

Interpretation of provisions relating to DUoS charges for Phased Capacity Sites

1. Enquiry Received

1.1 The DCUSA Code Administrator recently received an enquiry related to how to interpret Paragraphs 1.86 to 1.90 of Schedule 22, in relation to establishing the DUoS charges for a phased capacity site

1.2 The original enquiry is set out below:

Can you please confirm if my interpretation below is correct?

- *Schedule 22-1.88 says that the use of system charges will be calculated based upon the phased capacity which is applicable at the relevant time during the phased capacity profile*
- *Schedule 22-1.89 says that the residual charging banding/tariff which will be applied to the customer from the moment the connection is energised is based upon the final capacity required (the "Required Capacity") at the completion of the overall development*
- *Therefore:*
 - *The tariff band allocated from the moment the connection is energised, determining the fixed charge element of DUoS for the connection, will be assessed based upon the final capacity at the end of the phased capacity profile (the "Required Capacity")*
 - *At a given point in time within the phased capacity profile, the connection capacity which is used to calculate the capacity charge element of the DUoS charge will be based upon the capacity which is applicable at that point in time according to the phased capacity profile*

Or is the interpretation above incorrect, and the tariff band applied to the connection would actually change throughout the phased capacity part of the development as the capacity profile increases? (i.e. the connection could start on a HV Band 1 tariff initially, and progress to a HV Band 4 tariff as the development progresses through it's phased capacity profile to it's final capacity?)

1.3 Having reviewed the query above, we went and reviewed the relevant legal text in Schedule 22 'Common Connection Charging Methodology' as well as in Schedule 32 'Residual Charging Bands' and also looked back at the Change Report for DCP 407 – being the change that introduced the concept of a Phased Capacity Site. The associated text is set out below:

Phased Capacity Site

- 1.86 *If a Customer has a requirement for capacity to increase over a period of time, then a phased Required Capacity can be agreed. The phased Required Capacity will be documented in the Connection Agreement for the connection.*
- 1.87 *The DNO will use the phased Required Capacity to assess the needs of the Distribution System and what, if any, Reinforcement is required. Any Reinforcement will be charged in*

accordance with the Charging Methodology for a Demand Connection or Generation Connection, as appropriate.

- 1.88 *The DNO will use the phased Required Capacity, updated in the Connection Agreement and as applicable at the relevant time, as the Maximum Capacity for the purposes of calculating the Customer's Use of System Charges.*
- 1.89 *By agreeing a phased Required Capacity, the Customer is committing to pay, from Energisation of the connection, Use of System Charges based upon the residual charging band allocated in accordance with DCUSA Schedule 32 (Residual Charging Bands) based on the Required Capacity for the complete development. For example, if the connection will be ramped from 1MVA to 5MVA over 10 years, the Customer is committing to pay Use of System Charges for a 5MVA connection in line with the ramped profile (i.e. when the capacity is ramped to 5MVA in year 10).*
- 1.90 *During the Development Phase a review may be undertaken annually on or around the anniversary of the date of Energisation of the connection. The results of that review will be discussed, and we may require reasonable changes to the phasing as a result of that review.*

1.4 After coming to the conclusion that the correct interpretation is what they'd set out in the final paragraph of their enquiry which we've added blue highlight to (i.e., that their initial interpretation was incorrect and that it is as per that final paragraph), we also then ran this by one of the DNOs who we knew was quite close to this process and they confirmed this was the correct interpretation.

1.5 The point is the such sites should be treated like a new site at each "phase" such that it's allocated consistently with a comparable site that is not a Phased Capacity Site and so that the 'Exceptional Circumstances' tests in Schedule 32, regarding the reallocation of a Final Demand Site to a different charging band are not necessary to be complied with in order for a site to be reallocated to a different charging band.

1.6 We confirmed that it is Paragraph 1.89 that is causing the most confusion, as it is the one that is hardest understand in terms of what it says at the moment, especially, the following highlighted parts:

"the Customer is committing to pay, from Energisation of the connection, Use of System Charges based upon the residual charging band allocated in accordance with DCUSA Schedule 32 (Residual Charging Bands) based on the Required Capacity for the complete development"

1.7 We can see how this could be misinterpreted.

1.8 However, when taken together with Paragraph 1.88 and the rest of the text in Paragraph 1.89, it becomes a little clearer:

- 1.88 *The DNO will use the phased Required Capacity, updated in the Connection Agreement and as applicable at the relevant time, as the Maximum Capacity for the purposes of calculating the Customer's Use of System Charges.*

1.89 By agreeing a phased Required Capacity, the Customer is committing to pay, from Energisation of the connection, Use of System Charges based upon the residual charging band allocated in accordance with DCUSA Schedule 32 (Residual Charging Bands) based on the Required Capacity for the complete development. For example, if the connection will be ramped from 1MVA to 5MVA over 10 years, the Customer is committing to pay Use of System Charges for a 5MVA connection in line with the ramped profile (i.e. when the capacity is ramped to 5MVA in year 10).

1.9 We believe what it is getting at is for the example given, that at year 10, the customer should be expecting to pay (and commits to pay) the charges for a site based on the amount of capacity that has been agreed at that final point (i.e. being 5MVA). And that between year 1 and year 9 and with however that is set out within the Connection Agreement, then the DNOs will use the applicable MVA amount, as the basis for assigning a Maximum Capacity for the purposes of calculating the Customer's Use of System Charges.

1.10 Unfortunately, the drafting in Schedule 22 isn't quite as clear as it maybe could be when trying to describe the process, but we think this is clearer in the provision added to paragraph 6 of Schedule 32 - via DCP 407. we've included an extract from paragraph 6 of Schedule 32 below for reference:

6. EXCEPTIONAL CIRCUMSTANCES AND ANNUAL ALLOCATION REVIEW RESULTING IN RE-ALLOCATION TO A DIFFERENT BAND WITHIN A PRICE CONTROL PERIOD

Exceptional circumstances

6.1 A Final Demand Site may be reallocated to a different charging band if one or more of the following criteria apply (following the Final Demand Site's allocation to a charging band under Paragraph 4):

- (a) the voltage of connection of the Final Demand Site changes;
- (b) the Final Demand Site has a change of use or change of site configuration, and this is reflected by a significant change (as further described in Paragraph 6.3) to its:
 - (i) Maximum Import Capacity; or
 - (ii) forecast annual consumption;
- (c) the Final Demand Site moves from one of the groups identified in Paragraph 1.5 to another, and as a result it becomes a site for which the Maximum Import Capacity is to be used under Paragraph 2.1 (when annual consumption was previously to be used) or becomes a site for which annual consumption is to be used under Paragraph 2.1 (when Maximum Import Capacity was previously to be used); and/or
- (d) the Final Demand Site is a Phased Capacity Site.

....

6.4A Where Paragraph 6.1(d) applies, the DNO/IDNO Party shall, each time that the Maximum Import Capacity of the Phased Capacity Site is increased, re-allocate the Final Demand Site based on the revised Maximum Import Capacity.

- 1.11 We are seeking confirmation from the DNOs that the above is the way they intend on applying DUoS charges for Phased Capacity Sites.

2. Which Connections can be classed as a Phase Capacity Site

- 2.1 Further to the above, an interesting question arose with respect to exactly who this text should be applicable to, as a follow up to the enquiry suggested that coming to an agreed interpretation is important as any difference may potentially be material for some large sites and IDNOs.
- 2.2 It was the reference to IDNOs which caught our attention, and which we hope can be discussed further, in terms of whether Paragraphs 1.86 to 1.90 of Schedule 22 for Phased Capacity Sites is applicable to all connection applications generally or whether it might exclude IDNO connections, which instead might be picked up under Paragraphs 1.81 to 1.85 relating to 'Capacity Ramping for LDNOs' which are set out below:

Capacity Ramping for LDNOs

- 1.81 *For an LDNO the Required Capacity (expressed in kVA) is the Maximum Capacity to be provided at the boundary between the LDNO's distribution network and our Distribution System. This value will be agreed with us and stated in the Bilateral Connection Agreement for the relevant embedded network.*
- 1.82 *When a connection is provided to an LDNO the take-up of capacity may grow over a period of time as the site develops and individual customers are connected. In such circumstances the Bilateral Connection Agreement shall include a phased Required Capacity based on the Development Phase.*
- 1.83 *During the Development Phase a review may be undertaken annually on the anniversary of the Energisation of the embedded network. Any unused capacity identified in such review may be released for use by other customers and the Maximum Capacity reduced to an agreed level within the Bilateral Connection Agreement.*
- 1.84 *The Required Capacity agreed with us as being required at the end of the Development Phase shall be used to determine the Required Capacity for determination of the Cost Apportionment Factors where applicable.*
- 1.85 *Should additional capacity subsequently be required, the LDNO may incur additional Connection Charges for any Reinforcement based on the increase in capacity.*
- 2.3 This looks like it potentially links into Paragraph 1.51 of Schedule 16 which is set out in below (including the surrounding text).

Capacity charges

Maximum Import Capacity

148. *The Maximum Import Capacity (MIC) will be charged on a site basis (p/kVA/day).*

149. *The level of MIC will be agreed at the time of connection and when an increase has been approved. Following such an agreement (be it at the time of connection or an increase) no reduction in MIC will be allowed for a period of one year (subject to Part 4 below).*
150. *Subject to Part 4 below, reductions to the MIC may only be permitted once in a 12 month period and no retrospective changes will be allowed. Where MIC is reduced the new lower level will be agreed with reference to the level of the customers' maximum demand. It should be noted that where a new lower level is agreed the original capacity may not be available in the future without the need for network reinforcement and associated cost.*
151. *For LDNO connections, if capacity ramping has been agreed with the DNO Party, in accordance with the DNO Party's connection charging methodology, the phasing profile will apply instead of the above rules. Where an LDNO has agreed a phasing of capacity this will be captured in the Bilateral Connection Agreement with the DNO Party.*

2.4 Do members have a view on the applicability of Phased Capacity Sites for IDNO connections or and how this relates or not to Capacity Ramping for LDNOs and the above text from Schedule 16?