tariffs and that notification of an intended change to time bands should be made to DCUSA contract managers by 30 September, rather than 1 December as proposed. The work group felt that this alternative solution would not give suppliers sufficient notice to update the time periods in their contracts with customers.

We consider that greater predictability for suppliers in anticipating their charges is important and that a clear expectation of when any changes will be made is reasonable and should provide greater planning certainty for DNOs.

We note that DNO Parties in the Methodologies Issues Group (MIG) have discussed potential resourcing risks and the extra workload that could arise with providing this greater predictability within a specific timeframe. This group has agreed that this should be manageable. We expect that having a known notification date for intended changes provides DNO Parties with the opportunity to plan any changes further ahead and with greater certainty.

We note that the DCUSA work group considered that the change proposal better facilitates DCUSA General Objectives 3.1.2 and 3.1.3 as well as DCUSA Charging Objectives 3.2.1 and 3.2.2. The following sets out our reasons for approving the change proposal against the DCUSA Charging Objectives, which, in our view, are relevant to our decision. We consider that the proposal better facilitates Charging Objective 3.2.2 and has a neutral impact in respect of the other DCUSA objectives. As the proposed change is restricted to the CDCM, we have not considered the DCUSA General Objectives as relevant to our decision.

DCUSA Charging Objective 3.2.1 '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'

The work group considered that the change proposal satisfied the licence obligation placed on DNOs to review their charging methodologies and bring about changes to improve the methodology. As this change was raised as a part of a review of the CDCM, the group argued that this change better met this DCUSA Charging Objective.

Whilst we agree that the requirement to review the CDCM is a licence obligation, it is not clear to us that this particular change better enables the efficient discharge of that licence obligation. We therefore consider that this change proposal is neutral in relation to this objective.

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)'

The work group considered that the change proposal would improve the predictability of Distribution Use of System (DUoS) tariffs, which will better facilitate effective competition.

We agree that this change should provide greater certainty on when any potential changes to time bands may take place. We note that it includes an obligation to ensure that relevant parties are given adequate notice of the intended change to time bands and the legal drafting has outlined where the notification should be made, i.e. in the relevant charging statement. This should ensure that affected parties will be notified in good time of any intended changes and that the notification will be transparent.

We consider that the change will facilitate greater predictability of charges and therefore should improve the ability of suppliers to forecast changes in DUoS charges. This in turn should enhance competition in reducing potential barriers to entry to the supply market.

Decision notice

In accordance with standard condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP134: *Implementation of notice in DCUSA for changes to distribution time bands* be made.

Andrew Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose