

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP109 - Implementation of the EDCM		
Decision:	The Authority ¹ directs that proposal DCP109 be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	20 March 2012	Implementation Date:	01 April 2012

Background to the modification proposal

Distribution Network Operators (DNOs) are required by their licences to have in place methodologies to calculate their charges for Use of System (UoS). Licence modifications requiring the governance of the distribution charging methodologies to be placed in the Distribution and Connection Use of System Agreement (DCUSA), were approved by Ofgem in 2009. The aim was to oblige the DNOs to develop more accountable, transparent and accessible governance arrangements³. It was recognised that the methodologies would be introduced into the DCUSA at a later stage - the Common Distribution Charging Methodology (CDCM) in April 2010 and the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM) in April 2012.

The modification proposal

The intent of DCP109 is therefore to bring the EDCM text (as approved by Ofgem on 20 December 2012) into Schedules 17 and 18 of the DCUSA.

The Change Proposal also seeks to make any consequential changes to the rest of the Agreement required by the implementation of the EDCM. This includes changes around the use of the term EHV and changes to the CDCM arising from any reclassification of customers.

DCUSA Parties' recommendation

The Change Declaration for DCP109 indicates that DNO, Independent DNOs (IDNO)/Offshore Transmission System Operator (OTSO) and Supplier parties were eligible to vote on DCP109. Three party categories voted on DCP109. Of these 100% support was received from the DNO category and the IDNO/OTSO category. In the Supplier category where votes were cast there was 50% support for the proposal and for its proposed implementation date

Therefore, in respect of each Party Category that was eligible to vote, the sum of the Weighted Votes which voted to accept the change solution and implementation date was not more than 50% in all Categories who voted. The change solution and implementation date was accepted in the DNO and IDNO party categories but was rejected in the Supplier category. In accordance with the weighted vote procedure, the recommendation to the Authority was that DCP109, both the change solution and the implementation date, is rejected. 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 Delivering the Electricity Structure of Charges Project, 104/08, Ofgem, 22 July 2008:

http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/FINAL%20July%20consultation%20letter_22_07_08.pdf

DCP109	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG ⁴	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0	50	50	n/a	n/a
IMPLEMENTATION DATE	100	0	100	0	50	50	n/a	n/a

The Authority's decision

The Authority has considered the issues raised by the proposal and the Change Declaration dated 14 February 2012. The Authority has considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. The Authority has concluded that:

1. implementation of the change proposal DCP109 will better facilitate the achievement of the DCUSA General Objectives⁵; and
2. directing that the change is approved is consistent with the Authority's principal objective and statutory duties⁶.

Reasons for the Authority's decision

Our July 2009 document, 'Delivering the electricity structure of charges project: decision on extra high voltage charging and governance arrangements'⁷, comprehensively explains our views on the need for more accountable, accessible and transparent governance arrangements for EHV and High Voltage (HV)/Low Voltage (LV) distribution use of system charging methodologies. The document also explains the reasons for our decision to oblige the DNOs to incorporate the CDCM and EDCM within the DCUSA such that the new methodologies are subject to the change control procedures of that Agreement. In our view, subjecting the common charging methodologies to the governance and change control mechanisms of the DCUSA will ensure that the methodologies are responsive to the needs of current and future network users, and are capable of modification, if appropriate, from the time of their implementation.

However, the proposal was rejected by one of the two voting Suppliers in the Supplier Party Category and hence was rejected overall since the sum of the Weighted Votes of the Groups in the Party Categories which voted to accept the change solution and implementation date was not more than 50% in all Categories that voted.

The reasons the Supplier voted against the proposal are summarised as follows and relate to the content of the EDCM methodology to be incorporated into common governance as part of DCP109:

- The Supplier who voted to reject the proposal believes that the Forward Cost Pricing (FCP) methodology in the EDCM is ambiguous in relation to category 0000 customers. Category 0000 demand users are deemed not to use any network assets other than sole use assets. Therefore, in their view these customers should not be allocated to an FCP network group and receive an FCP charge.
- The Supplier has experienced material errors in the illustrative information provided to them in 2011 (and contained in the submission to Ofgem). The Supplier considers that in such circumstances, where charges are materially increasing and with inadequate notice due to errors by the DNO, it is appropriate

⁴ No votes were cast in this category of Parties

⁵ The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 and Clause 3.2 of the DCUSA.

⁶ 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.

⁷ <http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/July%20decision%20EHV%20charging%20and%20governance.pdf>

for the DNO to seek a derogation to provide the customer with more time to adjust to the new level of charges.

Ofgem acknowledges the two points raised, i.e. material changes to tariffs with short notice and that Suppliers and other parties may have issues with the detail of the EDCM methodology. However, we do not consider that either of these reasons would justify not including the EDCM methodology (which has been approved by Ofgem) in open governance. Indeed, the first issue raised by the Supplier, relating to the status of 0000 customers in the FCP methodology, is the type of issue that could be raised and discussed under open governance. We would encourage the Supplier to consider progressing with this. The second issue should be dealt with bilaterally between the DNO and the Supplier.

DCUSA General Objectives

The following section details the DCUSA General Objectives which are considered to be better facilitated by the Change Proposal.

General objective 3.1.1 of DCUSA – the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System

A number of Parties considered that the proposal facilitated achievement of this relevant objective on the grounds that subjecting the EDCM to the governance and change control mechanisms of the DCUSA will ensure that the EDCM is responsive to the needs of network users and that the industry can continue to pursue cost reflective charges centrally through the DCUSA.

We consider that this proposal will contribute to the development, maintenance and operation of an efficient and coordinated Distribution System by helping to ensure that the EDCM can be amended by industry⁸.

General objective 3.1.3 of DCUSA – the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences

Several parties considered that implementation of the proposal will discharge the DNOs' and IDNOs' obligation under Standard Licence Condition (SLC) 22A to ensure that the EDCM is incorporated within the DCUSA from 1 April 2012.

In our view the proposal seeks to amend the DCUSA in order to make it capable of formally receiving modification proposals to the EDCM from the time of its implementation. The proposal will also ensure that any such modification proposals are subject to the existing DCUSA change control procedure. In so doing, the proposal would also better facilitate the efficient discharge of the more general licence obligations imposed on DNOs concerning receiving, consulting and reporting on proposals from non-DNO parties described under Part F of SLC 50A.

General objective 3.1.4 of DCUSA – the promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it

Some parties noted that this proposal inserts the EDCM into the DCUSA. A few minor edits have been made to the EDCM to ensure that definitions are in line with the DCUSA. This promotes efficiency in the implementation and administration of the DCUSA.

⁸ Once approved, DCUSA parties may raise a change proposal. This would follow the DCUSA change process. Any change proposal coming out of this process would then be referred to the Authority for decision. A Proposal which better facilitates the DCUSA Charging Objectives compared to the status quo and is consistent with the Authority's principal objective and wider statutory duties may be approved.

Without these edits Schedules 17 and 18 would conflict with other parts of the Agreement and be unclear to Parties.

In our view, the proposal introduces new powers and responsibilities to the DCUSA. We consider that these increased obligations are justified by the benefits of the proposal. The proposal will improve accountability, accessibility and transparency of the modification arrangements applying to the EDCM. Further, we note that the proposal makes the changes to the DCUSA necessary to prepare the agreement for handling change proposals to the EDCM following its incorporation. Given that incorporation of the methodology is required under licence, we consider that these changes facilitate the promotion of efficiency in the administration of the DCUSA arrangements and hence facilitate the promotion of General Objective 3.1.4.

DCUSA Charging Objectives

SLC22A obliges licence holders to ensure that the EDCM is incorporated within the DCUSA by 1 April 2012. Consistent with this obligation, DCP109 will place the EDCM into DCUSA open governance. The EDCM has already been approved by the Authority and the DCP109 proposal does not make any modification to the methodology. Whilst the Working Group also considered the proposal against the DCUSA Charging Objectives, we do not consider them to be relevant to our decision to approve the proposal. Consistent with our decision in DCP059⁹ which implemented the CDCM into DCUSA open governance, only the General Objectives considered above are relevant to our decision.

Overall

It would appear that the party who voted against DCP109 considers that it would not better facilitate the objectives. However, the party did not link the rejection to the objectives. The detailed reasoning for rejection is explained in more detail above.

Overall, we consider that DCP109 better facilitates the achievement of the relevant objectives as a whole. In our view the proposal has benefits in terms of the improved accountability, accessibility and transparency of the modification arrangements applying to the EDCM which justify any increased obligations. Given that incorporation of the methodology is required under the licence, we consider that DCP109 better facilitates the DCUSA General Objectives.

We consider that the change proposal is consistent with our principle objective of protecting existing and future customers, wherever appropriate, by promoting effective competition. It is also consistent with our wider statutory duties.

Decision notice

In accordance with SLC 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP109: *'Implementation of the EDCM'* be made.

Rachel Fletcher

Acting Senior Partner: Smarter Grids and Governance - Distribution

Signed on behalf of the Authority and authorised for that purpose

⁹ <http://www.ofgem.gov.uk/Licensing/ElecCodes/DCUSA/Changes/Documents1/DCP059D.pdf>