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|------------------------|--|----------------------|------------|
| Modification proposal: | <b>Distribution Connection and Use of System Agreement (DCUSA) DCP293: Charging Methodology Cut-Off Date</b> |                      |            |
| Decision:              | The Authority <sup>1</sup> directs this modification <sup>2</sup> to be made <sup>3</sup>                    |                      |            |
| Target audience:       | DCUSA Panel, Parties to the DCUSA and other interested parties   |                      |            |
| Date of publication:   | 21/11/2017   | Implementation date: | 01/04/2018 |

## Background

Under the current Distribution Connection and Use of System Agreement (DCUSA)<sup>4</sup> framework, Distribution Network Operators (DNOs) must provide fifteen months' notice of any changes to Use of System charges. There is however no formal cut-off date for the finalisation of charging methodologies, which is a required for this to occur. The existing arrangement is based upon an informal arrangement for DCUSA Parties to complete the Distribution Change Proposals (DCPs) which incorporate changes to the charging methodology, within a sufficient period of time to allow Distribution Network Operators (DNOs) to calculate charges.

DNOs must be in a position to calculate, test and approve any revised charges in such time to enable them to comply with their obligation<sup>5</sup>. If there is insufficient time for DNOs to comply with this notice requirement and subsequently implement the revised charging methodologies, they would be at risk of breaching their licence conditions.

Modification DCP164 'Review of Change Process for Use of System Methodology' was raised by Northern Power Grid on 13 February 2013. It sought to introduce a managed change process for charging methodology related Distribution Change Proposals (DCPs). We rejected this proposed change on 17 September 2013 and since, industry has further reviewed the charging methodology change process and proposed DCP293.

## The modification proposal

DCP293, raised by UK Power Networks on 14 February 2017, seeks to establish a cut-off date of 18 months to ensure DCUSA issues the final revised charging methodologies to DNOs so that charging related DCPs are completed in time. This date provides 3 months<sup>6</sup> for the DNOs to complete any actions prior to giving notice of any revised charges.

DCP293 proposes, that within 6 weeks following the cut-off date, DCUSA must issue the models to DNOs for the revised charging methodologies. This would allow DNOs another 6 weeks to test the models before being required to provide notice of implementation of the revised charges. The proposer considers that this process would allow DNOs a specific period of time in which to test the models, approve and publish the revised charges to reduce the risk of errors. The proposer considers that this would mitigate the risk, that they consider exists under the current informal arrangements, that DNOs do not have sufficient time to carry out this process. The proposer argues that this would

<sup>1</sup> 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.

<sup>2</sup> 'Change' and 'modification' are used interchangeably in this document.

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

<sup>4</sup> The DCUSA provides a single centralised document between electricity Distributors and electricity Suppliers and Generators. Any licensed electricity distributors, suppliers and generators can become Parties of the DCUSA and if they choose to can amend the Agreement with the consent of other Parties and the Authority.

<sup>5</sup> The DCUSA requires that DNOs to provide 15 months' notice of changes to DUoS charges.

<sup>6</sup> Technically, based on the legal wording of the proposed changes to the DCUSA, the cut-off date is 5 working days after the date 3 months prior to the date that DNOs must provide 15 months' notice of implementation of the revised charges.

also enable DCUSA to confirm the final charging methodologies for the appropriate future charging year before the deadline for DNOs to provide notice to change charges for that year.

### DCUSA Parties' recommendation

In each party category where votes were cast, there was unanimous support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP293 is accepted. The outcome of the weighted vote is set out in the table below:

| DCP293              | WEIGHTED VOTING (%) |        |                        |        |          |        |                 |        |
|---------------------|---------------------|--------|------------------------|--------|----------|--------|-----------------|--------|
|                     | DNO <sup>7</sup>    |        | IDNO/OTSO <sup>8</sup> |        | SUPPLIER |        | DG <sup>9</sup> |        |
|                     | Accept              | Reject | Accept                 | Reject | Accept   | Reject | Accept          | Reject |
| CHANGE SOLUTION     | 100                 | 0      | 100                    | 0      | 100      | 0      | n/a             | n/a    |
| IMPLEMENTATION DATE | 100                 | 0      | 100                    | 0      | 100      | 0      | n/a             | n/a    |

### Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 17 October 2017. 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 Charging objectives;<sup>10</sup> and
- directing that the modification is approved is consistent with our principal objective and statutory duties.<sup>11</sup>

### Reasons for our decision

We consider this modification proposal will better facilitate Applicable Charging Methodology Objectives (1) and (6), and has a neutral impact on the other relevant Charging Methodology Objectives.

***First Applicable Charging Methodology Objective – that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider<sup>12</sup> of the obligations imposed on it under the Act and by its licence***

We agree with the working group assessment that DCP293 could have a positive impact against this objective. The establishment of the cut-off date for the finalisation of the charging methodologies to 18 months allows for a sufficient period of time for DCUSA to

<sup>7</sup> Distribution Network Operator.

<sup>8</sup> Independent Distribution Network Operator/Offshore Transmission System Operator.

<sup>9</sup> Distributed Generation.

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

<sup>11</sup> 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.

<sup>12</sup> 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).

confirm the final charging methodologies and models (arising from modification proposals). The period of time following the cut-off date should provide a robust framework to help ensure that there is enough time for DNOs to sufficiently test the charges.

If timescales are longer, there is more time for DNOs to sufficiently test the models to ensure they are both accurate and robust, and less risk that a late decision on a modification could lead to DNOs being in a position where they could breach their licence obligations. We consider that the implementation of DCP293 would assist DNO parties in providing a sufficient framework to prevent this, to seek to ensure DNOs can meet their obligations set out within the distribution licence.

***Sixth Applicable Charging Methodology Objective - compliance with the Relevant Charging Methodology promotes efficiency in its own implementation and administration***

The certainty of the methodology to be set out three months ahead of the production of the charges, enables DNOs to plan their charge setting process more thoroughly in order to produce robust and accurate DUoS charges in a more efficient manner. The implementation of this modification provides clarity to the process and gives certainty to timetables which enable DNOs to work more efficiently. For this reason, the Authority believes that DCP293 facilitates this objective.

**Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP293: "Charging methodology cut-off date be made".

DCP293 will be implemented on 1 April 2018 and become effective on 1 October 2018. This date will form the formalised cut-off date for finalisation of modification proposals that change any of the charging methodologies.

**Chris Brown**

**Head of Core and Emerging Policy, Energy Systems Integration**

Signed on behalf of the Authority and authorised for that purpose