



DCUSA CONSULTATION

DCP 124- THIRD PARTY NETWORK – NATIONAL CONNECTION TERMS AMENDMENT

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

- 1.5 This document is a consultation issued in accordance with Clause 11.14 of the DCUSA and seeks industry views on Change Proposal DCP 124 – Third Party Network – National Connection Terms Amendment.
- 1.6 The Consultation has been issued to Customers, DCUSA Parties, Ofgem and Consumer Focus.
- 1.7 Parties are invited to consider the Change Proposal detailed in this consultation and submit comments using the form attached as Appendix A to dcusa@electralink.co.uk by **17 July 2012**.

2 INTENT OF DCP 124 – THIRD PARTY NETWORK – NATIONAL CONNECTION TERMS AMENDMENT

- 2.1 DCP 124 has been raised by UK Power Networks. The CP seeks to update the National Terms of Connection (NTC) to address contractual matters arising from changes in Supplier choice available to the customers who are connected to networks of private network operators i.e. Licence Exempt Distributors.
- 2.2 There is an existing gap in the industry arrangements, whereby no standing set of terms could be affected upon the private network owner where that owner does not have an electricity supplier relationship. Any customers connected within such private networks are not currently governed directly by any licensed Distributor terms as they are not directly connected to the licensed distributor's system.
- 2.3 The group noted that the Gas and Electricity (Internal Markets) Regulations 2011 became effective on the 10th of November 2011 and this is likely to increase the number of Licence Exempt Networks in existence over time. On both counts, dealing with a lack of standing connection terms for existing private networks and fully supporting the consequence of the Gas and Electricity (Internal Markets) Regulations 2011, means there is a compelling need to modify the NTC for a Licence Exempt Third Party Distribution Network.
- 2.4 DCP 124 introduces the concepts of Licence Exempt Distribution Network Operator's Distribution System and Embedded Metering Point into section 1 and 5 of the National Terms of Connection (NTC) in order to apply equivalent terms to a private network operator.
- 2.5 The Proposer of the change proposal is aware that there are private

networks connected to licensed Distribution networks in place at the moment. The outcome of the Citiworks AG European court case, through The Gas and Electricity (Internal Markets) Regulations 2011, now essentially requires the private network owner to set out terms of connection and use to its customers who require direct market access. This means the private network owner's connections terms need to account for the terms placed upon it by the licenced distributor to which it is connected. It has been noted above that in some cases, no standing terms of connection are effected upon private network owners where there is no Supplier relationship for their connection to the licenced distributor and therefore a means to effect the required connection terms is required.

- 2.6 Where the private network owner's connection does have a supplier relationship in place and therefore the national terms of connection applying it is apparent that some aspects of settlements usages being devolved into a private network are not currently treated in the existing national terms of connection. The CP also seeks to codify the obligations on private networks to maintain the network, so as not to affect other Parties obligations that are in place for customers connected, which are settlement metered.
- 2.7 Other requirements, stemming from the licenced distributor's licence obligations (full measurement of energy, losses, illegal abstraction) and the role of the Private Network Owner (itself or a user) require the setting out of appropriate standing default terms. DCP 124 intends to define the rights of the licensed distributor over the private network and its connection; As with all other types of direct connection to the licenced distributor's system, connection terms are required to be applied as required by the Electricity Act.
- 2.8 DCP 124 seeks to ensure consistent network terms with third parties connections. There is a need for a clear obligation in the NTC, to state which rules apply to which network operator. The alternative (and the existing arrangement) of procuring bilateral agreements with each private network operator is not considered desirable due to the ongoing maintenance of such agreements. There is no Supplier process for all private network operators.

3 DCP 124 – WORKING GROUP CONSIDERATIONS

- 3.1 The Working Group comprises of Distributor Parties and Ofgem. Private

Network Operators and Suppliers have been invited to attend.

- 3.2 All Working Group members are supportive of the general principles of DCP 124.
- 3.3 The scope of this CP focuses on private network operators and their connection. The Working Group agreed that along with facilitating the DCUSA Objectives there are also additional reasons for the need of this CP. Firstly there is a need to clearly codify standard terms of connection to at least provide default baseline terms for new licence exempt network connections. Secondly, to address a legacy issue, it is impractical to administer individual bilateral agreements with licence exempt distributors due to churn on ownership leading to inapplicable bilateral connection terms.
- 3.4 It should be noted that the vast majority of private networks are for buildings that house multiple non-half-hourly (NHH) metered domestic occupancies and where there is no settlement metering of the connection to the licenced distributor's system. In such cases there will be no relationship between an electricity supplier and the licence exempt network operator, and therefore no commercial invocation of the NTC through a supplier contract in respect of the licence exempt network's connection to the licenced distributor's system.
- 3.5 The proposal extends the NTC with a new section expressly applying to connections of licence exempt networks to the licenced distributor's system even where there is no settlement metering and no supplier relationship in respect of the connection to the licenced distributor's system.
The proposal will effectively apply the NTC, statutorily, for the first time to the vast majority subset of private network connections whose connection to the licenced distributor's system will never be subject to a supplier relationship.
- 3.6 The proposed change will enable standard default connection terms to be applied to all connections of licence exempt networks to licenced distribution systems, whether or not that connection is settlement metered. Thereby avoiding initiating or perpetuation of individual bilateral agreements with each licence exempt network operator and ensure that such standard default terms survive change of ownership or occupation in the most efficient manner possible.

- 3.7 The intent, as with the current statutory application of the NTC to other types of connection, is that the terms applying to the connection of licence exempt networks to licenced distributor's systems applies to existing connections as well as new connections; this being the only practicable manner through which workable terms of connection, in lieu of negotiated bilateral contracts, can be effected.
- 3.8 The Working Group has indicated that the CP may have an impact on customers and also upon electricity supplier in terms of their fulfilment of the Balancing and Settlement Code (BSC) obligations relating to settlement metering points within a licence exempt network. The CP may also have an impact on Suppliers with regard to their contract terms they have with settlement metered customers who are connected to private networks.
- 3.9 The new private network arrangements will make it clearer that the private network is a commercial undertaking. Currently, NTC section 2 differs from sections 3 and 4 in terms of liabilities. Section 2 deals with whole current metered premises, broadly equating to domestic premises, while sections 3 and 4 deal with CT metered and unmetered connections which are commercially oriented connections and have a different liability treatment. For example, a Victorian house converted to flats would have been a domestic single residence but is now commercial premise servicing multiple domestic premises. This consultation also seeks feedback on whether the liabilities included within section 5 of the proposed NTC are appropriate.
- 3.10 The group agreed to outline a number of scenarios, around multi-occupancy dwellings in order to identify any impacts this may have on customers. This group will be looking at connection agreements, and not Use of System agreements.
- 3.11 The Working Group have outlined the following scenarios and highlighted the current obligations at each boundary:

	Settlement Meter Installed	Connection terms	Supplier Contract
LDNO/PNO Boundary	Yes	NTC S3 ² via Supplier Contract or Bi-lateral or NTC S3 via Statute, between	Yes

² The proposer is suggesting that these terms be replaced by a new section 5 of the NTC with modifications to Section 1 to accommodate its inclusion.

		LDNO and PNO	
	No	Bi-lateral between LDNO and PNO	No
PNO/Customer Boundary	Yes	Bi-lateral between PNO and Customer	Yes However, the customer is not directly connected to the licensed distributor's system and any reference to the NTC in a supplier agreement would be incorrect and not valid ³
	No	Bi-lateral between PNO and Customer	No

Key:

LDNO - Licenced Distribution Network Operator

PNO - Private Network Operator

3.12 A number of issues arise from the Use of System boundary and the settlement metering boundary being moved from the point of connection to the licenced distributors system. The principle change is that the obligation to comply with its distribution licence will no longer relate to metering wholly and fully at the point of connection, but may be reliant partially on embedded metering positions (when difference metering implemented) or completely reliant on embedded metering positions (when full settlement solution to licence exempt settlements metering is implemented).

3.13 From a licence obligation perspective the licence distributor will therefore be reliant on the combination of both the private network owner and the embedded tenants not making use of electricity which is not passing through an embedded settlements metering system. Additionally, where the private network owner does not reside on site and is unable or unwilling to take actions required in the circumstances for safety reasons, a need exists for the Licenced Distributor to put in place arrangements to permit it to selectively deal with safety issues whilst avoiding disconnecting the whole of a private network.

³ See Schedule 2A of the DCUSA which contains text that Suppliers put into their Supplier contracts which is only relevant to customers directly connected to LDNO networks.

3.14 Some Distributors are concerned that in order to meet the obligations in these two areas, that they might need to have a right of access to the private network or the embedded Customers' premises, as well as a right to conduct certain actions upon the private network equipment, for revenue protection reasons or to de-energise a customer on safety reasons without having to de-energise all customers on that network by working at the boundary. The Working Group seeks views on this matter.

3.15 The Working Group reviewed the CP against the following DCUSA Objectives:

- Objective 1 – Better Facilitated. The CP will make the operation of the Distribution System more efficient. As noted in paragraph 3.3 the proposal will put in place standard default terms that are clear and understood by all Parties, with terms continuing to apply through a change of ownership or occupation of private networks. Given the volume of such premises, this would otherwise require an unworkable process of bilateral connection agreement innovation; which is inherently flawed and dependent on notification of change of ownership/occupation by the outgoing or incoming private network operator.
- Objective 2 – No impact.
- Objective 3 – Better Facilitated. There are licence obligations on the Licenced Distributors to service connections to licence exempt distributors and to offer meter point registration services. The change proposal intends to provide default connection terms including where the connection to the private network is not settlements metered. The benefit of doing so is to codify the fact that a statutory connection boundary exists between the licenced and licence exempt distributors and for the import or export capacity that the licence exempt distributor has requested. Though the requested capacities are subsequent to the terms of connection, the benefit of the proposed terms are to make clear the obligation of the private network operator, in specifying maximum import and export capacities, to not exceed those capacities or otherwise apply for modification. In setting out the basis of maximum capacity usage, and importantly the process of modification of contracted capacities the Working Group believe that DCP 124 will underpin the subsequent effective discharge of LC12 and LC14 in terms of consequent charging for

changes to capacity requirements (namely connection charges and changed use of system charging).

- Objective 4 – No impact.
- Objective 5 – Better Facilitated. The CP provides a codified basis of connection for the industry that efficiently supports the outcome of the Citiworks AG European Court case, the findings of which have now manifested themselves in the Gas and Electricity (Internal Markets) Regulations 2011. The group considers that the new regulations require easily applied and efficiently managed terms to support the opening of competition. It is also agreed that by having default terms in existence that will be governing the connection of the private network to a licenced distributor's system will ensure that further barriers are eased for competitive market access by tenants of a private network. Specifically the group considers that the alternative of bilateral connection agreements for each private network would be far more difficult to implement, not possible to keep accurately maintained and current and would therefore present, although fairly peripherally, a potential impediment to facilitating competitive market access.

4 PROPOSED LEGAL TEXT

- 4.1 The DCP 124 proposed legal text is set out in Appendix B, as tracked changes to the NTC.
- 4.2 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.

5 CONSULTATION

- 5.1 Parties are asked to consider the intent and impact of DCP 124 and answer the following consultation questions:
 - Do you understand the intent of the CP?
 - Are you supportive of its principles?
 - Does the CP facilitate DCUSA General Objectives?
 - As discussed in para 3.5 of this consultation are the limitations of liability proposed in section 5 of Appendix B appropriate when considering for

example a large single domestic residence compared to a similar residence converted into multiple domestic usage and now classed as a commercial private network?

- Because the National Terms of Connection are only intended at this time to apply to direct connections to a licenced distributor's system;
 1. Do Suppliers need to offer different contractual terms where they engage in supply provision to customers embedded within private networks, and
 2. The current requirement of DCUSA (Clause 17 and related Schedule 2A) is that the relevant electricity supplier procures the commercial application of the NTC in its contracts with Customers or Generators and DCUSA does not specify if this obligation relates only to Customers or Generators connected directly to the licenced distributor's system. Does DCUSA need to be changed to expressly limit the commercial application of the NTC through electricity supplier contracts to only those customers directly connected to a licensed Distribution system (a proposal to do so is set out in Appendix C)?
 - As discussed in paragraphs 3.8 and 3.9 there are impacts on the ability of licence holders to discharge their obligations where the settlements boundary does not fully align with the connection to the licence distributor's system. What modifications to the NTC might be necessary to create obligations directly between the private networks' embedded customers and the upstream licensed distributor?
 - Do you have any other comments or observations around the arrangements for connection, metering and settlement for private networks and embedded customers that may impact on the pre-requisite terms of connection?
 - Do you have any comments on the proposed legal text?
 - Are there any wider industry developments that could impact this CP?
 - Are there any other matters that should be considered by the Working Group?
- 5.2 Consultation responses should be submitted to dcusa@electralink.co.uk no later than **17 July 2012**. Parties are asked to provide as much relevant

detail as possible to enable the Working Group to understand the comments and the reasons behind them.

- 5.3 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.

6 NEXT STEPS

- 6.1 Following the end of the consultation period the Working Group will meet to consider the responses. The DCP 124 Working Group will submit its final report setting out the proposed variations to DCUSA Panel before the CP is issued to all DCUSA Parties for voting.
- 6.2 If you have any questions about this paper or the DCUSA Change Process or would like to participate in the Working Group please contact the DCUSA by email dcusa@electralink.co.uk or telephone 020 7432 3011.

7 APPENDICES

- Appendix A – Consultation response form
- Appendix B – Proposed legal text
- Appendix C – Proposed change to Schedule 2A of the DCUSA.