

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP387 – Amendment to the Definition of Non-Final Demand Site to Align with CUSC (DCP387)
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:	27 May 2022
Implementation date:	7 June 2022

Background

In November 2019, we published our decision (and associated Directions) on the Targeted Charging Review (TCR) Significant Code Review (the 'TCR Decision').³ Once the TCR Decision is implemented, the costs of operating, maintaining and upgrading the electricity grid will be spread more fairly and, by reducing harmful distortions, the changes are expected to 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 was to ensure that these changes are recovered from network users in a way that meets the 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

We decided that residual charges should apply to Final Demand⁴ consumers only and that residual charges will be fixed charges. For domestic consumers we decided that there will be a single transmission residual charge, and a single distribution residual charge within each of the 14 distribution licensed areas. For distribution-connected and transmission-connected non-domestic consumers, we decided that a structure of banded fixed charges should be used for residual charges. The changes were implemented in April 2022 for distribution residual charges, and will be implemented for transmission residual charges in April 2023.⁵

Alongside our TCR Decision, we issued Directions (the 'TCR Directions') to National Grid Electricity System Operator (NGESO) and Distribution Network Operators (DNOs) to raise one or more modifications to the Connection and Use of System Code (CUSC) and Distribution Connection and Use of System Agreement (DCUSA), respectively, to implement the TCR Decision.

The modification proposal

Following the TCR Directions, DCP359⁶ and CMP334⁷ were raised to identify which customers are liable for residual fixed charges on the distribution and transmission networks, respectively. We approved DCP359 in September 2020⁸ and subsequently approved Workgroup Alternative Code Modification 1 ('WACM1') of CMP334 in November 2020⁹. In our CMP334 decision, we recognised that the solution approved created an inconsistency between the DCUSA and CUSC as to who was exempt from the residual charge. The solution in the CUSC excluded reactive power assets, while the DCUSA solution did not. We noted that it would be open to industry to bring forward a further modification proposal to align the two codes in this respect. As a result, Welsh Power Group Limited ('the Proposer') raised modification DCP387 ('the Proposal') on 6 April 2021.¹⁰

DCP387 would amend the definition of Non-Final Demand Site in Schedule 32 of DCUSA to align with the definition set out in the CUSC. It proposes to do so by modifying the

⁴ Final Demand is defined as "electricity which is consumed other than for the purposes of generation or export onto the electricity network". The CUSC modification CMP334 defined this term and other relevant terms. We approved CMP334 on 30 November 2020, though it will not have any effect until CMP343 is implemented.

⁵ We subsequently decided in our approval of CMP343 WACM2 that there would be four residual charging bands transmission-connected users: [CMP343 Decision.pdf](#)

⁶ [DCP 359 Change Declaration - DCUSA](#)

⁷ [CMP334: Transmission Demand Residual – consequential definition changes \(TCR\) | National Grid ESO](#)

⁸ [DCP359 Ofgem decision letter](#)

⁹ [Ofgem Decision Letter CMP334](#)

¹⁰ [Amendment to the Definition of Non-Final Demand Site to Align with CUSC - DCUSA](#)

definition to include sites which are a 'Eligible Services Facility'. This would then enable the owner of such a site to certify that it should be excluded from the liability to pay distribution residual charges. The Proposal would also add a definition of 'Eligible Services' alongside four additional supporting definitions which assist in specifying the scope of the above terms:

- 'Active Power';
- 'Ancillary Services';
- 'Balancing Services'; and
- 'Reactive Energy'.

Additionally, a new paragraph (5A) will be added to Schedule 32 of DCUSA to ensure that an Eligible Services Facility is able to provide certification to be classed as a Non-Final Demand Site beyond the original deadline of 31 July 2021.

The Proposer of DCP387 believes that the modification would better facilitate:

- Applicable DCUSA Objective (a), by ensuring consistency of treatment of providers of Eligible Services across transmission and distribution after the Authority's approval of CMP334 WACM1; and
- Applicable DCUSA Objective (b), by removing competition distortions between transmission-connected and distribution-connected reactive power sites.

DCUSA Parties' recommendation

In each party category where votes were cast,¹¹ 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 DCP387 is accepted. The outcome of the weighted vote is set out in the table below:

¹¹ There are currently no gas supplier parties.

WEIGHTED VOTING (%)

DCP387	DNO ¹²	DNO ¹³	IDNO ¹⁴	IDNO ¹⁵	SUPPLIER	SUPPLIER	CVA ¹⁶ REGISTRANT	CVA ¹⁷ REGISTRANT
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	100%	0%	N/A	N/A
IMPLEMENTATION DATE	100%	0%	100%	0%	100%	0%	N/A	N/A

Our decision

We have considered the issues raised by the Change Report dated 12 April 2022 including the responses to the Workgroup Consultation. We have also considered and taken into account the recommendation vote of the DCUSA Parties contained in the Change Declaration.

- implementation of the Proposal will better facilitate the achievement of the Applicable DCUSA Objectives;¹⁸ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁹

Reasons for our decision

We consider the Proposal will better facilitate Applicable DCUSA Objectives (a) and (b) and has a neutral impact on the other Applicable DCUSA Objectives.

Applicable DCUSA Objective (a) - the development, maintenance and operation by the licensee of an efficient, co-ordinated, and economical Distribution System

¹² Distribution Network Operator

¹³ Distribution Network Operator

¹⁴ Independent Distribution Network Operator

¹⁵ Independent Distribution Network Operator

¹⁶ Central Volume Allocation

¹⁷ Central Volume Allocation

¹⁸ The Applicable DCUSA

Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹⁹ 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.

The majority of the Working Group agreed with the Proposer that DCP387 would better facilitate this DCUSA Objective, whilst two respondents considered the Proposal to be neutral against this objective and one respondent made no comment regarding this objective. The majority of DCUSA voting parties also agreed the Proposal would better facilitate this Objective. They highlighted that this Proposal would align the treatment of Eligible Services providers across transmission and distribution following the Authority's approval of CMP334 WACM1.

Our position

We consider that the Proposal better facilitates Applicable DCUSA Objective (a). While the treatment of Eligible Services providers was not a specific requirement of the TCR Direction, we believe that the Proposal meets the intention of the TCR Decision by ensuring that Eligible Services providers are treated as Non-Final Demand and therefore, should be exempt from residual charges. Furthermore, amending the definition of Non-Final Demand Site will address the difference in treatment of such sites between distribution and transmission and will enable DCUSA Parties to ensure consistency and clarity in the use of the term across DCUSA, therefore creating a more efficient and coordinated distribution system.

Applicable DCUSA Objective (b)– 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

The majority of the Working Group agreed with the Proposer that DCP387 would better facilitate Applicable DCUSA Objective (b). The majority of DCUSA voting parties also agreed with this view. They considered that the Proposal better facilitates this Objective by addressing the distortion in competition which could arise as a result of differential treatment between distribution-connected and transmission-connected Eligible Services providers. One response to the Workgroup consultation commented that removing residual charges for Eligible Services providers connected to the distribution system would give such Eligible Services providers an unfair advantage over other providers of the same services which are classed as Final Demand. They also suggested that such a market distortion would lead to higher costs for consumers because it could support providers who, without the cost advantage, might not be competitive in their market.

Our position

We believe that the Proposal is positive against this Objective and better facilitates effective competition by removing a distortion between Eligible Services providers and other competitors who are exempt from residual charges. In our assessment of DCP387 against this Objective, we considered the existing markets in which Eligible Services providers could compete to understand the impact of the Proposal solution on competition.

In providing these services, reactive power assets are competing with (amongst others) generators and TOs, which are not subject to residual charges. As such, amending the definition of Non-Final Demand Site to include providers of reactive power ensures all market participants are covered. We believe that the Proposal will help level the playing field for participants in the reactive power services market. Furthermore, we disagree with the argument that Eligible Services providers have an unfair advantage over other providers of the same services who are classed as Final Demand. Distribution-connected Eligible Services providers and Final Demand providers are different user types. We have not seen evidence that such treatment would lead to higher consumer costs. We therefore disagree with the contention that this Proposal is distortive.

We consider that the Proposal also levels the playing field between distribution-connected Eligible Services providers and transmission-connected providers of Eligible Services, who will be exempt from paying residual charges from 1 April 2023.

Applicable DCUSA Objective (c) - the efficient discharge by the licensee of the obligations imposed upon it by its licence

A minority of the Working Group and one respondent to the consultation were of the view that the Proposal better facilitated Applicable DCUSA Objective (c). One DCUSA voting party agreed with this view. They believed that the Proposal is positive against this objective as the DNOs and NGENSO were both recipients of a Direction to ensure that the Authority's TCR Decision was implemented consistently across both DCUSA and CUSC.

Our position

As noted previously, reactive power providers were not specifically mentioned in the TCR Direction. However, we accept that the TCR Directions envisaged consistency between the CUSC and DCUSA arrangements and that this Proposal was raised to address a divergence between transmission-connected and distribution-connected reactive power

providers following the Authority's approval of CMP334 WACM1. Therefore, whilst this Proposal did not arise directly from the TCR Direction, which imposed an obligation on the licensee, it is related. Overall, we consider that DCP387 is neutral against this Objective.

Implementation of DCP387

The Proposer indicated that DCP387 should be implemented as soon as practicable and in any case by no later than 1 April 2023, when the next scheduled issuing of DNO tariffs will occur.

The Working Group sought industry views on a proposed implementation date and following a review of the responses to the consultation and noting the next standard release date, it was agreed that the implementation date for DCP387 should be set for five Working Days following Authority approval date. The DCUSA voting parties unanimously agreed with this.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that DCP387 – 'Amendment to the Definition of Non-Final Demand Site to Align with CUSC' be made.

Andrew Malley

Head of Electricity Network Charging

Signed on behalf of the Authority and authorised for that purpose