DCUSA DCP 160 Consultation responses – collated comments

Company	Confidential/ Anonymous	1. Do you consider the capacity requested by HH customers but not being utilised to be spare capacity or reserved capacity?
British Gas	Non-Confidential	It is reserved capacity since DNOs are obliged to make it available to those customers and customers also depend on that reserved capacity being made available when required. To the extent that the full amount of agreed capacity is not required by a HH customer, those HH customers are able to adjust their agreed capacity downwards to a more appropriate level. This then frees up the capacity in question by removing the obligation on the DNO to make it available to that customer.
Electricity North West	Non-confidential	We consider the capacity requested by HH customers as reserved, as under the standard terms of connection within DCUSA we are obligated to use reasonable endeavours to make this capacity available as follows: *12.2 Subject to the other provisions of this Agreement, the Company shall use reasonable endeavours to:* *12.2.1 ensure that the Maximum Import Capacity and the Maximum Export Capacity is available at the Connection Point at all times during the period of this Agreement; and* *12.2.2 maintain the connection characteristics at the Connection Point.* *In fact this clause actually covers all CT metered customers be they NHH or HH settled so some NHH customers also have reserved capacity.*
Northern Powergrid	Non-confidential	We believe the capacity requested by HH customers is reserved and not spare capacity, as the customer reserves the right to utilise it at any point. However, we are aware of the proposed legal drafting for DCP 115 - NTC Amendments - Capacity Management (Under Utilisation), which: • for energised sites, where import or export is consistently much lower than MIC or MEC, the proposed solution entitles the distributor to make a proposal for a reduction in MIC or MEC. That proposal has no effect unless the customer accepts it.

		• the proposed solution for energised sites protects the rights of customers to retain MIC or MEC at sites where it is temporarily not being used, e.g. during build-up, re-development or for capacity used to provide back-up supplies. No reduction in MIC or MEC would come into force, and no rights to capacity would be lost, without the customer's explicit agreement So only if the customer agrees to reduce their capacity, does it become spare.
Reckon LLP	Non-confidential	It does not matter what you call it.
Smartest Energy	Non-confidential	Unless there is some evidence that the networks actually provide all the capacity that they have connection agreements for, and do not have any diversity allowances, we would consider requested but unused capacity as spare capacity. We would only consider it to be reserved if the networks have zero diversity allowance (i.e. all customers could simultaneously consume their ASC and the network would not be under stress.)
SP Distribution and SP Manweb	Non-confidential	SPEN consider the capacity requested by HH customers but not being utilised to be reserved capacity.
SSEPD	Non-confidential	Reserved capacity, as we have a contractual obligation to provide such capacity to the customer and the HH customers are explicitly paying for it.
UK Power Networks	Non-confidential	If capacity has been requested by a party but is not being utilised then this is neither spare nor reserve capacity. The capacity that is requested is contracted capacity (MIC / MEC) and if this contracted capacity is not being utilised it is an unused allocation of the contracted capacity.

Company	**Confidential/ Anonymous**	**2. Do you agree with the proposer's view that HH customers are paying for spare capacity whereas NHH customers are not?**

British Gas	Non-Confidential	We do not agree that HH customers are paying for spare capacity. Each individual HH customer has an agreed capacity. The network will have been designed (and reinforced if required) to provide that agreed capacity and the DNO is obliged to make that agreed capacity available to that customer. If a HH customer's maximum demand is lower than their agreed capacity and the extra capacity is not required, the customer is free to reduce their agreed capacity accordingly – but until such time as they do, this capacity remains reserved for that customer. It is therefore appropriate and cost reflective that capacity reserved by HH customers is paid for by HH customers. NHH customers are paying for capacity on a diversified basis in the CDCM. Whilst this means that the true amount of capacity used by any individual NHH customer may be higher than the capacity assumed for the purposes of calculating CDCM tariffs, this appears to be consistent with the way that networks are designed and reinforced (on the basis of assumed diversified maximum demands). It is therefore appropriate and cost reflective that NHH customers pay for capacity on a diversified basis.
Electricity North West	Non-confidential	Although we treat the capacity available to HH customers as reserved, for network planning purposes we use a combination of the agreed capacity and maximum demand when determining the network assets required. Where a customer is large, we use the agreed capacity at the local level to determine the assets required to meet their demand. However, when there is a collection of smaller customers with individual MICs we will plan the network using maximum demand requirements as there will be an element of diversity between the sites and this is the most efficient way of planning the network. In summary, we take a flexible approach that will be different depending on the number and type of customers connected. However, as a general rule, there will be diversity applied to most customers as you move up the network, so we would agree that under the existing CDCM methodology, HH customers are paying for spare capacity and NHH customers are not.
Northern Powergrid	Non-confidential	No, we believe that as stated above a HH customer pays for the capacity they reserve.
Reckon LLP	Non-confidential	Yes. To be more precise, the problem with the CDCM is that customers in measurement classes C or E have to pay capacity charges which are disproportionately higher than the charges for the same LV and HV network capacity that are being levied through fixed charges and/or unit rates on customers

		in measurement classes A, F or G. This is an unfair and non-cost-reflective feature of the CDCM.
Smartest Energy	Non-confidential	Yes, we agree that HH customers are paying for spare capacity whereas NHH customers are not. NHH customers' "capacity" in the CDCM is based on an estimate of their peak consumption without the same headroom as HH customers get. Presumably if HH customers had a choice, some would choose to have a capacity charge only based on their peak consumption rather than having to buy more than they need.
SP Distribution and SP Manweb	Non-confidential	Yes HH customers are paying for notional spare capacity whereas NHH customers are not.
SSEPD	Non-confidential	We do not consider the definition given in paragraph 5.2 of the consultation paper to describe 'spare capacity' but it describes 'reserved capacity' instead. We do not think currently anyone is paying for 'spare capacity' explicitly but all customers are effectively paying for it, i.e. HH customers paying in terms of capacity charge and NHH customers paying through scaling, to ensure DNOs recover their allowed revenue.
UK Power Networks	Non-confidential	It is our view that the spare capacity is actually unused allocation of the contracted capacity; however we do agree that currently HH customers are paying for unused capacity when NHH customers are not. At the current time NHH customers do not pay for their notional contracted capacity requirement outside the times and above the level that their use requires, whereas HH customers do pay for their contracted capacity requirement outside the times and often above the level that their use requires. An example would be that a HH user would pay for their contracted capacity requirement whether or not they are utilising it through their contracted capacity charge, while a NHH customer will only pay for capacity (via a notional element within the unit charge) when they consume the energy. With the current method for how charges are applied it is notable that capacity is charged to HH customers for 100% of the time, whereas the proxy for capacity recovered through the NHH unit

		rate is only collected when the demand is consumed and not throughout the year. In the future where a HH Customer exceeds their contracted capacity (following the implementation of DCP161) then the HH Customer will pay an increased amount for their capacity, while a NHH Customer's charges would continue at the same unit rate. However we believe that is a separate issue to what is being discussed here and could be rectified by the HH customer reducing demand or contracting for a higher capacity.

Company	Confidential/ Anonymous	3. Do you agree with the statement: All tariffs need to be derived on a consistent cost reflective basis for both existing and new tariffs?
British Gas	Non-Confidential	All tariffs should be derived on a cost reflective basis to ensure efficient economic signals. As recognised in the consultation, there may be instances where cost reflectivity may require that different approaches be used to derive tariffs. So consistency, whilst desirable, should not compromise cost reflectivity. With respect to this particular change, it seems clear that the network planning process is different for HH and NHH customers and therefore it is appropriate that the CDCM tariffs are derived in a way that reflects the different treatment of HH and NHH customers in that planning process.
Electricity North West	Non-confidential	Yes, we would agree that tariffs need to be derived on a consistent basis. This is an important principle that ensures DNOs comply with their licence.
Northern Powergrid	Non-confidential	We agree in principle, however see response to question 4.
Reckon LLP	Non-confidential	No. It would be silly to ask for overall cost-reflectivity in the context of a CDCM which, in several DNO areas, has a grossly non-cost-reflective revenue matching element.
Smartest Energy	Non-confidential	Yes, we agree with this statement, provided that the methodology chosen does not inherently favour one customer group over another.
SP Distribution	Non-confidential	Yes we agree with the statement.

and SP Manweb		
SSEPD	Non-confidential	Yes we agree that tariffs need to be derived on a cost reflective basis for both existing and new tariffs, however we do not believe that spare capacity should be chargeable, nor do we consider using a notional proxy in deriving tariffs to be any more cost reflective than the current charging mechanism.
UK Power Networks	Non-confidential	We believe that it is important that any differentials between NHH and HH charges are minimised as much as possible. Similar usage for a NHH or HH metered customer should ultimately equate to similar overall annualised charges.

Company	**Confidential/ Anonymous**	**4. The planning process for domestic and small non-domestic customers is based on a diversified maximum demand assumption, whereas for medium-large customers it is based on agreed capacity. Do you consider the current process correct for deriving NHH and HH tariffs as set out under the CDCM?**
British Gas	Non-Confidential	The consultation sets out the approach taken by DNOs in designing their networks. On the basis of the approach set out, we consider that the current process for deriving NHH and HH tariffs in the CDCM is appropriate. The planning process does not differentiate on the basis on NHH/HH settlement, but rather on the basis of customer size (large, medium, small). This means the proposal could possibly have been justified for those PC5-8 customers who are CT metered and who should have an agreed capacity with the DNO. However since those customers will become HH settled and be billed on a site specific basis (incl. capacity charge) following the implementation of DCP 179 and P272, the solution proposed by DCP 160 is unnecessary for those customers (and so for any customer group).
Electricity North West	Non-confidential	As outlined in our answer to question 2, when planning our network, diversity is applied to almost all customers. It is only very large customers where this does not apply and even in these circumstances some diversity is likely to be applied at voltage levels above the level of connection. As a consequence, we believe that the charging methodology should treat NHH and HH customers in a similar way when allocating costs. This could be done by allocating all costs on MD or on a

		notional capacity. However, the present methodology of allocating some customers on capacity and some on MIC is not an equitable approach.
Northern Powergrid	Non-confidential	We note the Working Group's reference to the network design process and would agree that the CDCM currently reflects reasonably well the differences in the planning process between HH and NHH customers. As stated in the consultation, the possible exception to this would be PC5-8 (medium sized connections) where the DNO may base their design on the capacity requested. However, for this group of customers the Working Group notes that following the implementation of DCP 179, P272 and P300, those customers who are CT metered will become HH and billed on a site specific basis with a capacity charge consistent with other HH customers. Given our views above we feel that this change may no longer be necessary, as events have overtaken it, and with the move towards smart metering we expect in one way or another HH data will be available for most customer groups in the not too distant future.
Reckon LLP	Non-confidential	No: see answer to question 2.
Smartest Energy	Non-confidential	We do not think that network planning based upon the settlement arrangements of customers is sensible.
SP Distribution and SP Manweb	Non-confidential	SPEN believe customers should be treated on the same basis.
SSEPD	Non-confidential	We consider the current process for deriving NHH and HH tariffs as set out under the CDCM is fit for purpose and it reflects the planning process. We believe that this proposal can potentially overstate the allocated costs to NHH customers. Impact analysis on the tariffs would be useful.
UK Power Networks	Non-confidential	The cost allocation approach in the CDCM does tend to reflect the difference in the planning process between NHH and HH customers. The proposal should attempt to address the issue that the proxy

		for a capacity charge is collected from NHH customers based on their consumed kWhs use, whereas the capacity charge collected from HH customers is based on their maximum annual capacity requirement. Consequently the NHH customer does not pay a charge for their maximum annual capacity requirement which does result in a situation where NHH and HH tariffs result in annual charges which are derived on an inconsistent basis.

Company	Confidential/ Anonymous	5. There is a perception that there is notional spare capacity created by HH customers. Is this correct?
British Gas	Non-confidential	As explained above, we do not consider that any difference between a HH customers' maximum demand and their agreed capacity is spare capacity; it is reserved capacity. DNOs are also obliged to make it available to that customer and in all likelihood the network will have been designed and reinforced to cater for that agreed capacity. Any spare capacity on the DNO network is likely to have been created primarily by the lumpy nature of reinforcements, or by reductions in overall demand rather than by HH customers, not using their full agreed capacity. To the extent that there is any such genuine spare capacity, it is beneficial to both NHH and HH customers (for example new connections, whether NHH or HH, may be able to connect without any reinforcement).
Electricity North West	Non-confidential	When this issue has been looked at previously, the aggregate maximum demand of HH customers is less than the aggregate MIC for those customers. Therefore, we consider that there is notional spare capacity created by HH customers.
Northern Powergrid	Non-confidential	We are not convinced that there is a notional spare capacity created by HH customers. There will always be an element of spare capacity on the networks, as this is how they are designed to provide security of supply for customers. The CDCM is an average methodology and whilst it is very complicated the working group have demonstrated that there is some justification for treating NHH and HH customers differently. The yardstick costs in the CDCM are derived from: • the 500MW model, detailing the asset costs associated with an immediate hypothetical 500MW

		increment to the network; • the service models, capturing the costs of maintaining the service asset paid for at the time of connection; and • other operating costs, for example transmission exit charges, direct costs, indirect costs and network rates. NHH customers are picking up some costs as a proxy for capacity in the fixed charge element of their tariffs as shown below: **Unit rates** The p/kWh unit rates are derived from the yardstick rates, but are reduced to take account of the costs recovered from either the capacity charges (for half-hourly (HH) metered customers) or the second part of the fixed charges (for non-half-hourly (NHH) metered customers). **Capacity charges** The yardstick p/kWh unit rates are reduced to take account of the allocation of costs to either capacity (for HH customers) or the second part of the fixed charge (NHH customers) by using what is known as standing charge factors.
Reckon LLP	Non-confidential	A "perception" of "notional spare capacity" (whatever that might be) does not matter.
Smartest Energy	Non-confidential	Yes, we believe this is correct. It is clear, given the level of historic and future excess charges, that customers have no choice but to pay for more capacity than they need in order to avoid default/excess charges.
SP Distribution and SP Manweb	Non-confidential	Yes.

SSEPD	Non-confidential	No.
UK Power Networks	Non-confidential	We do not agree with this perception. Unused 'contracted' capacity is a component of NHH and HH Customers usage, and as such should be paid for by that group of customers.

Company	**Confidential/ Anonymous**	**6. If you think that NHH customers should be picking up some proportion of this notional spare capacity, is the proportion[1] suggested in this CP appropriate?**
British Gas	Non-confidential	We do not consider that NHH customers should be picking up any notional spare capacity for the reasons set out in our previous answers. However even if any adjustment were justified we do not believe that the proportion suggested by the CP is appropriate for the following reasons: i) The factor proposed is the ratio between the average maximum demand and capacity from a similar HH tariff. There is no HH tariff (with a capacity charge) which could reasonably claim to be 'similar' to the domestic or small non-domestic tariffs. ii) The difference between HH agreed capacity and HH maximum demand is driven primarily by HH customers choosing to reserve more capacity than they currently require. The proportion is inappropriate to apply to NHH customers because: a) NHH customers would not be able to 'choose' to reduce their capacity requirements to remove any notional reserved capacity (unlike HH customers) since it would be converted to a fixed p/mpan/day; and, b) NHH customers are not able to 'reserve' the additional capacity they would be being charged for.
Electricity North West	Non-confidential	We agree that this approach is reasonable.
Northern	Non-confidential	N/A

[1] The factor proposed is the ratio between the average maximum demand and capacity from a similar HH tariff.

Powergrid		
Reckon LLP	Non-confidential	Yes. But please don't use footnotes in consultation questions.
Smartest Energy	Non-confidential	NHH customers should be paying for the same amount of redundancy that a HH customer typically does – noting that HH customers already have a financial incentive to optimise their capacity.
SP Distribution and SP Manweb	Non-confidential	Yes.
SSEPD	Non-confidential	In line with our answer to question 5, not applicable.
UK Power Networks	Non-confidential	We agree that it's correct for NHH customers to be paying a charge for a fair proportion to represent the difference between their average demand and their notional maximum contracted capacity requirement. We are comfortable that this notional maximum contracted capacity requirement can be defined using the ratio between the average maximum demand and the contracted capacity from a similar HH tariff.