

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP411 – Charging De-Energised Sites		
Decision:	The Authority ¹ has decided to reject ² this modification ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	19/04/2024	Implementation date:	N/A

Background

Distribution Network Operators (DNOs) are licensed companies that own and operate the network which distributes energy to homes and businesses in GB. There are 14 geographically defined Distribution Service Areas (DSAs) within GB, each operated by a licensed DNO. Independent Distribution Network Operators (IDNOs) can own and operate smaller networks connected to the distribution network within the DSAs.

Distribution Use of System (DUoS) charges recover the DNOs' costs of maintaining, building, repairing, and investing in the distribution network. In the case of de-energised sites (a site with a connection to the distribution/IDNO network which does not have an active supply of power), DUoS charges are not applied under current charging methodologies for de-energised sites on site-specific or aggregated billing. Therefore, de-energised sites can retain or reserve their capacity without being liable to pay DUoS charges. In July 2015, the Authority approved code modification DCP115⁴ which aimed to address the under-use of capacity. DCP115 also clarified the rights of DNOs to act in

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 'Change' and 'modification' are used interchangeably in this document.

⁴ [DCP115-National Terms of Connection Amendments - Capacity Management \(underutilisation\)](#)

cases where customers do not use some or all of the reserved capacity for its connection. Under DCP115, if a site has been de-energised for six months or more, the DNO can act to disconnect the site. The DNO must follow a defined procedure to inform the customer that their connection is no longer considered to be required and provide an opportunity for the customer to dispute this conclusion.

The modification proposal

DCP411 ('the Proposal') was raised by Eastern Power Networks ('the Proposer') on 14 September 2022. The Proposal intends to develop a process to charge de-energised sites for the network capacity they retain. The Proposal focuses on addressing the issue of de-energised sites not paying their share of DUoS charges as well as freeing up unused or needed reserve capacity. The Proposal would enable DNOs/IDNOs to contact customers which are classed as de-energised sites and ask them to respond if they still require their reserved capacity. If the customers wish to retain their capacity, DUoS charges would be applied to their bill within 12 months of their first contact from the DNO/IDNO. If they wish to forfeit their reserved capacity at a de-energised site, the capacity would be removed allowing it to be reallocated within the network. The Proposer of DCP411 believes that the solution will better facilitate DCUSA Charging Objectives one and three. The Proposer considers that DCP411 will improve customer's and DNO's understanding of the DNO role under the licences and create an environment where de-energised sites either pay for the capacity they reserve or unused capacity is reallocated for others to utilise. The Proposer believes that this approach would lead to an improvement in efficiency and fairness with respect to charging.

DCUSA Parties' recommendation

Of the party categories where votes were cast:

- the DNO parties voted by majority in favour of both the Proposal and the proposed implementation date;
- the IDNO parties voted unanimously to reject the Proposal, with half accepting the implementation date and the other half rejecting; and

- the Supplier parties voted by majority to reject both the Proposal and the proposed implementation date.

Therefore, the panel overall voted to reject the Proposal given the weighted vote procedure and to reject the proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP411 is rejected. The outcome of the weighted vote is set out in the table below:

DCP411 weighted voting (%)

	Change solution	Implementation date
DNO accept	83%	75%
DNO reject	17%	25%
IDNO/OTSO accept	0%	50%
IDNO/OTSO reject	100%	50%
Supplier accept	29%	14%
Supplier reject	71%	86%
CVA registrant accept	0%	0%
CVA registrant reject	0%	0%

Our decision

We have considered the issues raised by the Proposal and the Change Declaration and Change Report dated 14 June 2023. We have considered and taken into account the vote of the DCUSA Parties on the Proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the Proposal will not better facilitate the achievement of the DCUSA Charging Objectives.
- directing that the change is approved would not be consistent with the Authority's principal objective and statutory duties.

Reasons for our decision

We consider this modification proposal will not better facilitate the Second, Third and Sixth DCUSA Charging Objectives and has a neutral impact on the remaining objectives.

First Applicable DCUSA Charging Objective – that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider of the obligations imposed on it under the Act and by its licence.

The DCP411 Working Group considered that the first DCUSA Charging Objective would be better facilitated by the Proposal, with the Proposal encouraging more efficient economic operations. The implementation of the Proposal was considered to develop a better understanding of de-energised customers and generate charges accordingly, which would help DNOs' to meet their licence requirement of working towards efficient and economic operations. Through the Working Group consultation, Suppliers highlighted a likely increase in costs for consumers due to their need to manage risk if the Proposal was implemented. Additionally, Working Group participants raised concerns that the existing arrangements where DNOs deal directly with customers to recover unused capacity would be replaced with a more complex approach.

Our view

We consider on balance that the implementation of the modification Proposal would have a neutral impact on the first DCUSA Charging objective. We acknowledge that the Proposal would facilitate the discharge of a Distribution Service Provider of the obligations imposed on it under the Act and by its licence. The increased complexity of the proposed process in comparison to the status quo risks introducing greater inefficiencies due to a changed process between responsible parties and a diminished role for DNOs and IDNOs. The impact of the Proposal is considered neutral on the first DCUSA charging objective as if implemented the Proposal would still enable Distribution Service Providers to comply with their obligations. However, the charging objective is not better facilitated in comparison to the status quo following the implementation of DCP115 due to increased complexity. Therefore, the Proposal is understood to have a neutral impact on the objective.

Second Applicable DCUSA Charging Objective – that compliance with the Relevant Charging Methodology 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 the participation in the operation of an Interconnector

The majority of Working Group members considered that the impact of the Proposal would be neutral against this objective. One of the Working Group parties raised concerns related to different cost bases if some parties were contacted and given DUoS charges in line with the Proposal and other parties were not. This was perceived by the Working Group member to have a potentially negative impact on competition. We consider that this could have a negative impact on competition if the cost implications of becoming or remaining a de-energised site vary between parties. A competitive disadvantage could be created within sectors as de-energisation remains a charge free option for certain parties and not for others. Through the Working Group consultation, Suppliers raised logistical and financial concerns with how the Proposal would work in practice. They considered the Proposal would likely result in an increase of legal and administrative costs while attempting to locate de-energised sites and the party legally responsible to pay the DUoS charges or forfeit their reserved capacity. This could be a lengthy process. If Suppliers were unable to locate and charge the responsible party for a de-energised sites DUoS charges, they would likely have to absorb the cost if they are unable to recover or pass onto other users.

Our view

In comparison to the status quo, we consider that the Proposal will negatively impact on the second DCUSA Charging Objective. We agree that Suppliers which face difficulties in identifying users and/or recovering DUoS charges as a result of this change could face increased costs and be placed at a competitive disadvantage compared to other Suppliers which do not face the same challenges in locating and charging de-energised sites. This has the potential to create a distortion between different Suppliers. We therefore consider the impact of the Proposal with respect to the second DCUSA Charging Objective to be negative.

Third Applicable DCUSA Charging 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, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business

DCP411 was considered by the Proposer to better facilitate the third DCUSA Charging Objective, as the charges to users, where they can be identified, better reflect the underlying costs of the networks. The impact on all other consumers was considered to be neutral. In the Working Group consultation Suppliers highlighted that it was likely that, given the nature of de-energised sites, appropriate contacts would not be identified and contacted, which would prevent Suppliers from recovering DUoS charges. This could result in the costs being allocated to other users and increase costs overall, for example through the inclusion of additional administrative costs.

Our view

We acknowledge the potential positive impact from the Proposal as charges allocated to the identified customers could be considered more cost reflective. However, the Authority considers that the Proposal could have a negative impact on behaviour within the market which would limit the positive impact of the Proposal. If implemented the Proposal would likely send a signal which could encourage disconnections from the network as an alternative to paying DUoS charges for de-energised sites and subsequent reconnections. This behaviour could result in less money than expected being recovered from the DUoS charges which would be applied to de-energised sites which retain their reserved capacity. Therefore, the behaviour encouraged by the implementation of the Proposal would encourage less efficient charging and likely pass costs onto other consumers through less cost-reflective charges. In addition, the Proposer's view that charges would be more cost reflective relies on de-energised sites being identified and contacted for DUoS charges to be levied. In the situation where a de-energised site is unresponsive, or the legal owner is not identified allocated, DUoS charges would be covered by other users. We consider that there could be some benefit to charging responsive de-energised sites which could make DUoS charges more cost reflective. However, we consider that the risks posed to other users where sites who are charged after the 12 months' notice period outweighs the potential benefit. Overall, we consider the Third DCUSA charging objective is not better facilitated by the Proposal due to the potential impact on market

behaviour and the risks generated for other users through the possible uneven allocation of increased DUoS charges if a de-energised site is unresponsive.

Sixth Applicable DCUSA Charging Objective – that compliance with the Relevant Charging Methodology promotes efficiency in its own implementation and administration.

The Proposal was considered to have a neutral impact on the sixth DCUSA Charging Objective by the Working Group. The Working Group consultation raised concerns that the implementation of the Proposal would result in a more complex data sharing process between DNOs, IDNOs and Suppliers than is currently required. A greater strain would be placed on IDNOs as the administrative process between the parties becomes more complex and would need to evolve to meet the new demands generated by the Proposal.

Our View

It is our view that this objective would be negatively impacted by the implementation of the Proposal, due to the increased complexity of the administration and implementation. The implementation of DCP115 clarified the rights of DNOs to act in cases where customers do not use some or all of the reserved capacity for its connection, and sets out a defined process for de-energised sites that a DNO must follow, and for the process for a customer to engage in and, if needed, dispute the capacity removal process. In the case of a non-responsive site, the current process provides a route whereby capacity can be removed from the de-energised site and reallocated on the network. We consider that the Proposal presents a less efficient administrative process which is likely to lead to increased costs, resources and time. A new role would be required from Suppliers to locate, contact, and charge the party legally responsible for the de-energised site. This process would cover an extended period of time, and potentially require Suppliers to instigate legal proceedings. The Proposal is considered to develop a process which is more complex than the existing process developed through DCP115 while achieving largely the same outcomes. Therefore, the Proposal would not encourage efficiency in its implementation due to the additional complexity in comparison to the status quo.

Overall, we consider the sixth DCUSA charging Objective to be negatively impacted by the Proposal due to the increased complexity in implementation and administration which will reduce efficiency when compared with the status quo and the potential negative impact on consumer behaviour.

Principle objective and statutory duties

The Authority is obligated to consider the impact of the Proposal against our principal objective and statutory duties. Several concerns were raised in the Working Group related to the possible negative impact on consumers if the Proposal was implemented.

Our View

Under the Proposal Suppliers would be required to recover the charges even when they cannot charge the party who is responsible for the site. This is likely to lead to higher consumer costs and inefficiencies through cross-subsidy, via an increase to other consumers bills. In addition, there would likely be increased administrative and/or legal costs associated with the change, as well as increased risk premia as a response to cover an increase of bad debt within the market. In terms of vulnerable customers, the Working Group consultation highlighted that the creation of DUoS charges for de-energised sites would limit the options available for certain vulnerable customers. This would create additional charges which they would be unlikely to be able to pay as the current methods Suppliers use to address increasing debt would no longer be an option. We therefore consider that the implementation of the modification Proposal on balance would not be in the best interest of consumers and would be inconsistent with the Authority's principal objective and statutory duties. In comparison to the status quo consumer bills would likely increase to recover legal and administrative cost of Suppliers and DNOs as well as covering unpaid DUoS charges levied against non-responsive parties.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification Proposal DCP411: Charging De-Energised Sites will not be made.

Andrew Malley

Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose.