



Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP130: Remove the discrepancy between non-half hourly (NHH) and half hourly (HH) Un-metered Supplies (UMS) tariffs		
Decision:	The Authority ¹ directs that DCP130 be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	6 December 2012	Implementation Date:	1 April 2013

Background to the proposed modification

The Common Distribution Charging Methodology (CDCM) was implemented in April 2010. The CDCM establishes the methodology for the calculation of Distribution Use of System (DUoS) charges for users connected to distribution networks at low voltage (LV) and at high voltage (HV). Having appropriate charging methodologies in place that properly reflect the costs (and benefits) that different customers impose on the network is very important, e.g. in order to encourage efficient use of the network. Distribution network operators (DNOs) are therefore required by their licences to review and develop the charging methodologies that determine how they charge different customers who use their networks. These methodologies are subject to regulatory approval.

Modification proposal DCP130 is part of the work being progressed through open governance arrangements by the Methodologies Issues Group (MIG) to improve the cost reflectivity of tariffs calculated by the CDCM model. It seeks to address the variance (discrepancy) between non-half hourly (NHH) and half hourly (HH) traded Unmetered Supplies (UMS). Concerns were raised about this variance at the commencement of the CDCM in 2010.

Currently, the Balancing and Settlement Code (BSC) gives all UMS customers the choice of trading electricity either half-hourly (HH) or non-half-hourly (NHH). UMS settlement is used for supplies that have predictable consumption profiles (e.g. street lights) where each item of connected equipment has a small consumption (e.g. less than 500 watts). Typical customers may have tens of thousands of items of equipment. When a UMS customer is settled HH using a customer-specific HH profile, they are sometimes called "pseudo-HH" tariffs to distinguish them from HH metered supplies that are settled using the metered HH data. When the UMS customer is settled NHH, the customer is assigned to one of the BSC NHH profiles which are less reflective of the actual profile of usage and therefore potentially not cost reflective.

Settlement data are more accurate where UMS customers trade HH rather than NHH. At present, UMS accounts for about 1.25% of total settlement consumption, with about two thirds of this 1.25% traded HH. Although the trend suggests that the proportion of UMS customers trading NHH is reducing, some large³ UMS customers continue to trade NHH. In particular, it was noted that a sizeable number of Continuous UMS customers⁴

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 Large customers are those with demand in the order of 10MW with a 50% load factor.

⁴ There is a wide range of customer groups with UMS equipment. Each group is identified in the BSC by its consumption profile. The existing NHH trading arrangements determine an Estimated Annual Consumption (EAC) for each customer in four consumption categories defined in BSC Procedure (BSCP) 520 (section 4.3) as: A- Continuous, B- Dusk to Dawn, C- Half night and predawn, and D- Dawn to dusk.

continue to trade NHH because the associated DUoS tariff is cheaper than the equivalent HH UMS DUoS tariff. This could result in customers choosing their settlement method based on the most advantageous DUoS tariff which may not be efficient overall or in consumers' best interests.

The modification proposal

DCP130 was proposed by Electricity North West (ENW) in May 2012. The proposer considers that the current difference in the method for calculating UMS DUoS charges for HH UMS and NHH UMS customers is inappropriate and could potentially have an adverse effect on a significant number of UMS customer groups. The proposer considers that customers imposing the same physical impact on the distribution system should be charged identical DUoS charges, irrespective of how they decide to trade their energy within the settlement system.

The proposal seeks to amend Schedule 16 of the DCUSA so that the current variance between the DUoS tariffs for HH UMS and NHH UMS customers is addressed. This would ensure that customers and suppliers choose the appropriate settlement approach for UMS (HH or NHH) rather than one determined by the lowest DUoS tariff. DCP130 would achieve this by changing the method of calculating UMS DUoS tariffs so that the calculation is based on seasonal time of day (STOD) time bands rather than the time of day time bands. In addition, the number of tariffs for NHH UMS would be **increased** to match the categories for NHH UMS as detailed in BSCP520.⁵ In particular, DCP130 proposes that:

- the existing NHH UMS tariff will be replaced with four new NHH UMS tariffs (A, B, C, and D) in line with BSCP520. This means that each of the NHH UMS tariffs (calculated in p/kWh) will differ between each of the NHH UMS categories defined in BSCP 520; and
- the unit rates for LV UMS pseudo HH will cease to be applied to the red, amber and green (RAG) time bands. Instead, the new published LV UMS pseudo HH rates within the CDCM model will apply to the black, yellow and green time bands.⁶

The changes to the time bands⁷ are expected to address the issues identified by introducing seasonality which incorporates changing consumption patterns throughout the year. This reflects better the behaviour within the UMS market. The proposal seeks only to address the DUoS tariffs and cannot have an impact on other factors that could encourage customers to move between HH and NHH settlement.

The proposer considers that having similar NHH and HH DUoS charges should reduce the current incentive for customers to choose trading arrangements with a view to reducing their DUoS bills. Also, in the proposer's view, DCP130 is more cost reflective than the status quo because it represents more accurately the typical consumption patterns of UMS customers. The proposer considers that the proposal better facilitates DCUSA

⁵ BSCP520, the BSC procedure for unmetered supply, can be found on Elexon's website:

http://www.elexon.co.uk/wp-content/uploads/2011/10/bscp520_v19.0.pdf

⁶ A detailed description of the time bands can be found in Appendix F of the DCP130 change proposal in the link below: <http://www.dcusa.co.uk/Public/CP.aspx?id=153>

⁷ We recently approved modification proposal DCP134, so the DNOs now have to give 15 months notice of changes to distribution time bands. However, the legal text for DCP134 states that "...where a change to distribution time bands is caused by the implementation of a change to this methodology, the requirement to provide a minimum of 15 months prior notice will not apply". DCP130 can be implemented and applied to the setting of DUoS charges, without a 15 month notice period.

Charging Objectives 3.2.1, 3.2.2, 3.2.3 and 3.2.4⁸, and DCUSA General Objectives 3.1.1, 3.1.2 and 3.1.3⁹.

The Workgroup assessing DCP130 considered its impact on various customer classes by assessing the difference when comparing the DNOs' April 2012 published tariffs with the tariffs that would result if DCP130 is approved. This analysis was supplemented by an assessment of the changes in total revenue that would be recovered from the UMS customer group with and without the change proposal.

The impact of the proposal on revenue recovered by DNOs from UMS customer groups varied across DNOs, ranging from a decrease of 8.1% to a decrease of about 36%. The findings showed that, on average, the total revenue recovered from the UMS customer group reduced across all DNOs by about 16%¹⁰, representing a redistribution of revenue of about £15m to the non-UMS tariffs and customer group. The Workgroup concluded that, when compared to total revenue, this was not material and that the change proposal had not produced unexpected results.

DCUSA Parties' recommendation

The Change Declaration for DCP130 indicates that DNO, IDNO, Supplier and DG (Distributed Generation) parties were eligible to vote on DCP130. There were votes cast in three party categories.

In respect of each Party Category that was eligible to vote, the sum of the weighted votes of the Groups in the party category that voted to accept the change solution was greater than 50% in all the categories that voted.

Therefore, in accordance with the weighted vote procedure, the DCUSA Parties' recommendation to us is that DCP130, both the change solution and implementation date, be approved. The outcome of the weighted vote is set out below:

DCP130	Weighted Voting (%)							
	DNO		IDNO		SUPPLIER		DG ¹¹	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
Change solution	100%	0%	100%	0%	75%	25%	N/A	N/A
Implementation date	100%	0%	100%	0%	75%	25%	N/A	N/A

Our decision

In reaching our decision, we have assessed the proposal against the applicable DCUSA objectives. We have considered the issues raised in the Change Declaration¹² and Change Report dated 1 November 2012. We have also taken into account the views of the DCUSA Parties in response to the DCUSA Panel's consultation, and the DCUSA Parties' recommendation. We note that, with the exception of one supplier, the overall intent and implementation date of the change proposal received broad support.

⁸ The DCUSA Charging Objectives are set out in Part A of standard licence condition 22A of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

⁹ The DCUSA General Objectives are set out in Part A of standard licence condition 22 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

¹⁰ The primary driver is the mix of UMS tariffs in the DNOs' areas. The impact of the proposed change is bigger where DNOs have a larger proportion of category A or D customers in their NHH UMS tariffs. Details of the analysis can be found in pg 6 of the DCP 130 change report: <http://www.dcusa.co.uk/Public/CP.aspx?id=153>

¹¹ No votes were cast in this category of Parties

¹² All documents can be accessed via the DCUSA website: <http://www.dcusa.co.uk/Public/CP.aspx?id=153>

We have concluded that:

- DCP130 should be implemented from 1 April 2013;
- implementation of change proposal DCP130 will better facilitate DCUSA charging objectives 3.2.2 and 3.2.3; and
- directing that the change is approved is consistent with our principal objective and statutory duties.¹³

Reasons for our decision

Our assessment of DCP130 against the DCUSA objectives which we consider are relevant to our decision is set out below. For the other objectives, we consider that the proposal has a neutral impact.

We consider that DCUSA Charging Objectives 3.2.2 and 3.2.3 are relevant.

DCUSA charging objective 3.2.2 'that compliance by each DNO party with the charging methodology 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 the participation in the operation of an interconnector (as defined in the Distribution Licence)'

A majority of consultation respondents considered that the proposal better facilitates this objective by:

- addressing the perceived overcharging of Continuous load UMS customers; and
- encouraging suppliers to choose the appropriate settlement approach rather than one that will result in lower DUoS bills.

A respondent also suggested that the proposal would better facilitate competition by removing the current barrier to the use of Pseudo HH metering systems. This could improve the settlement process and competition in the provision of these metering services.

We acknowledge these views. We agree that this change proposal provides consistency and addresses the variance between UMS HH and NHH tariffs. This means that UMS customers can make choices about settlement without considering possible differentials in DUoS bills. We consider that this should facilitate competition in the supply of electricity, for example, by allowing suppliers specialising more in either HH or NHH UMS to compete on a more level playing field.

We note another respondent's suggestion that the potential increase in competition offered by this change proposal could be distorted by introducing a considerable change to individual UMS tariffs in short timescales and at short notice. This respondent considered that a change of the magnitude proposed by DCP130 would require a more robust and longer consultation with stakeholders in order to fully appreciate its impact. In its view, it would be appropriate to delay the implementation of DCP130 until April 2014 to give more time to assess and consult on the impact of the change.

We do not consider that competition could be impaired as described by this respondent. We consider that the information provided in the impact assessment is proportionate to the aim of the proposal and sufficient for a decision to be made despite some changes being made to the proposed solution after the Workgroup consultation. This was also

¹³ The Authority's statutory duties are wider than the DCUSA objectives and are detailed mainly in the Electricity Act 1989 as amended as well as obligations arising under EU legislation.

mitigated by parties having the opportunity to express their views at the voting stage on whether they considered that the proposal still better facilitated the DCUSA objectives.

As explained in the impact assessment and analysis carried out by the DCP130 Workgroup, the proposal would result in about £15m (16%) reduction in revenue recovered from the UMS customer group. This represents less than 0.5% of total revenue recovered by DNOs for the 2012/13 financial year. In our view, the resulting redistribution of revenue between customer groups¹⁴ is not sufficiently material to warrant deferring the implementation date of DCP130.

Therefore, on balance, we consider that DCP130 does better meet this relevant objective.

DCUSA charging objective 3.2.3 'that compliance by each DNO party with the Charging Methodology results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflects the costs incurred, or reasonably expected to be incurred, by the DNO party in its Distribution Business'

Overall, respondents agreed that DCP130 would make the CDCM more cost reflective because it more accurately reflects the "**seasonal pattern of use**" experienced by the various UMS customer groups. In particular, they suggest that introducing seasonality¹⁵ into the HH UMS tariffs structure and disaggregating the current single average NHH UMS tariff to reflect specific UMS consumption patterns accurately represents the costs that UMS customers impose on the DNO networks.

We agree that, overall, DCP130 improves the cost reflectivity of charges. In setting charges, it takes into account more accurately the range of different consumption profiles. Therefore, it reflects more accurately the costs which UMS parties impose on the electricity distribution networks.

Proposed legal text for DCP130

We have reviewed the proposed legal text accompanying the DCP130 Change Declaration. We consider that Schedule 16 paragraph 40 could be drafted more clearly to explain the application of the green distribution time band in different cases. While the current proposed legal text is not an impediment to our approval of DCP130, we would expect DCUSA parties to address our concerns to clarify which time bands apply to which tariffs. This can be done through a DCUSA "housekeeping" change.

Decision notice

In accordance with SLC 22.14 of the Electricity Distribution Licence the Authority hereby directs that change proposal DCP130, '*Remove the discrepancy between non-half hourly (NHH) and half hourly (HH) Un-metered Supplies (UMS) tariffs*', be made.

Andrew Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose

¹⁴ Details of the Analysis that shows this redistribution can be found in Appendix E – Revenue Summary 9 Oct 12 of the change report, on the DCUSA website.

¹⁵ The unit rates for LV UMS pseudo HH are no longer applied to the Red, Amber and Green time bands. Instead the Unit rates will now be applied to the Black, yellow, and Green time- bands. The Black time-band is the seasonal time-band.