



DCUSA Consultation

DCP 137 - Introduction of locational tariffs for the export from HV generators in areas identified as generation dominated

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 137 - 'Introduction of locational tariffs for the export from HV generators in areas identified as generation dominated'
 - 1.7 The Consultation has been issued to DCUSA Parties, Ofgem and other interested parties.
 - 1.8 Respondents are invited to consider the proposed drafting set out as Attachment A and submit comments using the form provided as Attachment B to DCUSA@electralink.co.uk by **Friday 5 October 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.

- 2.2 The CDCM is defined within the DCUSA and, therefore, can only be amended by means of a DCUSA Change Proposal.
- 2.3 Currently under the CDCM, LV and HV generators receive a credit rather than pay Distribution Use of System Charges. This credit will be paid by the DNO to the Supplier that the generator is registered with, rather than being paid directly to the generator. The rationale behind paying a credit to generators is that local generation can reduce the need for costly network reinforcement by offsetting local demand.
- 2.4 However, in some parts of the HV and LV distribution networks local generation is forecast to grow to the extent that it exceeds local demand at certain times of the year. In these "generation dominated areas" the presence of generators may trigger network reinforcement rather than prevent it. Continuing to pay a credit to generators in generation dominated areas could incentivise further generation to connect in these areas, which would increase the likelihood of the DNO needing to reinforce the network.
- 2.5 Ofgem identified this as an issue and asked DNOs to consider how to charge generators in generation dominated areas. The Methodologies Issue Group (MIG) Generator Dominated Areas (GDA) working group was subsequently established to assess the options. The group was formed of representatives from DNO, Supplier and IDNO organisations.
- 2.6 The MIG GDA working group produced a report setting out three potential options for addressing the issue of how to charge generators where the network is or will become generation dominated. This report is provided as Attachment C.
- 2.7 After considering of the options, the MIG GDA group decided to progress option 1 from the MIG GDA Report. On behalf of the group, Electricity North West subsequently raised DCP 137 'Introduction of locational tariffs for the export

from HV generators in areas identified as generation dominated' which proposes to update the DCUSA to implement the MIG GDA group proposal.

- 2.8 The intent of this proposal is to change the methodology for calculating charges for HV generators within the CDCM by:
1. Introducing a methodology to identify which primary substations are generation dominated.
 2. Reducing or removing the credit currently paid for the units exported by High Voltage (HV) generators connected to the primary substations that have been identified as generation dominated.
- 2.9 Further information on the proposal can be found in the Change Proposal form (Attachment D) and the MIG GDA Report (Attachment C). **The option proposed under DCP 137 is option 1 in the MIG GDA report.**

3 Working Group Considerations

- 3.1 The DCUSA Panel established a Working Group to assess DCP 137. The group consists of DNO, Supplier and Ofgem representatives. The Working Group discussed the CP and noted that it proposes to reduce the credits to HV generators connected to primary substations that are identified as generation dominated.
- 3.2 The Working Group noted that the CP may need to be advertised to affected customers. It was suggested that all substations identified as generation dominated could be listed by DNOs in their respective Charging Statements².
- 3.3 The Working Group agreed that a Consultation should be issued to determine whether interested parties are supportive of the intent of DCP 137 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 and General Objective three⁴ by satisfying the licence obligation on Distribution Network Operators (DNOs) to review the charging methodology and bring about changes to improve the methodology.
- 4.2 The CP better meets Charging Objective two⁵ and General Objective two⁶ by facilitating competition through more cost reflective charges for generation.
- 4.3 The CP better meets Charging Objective three⁷ by removing or reducing the incentive for HV generators to export energy at primary substations which are

² Charging Statements are produced by DNOs to ensure compliance with Standard Licence Condition 14 of each DNO's Electricity Distribution Licence. This states that DNOs must ensure that a Charging Statement that sets out the basis on which charges will be made for use of the distribution system is available at all times in a form approved by the Gas and Electricity Markets Authority (Ofgem).

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 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences.

⁵ 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).

⁶ 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.

⁷ 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

currently or are likely to become generation dominated. This will result in tariffs that are more reflective of the costs incurred by the DNO in running their networks. It will also result in less expenditure by DNOs on reinforcing their networks, better meeting General Objective One⁸.

- 4.4 The CP better meets Charging Objective four⁹ by producing tariffs that reflect the degree to which a DNOs network is generation dominated and gradually removes credits to generators as the growth in distributed generation increases.

5 LEGAL DRAFTING

- 5.1 The legal text which it is proposed be added to Schedule 16 of the DCUSA 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 When it was initially raised the proposed implementation date for DCP 137 was 1 April 2013. However, based on feedback received from the industry suggesting that 1 April 2013 does not allow sufficient time to make the changes required to implement the CP, the Working Group proposes a revised implementation date of 1 April 2014.

7 CONSULTATION

- 7.1 The Working Group is seeking views on the following questions:

⁸ The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks

⁹ 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.

- Do you understand the intent of the CP and are you supportive of its principles?
- Do you consider that the proposal better facilitates the DCUSA objectives?
Please give supporting reasons.
- Do you have any comments on the proposed legal text?
- Are there any alternative solutions or matters that should be considered by the Working Group?
- 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.
- Are you supportive of the proposed implementation date of 1 April 2014?
- DNOs currently convey charge information using the charging statement. DNOs propose to display the applicability of the new charges in a new annex to the charging statement:
 - What level of information should be included?
 - Do you have any suggestions on how this information should be presented?
- DNOs would need to provide a list of primary substations that are generation dominated:
 - Is the charging statement the best way of providing this?
- How should the implementation of this change be conveyed to the affected end-users/customers?
- The working group plans to apply the new tariffs to Independent Distribution Network Operators (IDNOs) if the IDNO is connected at HV and the primary substation is defined as generation dominated. Do you think this is appropriate and are there any implications on IDNOs or other network users.
- Do you have any other specific comments on the proposed option?

- 7.2 Responses should be submitted using Attachment B to DCUSA@electralink.co.uk no later than **Friday 5 October 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 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

- 9.1 Attachment A – Proposed legal text
- 9.2 Attachment B – Response form
- 9.3 Attachment C – MIG GDA Report
- 9.4 Attachment D – DCP 137