



DCUSA Consultation

DCP 130 - Remove the discrepancy between non-half hourly (NHH) and half hourly (HH) Un-metered Supplies (UMS) tariffs

Executive Summary: this document seeks feedback on a proposal to amend the calculation of Distribution Use of System Charges for Un-metered Supply (UMS) customers to remove a discrepancy in the calculation of HH and NHH UMS tariffs.

1. PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors, 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 General Objectives of the DCUSA document which are:
1. the development, maintenance and operation by each of the Distribution Network Operator ("DNO") Parties and Independent Distribution Network Operator ("IDNO") Parties of an efficient, co-ordinated, and economical Distribution System;
 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;
 3. the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences; and
 4. the promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it.
 5. compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.
- 1.3 In addition, where a DCP seeks to amend the methodology used to calculate the charges for use of the Distribution System, the DCUSA Charging Methodology Objectives should also be better facilitated. These objectives are:
1. that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence
 2. that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)

3. that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business
 4. that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business
 5. that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.
- 1.4 Amendments to DCUSA may only be made with the consent of a majority proportion of Parties to the DCUSA, through a voting process, or (where applicable) the Gas and Electricity Markets Authority.¹
- 1.5 When a DCP is raised, a Working Group is established to assess and develop the proposal in consultation with industry parties and other interested parties.
- 1.6 This document is a consultation issued in accordance with Clause 11.14 of the DCUSA and seeks industry views on Change Proposal DCP 130 – 'Remove the discrepancy between non-half hourly (NHH) and half hourly (HH) Un-metered Supplies (UMS) tariffs'.
- 1.7 The Consultation has been issued to DCUSA Parties, Ofgem and other interested parties.
- 1.8 Respondents are invited to consider the proposed legal drafting set out as Appendix A and submit comments using the form provided as Appendix B to DCUSA@electralink.co.uk by **Wednesday 26 September 2012**.

2. Background

- 2.1 The Common Distribution Charging Methodology (CDCM) sets out how Distribution Network Operators (DNOs) should calculate the charges for use of

¹ For more information about GEMA visit the Ofgem website: <http://www.ofgem.gov.uk/TheAuthority>

their distribution networks, known as Distribution Use of System charges. The CDCM applies only to customers connected at Low Voltage (LV) and High Voltage (HV) levels; separate charging methodologies exist for Extra High Voltage connected customers. The CDCM is defined within the DCUSA and, therefore, can only be amended by means of a DCUSA Change Proposal.

2.2 DCUSA Change Proposal (DCP) 130 has been raised seeking to amend the calculation of UMS charges within the CDCM to remove a discrepancy in the Distribution Use of System Charges for HH UMS and NHH UMS customers.

2.3 The current discrepancy between the tariffs can sometimes incentivise HH UMS customers to elect to be settled on a NHH basis or vice versa. HH data is more accurate and should be used for settlement purposes where available. This proposed change aims to remove the differential between the tariffs and encourage customers and suppliers to choose the appropriate settlement approach. The intent of this proposal covers:

- Changing the method of calculating UMS charges so that the calculation is based on seasonal time of day time bands
- Increasing the number of tariffs for NHH UMS to match the categories of NHH UMS detailed in BSCP520²:
 - A = Continuous
 - B = Dusk to Dawn
 - C = Half-night and Pre-dawn
 - D = Dawn to Dusk
- Changing the application of charges for HH UMS to seasonal time of day.
- To remove the discrepancy in Use of System charges between HH UMS & NHH UMS.

2.4 Further information on the proposal can be found in the Change Proposal form (Appendix C).

3. Working Group Considerations

3.1 The DCUSA Panel established a Working Group to assess DCP 130 consisting of DNO, Supplier and Ofgem representatives. The Working Group discussed the

² Balancing and Settlement Code Procedure (BSCP) 520 – Unmetered Supplies in SMRS

CP and worked with a consultant to update the CDCM model to meet the intent of DCP 130. The changes made to this updated version of the CDCM model include:

- Changes to the tariff list:
 - The existing NHH UMS tariff has been replaced with four new NHH UMS tariffs (A, B, C and D) in line with BSCP 520
 - The unit rates for LV UMS pseudo HH are no longer applied to the red, amber and green timebands. The published rates within the model apply to the black, yellow and green timebands. The black timeband is the seasonal timeband, which is detailed in Appendix D. The green timeband is the same as used for the other half hourly customers. The yellow timeband is all time periods not covered by black or green.
- Additional tables
 - Input worksheet: tables 1064, 1065, 1066
 - Multi worksheet: 26 new tables 2418–2443
- Minor cosmetics (not affecting tariffs)
 - Table 2410 split
 - Adjust worksheet reordered

3.2 Appendix E provides a populated version of the DCP 130 updated CDCM model for the West Midlands DNO area and Appendix F provides a summary of the impact of tariffs on all DNO areas. These demonstrate the impact on tariffs of the DCP 130 proposal. Due to the file size populated DCP 130 CDCM models for all DNO areas have not been issued with this consultation document, however, they are available on request.

3.3 The impact analysis within Appendix F provides a percentage change in each tariff component between the published prices for each DNO in April 2012 and the amended CDCM model. The input data has been held constant wherever possible to enable a like for like comparison. However, when comparing the percentage change in tariffs, the following should be taken into account:

- The new LV UMS pseudo HH tariff is based on the black, yellow and green timebands and this is compared to the red, amber and green timebands which cover different time periods.
- The four new NHH UMS tariffs are compared to the existing NHH tariff. The existing NHH tariff is effectively an average rate which covers all the NHH UMS tariffs, so this is not a like for like comparison.

3.4 Given the difficulty of comparing the impact for UMS tariffs, an additional table below has been provided. This table shows the amount of revenue that is currently recovered by DNOs from the UMS tariffs before and after the change proposal:

DNO	Revenue from UMS tariffs in April 2012 Model (£)	Revenue from UMS tariffs under change proposal (£)	Percentage Change
ENW	11,286,863	10,162,582	- 10.0%
NP Northeast	5,653,613	4,106,695	- 27.4%
NP Yorkshire	5,666,209	4,305,908	- 24.0%
SPEN SPD	8,292,667	6,470,779	- 22.0%
SPEN SPM	4,988,263	4,280,091	- 14.2%
SSEPD SEPD	7,041,262	6,256,959	- 11.1%
SSEPD SHEPD	6,225,673	4,416,502	- 29.1%
UKPN EPN	7,359,777	6,637,505	- 9.8%
UKPN LPN	4,865,827	4,379,282	- 10.0%
UKPN SPN	5,051,055	4,577,660	- 9.4%
WPD EastM	9,419,036	7,814,866	- 17.0%
WPD SWales	5,563,590	4,794,772	- 13.8%
WPD SWest	5,660,110	5,203,231	- 8.1%
WPD WestM	8,470,142	7,205,373	- 14.9%

3.5 This change proposal introduces a seasonal timeband for HH UMS tariffs and four new NHH UMS tariffs across all DNOs. However, the impact on the

revenue recovered by DNOs from UMS is different and varies from a decrease of 8.1% to a decrease of 29.1%. This is due to the following:

- The primary driver is the mix of UMS tariffs for each DNO. The impact of the proposed change will be bigger where a large proportion of a DNO's NHH UMS tariffs are category A or D.
- The proportion of the UMS customers for each DNO that are settled either NHH or HH. This will have an impact under option 2 outlined in 3.9 below. Under this scenario the impact of the change in the calculation of the coincidence factors will have a bigger impact where a DNO has more NHH customers.

3.6 It is the view of the Working Group that, based on analysis carried out, the DCP 130 updated CDCM model meets the intent of DCP 130. The model addresses the treatment of HH and NHH tariffs and removes the inconsistency for unmetered tariffs by deriving the NHHs and HH tariff on the same basis. To enable this it has been necessary to introduce a new seasonal time band for the pseudo half hourly UMS tariff to ensure that the four new NHH tariffs that are derived from this rate are cost reflective.

3.7 The Working Group notes that any changes to the methodology will re-distribute the revenue recovery between customer groups. This is demonstrated in Appendix F, which shows the impact on tariffs.

3.8 It is the view of the Working Group that the co-incidence factors (one of the inputs to the CDCM model) used for existing UMS tariffs appear to be low in some DNO areas. The group notes that the coincidence factor for UMS customers should be either 1 or close to 1. The group discussed whether the coincidence factors for the existing HH tariffs should be updated to 1 to be in line with the NHH coincidence factors. It was noted that this would create a step change in tariffs and in accordance with the DCUSA changes to the co-incidence factors could be phased in over three years to reduce step changes.

3.9 The Working Group discussed how to determine the co-incidence factors for the new UMS tariffs. The working group noted that DCUSA states that coincidence factors should be derived over three years of data, but there was some debate regarding whether this principle should extend to new tariffs. The group

considered three options for determining the coincidence factors to be used if this DCUSA change proposal is implemented:

1. The new coincidence factors for NHH and HH UMS tariffs are used – this option will create a step change for all UMS tariffs;
2. The new coincidence factors for the new NHH tariffs are used immediately and the coincidence factors for the HH UMS tariff are derived as an average of the last 3 years data– this option is demonstrated in the attached tariffs provided as Appendix F; or
3. The coincidence factors for NHH and HH UMS are derived as an average of the last three years worth of data. This would mean the NHH UMS tariffs will use previous years values based on the NHH UMS profile as a whole, rather than the four new NHH UMS profiles that have been proposed.

3.10 It was the view of the Working Group that option 2 is the preferred option and the populated model provided in Appendix E has used option 2. The Working Group preferred this approach as the four NHH UMS tariffs are new tariffs and it is most appropriate to derive new coincidence factors that are based on their individual profiles. It is appropriate to continue to use the three year average for the HH UMS tariff, these will progressively move towards 1. As part of this consultation the Working Group would like to seek respondents views on whether they agree with the group's preference.

3.11 The Working Group notes that within the existing CDCM methodology co-incidence factors and load factors are calculated based on the D36, D275 and D30 flows. The proposed DCP 130 methodology calculates co-incidence factors and load factors for NHH and HH UMS based on sample data from pseudo HH meters. This approach has been used as it is the view of the Working Group that the D-flow data is inaccurate in that the profiles used to create this data do not take into account the switching times of UMS equipment over the seasons.

3.12 The Working Group notes that the proposed black timeband is currently identical to the super-red timeband which has been adopted for extra-high-voltage customers in the EDCM. It has been identified as a separate black

timeband to allow for potentially differing implementation notice periods for changes to EDCM and CDCM timebands.

- 3.13 The Working Group agreed that a Consultation should be issued to determine whether interested parties are supportive of the intent of DCP 130 and the impacts that it would have if implemented.

4. ASSESSMENT AGAINST THE DCUSA OBJECTIVES

- 4.1 The Working Group has identified that the Change Proposal better meets DCUSA Charging Objective one³ by reducing the differential between HH and NHH UMS tariffs and encouraging customers and suppliers to choose the appropriate settlement approach.
- 4.2 The change proposal better meets CDCM objective two⁴ and General objective two⁵ by reducing the differential in use of system charges between the tariff groups and improving the cost reflectivity of prices. For instance, at the moment we have a single tariff for NHH UMS customers covering all UMS regimes. By introducing new tariffs to separate out these regimes more cost reflective prices are possible.
- 4.3 The change proposal better meets CDCM objective three⁶ by reducing the perverse incentive for customers within the same customer group to take advantage of lower tariffs, by flipping from NHH to HH or vice versa , which could mean the DNO may not currently recover sufficient revenue from this group of customers.
- 4.4 The change proposal better meets CDCM objective four⁷ by facilitating the industry requirement to remove the price barrier for customers to trade on a half hourly basis.

³ that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence.

⁴ that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences).

⁵ The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity

⁶ that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business

⁷ that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business

5. LEGAL DRAFTING

- 5.1 The proposed legal text is provided as attachment A.
- 5.2 Following a review of the proposed legal text by the Working Group after feedback gained from the consultation, it will be issued to the DCUSA legal representative for review.

6. IMPLEMENTATION

- 6.1 The proposed implementation date for DCP 130 is 1 April 2013. Subject to Ofgem approval of the CP, the DCP 130 solution may be taken account of when publishing the indicative prices in December 2012 for the period beginning April 2013. The Working Group notes that this is a tight timescale for inclusion of the DCP 130 solution in indicative tariffs.
- 6.2 The Working Group feels that if an Ofgem decision is received by 5 December 2012 all DNOs should be able to include DCP 130 in their indicative tariffs. If a decision is received any date after this, the Working Group recognises that it may not be possible for all DNOs to include DCP 130 in their indicative tariffs but they will include it in their final tariffs, published in February 2013.

7. CONSULTATION

- 7.1 The Working Group is seeking views on the following questions:
 1. Do you understand the intent of the CP?
 2. Are you supportive of the principles of the CP?
 3. Do you consider that the proposal better facilitates the DCUSA objectives? Please give supporting reasons.
 4. Do you have any comments on the proposed legal text?
 5. Are there any alternative solutions or matters that should be considered by the Working Group?
 6. Are you aware of any wider industry developments that may impact upon or be impacted by this CP? If so, please give details, and comment on whether the benefit of the change may outweigh the potential impact and whether the duration of the change is likely to be limited.

7. Are you supportive of the proposed implementation date of 1 April 2013?
8. DNOs, do you agree with the Working Group's assessment that if an Ofgem decision was received by 5 December 2012, this would permit use for the April 2013 indicative tariffs?
9. The input data for table 1064 (Average Split of Rate 1 Units by Special Distribution Time Band) has been determined based on estimated switching times for each category. It is the intention of the Working Group to re-calculate values for this table for each DNO area based on approved switching regimes. These values would then only be re-calculated where there is a change of timeband. Do you agree with this approach? Please give your rationale.
10. The Working Group noted that there are three potential options for determining the co-incidence factors for the new UMS tariffs.
 - a. Big bang for NHH and HH – this option will create a step change for all UMS tariffs.
 - b. Change NHH immediately and leave HH as a gradual change – this options is what is being demonstrated in the attached prices provided as Appendix F
 - c. Do a gradual change for all

It was the view of the Working Group that option 2 is the preferable option. Do you agree? Please provide your rationale.

11. Do you have any further comments?

7.2 Responses should be submitted using Attachment B to DCUSA@electralink.co.uk no later than **Wednesday 26 September 2012**.

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

8. NEXT STEPS

8.1 Following the end of the consultation period the responses will be reviewed by the Working Group. The Working Group will finalise the drafting of the CP and submit its final report to the DCUSA Panel. Following Panel approval, the CP will be issued to all DCUSA Parties for voting and, following the vote, issued to Ofgem for final determination.

8.2 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 3011.

9. ATTACHMENTS

Appendix A – Proposed legal text

Appendix B – Response form

Appendix C – DCP 130

Appendix D – Black timeband description

Appendix E – DCP 130 Updated CDCM Model populates with West Midlands Data

Appendix F - Summary of the impact of tariffs on all DNO areas