

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP414 – Transitional Protection for Non-Half Hourly Current Transformer Customers affected by regulatory change (DCP414)		
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:	31 July 2023	Implementation date:	01 April 2024

Background

The Common Distribution Charging Methodology (CDCM) and the Extra High Voltage Distribution Charging Methodology (EDCM) include capacity charges (pence/kVA/day)³ that apply to customers' agreed Maximum Import Capacities (MICs).⁴ If the agreed MIC is breached, the site attracts a further 'excess capacity charge'. Typically, capacity charges are passed through to relevant consumers by the registered Supplier.

In April 2018, [DCP161 'Excess Capacity Charges'](#) enabled Distribution Network Operators (DNOs) to apply an excess capacity charge to reflect the costs and charges that a DNO could incur wherever usage exceeds the MIC. In addition, from 4 November 2021, [DCP 385 "No Retrospective Capacity Reductions"](#) has prevented customers from retrospectively agreeing a MIC on the basis that capacity charges should send cost signals to reflect current and future (as opposed to past) availability of capacity across a distribution network. Thus, in accordance with the Charging Methodology (Schedule 16) and LC14 Charging Statements, any changes to the MIC are only applied going forwards.

On 26 August 2022, Ofgem published a decision to send back BSC modification P432: 'Half Hourly Settlement for CT Advanced Metering Systems'.⁵ One of the reasons for sending back the modification related to the excess capacity charges that could be applied to customers affected by a Change of Measurement Class (CoMC) following BSC

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 Although charged on the basis of pence/kVA (kilovolt-ampere)/day the charge applies throughout the year in accordance with the customer's agreed Maximum Import Capacity (MIC) in the customer's connection agreement.

⁴ The MIC is the maximum capacity the customer agrees to abide by in its connection agreement.

⁵ [Decision to Send Back Modification P432 'Half Hourly Settlement for CT Advanced Metering Systems' | Ofgem](#)

modification P432 (if it were approved) as well as those sites undergoing CoMC through Market-wide Half-Hourly Settlement (MHHS).

Currently, many of the existing Non-Half-Hourly (NHH) Advanced Current Transformer (CT) meters within the scope of P432 will not be recording, or at least settling, reactive power (kVAr) measurements, or maximum demand (in kW) readings. They also are unlikely to have accurate and appropriate MICs in place with the DNO. This makes it challenging for those customers to accurately predict and agree their capacity requirements ahead of moving to half-hourly settlement. If we had approved P432 in 2022, each of those customers would - once the relevant supplier had completed the Change of Measurement Class (CoMC) process – potentially be exposed to excess capacity charging rates for any capacity taken above the MIC. If those customers had not agreed a MIC with their DNO they would likely be assigned a MIC of zero. This would mean that capacity charges could be levied only on the higher excess capacity charging rates for all demand. Ofgem considered that this presented an unacceptable risk for those consumers. We wished to see further developments before coming to a decision on modification P432.

DCP414 seeks to implement a solution that protects these customers from inappropriately high capacity charges following any CoMC process that may take place.

The modification proposal

DCP414 was raised by Npower Commercial Gas Limited (the “Proposer”) on 18 October 2022. The intent of the modification is to provide transitional protection for NHH CT customers moving to HHS and to prevent what are perceived to be potentially penal excess capacity charges from being applied to customers wherever the MIC has been set at zero because no site-specific connection agreement is in place. The Proposer believes that the Change Proposal (CP) would better facilitate DCUSA Charging Objectives 2⁶, 3⁷,

⁶ 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).

⁷ 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.

4⁸ and DCUSA General Objective (2)⁹. The CP would cover not only customers affected by P432 but also any other NHH CT metered customers to be migrated via the MHHS Programme. The Proposer specified three aims for the CP:

- to remove the excess capacity rate on new HH customers where there is no MIC;
- to provide transitional protection for NHH CT customers affected by P432 and MHHS; and
- to ensure a fair and consistent approach wherever a change of residual charging bands occurs as a consequence of regulatory changes.

The Workgroup put forward two options. 'Solution A' instils a 'default MIC' for sites undergoing CoMC, and would require suppliers to communicate with their customers as part of the migration process about the protection to be provided and the process to be adopted where a default MIC value has been used. Each DNO would be responsible for determining sites' default MICs. The customer would then be contacted by the DNO to replace the default MIC where a revised value has been calculated from actual metering data. This data will have been received during the transition period,¹⁰ and the customer is to then be notified by the DNO of their rights under the National Terms of Connection. During this period, the site continues to attract capacity charges.

Solution A amends existing text within DCUSA Schedule 16 Part 4 to close these provisions eighteen months from the Meter Point Administration Numbers (MPANs) migration date. This allows for a twelve-month transition period in which actual data is received and a further six months to agree a MIC with the customer or notify them of the revised MIC based on the metering data received. Where the default MIC is replaced with a revised MIC then:

- if the revised MIC is *lower* than the default, it will be applied retrospectively from the date of the migration.

⁸ 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.

⁹ 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.

¹⁰ The transition period referring to the 12-month period following a migration to HH.

- if the revised MIC is *higher* than the default, it will be applied retrospectively from the date the MIC exceeded the default value. With MIC-based charges being recalculated retrospectively.

'Solution B' would, by contrast, introduce a new aggregated tariff that would apply during the migration and transition period. Suppliers would be required to notify their customers of the new aggregated tariff. It would have the same components and values as the existing aggregated tariff, but it would apply to HH billed customers. The DNO would then contact the customer following an assessment, post-transition, in order to:

- allocate a MIC calculated from actual metering data received during the transition period;
- move to a site-specific tariff based on that MIC, where applicable; and
- notify the customer of their rights under the National Terms of Connection.

Solution B requires the DNO to reasonably determine an appropriate MIC, having regard to the maximum demands in the transition period, and to notify the customer. Solution B means that during the transition period, relevant sites do not attract capacity charges.

DCUSA Parties' recommendation

In each Party Category where votes were cast, there was majority (>50%) support for Solution A and for its proposed implementation date. It is recommended that proposed Solution B is rejected as there cannot be majority where only two Party Categories voted on the Change Proposal. In this instance one Category voted to accept and the other voted to reject. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP414 Proposed Solution A is accepted. The outcome of the weighted vote is set out in the table below.

DCP414	WEIGHTED VOTING (%)									
	DNO ¹¹		IDNO/OTSO ¹²		SUPPLIER		CVA ¹³ REGISTRANT		Gas Supplier ¹⁴	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
DCP414 PROPOSED SOLUTION A	60%	40%	None received	None received	75%	25%	N/A	N/A	N/A	N/A

DCP414 PROPOSED SOLUTION B	88%	12%	None received	None received	50%	50%	N/A	N/A	N/A	N/A
IMPLEMENTATION DATE	100%	0%	None received	None received	75%	25%	N/A	N/A	N/A	N/A

The Panel’s recommendation to approve Solution A and subsequently reject Solution B arises due to the nature of the weighted vote procedure. As the Supplier Category vote was split equally on Solution B, Solution A obtains a majority support. We note that although Solution A has the majority support, no party had a majority vote to reject either Solution and that the majority voted in favour of the implementation date proposed for both Solutions of 1 April 2024.

The Panel believed both Solution A and B to better facilitate the DCUSA Charging Objectives (2), (3), (4) and DCUSA General Objective (2). They recommended Solution A be approved as they believed this to be a more straightforward approach and was consistent with previous arrangements under P272.¹¹

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 16 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 Solution B will better facilitate the achievement of the Applicable DCUSA objectives;¹² and
- directing that Solution B be approved is consistent with our principal objective and statutory duties.¹³

¹¹ [P272 - Elexon BSC](#)

¹² The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹³ 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.

Reasons for our decision

We consider that Solution B of the modification proposal will better facilitate DCUSA Charging Objectives (2), (3), (4) and DCUSA General Objective (2) and that it has a neutral impact on the other applicable objectives. We set out why below.

Applicable DCUSA General Objective (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

Concerns were raised surrounding Solution A by two suppliers during the third consultation that the principle of retrospective charging could negatively impact competition. One supplier described a risk which concerned entering long-term contracts with their customers prior to their migration from NHH to HH settlement. This being that costs could increase materially during the term of the contract once the site is successfully migrated to HH settlement. Thus, possibly resulting in unrecoverable costs for suppliers as well as an undesirable outcome for consumers that could see an unexpected increase in the value of their invoices.

Two suppliers added that the risk of increased costs could result in consumers purposefully switching to suppliers who are not yet actively migrating their customers in order to avoid any additional costs. They considered this was likely to diminish competition among suppliers.

One supplier who supported Solution B in their consultation response believed it better facilitated General Objective (2) as maintaining the current charging structure during the migration to HH settlement reduces the Distribution Use of System (DUoS) risks associated with the requirement for customers to migrate to HH settlement. The working group agreed that this objective is better facilitated as a common approach is established for all parties while allowing consistency in how consumers are treated.

On the concerns relating to customer contracts, we recognise that depending on the contract agreed, suppliers may or may not be able to pass through relevant capacity charges. As such, we acknowledge the negative impact this could have on competition.

We further acknowledge the risk described by the suppliers and appreciate the uncertainty associated with retrospective charging. We agree with the views presented concerning the risk of consumers facing an increase in costs and recognise that Solution A risks a scenario where a consumer is paying capacity charges against a MIC in excess of that which is required, and then has to wait for a year for those charges to be rectified. Conversely, we note that it is possible for a consumer to significantly underpay as compared their actual MIC requirements and face a large, unexpected invoice. We do not consider that this is in the interests of competition as between suppliers, or in the interests of consumers.

We further consider that utilising a default MIC risks creating an inconsistent approach across DNOs, where two identical sites in two different regions are given differing default MICs, thereby creating an inconsistent charging approach to consumers and adding to the unpredictability of charges faced by suppliers.

Furthermore, we agree that the proposed Solution B better facilitates General Objective (2) as it allows for appropriate competition among suppliers and DNOs, particularly concerning the transition to MHHS. Solution B allows such competition by ensuring a fair treatment of customers which is consistent throughout industry. As such, consumers will be able to take advantage of competitive offers in the market without concern or risk that their bills will inappropriately change. In our view, Solution B likely mitigates the potential issues suggested by stakeholders in respect of consumers actively switching suppliers to avoid undergoing CoMC, which we believe better supports the transition to MHHS and enables suppliers to compete on their terms and products, rather than their MHHS migration plan.

Applicable DCUSA Charging Objective (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)

Views shared in consultation responses and the working group repeated the concerns associated with DCUSA General Objective (2). As such we consider that this Objective is better facilitated by both Solutions A and B, with Solution B being better overall for the

reasons noted above, as well in particular ensuring a common approach among DNOs. We do not agree that Solution A creates a common approach: the process underpinning the allocation of a default MIC under Solution A could still give rise to inconsistencies in approach between DNOs, creating regional disparities in treatment of relevant consumers. Solution B removes that risk.

Applicable DCUSA Charging Objective (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

The working group agree that Charging Objective (3) is better facilitated by both Solution A and B as this change will allow time for customers to obtain data to inform the MIC, enabling the customer and the DNO to agree a MIC which is appropriate for their requirements and hence the costs they impose on the network. This view was supported by most respondents.

One supplier raised concerns that they considered Solution A to negatively impact Charging Objective (3) as the underlying tariffs for charging years 2023/24 and 2024/25 have been set on the basis that the customers affected by early migration to HH settlement will be charged on the aggregate tariff structure. Therefore, the published CT HH tariffs have not been derived in a way which incorporates the load profiles and characteristics associated with these customers. Given profile class 1 - 4 CT customers would make up ~25% of the LV (low voltage) CT population, it is highly unlikely that the current published LV CT tariffs will be cost reflective for the profile class 1 - 4 customers migrating to them.

Some suppliers and DNOs believed Solution B to better facilitate this objective as it negates the concerns regarding the existing tariff structures. This is because the tariffs that will remain as per Solution B are also those which the DNOs assumed these customers were on when they calculated tariffs for 2023/24 and 2024/25. Therefore, they are the most cost reflective to retain post migration. Additionally, Solution B was supported during consultation as being a smoother solution for customers, suppliers and distributors as well as offering greater protection for consumers against inappropriate

capacity charges than Solution A. This is contributed to the point discussed concerning how DNOs have calculated current tariffs.

Concerns shared in a consultation response regarding Solution B explained an impact on DNOs from this solution to be unclear. As Solution B would permit a CT meter to be site specific billed as well as aggregate billed, the consultation respondent anticipates this would bring a lot of confusion when attempting to identify which CT sites would require aggregate billing and which sites would be billed as site specific.

We recognise that both Solutions A and B result – in the round – in cost-reflective charges. Solution A supports cost-reflectivity to the extent that the capacity charge a site attracts may be reconciled against actual capacity requirements at a later date. There remains a risk however that for a year, those sites attract charges which are not cost-reflective, partly because (as explained above) the tariffs have already been set without considering these particular sites, and partly because they are based on a potentially inaccurate MIC.

Solution B, on the other hand means that sites attract no capacity charges until their MIC has been agreed. This results in them facing charges which have already been set by the DNOs in respect of their current NHH settlement arrangements, and more importantly, when they do attract capacity charges, they will be based on a MIC more likely to reflect their actual capacity requirements. We accept that during the period where these sites do not attract capacity charges, the DNOs could possibly incur additional costs in respect of those sites but given that under the status quo that is the case, we consider that Solution B is still better for cost-reflectivity.

Applicable DCUSA Charging Objective (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

The working group’s view is that Charging Objective (4) is better facilitated by both Solution A and B. It believed Solution B better facilitates this objective as this solution will avoid DNOs adopting their own approach reducing the administrative burden of setting a default MIC. It also believed that Solution A better facilitates this objective as

this change will permit DNOs to adopt their own approaches to initially overcome the administrative burden of setting an initial MIC for relevant sites. On balance, Solution B is preferable as it offers a consistent approach to consumers while ensuring they are protected from capacity charging that does not accurately reflect their required MIC or actual consumption.

We acknowledge that MHHS is a considerable change throughout the industry and particularly for distribution. As such, Solution A would better facilitate these changes in comparison to the current arrangement. However, Solution B is overall a far more acceptable solution due to the level of protection it brings to consumers as well as negating any negative impacts on competition that Solution A could bring.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that Solution B of modification proposal DCP414: 'Transitional Protection for NHH CT Customers affected by regulatory change' be made.



Melissa Giordano

Deputy Director Retail

Signed on behalf of the Authority and authorised for that purpose