

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP403 – Clarify the application of the TCR fixed charge (DCP403)
Decision:	The Authority ¹ directs that this modification be made ²
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties
Date of publication:	16 February 2023
Implementation date:	1 April 2023

Background

In November 2019, we published our Decision (and associated Direction) on the Targeted Charging Review (TCR) Significant Code Review.³ Once the Decision is implemented, the costs of operating, maintaining and upgrading the electricity grid will be spread more fairly and, through reducing harmful distortions, will save consumers approximately £300m per year, with anticipated £4bn-£5bn consumer savings in total over the period to 2040.

The TCR included a review of how residual network charges are set and recovered. The aim of the TCR is to ensure that these charges are recovered from network users in a way that meets the following principles (TCR Principles):

- reducing harmful distortions,
- fairness, and
- proportionality and practical considerations.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ https://www.ofgem.gov.uk/system/files/docs/2019/12/full_decision_doc_updated.pdf

Alongside our Decision, we issued a Direction⁴ to the Distribution Network Operators (DNOs), to bring forward proposals to modify the Distribution Connection and Use of System Agreement (DCUSA) in relation to residual charges, to give effect to the terms in the TCR Direction.

The Direction included that there should be a proposal brought forward which sets out the following:

“that the band boundaries for distribution-connected consumers will be established on a GB wide basis and consumers will be allocated to bands based on industry agreed capacity where available, or final consumption data, as applicable. In setting and allocating users to charging bands, regard must be had to paragraph 3.57(9) [sic]⁵ of the TCR Decision relating to redundant connection capacity”

The paragraph mentioned in the Decision regarding redundant connections sets out the following:

“The process for setting and allocating users to charging bands, for the purposes of calculating the level of fixed charge to apply to a site, should recognise circumstances where a customer retains connection capacity to a site for redundancy purposes only. Redundancy here refers to circumstances where a connection is unused other than when an alternative connection to a customer’s site is unavailable. This must be clearly demonstrated, supported by documentary evidence to show that the capacity is not used in parallel with the other connection and the capacity of the primary connection(s) is/are not exceeded. In such cases, total consumption volumes across all connections should be combined for the purposes of allocation of residual charges. A process should be devised where this can be accounted for.”

The modification proposal

DCP403 Proposal

Hartree Partners Supply (UK) Limited (the Proposer) raised modification DCP403 (the Proposal) on 14 April 2022. DCP403 seeks to ensure secondary connections solely used as a back-up if a primary connection fails (Back-up Connections) do not pay the residual

⁴ https://www.ofgem.gov.uk/system/files/docs/2019/11/dcusa_direction_1.pdf

⁵ We referred to paragraph 3.54(9) in the TCR Direction however this is an error, and the redundancy provisions are set out in paragraph 3.57(9) in the TCR Decision.

charge when it is already being paid on another connection that relates to the same capacity. Under the status-quo, sites with both primary and Back-up Connections pay residual charges twice, unless the two have been merged under a single Connection Agreement, which isn't always possible.

The Proposal modifies DCUSA Schedule 32, stating that premises with a Back-up Connection will not be subject to residual charges in respect of the Back-up Connection and will not be counted as a Single Site in their own right. The definition of Single Site in Schedule 32 has also been amended to disregard any Back-up Connections and a new definition added to explain what a Back-up Connection is.

Furthermore, the Proposal adds a new paragraph into the re-classification section of the legal text stating that where the evidence necessary to satisfy the definition of a Back-up Connection has been provided to, and accepted by, the DNO/IDNO party, no residual charges will apply to those premises in respect of the Back-up Connection.

Working Group Request for Information Findings

We understand that the Working Group is aware of a site where there are embedded customers on a private network who have a Back-up Connection with a different network such that their two connections cannot be merged and are therefore on separate connection agreements.

The Working Group considered whether this was unique to private networks or whether the same situation occurs with Back-up Connections on the distribution network where customers have more than one connection agreement, including where this arises as a result of connections to two different networks. Therefore, the Working Group agreed to issue a request for information to explore current processes relating to Back-up Connections.

The main findings from this request were that (i) there is a low number of sites requesting to merge their primary connection agreement with that for their Back-up Connection, and that (ii) there is a low number of sites with separate connection agreements for their primary and Back-up Connections. Most of the respondents indicated that under the current charging arrangements, if a Back-up Connection had its own separate connection agreement (distinct from the primary connection), both connections incur residual charges, presenting a risk of double charging.

Scenarios covered under DCP403 Proposal

From this, the Working Group decided to review a number of scenarios which would be covered under DCP403: (i) a scenario where the primary connection and the Back-up Connection are on the same connection agreement; (ii) another scenario where the primary connection and the Back-up Connection are on different connection agreements but with the same provider/network and, finally (iii) a scenario where the primary connection and the Back-up Connection are on different connection agreements with different providers.

The Proposer considered that the Proposal would have a positive impact on the first, second, third and fourth DCUSA Charging Objectives and be neutral against the remaining objectives. In their view, the first objective is better facilitated as the Proposal is in line with Ofgem's TCR Decision and therefore facilitates the discharge by DNO Parties of the obligations imposed on them under the Act and by their Distribution Licence, and also properly takes account of developments in each DNO Party's Distribution Business and therefore better facilitates the fourth objective. They also believe that the third objective is better facilitated as the Proposal produces charges which are more cost reflective and avoids charging the residual element of the fixed charge twice to sites for the same capacity. Also, given that the charges will be more cost reflective, they will facilitate competition, thereby having a positive impact on the second objective.

DCUSA Parties' recommendation

In each party category where votes were cast (no votes were cast in the IDNO or CVA Registrant party categories),⁶ there was unanimous support for the Proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP403 is accepted. The outcome of the weighted vote is set out in the table below:

DCP403	WEIGHTED VOTING (%)							
	DNO ⁷		IDNO/OTSO ⁸		SUPPLIER		CVA ⁹ REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject

⁶ There are currently no gas supplier parties.

⁷ Distribution Network Operator

⁸ Independent Distribution Network Operator/Offshore Transmission System Operator

⁹ Central Volume Allocation

CHANGE SOLUTION	100%	0%	0%	0%	100%	0%	0%	0%
IMPLEMENTATION DATE	100%	0%	0%	0%	100%	0%	0%	0%

Our decision

We have considered the issues raised by the Proposal, the Change Declaration and Change Report dated 12 December 2022. We have considered and taken into account the responses to consultation that the Working Group issued and the votes of the DCUSA Parties on the Proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the Proposal will better facilitate the achievement of the Applicable DCUSA objectives;¹⁰ and
- directing that the Proposal is approved is consistent with our principal objective and statutory duties.¹¹

Reasons for our decision

We consider this Proposal will better facilitate the first, second and third Applicable DCUSA Charging Objectives and will have a neutral impact on the other applicable objectives.

First Applicable Charging Methodology Objective – 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

The majority of the Working Group agreed with the Proposer that DCP403 would better facilitate the first DCUSA Charging Objective. This view was also shared by the DCUSA voting parties with the exception of one party who provided no comments. The majority view shared was that the Proposal is in line with Ofgem’s TCR Decision and therefore

¹⁰ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹¹ The Authority’s statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence. They also suggested that the Proposal addresses an unintended side effect of the TCR, ie double charging customers for the same capacity.

Our position

We directed the DNOs to implement the TCR Decision by proposing a means of calculating the residual charges for Final Demand consumers, including those with Back-up Connections. We agree that DCP403 better facilitates the first objective, as the Working Group has brought forward a proposed solution that meets the intent of the TCR Direction.

The Proposal also meets the key criteria set out in our TCR Decision relating to redundant connections by ensuring that the definition of Back-up Connection explicitly sets out in DCUSA Schedule 32 that it cannot be used in parallel with the primary connection, the back-up capacity must be for the same or smaller capacity than the primary connection and that sufficient evidence has to be provided.

The Proposal will ensure that consumers with Back-up Connections on separate connection agreements are not double charged the residual for mutual capacity (ie the capacity cannot be used in parallel). Therefore, the Proposal is positive against this objective as it implements the provisions set out in our TCR Decision relating to Back-up Connections.

Second Applicable Charging Methodology Objective – 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)

The Working Group unanimously agreed with the Proposer that DCP403 would better facilitate the second DCUSA Charging Objective. The majority of DCUSA voting parties also agreed with this view, with the exception of two parties who either made no comment or believed the Proposal to be neutral against this objective. They considered that this objective would be better facilitated by ensuring fair and consistent residual charge allocation to sites that have a requirement for back-up capacity.

One voting party noted that under current arrangements, customers with Back-up Connections on different connection agreements are paying residual charges twice under the TCR and this was not the case when residual charges were unit rates pre-TCR implementation.

Our position

We consider that the Proposal better facilitates this objective. We believe that the current charging arrangements for the recovery of residual charges for Back-up Connections could result in distortions. Under current arrangements, customers who have merged their connection agreements only pay residual charges in respect of their primary connections. However, those with their back-up connections on separate connection agreements will be paying twice.

We believe that the Proposal levels the playing field between sites where connection agreements for Back-up Connections can be merged and those where this is not possible (for example, when the Back-up Connection is provided by a different network). Whilst the information from the responses to the request for information suggests that the Proposal will not impact a large number of sites, we consider that this will nonetheless address a distortion in the current arrangements to the benefit of competition overall.

Furthermore, by ensuring that consumers provide evidence to show that their Back-up Connection is being used in the way intended by this Proposal, ie not in parallel with the primary connection, we consider that the any gaming risk arising from this change has been mitigated.

Third Applicable Charging Methodology Objective – 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, reflects the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business

The majority of the DCUSA voting parties considered that the Proposal is positive against this objective as it will produce charges which more closely reflect Ofgem's TCR intent regarding redundant connections by avoiding the residual element being charged twice in sites for the same capacity. They also highlighted that this in turn means that customers will be paying a fairer allocation of the residual charge, meaning charges will be more cost reflective as a result of this Proposal.

Our position

We understand that this Proposal will prevent customers with Back-up Connections on separate agreements being charged residual charges twice. However, we do not agree that this change introduces more cost reflective charges. The residual charge is a cost recovery charge and is not intended to send signals to users, therefore we believe this Proposal is neutral against this objective.

Fourth Applicable Charging Methodology Objective – 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

The majority of the DCUSA voting parties considered that the Proposal is positive against this objective as it avoids customers being double charged for the residual and is in line with the TCR Decision and therefore properly takes account of developments in each DNO Party’s Distribution Business.

Our position

We disagree with DCUSA voting parties’ views that this Proposal is positive against this objective as it avoids sites being double charged for the residual. We consider that the Proposal is neutral against this objective on the basis that we do not consider the Proposal to directly take account of specific developments in DNO Parties’ Distribution Businesses.

We recognise the arguments made that the Proposal takes into account the TCR Decision and therefore takes accounts of developments, however, we consider this is more appropriately assessed under the first DCUSA Charging Objective.

Additional comments

Whilst we have approved the Proposal, we consider that where possible, the merging of primary and Back-Up connection agreements remains the most efficient solution to ensuring that double-charging of the residual does not occur.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP403: *Clarify the application of the TCR fixed charge* be made.

Tom Kenyon-Brown

Head of Electricity Network Charging

Signed on behalf of the Authority and authorised for that purpose