



DCUSA CONSULTATION

DCP 161 – Excess Capacity Charges

1 PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators.
- 1.2 Parties to the DCUSA can raise a DCUSA Change Proposal (“DCP”) to amend the Agreement. DCPs should better facilitate the DCUSA General Objectives and/or Charging Objectives of the DCUSA document.
- 1.3 This document is a consultation issued in accordance with Clause 11.14 of the DCUSA and seeks views on Change Proposal DCP 161 – Excess Capacity Charges.
- 1.4 The change sought by DCP 161 can only be made with the consent of the Gas and Electricity Markets Authority (Ofgem). An advisory vote of DCUSA Parties will be taken before the change is sent to Ofgem for approval.
- 1.5 The Consultation has been issued to DCUSA Parties, DCMF Distribution List and Ofgem.
- 1.6 Parties are invited to consider the Change Proposal detailed in this consultation and submit comments using the form attached as Attachment C to dcusa@electralink.co.uk by **27 June 2014**.

2 INTENT OF DCP 161 – EXCESS CAPACITY CHARGES

- 2.1 This consultation is being issued to gather stakeholder views on the proposal to amend the calculation of the exceeded capacity charge within the CDCM by removing the customer contributions element which is currently included in the calculation.
- 2.2 DCP 161 was raised by Electricity North West and the original intent of this proposal was to improve the cost reflectivity of the excess capacity charge calculation within the CDCM and EDCM by removing the customer contributions and adding in any additional costs that should be attributed to this charge. The original intent also requested that consideration is given to applying the excess capacity charge on either a monthly, seasonal or time of day basis.

The previous DCP 161 consultation garnered views about whether customer contributions within the EDCM capacity charge should be considered as part of DCP 161 solution and whether the excess capacity charge should be applied on either a monthly,

seasonal or time of day basis. Having reviewed the consultation responses, the Working Group agreed that amending the EDCM and amending the application of the exceeded capacity charge should not be progressed and have limited the change proposal to amending the calculation of the exceeded capacity charge in the CDCM. The proposer has agreed to this approach.

3 BACKGROUND

3.1 The Proposer of DCP 161 explains that within the CDCM, excess capacity is currently charged at the same rate as the agreed Maximum Import Capacity (MIC) specified within the connection agreement. This may not be cost reflective for the following reason:

- The existing capacity charge is discounted to allow for the amount that customers have paid towards the cost of reinforcing the network at the time of connection. Using the existing capacity charge for excess capacity means that this discount is also applied to the excess capacity charge when no customer contributions have been made.

3.2 It was further highlighted that changing the CDCM to calculate a cost reflective excess capacity charge will align the incentives on customers to manage their capacity with the costs incurred by Distributors. This will remove the incentive upon customers to avoid contracting for the capacity they require and place a stronger incentive on customers to manage their capacity more effectively where they wish to avoid elevated capacity charges and should generally cause a reduction in the need for reinforcement.

3.3 The Working Group feel that having previously consulted upon a number of options for how the 'Exceeded Capacity' charge should be calculated, the Working Group agreed that the most appropriate option would be to exclude 'Customer Contributions' from the calculation. This change solely to the calculation of the 'Exceeded Capacity' would result in the Customer continuing to be charged where they have exceeded their Maximum Import Capacity (MIC), only for the month in which the breach occurs, but this change would have been calculated on a different basis, which was felt to be more cost reflective.

4 PROPOSED SOLUTION

4.1 Following the previous consultation the Working Group has agreed that the CDCM

methodology should be amended to exclude customer contributions from the calculation of the excess capacity charge. All other tariff elements will continue to be calculated as per the current approved methodology.

- 4.2 Under the proposed solution, where a customer exceeds their Maximum Import Capacity, they will pay the excess capacity rate for the exceeded capacity only in the month in which the breach occurs. This element of the proposal has not changed from the current approved methodology.
- 4.3 The current CDCM model sets the excess capacity charge at the same level as the capacity charge and does not allow DNOs to enter a forecast of the amount of exceeded capacity that they expect to occur over the charging year. The new model incorporates a forecast of the exceeded capacity within the volume forecast and derives an estimate of the revenue this will generate. This results in an increase in the revenue recovered from those tariffs with an excess capacity charge and a reduction in the other tariffs (see section 6 for an impact analysis).

5 BENEFITS OF DCP 161

- 5.1 The Working Group identified the following benefits that may result from this change, if implemented:
- Exceeded capacity charges will be more reflective of costs as they will exclude the contributions that customers pay towards reinforcement for their agreed capacity when they connect to the DNOs network.
 - This change will reduce any potential incentive on customers to set their Maximum Import Capacity at a lower level than what they actually require and benefit from lower capacity charges.
 - Where a customer needs more capacity, this change will encourage the customer to contact the distributor to agree a Maximum Import Capacity (MIC) that will meet their requirements.
 - This CP will assist with network planning by providing greater certainty on future load requirements which will benefit new connectees, please see Attachment G for an example of this in practice.

6 IMPACT OF DCP 161

- 6.1 The Working Group has produced an impact analysis of the proposed change based on 2014/15 tariffs and this is contained in attachment D. This attachment shows the tariffs before and after the change proposal and the impact on the typical bill for each CDCM customer and by DNO area.
- 6.2 To produce this impact analysis each DNO has populated a new CDCM model which incorporates the proposed change. This template model is contained in attachment E.
- 6.3 The Working Group undertook a Request for Information (RFI) to gain an understanding of the number of customers that exceed their capacity and how frequently this occurs. A summary of this data is contained within attachment F.

7 COMMUNICATION WITH STAKEHOLDERS

- 7.1 The Working Group agreed that customers need to be made aware of the change proposal if it is accepted by the Authority. However, the scale and responsibility of the communication could not be agreed.
- 7.2 Several members of the Working Group identified that the excess capacity rate is already in use and this change proposal will simply amend the rate that should be applied. Consequently, it was felt that this change proposal should be treated in the same way as other change proposals and left for Suppliers to communicate where appropriate.
- 7.3 The alternative view was that all potential customers that could be impacted by the change proposal should be contacted. However, as a general rule DNOs don't hold contact details for these customers and do not currently interact with these customers for pricing purposes as the contractual relationship is between the customer and Supplier.
- 7.4 The Working Group recognised that to get the full benefit from this change proposal, customers should be aware of the change before it is implemented. This will allow customers time to review their operations and capacity requirements.
- 7.5 The Working Group recognises that it can consult on change proposals as part of the open governance process. However, once the change report has been submitted to the panel and issued to the Authority for approval, the Working Group will be disbanded. If

this change proposal is approved, the Working Group encourages DNOs and Suppliers to work together to ensure customers are aware of this change and will develop a template that can be used to inform customers of the change.

8 PROPOSED LEGAL TEXT

8.1 The Working Group are requesting views on the proposed legal text which is included as Attachment B.

9 PROPOSED IMPLEMENTATION DATE

9.1 The Working Group has revised the proposed implementation date for DCP 161 to 01 April 2014 to 2015.

9.2 The Working Group expressed concern about the implementation with some members feeling that April 2016 would be more appropriate to give customers more notice.

10 CONSULTATION

10.1 Parties are asked to consider the intent and impact of DCP 161 and answer the following consultation questions:

1. Do you agree that the proposed option supports and meets the intent of DCP 161?
2. Do you have any comments on the proposed CDCM model?
3. Do you have any comments on the proposed legal drafting?
4. Do you have any comments on how this change proposal, if accepted, should be communicated to customers?
5. Do you agree with the implementation date for DCP 161 of 1 April 2015? If not, please provide supporting comments.
6. Do you consider there to be any costs or development charges associated with the implementation of DCP 161?
7. Are you aware of any wider industry developments that may impact upon or be impacted by this CP? If so, please provide supporting comments.

10.2 The Consultation response form (Attachment C) should be submitted to dcusa@electralink.co.uk no later than **27 June 2014**. Parties are asked to provide as much relevant detail as possible to enable the DCUSA Panel to understand the comments and the reasons behind them.

10.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

11 NEXT STEPS

11.1 Following the end of the consultation period the Working Group will review and consider the responses. Following this, the Working Group will issue its final report setting out the proposed variations to the DCUSA Panel for progression to Party voting.

11.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to dcusa@electralink.co.uk or telephone 020 7432 3014.

12 APPENDICES

- Attachment A – DCP 161 ‘Excess Capacity Charges’
- Attachment B – DCP 161 Proposed Legal Text
- Attachment C – Response Form
- Attachment D – Impact Analysis
- Attachment E – CDCM model incorporating DCP161 solution
- Attachment F – April 2013 Request for Information
- Attachment G – Case study of customer exceeding capacity causing reinforcement