

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP343 – Use of Nominated Calculation Agent for the Calculation of the LV Mains Split (DCP343)		
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:	13/11/2023	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 14 distribution service areas (DSAs) within GB. Independent Distribution Network Operators (IDNOs) can own and operate smaller networks in the DSAs and provide competition for some of the distribution activities. The charges the IDNOs pay to DNOs for use of their distribution networks are discounted to reflect the fact that IDNOs provide the 'last mile' of the distribution network. The discount factors are calculated in the Price Control Disaggregation Model (PCDM).

The calculation of Licensed Distribution Network Operator (LDNO) discounts requires a High Voltage (HV) split and Low Voltage (LV) mains split percentage to be determined. Currently, DNOs are required to annually procure a Nominated Calculation Agent (NCA) for the calculation of those percentages. This was brought into effect in 2015 as a result of our decision on DCP240⁴, which amended the DCUSA to allow the calculation of the HV and LV mains split to be conducted by an NCA instead of DNOs.

The modification proposal

DCP343 was raised by Northern Powergrid ('the proposer') on 12 February 2019. The proposal intends to remove the need for DNOs to procure an NCA to calculate the LV mains split charge. The proposer of DCP343 believes that the proposed solution will better facilitate DCUSA Charging Objective six as the change will reduce costs incurred when procuring an NCA (which charge for their services) and will improve efficiency for DNOs and IDNOs by enabling the calculation of the LV mains split to be completed by DNOs internally.

DCUSA Parties' recommendation

In each party category where votes were cast (no votes were cast in the Supplier or DG party category),⁵ the DNO parties voted in favour of both the change solution and the proposed implementation date. The IDNO parties voted unanimously in favour of the proposed implementation date, however half of the IDNO parties accepted the change solution with the other half rejecting the change solution. Therefore, the panel overall voted to reject the proposal given the weighted vote procedure and accepted the proposed implementation date. In accordance with the weighted vote procedure, the

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 [Distribution Connection and Use of System Agreement \(DCUSA\) DCP240- Nominated Calculation Agent to calculate the LV Mains Split](#)

⁵ There are currently no gas supplier parties.

recommendation to the Authority is that DCP343 is rejected. The outcome of the weighted vote is set out in the table below:

DCP343	WEIGHTED VOTING (%)							
	DNO ⁶		IDNO/OTSO ⁷		SUPPLIER		CVA ⁸ REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	65	35	50	50	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	65	35	100	0	n/a	n/a	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 18 September 2019. 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 modification proposal will not better facilitate the achievement of the applicable DCUSA Charging Objectives.⁹
- directing that the change is made would not be consistent with the Authority's principal objective and statutory duties¹⁰

Reasons for our decision

We consider this modification proposal will not better facilitate DCUSA charging objectives two, three and six with a neutral impact on the other objectives.

Second Applicable DCUSA Charging 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 Authority considers that the implementation of the modification proposal will have a negative impact on the Second DCUSA Charging Objective. The requirement to procure an NCA for LV mains split calculations was implemented due to the approval of DCP240. This decision was made to improve the accuracy of data available when calculating the LV mains split as DNOs may not have had access accurate data to complete the calculation. The introduction of an NCA which centrally collects data from DNOs and IDNOs would result in more accurate IDNO discounts and improve competition by removing potential distortion under the previous calculation system. Therefore, the modification proposal is considered to have a negative impact on the Second DCUSA Charging objective as removing the NCA process would see a return to similar calculation arrangements which

⁶ Distribution Network Operator

⁷ Independent Distribution Network Operator/Offshore Transmission System Operator

⁸ Central Volume Allocation

⁹ The DCUSA Charging Objectives (Relevant Objectives) are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence.

¹⁰ The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

were in operation prior to DCP240 being implemented. This would likely result in more complex data sharing practices between DNOs and IDNOs which raises this risk of incomplete data being used and a reoccurrence of less accurate IDNO discounts, with the increased risk of distortion negatively impacting competition.

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

The role of the NCA was highlighted by DCP240 to complete calculations using more accurate data than previously as all parties were required to submit their data to the NCA. The fact the data was more accurate when calculating the LV Mains Split percentage results in more cost reflective IDNO discounts. Overall, cost reflectivity is improved when completing the split calculation with IDNO discounts increasing or decreasing in a justified manner. The proposal to remove the NCA from the calculation process could result in a less cost reflective process as a return to an approach similar to the previous one which was less accurate would reduce the reliability of the data. Therefore, the third DCUSA Charging objective can be understood to be negatively impacted by removing the NCA when calculating the LV mains split percentage.

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

The DCP343 working group, which assessed the modification proposal, considered that DCP343 better facilitates this objective by enabling the DNO to carry out the LV mains split percentage calculation internally. In their view, having the NCA collate the data and calculate the proportion of the LV mains split may be inefficient and costly. However, several parties raised concerns during the consultation that the modification proposal would increase the complexity of the process due to increased data sharing between DNOs and IDNOs and an increased workload for IDNOs.

The modification proposal is focused on improving efficiency of calculating the LV mains split percentage. However, the proposal does not take into consideration the increased complexity of calculating the LV mains split percentage, particularly in relation to data sharing. In the working group consultation, concerns were raised in relation to the additional pressure placed on IDNOs to collate analysis, and process more complex data than under the current system. The increased complexity of workload for DNOs and IDNOs and the reliance on sharing data between companies in a timely manner results in a more complex process than procuring a NCA to centrally calculate the split percentage. Furthermore, the working group for DCP240, which implemented the requirement to procure a NCA for the calculation LV main split charge percentage considered that having the NCA collate the data and calculate the proportion of the split reduces the resources required by each DNO to do so and provides a more efficient process. Therefore, the modification proposal can be considered to have a negative impact on DCUSA Charging objective Six as it does not improve efficiency. The proposal has the potential to reduce efficiency when calculating the LV mains split due to added complexities for DNOs and IDNOs to cooperate, share and analyse complex data and dedicate additional resources to calculate the split which are not needed at present due to the role of the NCA.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification proposal DCP343: Use of a Nominated Calculation Agent for the Calculation of the LV Mains Spilt is not made.

Andrew Malley
Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose