

|                      |  |                      |     |
|----------------------|--|----------------------|-----|
| Proposed variation:  | <b>Distribution Connection and Use of System Agreement (DCUSA) DCP270 – Removal of Medium Non-Domestic Tariffs from the CDCM</b> |                      |     |
| Decision:            | The Authority <sup>1</sup> has decided to reject <sup>2</sup> this modification <sup>3</sup>                                     |                      |     |
| Target audience:     | DCUSA Panel, Parties to the DCUSA and other interested parties   |                      |     |
| Date of publication: | 16 November 2016   | Implementation date: | n/a |

## Background

In 2009, the UK Government introduced Standard Licence Condition 12 requiring suppliers in GB to roll out advanced meters<sup>4</sup> to their larger non-domestic consumers<sup>5</sup> by 6 April 2014 (the 'advanced meter obligation').<sup>6</sup> The obligation requires that all larger non-domestic premises be supplied by advanced meters unless the supplier was unable to complete installation, despite taking 'all reasonable steps' to do so.

Advanced meters are capable of recording HH<sup>7</sup> consumption data. Under Balancing and Settlement Code Modifications P272<sup>8</sup> and P322<sup>9</sup>, all customers with advanced meters in Profile Classes 5-8<sup>10</sup> require migration to HH settlement by April 2017. To facilitate this, DCP179 'Amending the CDCM<sup>11</sup> Tariff Structure' introduced new HH metered tariffs for customers in Profile Classes 1-8.<sup>12</sup>

During the development of the new tariffs to facilitate change proposal DCP179 the working group agreed that, because the HV<sup>13</sup> Medium tariff is currently a preserved tariff for HV connected NHH<sup>14</sup> traded customers, it should be removed from the CDCM.

If all Profile Classes 5-8 customers were migrated to HH settlement the HV Medium Non-Domestic, the LV Medium Non-Domestic and the LV Sub Medium Non-Domestic CDCM tariffs would become redundant. The number of consumers charged under these tariffs was assessed by the Distribution Charging Methodologies Forum Methodology Issues Group in April 2016. The findings are set out in the table below.

| Tariff Type                | Number of consumers |
|----------------------------|---------------------|
| HV Medium Non-Domestic     | 644                 |
| LV Sub Medium Non-Domestic | 3,156               |
| LV Medium Non-Domestic     | 172,143             |

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

<sup>3</sup> 'Change' and 'modification' are used interchangeably in this document.

<sup>4</sup> Advanced meters record consumption for each half hour in electricity and provide the supplier with remote access to that data. Advanced meters have a lower minimum level of functionality than smart meters, which are being rolled out to domestic and smaller non-domestic consumers.

<sup>5</sup> For electricity this applies to non-domestic premises where the metering point falls within profile class 5 to 8.

<sup>6</sup> See SLC 12.17 – 12.22 of the Electricity Supply Licence

<sup>7</sup> Half Hourly

<sup>8</sup> <https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/p272d.pdf>

<sup>9</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/p322\\_d.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/06/p322_d.pdf)

<sup>10</sup> Measurement Classes are defined in table X-6 on Page 54 of BSC Annex X-2 [https://www.elexon.co.uk/wp-content/uploads/2016/06/Section\\_X-2\\_v37.0.pdf](https://www.elexon.co.uk/wp-content/uploads/2016/06/Section_X-2_v37.0.pdf)

<sup>11</sup> Common Distribution Charging Methodology

<sup>12</sup> [https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/dcp179\\_d\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2014/10/dcp179_d_0.pdf)

<sup>13</sup> High Voltage

<sup>14</sup> Non Half Hourly

## The modification proposal

DCP270, raised by Northern Powergrid, seeks to remove the HV Medium Non-Domestic tariff and the LV Medium and LV Sub Medium Non-Domestic tariffs from the CDCM. The rationale for the proposal is that these tariffs are no longer required and it is therefore efficient to remove them from the CDCM methodology.

The proposal was discussed by a working group and was subject to an industry consultation. The majority of respondents were supportive of the principle of the change proposal. Most agreed that the tariffs in question should be removed from the CDCM.

Under DCP270, any remaining consumers in Profile Classes 5-8 would be moved to HH CDCM tariffs on 1 April 2018. In order to achieve this, they would be changed to HH Measurement Classes C, E or F. This may mean that consumers may have to have their metering equipment changed to be HH capable. A majority of respondents agreed with this approach for migration of any remaining consumers on NHH tariffs. One respondent considered that some consumers might not be happy with the approach if it means they will receive higher tariffs or be exposed to additional charges such as capacity, excess capacity and reactive power. Another respondent argued that if any customers have not migrated to HH metering/settlement under suppliers' licence and code obligations, then changing the DUoS<sup>15</sup> tariff should not be used as a lever to influence consumer behaviour. The working group suggested that the removal of these DUoS tariffs is due to the P272 migration whereby these tariffs become obsolete. The working group considered that this means the removal of the DUoS tariff under DCP270 is not intended as a way to influence consumer behaviour but is a consequence of the changes due to implementation of P272.

The working group requested an impact assessment for any customers left on the legacy meters transitioning to the new tariffs. The impact assessment found that the impact of DCP270 on individual tariff elements would be small. There would be no change in tariffs in a number of DNO areas, and a small (less than 1 per cent) change in others. However, the impact on illustrative customers of migrating to HH tariffs would have been large. The working group took the view that there should not be any real customer impact as all customers should have migrated from these tariffs by the time of the proposed implementation date in April 2018.

## DCUSA Parties' recommendation

The Change Declaration for DCP270 indicates that all parties were eligible to vote on DCP270. From the DNO category, there was unanimous support for the proposal and its implementation date. From the supplier category there was 50% support for the proposal and its implementation date. No votes were cast in other categories. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP270 is rejected. The outcome of the weighted vote is set out in the table below:

| DCP270              | WEIGHTED VOTING (%) |        |                         |        |          |        |                  |        |
|---------------------|---------------------|--------|-------------------------|--------|----------|--------|------------------|--------|
|                     | DNO <sup>16</sup>   |        | IDNO/OTSO <sup>17</sup> |        | SUPPLIER |        | DG <sup>18</sup> |        |
|                     | Accept              | Reject | Accept                  | Reject | Accept   | Reject | Accept           | Reject |
| CHANGE SOLUTION     | 100%                | 0      | n/a                     | n/a    | 50%      | 50%    | n/a              | n/a    |
| IMPLEMENTATION DATE | 100%                | 0      | n/a                     | n/a    | 50%      | 50%    | n/a              | n/a    |

<sup>15</sup> Distribution Use of System

<sup>16</sup> Distribution Network Operator

<sup>17</sup> Independent Distribution Network Operator/Offshore Transmission System Operator

<sup>18</sup> Distributed Generation

## Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 3 October 2016. 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 not better facilitate the achievement of the DCUSA Charging Objectives.<sup>19</sup>

## Reasons for our decision

We consider this modification proposal will not better facilitate DCUSA Charging Objectives 1 and 4, and will have a neutral impact on the other relevant objectives.

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

***Fourth Applicable Charging Objective – that, so far as is consistent with the first three Applicable Methodology Objectives, the Relevant Charging Methodologies, so far as is reasonably practicable, properly take account of developments in a Distribution Services Provider’s Distribution Business***

The working group which assessed DCP270 concluded that it facilitates DCUSA Charging Objective 1 because the HV Medium Non-Domestic, LV Medium Non-Domestic and LV Sub Medium Non-Domestic tariffs will no longer be required. The working group considered that it is therefore efficient to remove them from the methodology.

At voting, one DNO group stated that Charging Objective 4 is better facilitated as a result of DCP270 as:

- It proposes to remove the ‘Medium Non-Domestic’ tariffs from the CDCM which would no longer be required once Suppliers have successfully moved all customers to alternative metering arrangements; and
- This migration is expected to have taken place well in advance of the start of April 2018 when this change would take effect.

Although responses to the working group’s consultation generally supported removal of the tariffs, three respondents did not agree that the ‘Medium Non-Domestic’ tariffs should be removed from the CDCM; two of these cited concerns about customers on NHH meters, the other that customers should not be moved to a new tariff without their consent.

In reaching our decision we have also taken into consideration the comments provided when the proposal was issued for party vote. One supplier did not agree that Charging Objective 1 is better facilitated by DCP270 and stated that it is inefficient to seek removal of the ‘Medium Non-Domestic’ tariffs before it is certain that there are no customers remaining on them, without proposing workable alternative arrangements for these customers.<sup>20</sup> In their voting form, the supplier further questioned the solution proposed in the change report<sup>21</sup> for any customers remaining on the tariffs affected on the basis that customers are under no obligation to be supplied by an advanced meter and some customers will be supplied via traditional metering in the longer term.

---

<sup>19</sup> The DCUSA Charging Objectives (Relevant Objectives) are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence.

<sup>20</sup> Similar comments were made by another supplier in response to the working group consultation.

<sup>21</sup> Para 5.4 – 5.7 of the DCP270 Change Report

We note that under SLC12.21, suppliers are prohibited from supplying relevant customers through meters that are not advanced. We also note that this prohibition does not apply where the licensee is unable to install an advanced meter, despite taking all reasonable steps to do so. We acknowledge that this means it may not be correct to assume that there will not be any remaining Profile Classes 5-8 customers on 1 April 2018, when DCP270 is proposed to be implemented. Therefore we are not persuaded that Charging Objectives 1 or 4 are better facilitated by removing the tariffs proposed under DCP270.

In addition, we note that, if there are any remaining Profile Classes 5-8 customers who have not had an advanced meter installed by April 2018, the proposed solution is to move them to HH tariffs, which would require them to be moved to HH Measurement Classes and may potentially also require the customers to change their metering equipment. If a customer has not got an advanced meter, despite the supplier taking all reasonable steps to install one under SLC 12, and therefore is not required to move to HH settlement under P272/P322, we do not think it is right that they have to do so, in order to enable the DNO to charge the supplier for that customer.

### **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification proposal DCP270: *Removal of Medium Non-Domestic Tariffs from the CDCM* should not be made.

**Andrew Self**  
**Head of Electricity Network Charging**

Signed on behalf of the Authority and authorised for that purpose