

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP294 – Capacity Management following acceptance of connection offer		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	25 May 2018	Implementation date:	First DCUSA release after Authority approval

Background

DCP294 seeks to set out the principles under which the unutilised maximum capacity specified in connection offers or in bilateral connection agreements (BCAs) with IDNOs or DNOs operating out of area (LDNOs) can be managed in an economic and efficient manner. It aims to do this whilst protecting the legitimate requirements of parties requiring capacity which was agreed in connection offers.

Presently the provisions for managing the capacity during the build out of the new network and up to the completion of the network is covered by the "Capacity Ramping for LDNOs" provisions in Schedule 22 of DCUSA – "the Common Connection Charging Methodology". The Proposer's view is that this process is better managed through Section 2B of the DCUSA – "Distributor to Distributor Relationships" – and that the process for managing capacity at the connection between the LDNO's and Distribution Network Operator (DNO)'s network should be updated to be clear and transparent.

Previous modification decision DCP114/115⁴ sought to introduce mechanisms to the National Terms of Connection (NTC) where distributors could manage capacities (over and under utilisation) on connections to end customers. Since the connection between the DNO and the LDNO is not covered by the NTCs, the arrangements put in place by DCP114/115 do not cover those connections.

DCP294 therefore seeks to put in place similar arrangements to those introduced by DCP114/115, to manage instances where capacity (at the connection between an LDNO and a DNO network) is underutilised.

The modification proposal

This Change Proposal was raised by the Electricity Network Company Ltd on 1 March 2017. It is seeking to:

- Ensure that the right to vary the capacity of a connection between DNOs and LDNOs is formalised and that any such variation considers the development phase of such a connection; and
- Amend the timeframe of the development phase⁵ from three years to five years.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/dcp114_and_dcp115_d.pdf

⁵ 'Development Phase' defined in Schedule 22 of the CCM as the three year period, unless otherwise agreed with us, commencing on the date of Energisation of an embedded network over which the development is constructed.

This would introduce an analogous mechanism for the DNO to request back capacity from LDNOs– to that which exists for DNO to end customers under DCP114 and DCP115. Under the current system, the rights to vary the capacity of a connection (between a DNO and LDNO network) are either silent, contained in BCAs between each company or subject to an interpretation of the Electricity Act.

This Change Proposal would formalise the process that could be followed to vary the capacity. In addition, the development phase of an LDNO network is currently three years and is reported by the Working Group not to cater for the majority of connections which they believe take longer than this.

The Working Group unanimously agreed that DCUSA General Objectives one, three and four would be better facilitated by DCP294. There was also a majority view that the DCUSA Charging Objectives would remain neutral if this change was implemented, however, a minority of Working Group members thought that DCUSA Charging Objective one would be better facilitated by DCP294.

DCUSA Parties’ recommendation

In each party category where votes were cast (no votes were cast in the DG party category),⁶ there was majority (>50%) support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP294 is accepted. The outcome of the weighted vote is set out in the table below:

DCP 294	WEIGHTED VOTING (%)							
	DNO ⁷		IDNO/OTSO ⁸		SUPPLIER		DG ⁹	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	64%	36%	100%	0	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	71%	29%	100%	0	n/a	n/a	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 19 April 2018. 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:

- implementation of the modification proposal will better facilitate the achievement of the Applicable DCUSA objectives;¹⁰ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.¹¹

Reasons for our decision

⁶ There are currently no gas supplier parties.

⁷ Distribution Network Operator

⁸ Independent Distribution Network Operator/Offshore Transmission System Operator

⁹ Distributed Generation

¹⁰ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹¹ The Authority’s statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

We consider this modification proposal will better facilitate Applicable DCUSA Objectives one, three and four and has a neutral impact on the other applicable objectives.

DCUSA Objectives

Applicable DCUSA Objective (1) - the development, maintenance and operation by the licensee of an efficient, co-ordinated, and economical Distribution System

The Working Group unanimously agreed that the proposal better facilitates this objective, as did the IDNO parties and three of the DNOs parties. The Working Group and IDNO parties noted that including a clause to open up discussion on the freeing up of capacity for use elsewhere on the network would facilitate a more efficient, coordinated and economical network. They noted that the proposal places a clear and specific obligation¹² on both parties to negotiate in good faith which should lead to better management of the network.

However, two DNO parties noted that there is nothing to prevent such discussion between parties already taking place, with one noting that this proposal doesn't go far enough to achieve any significant improvement in empowering network operators to recover unused capacity. In addition, one DNO party noted that the work currently underway by Ofgem on Access and Forward-looking Charges may conclude that further work is required in this area – in respect of cost signals or efficient ways of recycling capacity.

We consider that the proposal better facilitates the development, maintenance and operation of an efficient, co-ordinated and economical Distribution System. We note that the proposal does not empower network operators to recover unused capacity, however it does formalise a process, in the same way that DCP115 (for under-utilisation) does, for both parties to initiate and/or take part in a discussion which may result in more efficient use of the network. We agree that our Access and Forward-looking Charges work may conclude that further work is required in this area, however, we do not think that this proposal will prevent further work in this area.

Applicable DCUSA Objective (2)– the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity

One DNO party noted that the proposal better facilitates this objective. The DNO party considered that it allows LDNOs to connect at their chosen voltage and point on the network at a cost efficient price to the benefit of their end customers.

We note that there is no cost signal for non-utilisation of spare capacity for LDNOs and therefore we do not agree that it directly better facilitates effective competition in the generation and supply of electricity. While this situation is not explicitly addressed in the modification, we do however agree with the panel and consider the proposal neutral to the facilitation of this objective.

¹² The proposed legal text as set out in 39.12A is for 'either Party to propose a variation to the Maximum Import/Export Capacity contained within the BCA by notice in writing to the other Party. The Company and the User shall negotiate in good faith the terms of any such variation.'

Applicable DCUSA Objective (3) - the efficient discharge by the licensee of the obligations imposed upon it by its licence

The Working Group, one DNO party and one IDNO party note that the proposal better facilitates this objective as it makes the obligations imposed by the licences of the parties more transparent through opening a dialogue between LDNOs and DNOs regarding unutilised capacity.

We note that whilst these discussions can already take place, we consider this proposal better facilitates this objective as it provides additional clarity for LDNOs on reducing their maximum capacity where possible. This proposal therefore will help to maintain the most efficient level of network capacity, with any spare capacity available for reallocation.

Applicable DCUSA Objective (4) – the promotion of efficiency in the implementation and administration of the DCUSA arrangements

The Working Group, two DNO parties and one IDNO party note that this proposal better facilitates this objective as it provides clarity on the right of both Parties to vary the Bilateral Connection Agreement (BCA).

We note that whilst these discussions can already take place, we consider that formalising the process will better facilitate the efficient implementation and administration of the DCUSA arrangements.

Charging Objectives

The Working Group held a majority view that the DCUSA Charging Objectives would remain neutral if this proposal was implemented.

First Applicable Charging Methodology Objective – that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider¹³ of the obligations imposed on it under the Act and by its licence

A minority of Working Group members thought that DCUSA Charging Objective one would be better facilitated as it would allow distribution parties to have a better understanding of the capacity (through the Development Phase) that will be connected to their networks. They considered this will allow those parties to more easily manage an efficient, economic and co-ordinated distribution system.

We agree with the majority of the Working Group that this proposal has a neutral impact on this objective. This is because there are no additional processes or obligations inserted in the Charging Methodology, the only change is how long the Development Phase will last.

Overall, our view is that the proposal formalises arrangements that could already take place, however we consider this modification makes the process more transparent and efficient. In addition, we note that our Access and Forward-looking charging work may come up with more enduring and comprehensive solutions to these issues.

¹³ Distribution Services Provider: 'means any Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence have effect (whether in whole or in part).'

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP294: Capacity Management following acceptance of connection offer be made.

Chris Brown**Head of Core and Emerging Policy**

Signed on behalf of the Authority and authorised for that purpose