Modification proposal:	**Distribution Connection and Use of System Agreement (DCUSA) DCP108 - Availability of the Non-Intermittent Generator Tariff**		
Decision:	The Authority[1] directs that DCP108 be rejected[2]		
Target audience:	DCUSA Panel, parties to the DCUSA and other interested parties		
Date of publication:	11 April 2012	Implementation Date:	n/a

Background to the proposed modification

The Common Distribution Charging Methodology (CDCM) was implemented in April 2010 for calculating Distribution Use of System (DUoS) charges for users connected at low-voltage (LV) and high-voltage (HV). A key driver of the electricity distribution structure of charges project [3] resulting in this change was the failure of previous charging methodologies to recognise the benefits that distributed generation (DG) provide. When the CDCM was introduced, it provided credit to generators for offsetting demand on the distribution networks. Non-intermittent generators have access to a three-rate tariff[4], while intermittent generators have access to a one-rate tariff[5]. The structures of the tariff reflect the ability of the different types of generators to export electricity at peak times.

We have encouraged Distribution Network Operators (DNOs) in areas outside the CDCM to keep arrangements for intermittent generation under review. This would include the Engineering Recommendation P2/6 [6]. For example, we proposed in our May 2011 consultation on the Extra High Voltage Distribution Charging Methodology (EDCM)[7] that DNOs should consider whether intermittent generators should receive credits. The DNOs' initial view was that under Engineering Recommendation P2/6, there were no network benefits from intermittent generators, and hence there should be no credit. We acknowledged DNOs' underlying reasoning, but encouraged them to keep Engineering Recommendation P2/6 under review since we support the aim that cost reflective credits should be given to all generators that provide network benefits.

In a letter we published in February 2012 entitled "decision and further guidance on higher voltage generation charging"[8], we emphasised that applying generation credits to units exported during super-red time bands was appropriate and will provide an appropriate signal to generate when the system is most highly loaded.

[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] http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Decision%20document%201%20October%202008.pdf
[4] Generators receive credits per kWh in respect of network levels above connection. The three-rate tariff is the non-intermittent generator credit calculated based on distribution time bands. More information on DNO tariff structures http://www.energynetworks.org/electricity/regulation/structure-of-charges-cdcm/common-distribution-charging-methodology.html
[5] The one-rate tariff is the intermittent generator tariff, calculated on the uniform probability of intermittent generators generating over a year. The tariff lower credit reflects the fact that intermittent generator output cannot be relied upon at the network planning stage.
[6] The Engineering Recommendation is a revision of Engineering Recommendation P2/5 (ER P2/5) issued in 1978, which it supersedes. It is intended as a guide to system planning. It sets out the normal levels of security required for distribution networks classified in ranges of Group Demand.
[7] http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Ofgem_EDCM_consultation.pdf
[8] http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/Letter%20-%20way%20forward%20on%20DG%20guidance.pdf

The modification proposal

DCP108 was proposed by UK Power Networks (UKPN) in September 2011. UKPN asserts that whilst it is appropriate for intermittent generators to have access to the single rate generation tariff, it is not appropriate to deny them access to the three-rate tariffs if exports coincide with peak demand on the distribution network. The change proposal seeks to amend Schedule 16 of the DCUSA so that non-intermittent generator tariffs are available to intermittent generators. UKPN suggested that this proposition would be particularly appropriate for intermittent generators with some control over the time they generate electricity. The example given was hydro generators with dam reservoir.

Under the change proposal, meter registrants (who are primarily suppliers), acting on behalf of intermittent generators, would be able to selectively opt for the non-intermittent generator tariffs for individually nominated intermittent generation Meter Point Administration Number (MPANs) from a future date, and would be able to revert to the intermittent generator tariff in a similar manner. The intermittent generator could also directly opt for this change if they are a member of the DCUSA. The change in tariff between intermittent and non-intermittent generation is restricted to once within a twelve-month period.

UKPN considers that the proposal would better facilitate the achievement of DCUSA Charging Objectives 3.2.2 and 3.2.3 [9] – in the case of the former by making peak rate credits available to more generators, thereby creating more opportunity for tariffs choices; in the case of the latter objective, by allowing an intermittent generator to select the three-rate tariff, which the proposer considers is more cost reflective than the one-rate tariff. UKPN also considers that when an intermittent generator selects the three-rate tariff option, they would be incentivised to build up a record of generating during system peaks which could be recognised in the future P2/7 planning standard.

A working group assessed this proposal and a consultation was issued in November 2011 to assess the understanding of the intent and extent of the support for the principles underpinning DCP108 by interested parties. All seven respondents to the consultation said they understood the intent of DCP108. Four respondents agreed with the principles and implementation date, while three respondents did not support the principles and did not indicate whether they supported the implementation date.

DCUSA parties' recommendation

The Change Declaration for DCP108 indicates that DNO, IDNO/OTSO, Supplier and Distributed Generation (DG) parties were eligible to vote on DCP108. Two party categories voted on DCP108. Of these, 53% support was received from the DNO category and 67% support in the Supplier category. There were no votes in the IDNO/OTSO and DG 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 recommendation to the Authority is that DCP108, (both change solution and implementation date) be accepted. The outcome of the weighted vote is set out in the table below:

[9] DCUSA Charging Objective 3.2.2 and 3.2.3 are defined below

DCP108	Weighted Voting (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
Change solution	53%	47%	N/A	N/A	67%	33%	N/A	N/A
Implementation date	53%	47%	N/A	N/A	67%	33%	N/A	N/A

The Authority's decision

We have considered the issues raised by the proposal and the Change Declaration of 17 February 2012. We have considered and taken into account the vote of the DCUSA Parties on the proposal. We have concluded that implementation of change proposal DCP108 will not better facilitate the achievement of the DCUSA Charging Objectives[10] overall.

Reasons for the Authority's decision

Charging objective 3.2.1: that the 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.

Out of the seven parties who responded, only one respondent considered DCP108 to be neutral against this charging objective. The other six did not indicate whether or not they considered this proposal facilitated or hindered DNO Parties from discharging obligations imposed on them under the Act and Distribution Licence.

DNOs have an obligation under the Electricity Act to develop and maintain an efficient and economic distribution system. We consider that providing intermittent generators the opportunity to respond to the pricing signals embodied in the three-rate tariff could, in the medium to longer term, have positive effects on developing the networks in an economic and efficient manner. We discuss this in more detail below under charging objective 3.2.4.

Our view is that charging objective 3.2.1 is marginally better facilitated.

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 (five out of seven) of respondents to the consultation considered that the proposal better facilitates this objective. One respondent who supported the proposal against this objective considered that giving intermittent generators the option of the three-rate non-intermittent tariff would make peak rate tariffs available to more generators and provide suppliers with the opportunity to offer a wider range of products to their customers. Another respondent considered that the proposal would lift the current application of what was, in their view, an arbitrary distinction between intermittent and non-intermittent generators for charging purposes. According to this respondent, there were a number of small scale hydro generation schemes with storage facilities and therefore some degree of control over when they export electricity onto the network. However, we note that some respondents queried the underlying principle of DCP108 – in particular, whether it was appropriate to allow customers and/or suppliers to choose which tariff to apply.

We support the principle that generators should receive credits where they provide network benefits. In particular, we acknowledge the point that intermittent generators

[10] The Applicable Charging Methodology Objectives (Charging Objectives) are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

with appropriate storage technologies[11] have similar characteristics to non-intermittent generators (in terms of having control over when they export onto the network) and should arguably have access to the three-rate tariff. We consider that the ability to control output through storage technologies potentially means that intermittent generators could behave in a similar manner to non-intermittent generators by committing to making their output available when most required by the network. We should therefore consider whether they should have access to similar tariffs. It could be discriminatory to restrict generators with control over when they export to the intermittent flat rate. There may also be reasons why it is appropriate to retain the availability of a single band tariff for those intermittent generators without such control.

Despite this, we do not however believe that the idea of a "yearly option to switch between tariffs" as proposed by this modification would promote competition in the generation and supply of electricity for the following reasons:

- this option could potentially be discriminatory against non-intermittent generators since they will not have this option available to them;
- the ability to switch tariffs annually potentially provides an opportunity for gaming. If DCP108 were introduced, intermittent generators could be at a competitive advantage as they could choose which tariff to apply based on their expected income under the different tariff options, seeking to maximise profits from generation credits. We believe this could potentially undermine the underlying principle of the CDCM, which is that customers should be allocated tariffs that most closely reflect the cost they impose on the distribution network. The yearly option to switch between tariffs could also diminish the incentive to build a record of intermittent generator export at system peak which could be used to inform the Engineering Recommendations and hence system planning;
- it is possible that generators switching between the three-rate and one-rate tariffs would result in some volatility in prices year-on-year due to changes in volume between the distribution time bands.

On balance, we do not believe that DCP108 better facilitates charging objective 3.2.2.

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 had mixed views on whether or not DCP108 would make the CDCM more cost reflective. The parties who considered that the proposal facilitated cost reflectivity believed that the three-rate tariff gave maximum credit to generators when their generation benefitted the network most, and minimum credit when it was of little or no benefit. Some proponents also considered that the three-rate tariff was generally more cost reflective than the single-rate tariff.

We acknowledge these views. However, we do not consider DCP108 better facilitates cost reflectivity because Engineering Recommendation P2/6 does not currently take all types of intermittent generation output into consideration in providing guidance on planning the network. Although it is generally acknowledged that intermittent generators provide some benefits to the network, there are issues around reliability of their output. This uncertainty is reflected in the one-rate tariff offered to intermittent generators. However, we consider that the proposal may in future facilitate behaviour which could

[11] We understand there are currently a number of intermittent generators with storage technologies. These storage technologies may increase in sophistication in future.

potentially trigger review of the Engineering Recommendation P2/6 and the planning of the network, with knock on effects on cost reflectivity.

Our view is that DCP108 is neutral with respect to charging objective 3.2.3.

Charging objective 3.2.4: that so far as is consistent with Clauses 3.2.1 to 3.2.3, Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party Distribution Business.

We recognise that the development of energy from renewable sources and associated technologies such as storage creates challenges that need to be taken into account in the development of distribution networks. We note the view that DCP108 would extend the opportunity to intermittent generators to build up a record of availability at system peak thus facilitating their recognition in future Engineering Recommendation P2/7. We agree with this view – extending the three-rate tariff to intermittent generators may well incentivise increased generation at system peak for those who can control their export. This could be recognised in future engineering standards and improve efficiency in network planning. For this reason, we consider that Charging Objective 3.2.4 is better facilitated, since DCP108 takes account of developments in storage technologies that affect DNOs' networks. It may also provide additional encouragement to intermittent generators to further invest in storage technologies. To this end, we encourage DNOs to work with the rest of the industry to understand and address the issues that arise as a result of this.

Other issues

We note that there has been disagreement on aspects of the legal text around Independent Distribution Network Operators (IDNOs) and the potential administrative burden this change proposal might introduce. We would expect industry parties to explore and resolve these issues during the development stages of the change proposal.

Conclusion

It appears that the DCUSA parties' recommendation was marginal, with parties who voted against the proposal citing mainly discrimination concerns. We believe the proposal has some competition benefits in terms of attempting to increase the pool of generators with access to the three-rate tariff. However, we consider that the "yearly option to switch between tariffs" can be discriminatory against non-intermittent generators who have no such choice. The yearly option may also reduce the future benefits intermittent generators can provide by reducing certainty around network planning, and result in volatile charges. The proposal appears neutral against the cost reflectivity objective but positive against taking account of future developments in DNO businesses. On balance, we consider that DCP108 as proposed does not better facilitate the achievement of the relevant objectives as a whole. However, we recognise that an amendment to reflect the fact that some intermittent generators have more control over when they generate would improve existing arrangements.

Decision

In accordance with SLC 22.14 of the Electricity Distribution Licence, the Authority hereby directs that change proposal DCP108 "Availability of the Non-Intermittent Generator Tariff" be rejected.

Andrew Burgess
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Signed on behalf of the Authority and authorised for that purpose