

DCUSA Consultation 2		At what stage is this document in the process?
DCP 443: Excess Capacity Date Raised: 09/07/2024 Proposer Name: Peter Waymont Company Name: Eastern Power Networks Party Category: DNO		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
Purpose of Change Proposal To drive the correct customer behaviour regarding exceeding capacity.		
	This document is a Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 443. The Working Group recommends that this Change Proposal should proceed to Consultation. Parties are invited to consider the questions set in section 10 and submit comments using the form attached as Attachment 2 to dcusa@electralink.co.uk by Friday 09 October 2026.	
	Impacted Parties Suppliers/DNOs/IDNOs/CVA Registrants	
	Impacted Clauses Schedules 16/17 and 18	

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Change Declaration Issued to Parties/Authority	11 December 2026	
Authority Decision	TBC	

1 Summary

Intro

- 1.1 The Working Group previously undertook an industry consultation and Request for Information (RFI) exercise to gather views on the nature of the issue and the potential solutions available. Responses received from stakeholders demonstrated broad agreement that the removal of the differential between standard capacity charges and excess capacity may mean that customers may not currently receive the same level of incentive to remain within their agreed capacity as under historical charging arrangements.
- 1.2 Since the initial consultation, the Working Group has undertaken further analysis of industry parties feedback and worked with modelling experts to better understand the potential implications of a range of solutions. This process has enabled the Working Group to refine the available options and develop a clearer understanding of the practical, commercial and methodological considerations associated with each approach.

Purpose of this Consultation

- 1.3 The purpose of this second consultation is to seek party views on three potential solutions that have been identified by the Working Group for addressing the issue:
 - **Option A – 12-Month Maximum Demand Charging**
 - **Option B – Differential Charge - Multiplier Approach**
 - **Option C – Differential Charge - Model-Integrated Approach**
- 1.4 The Working Group recognises that each option seeks to address the same underlying issue but differs in terms of complexity, implementation requirements, cost reflectivity and the strength of the behavioural signal provided to customers. This consultation therefore seeks stakeholder views not only on the preferred solution, but also on the potential benefits, risks and implementation considerations associated with each approach.
- 1.5 Options A and B align to the two options included in the first consultation, whilst Option C is a newly developed model-integrated approach, which has emerged through the Working Group's assessment of potential modelling solutions following feedback received in the first consultation.

Supporting guidance documentation has been produced to explain the proposed modelling concepts in greater detail and should be considered alongside this consultation document.

- 1.6 Responses to this consultation will be used to inform the Working Group's decision on which solution should be progressed to final legal text development and implementation.
- 1.7 Responses to the first consultation and RFI for DCP 443 can be found in section 4, along with the Working Group's conclusions.
- 1.8 Detail on the solutions that the Working Group have developed following the initial consultation and RFI, along with the questions for this consultation can be found in section 5.

What?

- 1.9 To amend the CDCM and EDCM such that excess capacity charges are set in order to incentivise the correct customer behaviours.

Why?

- 1.10 Following a change to the CCCM the customer contribution term in the CDCM was reduced to zero, which had the effect of increasing the capacity charge element inline with the excess capacity charge element. This removed the differential between the charge elements and reduced the signal for customers to stay within their agreed capacity.

How?

- 1.11 Based on the DCP 443 first consultation and RFI responses, the Working Group considered three broad approaches to addressing the loss of the excess capacity charging signal.

Option A – 12-Month Maximum Demand (MD) Charging

- 1.12 Under this option, if a customer exceeds its MIC, the excess capacity charge would be based on the highest Maximum Demand recorded in the preceding 12 months. Rather than paying an excess charge only in the month of the breach, the customer would continue to pay excess capacity charges for up to 12 months following the exceedance. The intention is to create a stronger and longer-lasting financial signal that customers should secure sufficient contracted capacity rather than routinely exceeding it. The Working Group notes that a variation of this approach was used by some DNOs before the introduction of the CDCM.

Option B – Differential Charge - Multiplier Approach

- 1.13 This option would reintroduce a price differential between the normal capacity charge and the excess capacity charge. One example discussed by the Working Group is to set the excess capacity charge at approximately double the standard capacity charge, reflecting the sort of differential that existed when customer contributions formed part of the charging methodology. This approach is simple to understand and implement, with limited systems impacts, although

stakeholders have raised questions around whether the resulting charge would be sufficiently cost-reflective.

Option C – Differential Charge - Model-Integrated Approach

- 1.14 The Working Group also explored a more fundamental methodology-based solution that would build the excess capacity signal directly into the charging models rather than applying an arbitrary multiplier. This would seek to maintain consistency with the CDCM charging principles and derive a cost-reflective excess capacity charge through the charging model itself. Whilst potentially more sophisticated and economically justified, it would be more complex to develop and implement than the multiplier approach. The consultation notes that this would provide greater methodological consistency, whereas the multiplier approach provides simplicity.

For the avoidance of doubt, whilst the Working Group's work today is focused on the CDCM, once the consultation responses are received, it will consider whether a similar methodology should be applied to the EDCM (acknowledging that there are differences in how the capacity charges are calculated in the EDCM), based on the same set of principles that the methodology for the CDCM changes is applying.

2 Governance

- 2.1 This CP satisfies the criteria for a Part 1 Matter as it impacts the methodologies.

Requested Next Steps

- 2.2 This Change Proposal should:
- Be treated as a Part 1 Matter;
 - Be treated as a Standard Change; and
 - Proceed to the Working Group phase.
- 2.3 This consultation is issued for a period of 15 working days. The Working Group will review the responses after this period.

3 Why Change?

- 3.1 Under the CDCM (Schedule 16 of the DCUSA) and EDCM (Schedule 17 and 18 of the DCUSA) sites that are billed on a site-specific basis receive capacity charges based on their Maximum Import Capacity (MIC)/Maximum Export Capacity (MEC) and their maximum demand:
- (a) a capacity charge, pence/kilovolt-ampere(kVA)/day, for Maximum Import Capacity (MIC) and/or Maximum Export Capacity (MEC);

(b) an excess capacity charge, pence/kVA/day, if a site exceeds its MIC/MEC.

3.2 Excess capacity charges are described in the DNOs' Use of System Charging Statement:

"Where a customer takes additional, unauthorised capacity over and above the MIC/MEC, the excess will be classed as exceeded capacity. The exceeded portion of the capacity will be charged at the excess capacity charge p/kVA/day rate, based on the difference between the MIC/MEC and the actual capacity used. This will be charged for the full duration of the billing period in which the breach occurs."

3.3 For designated EHV sites, charged under the EDCM, the capacity charge and excess capacity charge are equal.

3.4 From the introduction of the CDCM in 2010/11 until 2017/18 the capacity charge and the excess capacity charge were equal.

3.5 In 2013 DCP 161 'Excess Capacity Charges'¹ was raised, with implementation in 2018/19. This removed the Customer Contribution from the excess capacity charge. This had the effect of increasing the excess capacity charge and introducing a differential between the capacity charge and the excess capacity charge.

3.6 Ofgem's Access and Forward-Looking Charges Significant Code Review (the Access SCR)² concluded in 2022, resulting in changes to the Connections Charging policy which required a review of the current assumptions used for customer contributions in the CDCM.

3.7 As a result of Ofgem's decision on the Access SCR and following implementation of DCP406/A 'Access SCR: Changes to CCCM' the following changes have been made to the connection charging policy:

- **Remove** the contribution to reinforcement for demand connections by introducing a 'fully shallow' connection charging boundary. This will involve connecting customers paying for extension assets only.
- **Reduce** the contribution to reinforcement for generation connections by introducing a 'shallow-ish' connection charging boundary. This will involve connecting customer paying for extension assets and a contribution towards reinforcement at the voltage level at point of connection.

Table 1 shows the change from current arrangements, as published in Ofgem's final decision of the Access SCR:

¹ <https://www.dcusa.co.uk/change/excess-capacity-charges/>

² [Access and Forward-Looking Charges Significant Code Review: Decision and Direction | Ofgem](#)

	Extension assets	Reinforcement assets at connection voltage	Reinforcement assets at connection voltage +1
Current arrangements	Connecting customer pays 100%	Connecting customer pays a proportion of the reinforcement costs	Connecting customer pays a proportion of the reinforcement costs
New arrangements (Demand)	Connecting customer pays 100%	Fully funded by the DNO via DUoS	Fully funded by the DNO via DUoS
New arrangements (Generation)	Connecting customer pays 100%	Connecting customer pays a proportion of the reinforcement costs	Fully funded by the DNO via DUoS

Table 1 – Ofgem’s Access SCR illustration of changes

- 3.8 The change in connection charging policy reflected in the Common Connections Charging Methodology Statement (CCCMS) required a review of the assumptions used for customer contributions in the CDCM.
- 3.9 Following discussions between DNOs at the DCMDG in meetings 61 to 66 during the spring/summer of 2023, it was agreed that all DNOs would reduce the customer contribution inputs to zero for all network levels and customer groups when setting 2025/26 charges and going forwards. Further details can be found in the DCMDG Minutes: [Distribution Charging Methodologies Development Group \(DCMDG\)](#)
- 3.10 The effect of reducing the customer contribution to zero was an increase in the capacity charge to the same level as the excess capacity charge, removing the differential between the two charges, which can be seen as reducing the incentive for a site to maintain their demand within the constraints of their MIC.
- 3.11 The below table shows an example of current/historical levels of excess capacity charge.

Eastern Power Networks plc LV Site Specific Typical Monthly Capacity Charge		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Tariff	Agreed Capacity (p/kVA/day)	3.39	3.14	3.15	3.06	3.40	3.64	3.49	3.65	3.48	4.15	7.41
	Excess Capacity (p/kVA/day)	3.39	3.14	3.15	6.96	7.26	7.56	7.31	7.57	7.33	8.23	7.41
Capacity	Agreed Capacity (kVA)	100	100	100	100	100	100	100	100	100	100	100
	Excess Capacity (kVA)	5	5	5	5	5	5	5	5	5	5	5
Monthly Charge (based on 31 day month)	Agreed Capacity (£)	£105.09	£97.34	£97.65	£94.86	£105.40	£112.84	£108.19	£113.15	£107.88	£128.65	£229.71
	Excess Capacity (£)	£5.25	£4.87	£4.88	£10.79	£11.25	£11.72	£11.33	£11.73	£11.36	£12.76	£11.49
	Total Capacity (£)	£110.34	£102.21	£102.53	£105.65	£116.65	£124.56	£119.52	£124.88	£119.24	£141.41	£241.20

3.12 As a result of this change the proposer has seen the following situations arise:

- a consultant stated, “With the capacity and excess capacity charges being the same, there is little incentive for the customers to increase their capacities, especially if there are costs to do this.”
- a customer emailed to tell the DNO that they will exceed their capacity for two weeks this summer and will be happy to pay the excess.
- dialogue with a customer who stated that as excess capacity charges will be the same as standard capacity charges, a consumer will no longer be charged at a higher rate for exceeding capacity, which is not the incentivizing message the charges should be showing.
- A customer requested a reduction in their capacity on the basis they will pay the excess when they do exceed (this wasn’t agreed to by the Distributor).

3.13 Where a customer properly applies for an upgrade in their capacity, they are not allowed to reduce it again for 12 months (Schedule 16 Paragraph 149). This creates a discrimination/disincentive between those who have requested an increase and will pay for at least 12 months as compared to those who exceed their capacity and do not request the increase in Capacity and potentially pay less in 12 months.

3.14 The National Terms of Connection (NTC) give certain rights to the Distributor when a customer exceeds their capacity but in practice this can be a long-winded process, that endures long after the event and leaves the Distributor with no real sanctions.

3.15 Taking an excess capacity is not an agreement to that capacity being available and the NTC still apply to the MIC/MEC.

4 Working Group Assessment

Working Group Assessment

4.1 The DCUSA Panel established a Working Group to assess this CP. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

4.2 The Proposer walked the Working Group through the change and explained that the purpose of this change is to amend the CDCM and EDCM as such that excess capacity charges are set in

order to discourage use of capacity in excess of a site's MIC. Customer behaviour may be sub-optimal as a result of the existing processes.

4.3 In order to do this, it is proposed that the daily excess capacity charge is set to give the right messages/cost signals to influence customer behaviour.

4.4 The Working group initially consulted on two potential options, these were:

- Option 1 – Maximum Demand

Use the highest Maximum Demand (MD) in the preceding 12 months, for which we have provided draft legal text. This is how some DNOs charged excess capacity prior to implementation of the CDCM and EDCM.

- Option 2 – Differential Charge

- Reintroduce the differential between the agreed capacity charge and the excess capacity charge and charge for the full month in which the capacity is exceeded, in line with the current methodology. The consultation asked for suggestions for how the differential could be calculated.

Consultation 1

4.5 The Working Group issued a first consultation in September 2024 to seek party views on the change proposal. There were nine responses received to the consultation. The Working Group's conclusions can be found in Attachment 3 DCP 443 Consolidated Consultation Responses, with a summary of each shown below.

Q1: Do you understand the intent of the Change Proposal?

Q2: Are you supportive of the principles of this Change Proposal?

4.6 All nine respondents understood the intent of the CP.

4.7 All nine respondents supported the principles of the CP, however one respondent stated that they did not agree that changes should be made to the customers MIC for the forthcoming 12 months where they have exceeded their capacity for a short period.

4.8 They went on to say that in scenarios where a customer exceeds their capacity once within a 12-month period, they believed that the customer should pay the current excess capacity charges. However, they should be advised at that point that should they exceed their capacity again, within the subsequent 12-month period, then an assessment should be completed and their capacity be increased, with the relevant charges being applied. This will incentivise the customer to remain within their agreed capacity.

4.9 This was noted by the Working Group.

Q3: Do you believe that the proposed solution of charging excess capacity charges each month based on the MD in the previous 12 months is suitable? Please provide rationale.

- 4.10 Six responders stated that they believed a solution of charging excess capacity charges based on the highest MD for the previous months could drive more optimal customer behaviour.
- 4.11 A number of those who agreed however did caveat their response by stating that they didn't think that one off exceeders should be penalised for 12 months.
- 4.12 Another who believed the solution could drive more optimal behaviour also stated they'd like to see further analysis on alternative solutions.
- 4.13 This responder also queried if charging the excess capacity for 12 months was a strong enough pricing message and asked if the period for charging the excess should be longer than 12 months.
- 4.14 Another noted that cost reflectivity may be an issue as the process would lead to sites being charged for excess capacity for months where there was no exceedance.
- 4.15 Two responders stated they didn't believe the solution was suitable.
- 4.16 One noted that for sites that repeatedly exceed their capacity, charging the excess for 12 months wouldn't really be an incentive to remain within their MIC as they'd be already paying for the excess capacity anyway
- 4.17 They also went on to note that the solution could penalise customers on a change of tenancy as they would be paying for the excess capacity which may have been caused by the previous occupier.
- 4.18 Finally, they stated that it didn't feel fair that a site who exceeds their capacity once should be charged for this for the next 12 months.
- 4.19 The other responder who felt this solution wasn't suitable stated that the change would lead to substantial changes to systems and processes and that they preferred the approach that reintroduces the differential between the capacity charge and excess capacity charge.
- 4.20 One responder stated that whilst they believed there needed to be an incentive to stop customers exceeding their capacity, they were unable to assess whether charging the excess for a full 12 months is reasonable and cost reflective.
- 4.21 The Working Group response can be found in paragraph 4.104-4.110 below.

Q4: Would an alternative process that reintroduces the differential between the capacity tariff and excess capacity tariff be a more suitable solution e.g. by doubling the excess capacity tariff? Is there a cost reflective way to do this? Please provide details and rationale.

- 4.22 One responder stated that they believed that the solution offered within question 3 was the most appropriate approach.
- 4.23 Another responder state that the alternative solution could potentially be more suitable, but they would need to see more analysis before committing further.
- 4.24 The other seven responders said that this could be a suitable solution however, most noted that the process would have to be cost reflective. These responders noted that a more cost-reflective solution would require more in depth change than the simple multiplier and one had reservations on whether this would be possible.
- 4.25 The Working Group response can be found in paragraph 4.104-4.110 below.

Q5: Are there any other options that have not been mentioned that would discourage customers from exceeding their MIC? Please provide details. If not, please provide supporting reasons.

- 4.26 Five responders offered no alternative solution.
- 4.27 Two responders queried if amending the National Terms Of Connection to give the DNO more powers when a customer exceeds their capacity is an alternative approach that could be considered.
- 4.28 One responder noted that reducing the MIC on a sliding scale, specifically the volume i.e. physically restricting their access to the capacity may be an alternative solution. They also noted that whilst this may a possible solution, they didn't believe it would be ideal.
- 4.29 Another suggested that where the MIC is being exceeded, DNOs should be contacting customers to highlight this and putting in place processes to agree new MICs where required.
- 4.30 The Working Group response can be found in paragraph 4.104-4.110 below.

Q6: Should a change in MIC, either an increase or a decrease (as in example 7 and 8 above), reset the excess capacity charges? Please provide rationale.

- 4.31 Overall, the responses suggested that increasing the MIC will have the outcome of what this change is looking to achieve with seven respondents saying a change in MIC should reset the excess capacity charge and two saying it should not.
- 4.32 One of the respondents who didn't believe a change in MIC should reset the excess capacity charge noted that this could result in many changes to the MIC in one year, which could result in an increase in invoice queries, and that the investigation of these have the risk of being costly and resource intensive.
- 4.33 The other responder who didn't believe the excess capacity charge should be reset stated that if the principle of the proposed solution is that the cost has been incurred for a full year then if the

capacity has been exceeded then changing the MIC does not negate this. A change in tenancy would not reset the excess capacity so a decrease in MIC should not either.

4.34 The Working Group response can be found in paragraph 4.111-4.112 below.

Q7: Should this change include both import and export excess capacity charging?

4.35 One responder stated that they didn't see a reason why import and export should be treated differently.

4.36 Another responder stated that they were unsure if this was an issue that impacted export sites but if it did, then they should be included.

4.37 One responder offered no view.

4.38 The other six responders stated that this change should only impact import capacity charging with one highlighting that they believed that export capacity charges were out of scope for this change.

4.39 The Working Group response can be found in paragraph 4.115-4.116 below.

Q8: Should this change include EDCM excess capacity charging? Please provide your rationale.

4.40 Five responders said yes, this change should include EDCM capacity charging.

4.41 Three responders said that this change should not include EDCM capacity charging and drew attention to the fact that the EDCM uses a different method for calculating excess capacity so would require a different solution. One of these three responders suggested it may require a different CP.

4.42 One responder offered no view.

4.43 The Working Group response can be found in paragraph 4.113-4.114 below.

Q9: What system changes would be required for the proposed solutions, or for any alternative solutions you have suggested? Please provide details.

- 4.44 Four DNO parties all stated that for the differential approach, no changes would be required, however the 12-month solution has substantial system changes associated with it.
- 4.45 Two responders offered no view.
- 4.46 One DNO party noted that there are no changes required that aren't already mentioned in the change proposal.
- 4.47 An IDNO party noted that calculation of the MIC for invoicing purposes would require a system change. They went on to state that this would hopefully be a change to the software and that it would be relatively easy to implement.
- 4.48 One supplier responder noted that there'd be no changes required for either solution as any charges passed from the DNO, are billed directly to the customer.
- 4.49 The Working Group response can be found in paragraph 4.117-4.121 below.

Q10: Does this change suitably incentivise customers not to exceed their MIC? Please rationale.

- 4.50 Seven responders stated that they believed this change would incentivise customers to not exceed their MIC.
- 4.51 One of these responders noted that they utilised this approach years ago prior to the CDCM being introduced.
- 4.52 Many who said they believed the change offered incentives to customers to not exceed their MIC went on to state that they believed that the incentive would be greater for sites that rarely exceeded their MIC and that for sites who regularly exceed, the incentive may not be strong enough as they'd be paying the excess capacity charges anyway.
- 4.53 The other two responders said that they couldn't say either way if the change would provide incentives to not exceed or otherwise.
- 4.54 This was noted by the Working Group

Q11: Are you aware of any unintended consequences of A. Billing Excess Capacity based on the highest MD over 12 months B. Creating a differential rate for excess capacity. C. Any alternative solution you have suggested Please provide details.

- 4.55 Key themes raised were:

Customer transfer risks

- 4.56 Several parties highlighted that a new occupier or customer could inherit excess capacity charges arising from a previous customer's behaviour if the 12-month charging period continued after a change in tenancy.

Erroneous data impacts

- 4.57 Concerns were raised that meter data errors or isolated demand spikes could result in customers being charged excess capacity for up to 12 months before corrections are made.

Customer understanding and behaviour

- 4.58 Respondents noted that customers could interpret the 12-month charge as granting an ongoing right to use the higher capacity level, potentially weakening the intended behavioural signal.

Supplier impacts

- 4.59 Suppliers anticipated an increase in customer queries, complaints and billing challenges under either solution, particularly where charges are difficult to explain to end consumers.

Limited concerns with differential charging

- 4.60 Respondents generally did not identify significant unintended consequences from reintroducing a differential between capacity and excess capacity charges, with some noting that a differential existed previously without obvious adverse effects.
- 4.61 This was noted by the Working Group

Q12: Do you have a view on what consequences there could be of customers exceeding MIC, for long-term and/or short-term DNO planning and/or DSO services?

- 4.62 A number of issues were raised relating to the consequences of customers exceeding their MIC. These included: faster depreciation of assets due to higher-than-expected capacity being drawn; issues with forecasting actual capacity usage; additional reinforcement being required which is borne by all customers; and the possibility that the DSO may have to procure and pay for flexibility services on the local network.
- 4.63 The Working Group response can be found in paragraph 4.122 below.

Q13: Do you consider that the proposal better facilitates the DCUSA Objectives? Please give supporting reasons.

- 4.64 Four responders believed charging objective 2 was better facilitated.
- 4.65 Three stated that charging objective 1 was better facilitated.
- 4.66 One response said that charging objective 3 was better facilitated.
- 4.67 Another responder only mentioned that they believed the general objectives for both solutions were better facilitated and went on to note they believed the alternative solution B was better as it applied an equitable share of costs, sends a strong cost signal to deter poor behaviour and

doesn't lock capacity making it available to other or new users without the potential need to meet network reinforcement costs.

- 4.68 One responder believed that charging objective 3 would be negatively impacted as the solutions are not cost reflective.
- 4.69 Finally, one responder noted that they were unable to assess the change as the solution was unknown at this time.
- 4.70 This was noted by the Working Group.

Q14: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

- 4.71 It was noted that the DUoS SCR and MHHS programmes may be impacted by this change.

Q15: Are you supportive of the proposal's implementation date?

- 4.72 Six respondents stated that they were supportive of the proposed implementation date.
- 4.73 Two respondents noted that the proposed date of 01 April 2026 would potentially mean a derogation is required. One of these respondents also noted that the scale of system change also made the proposed implementation date challenging.
- 4.74 One responder noted that the date should be driven by the date Distribution Prices have to be published i.e. 15 months prior to effective date.
- 4.75 The Working Group response can be found in paragraph 4.125-4.127 below.

Q16: Does the legal text suitably and clearly delivery the proposed solution? If not, please provide rationale.

- 4.76 Seven responders stated that they believed the proposed legal text was suitable.
- 4.77 One responder said they would welcome some additional wording to make the proposed mechanism much more transparent to the average reader, by adding wording along the lines of: "For any individual exceedance, the exceeded capacity charge is due to be paid for 12 months".
- 4.78 One responder stated that the legal text for billing the highest MD over 12 months does not deal with the proposition under examples 7 and 8 to negate the excess capacity if the MIC is changed.
- 4.79 They also highlighted that no legal text has been proposed for the reintroduction of the differential charges.
- 4.80 The Working Group response can be found in paragraph 4.128-4.131 below.

Q17: Do you have any comments on the draft legal text?

- 4.81 Six responders stated that they had no comment on the legal text.
- 4.82 Two highlighted the comments that they raised in response to question 16.
- 4.83 One responder highlighted that there was no draft legal text for the differential solution.
- 4.84 The Working Group response can be found in paragraph 4.128-4.131 below.

Q18: Should the legal text explain the impact of this change?

- 4.85 Six respondents said they believed the legal text should explain the impact of the change.
- 4.86 One of these six responses also suggested some form of communication from the DNOs to consumers could also explain the impact of the change.
- 4.87 Three responses said no to this question and suggested the impact could be included in the LC14 statements.
- 4.88 One of these three respondents drew attention to the fact this is not an approach taken in DCUSA with other elements of the charges.
- 4.89 The Working Group response can be found in paragraph 4.132 below.

Q19: Do you have any comments on the proposed wording regarding the impact?

- 4.90 Eight respondents said they didn't have any comments on the proposed wording of the impact.
- 4.91 One of these noted that the legal text was unlikely to be seen by an end user and asked how an end user would see the impact of this change.
- 4.92 One party provided some additional legal text in their response to this the question citing additions to the legal text for scenarios where a customers MIC was increased, and another scenario where the MIC had been previously decreased. The suggested text for each scenario is below:

- For the first scenario (MIC increased),

"Where an increased MIC has been agreed, at or above the level of the exceedance, the exceeded capacity charge in relation to that exceedance will cease. Where the increased MIC is below the level of exceedance, the exceeded capacity charge will continue to apply for the full 12 months, applying the same, unchanged, exceeded capacity charge."

- For the second scenario (MIC decrease),

"Where a reduced MIC has been agreed, the exceeded capacity charge will continue to apply for the full 12 months, applying the same, unchanged, exceeded capacity charge."

- 4.93 The Working Group response can be found in paragraph 4.132 below.

Q20: How should the legal text deal with changes in MIC?

- 4.94 All respondents said that the process for this needs to be clear and transparent for suppliers and customers.
- 4.95 It was noted by some respondents that the LC14 statements may be the best place to articulate the process.
- 4.96 One responder noted that there would need to be a section for exceptional circumstances with a full explanation of when a reset in the chargeable capacity is applicable.
- 4.97** A number of respondents suggested some changes to the legal text and these suggestions can be found within **Attachment 3: DCP 443 Consultation Responses**.
- 4.98 The Working Group response can be found in paragraph 4.128-4.131 below.

Q21: Do you have any additional comments for this consultation?

- 4.99 Eight responders offered no further comment.
- 4.100 One responder noted that it would be helpful to see some kind of quantification of the size of the issue. Both in terms of the number of sites exceeding their capacity and the number of sites exceeding on a long-term basis.
- 4.101 They highlighted that there was an RFI for DCP 161 which introduced the differential between the capacity and excess capacity charges, and that a similar RFI could be issued for recent data. This RFI's data could then be used to compare any current data with the data from DCP 161, if it is available, to identify any changes in behaviour which came about as a result of DCP 161. Issuing the same RFI again could mean that the data is directly comparable.
- 4.102 The Working Group response can be found in paragraph 4.123-4.124 below.

First Consultation Conclusions

- 4.103 After reviewing the consultation responses, the Working Group identified the following areas for further consideration.

Proposed Solutions (Q3-4 above)

- 4.104 The Working Group concluded that consultation respondents broadly agreed that the current excess capacity charging arrangements may no longer provide a sufficiently strong signal for customers to remain within their agreed MIC. Respondents generally supported further

consideration of options that would strengthen this signal and encourage customers to either stay within their agreed MIC or to agree a more appropriate MIC.

4.105 The responses highlighted that each of the two proposed solutions had pros and cons.

4.106 The 12-Month Maximum Demand approach was recognised as providing a strong behavioural incentive, but concerns were raised regarding complexity and customer understanding, and whether this solution is sufficiently cost reflective.

4.107 Two methods were identified for the Differential Charge approach:

- The first uses a simple multiplier and is viewed as simple and easier to implement than the 12-month Maximum Demand solution, however respondents questioned whether any chosen multiplier could be justified as cost reflective.
- The second method would use an embedded calculation in the CDCM to calculate a cost reflective charge. This would be more difficult to develop but easier to implement than the 12-month Maximum Demand solution

4.108 The Working Group explored model-based calculation solutions, which led to the development of a model-Integrated differential approach, which seeks to derive the differential through the CDCM itself rather than through an arbitrary uplift (i.e. doubling the capacity charge). The Working Group believe that this approach could offer a stronger methodological basis but acknowledged that further development and party feedback would be needed.

4.109 The Working Group agreed to consider three solutions which have been developed further :

- Option A – 12-Month Maximum Demand (MD) Approach
- Option B – Differential Charge - Multiplier Approach
- Option C – Differential Charge – Model-integrated Approach

These options are described in full in Section 5.

4.110 The Working Group agreed to seek views on these options in this second consultation.

Change in MIC resetting excess (Q6 above)

4.111 With regard to changes in MIC following an exceedance event, the consultation responses showed broad support for resetting the excess capacity charge where an increase in MIC had been agreed.

4.112 The Working Group agreed that there is merit in the principle that, where a customer has secured additional capacity, they should not continue to be charged for exceeding a previously agreed MIC. However, the Working Group recognised that further consideration is required regarding

the treatment of reductions in MIC and the circumstances under which any reset should apply. The Working Group agreed to reconsider this issue once a preferred solution has been identified.

EDCM charges (Q8 above)

- 4.113 The Working Group considered the responses regarding whether the EDCM excess capacity charges should be included in this change. Respondents expressed differing views regarding this. Whilst a majority of respondents supported considering EDCM arrangements, a number highlighted that the EDCM uses a different charging methodology and may require a different implementation approach.
- 4.114 The Working Group remains of the view that the principles behind this Change Proposal are relevant to both CDCM and EDCM customers. However, the Working Group acknowledges that any EDCM solution may require separate consideration and development once the preferred approach for the CDCM has been identified and agreed to return to this after responses to the second consultation have been reviewed.

Export charges (Q7 above)

- 4.115 The Working Group considered the responses regarding whether excess capacity charges for export should be included in this change. Consultation responses provided mixed views, with some respondents supporting a consistent treatment across import and export capacity whilst others considered export charging to be outside the scope of the issue identified by the Proposer.
- 4.116 A Working Group member pointed out that capacity charges are only applicable to export tariffs in the EDCM and none apply in the CDCM. Therefore, the Working Group agreed to revisit this alongside the EDCM after the preferred solution has been identified following the second consultation.

System Changes (Q9 above)

- 4.117 The Working Group considered the responses regarding system changes.
- 4.118 The responses generally agreed that using the highest MD in the preceding 12 months would require changes to the way the billing systems calculate the excess capacity each month, as it would need to look at the MD in the preceding 12 months not just in the current billing period.
- 4.119 The responses also agree that reintroducing a differential between the capacity and excess capacity charges would not require any system changes, as it only changes the value of the charge to be uploaded into the system.
- 4.120 The Working Group discussed the potential billing system changes with one Working Group member noting that if a DNOs billing system interfaces with their finance system, then if there

are billing system changes required, it may be that finance systems would need to be updated also.

- 4.121 As the solution for reintroducing a differential has been developed further into two separate options, the Working Group agreed to seek further views in the second consultation on any system changes required for all of the options and on the expected timescales for the implementation of these changes.

Consequences of exceeding MIC (Q12 and Q21 above)

- 4.122 The consultation responses identified a number of consequences of exceeding their MIC. However, the Working Group agreed that they would like to gather further views on this. The Working Group agreed to issue a Request for Information (RFI) to gather additional industry views on this subject.
- 4.123 A consultation response also highlighted that it would be useful to see some quantification of the size of the issue, which would help to understand the impact of customers exceeding their MIC may have on other customers connected to the network and for network planning.
- 4.124 The Working Group agreed that this would be useful and agreed to add a data request to the RFI to gather this information on the quantity of customers exceeding their MIC.

Implementation date (Q15 above)

- 4.125 The Working Group considered the responses regarding the implementation date for the solution of this change.
- 4.126 Although the responses were generally supportive of the implementation date proposed by the Proposer the Working Group agreed that the implementation date will need further consideration and will be different depending on the solution and any system changes that need to be implemented.
- 4.127 The Working Group agreed to seek views on this once the final solution has been identified, following the second consultation.

Legal Text (Q16-19 above)

- 4.128 The responses to the consultation did not include many comments on the legal text but did highlight that the consultation only included proposed legal text for Option 1 – Maximum Demand and did not include any legal text for Option 2 – Differential Charge.
- 4.129 Following further development of the solutions the Working Group agreed that the legal text for the Differential Charge would be developed once a preferred solution has been identified following the second consultation. This is because the legal text for a method which embeds the calculation of the differential in the CDCM will be complicated. In order to save unnecessary work

in developing the legal text it was agreed to first determine the solution and then develop the legal text needed to reflect this solution.

- 4.130 The Working Group also agreed that the legal text for Option 1 would only be updated for items such as the impact of a change in MIC once a decision has been taken on which is the preferred solution.
- 4.131 The Working Group agreed to seek views on the changes to the legal text required for each solution in the second consultation, with a view to consulting on the updated legal text alongside the final solution at a later date.
- 4.132 In relation to whether the legal text should explicitly describe the impact of the change, some respondents considered that additional explanatory text would improve transparency, whilst others noted that this is not generally the approach taken within DCUSA charging methodologies and that including the additional explanatory text in the License Condition 14 Charging Statements would be more in line with the usual approach. The Working Group intends to consider this again alongside the development of the legal drafting once the final solution has been agreed.

Cost Reflectivity

- 4.133 Following the first consultation the Working Group discussed the cost-reflectivity of the solutions and whether any mitigations could be implemented around this. The Working Group noted that finding a fully cost-reflective solution may be difficult, however consideration could be given to the treatment of revenue from excess capacity charges.
- 4.134 The Working Group discussed that the excess capacity charge is not a pure network cost aspect of charging and may therefore be able to be considered as outside of regulated revenue.
- 4.135 At present the excess capacity charge revenue is part of each DNO's Recovered Revenue. When setting charges every year each DNO will forecast the amount of revenue they expect to recover through Excess Capacity charges, and DNOs have a licence obligation³ to use best endeavours to ensure that Recovered Revenue equals Allowed Revenue. In practice this means that DNOs are not allowed to knowingly over- or under-recover their Allowed Revenue.
- 4.136 For clarity, if a DNO over- or under-recovers their Allowed Revenue then the amount of over- or under-recovery carries over into the next year for which charges are to be set, via the prior year correction mechanism in Part F of Special Condition 2 of the Electricity Distribution Licence.
- 4.137 The Working Group considered the argument that DNOs should not be forecasting any excess capacity charges as, in an ideal world, no customers would exceed their MIC. If DNOs were to forecast their revenue from Excess Capacity charges to be zero then any revenue arising from

³ [Electricity licensing \(from October 2025\) - Publications - Ofgem Public Register](#) - Special Condition 2.1.3

Excess Capacity charges would be a variance to the DNO's forecast recovered revenue and therefore drive over-recovery. Given that DNOs **do** expect to incur revenue from excess capacity charges then it could be seen as deliberately over-recovering revenues, which would be in breach of the licence obligations, and would impact the allowed revenue in the following year through the prior year correction mechanism.

4.138 One option that was discussed by the Working Group was whether the revenue from excess capacity charges could be considered to be excluded revenue or additional revenue, outside of the Regulated Revenue. It was questioned whether this could be facilitated through the existing Directly Remunerated Services provisions in Section 9.7 of the current Special Conditions of the Electricity Distribution licence.

4.139 The Working Group were unsure on this is a viable option and agreed to seek industry views on this in the second consultation.

Conclusions

4.140 Following this consultation the Working Group developed three solutions, which are detailed further in Section 5.

4.141 The working group agreed to issue a RFI to gather additional information on the impact of customers exceeding their MIC and to quantify the number of customers who exceed their MIC. Details of the RFI can be found in paragraphs 4.144-4.161

4.142 The Working Group agreed that following the RFI they would issue a second consultation to gather industry views on:

- The updated solutions
- The possibility of classing excess capacity revenue as either excluded revenue or additional revenue

4.143 There are several items where the Working Group has not yet made a decision, but which will be reconsidered following the second consultation. These are:

- Changes to excess capacity charges in the EDCM
- Excess capacity charges for export MPANs
- Legal text changes required for the preferred solution
- Implementation date for the solution

RFI

4.144 The Working Group issued a RFI in November 2024 to seek additional information relating to the impacts of customers exceeding their capacity and quantitative data relating to the number of customers exceeding their MIC. There were seven responses received to the RFI. The

Consolidated responses and aggregated data received can be found in Appendix X, with a summary of each shown below.

Question 1 – What (if any) impacts, including the types of additional costs, does a customer cause when they exceed their capacity, and under what circumstances?

4.145 All 7 responses were consistent in terms of impacts caused when a customer exceeds their capacity. A list of impacts are below:

- Risk of overloads in areas where the demand for capacity exceeds what the network has been designed for.
- Shortening the lifespan of assets.
- Risk of outages due to damaged assets.
- Safety risks due to assets becoming damaged/faulty.
- Increased costs to replace damaged assets.
- Increased reinforcement costs.

Question 2 - What are the potential impacts to other customers and suppliers when a site exceeds its capacity?

4.146 Three respondents offered no view.

4.147 One response suggested that increased kVa running through a network will result in higher losses, leading to additional costs passed on to Suppliers and Customers.

4.148 The responder also suggested that overuse may cause faults or necessitate reinforcement, potentially leading to power outages.

4.149 In regard to the above response, it was queried who would be responsible for paying the reinforcement. The Working Group were unsure if the NTCs stated that the reinforcement is the responsibility of the Customer that has caused the faults. The Working Group agreed that this would be explored further to clarify if the NTCs had provisions that customers were responsible for paying for reinforcement where they had caused the fault.

Other impacts by multiple responses included, but were not limited to.

- Could cause upstream protection to operate which could result in a power outage/fault response affecting multiple customers,
- Impacts to the network loading, particularly at LV, potentially triggering an earlier than planned requirement for significant investment for network reinforcement
- Increased on the cost of running and maintaining the network overall which are borne by all users,
- Reluctance to invest to gain access to certain areas/markets or providing services. This may limit the benefits on offer to the network and ultimately the value they create for consumers.

- Some users can potentially contribute less than their fair share of costs compared to other users who have fixed their MIC/MEC correctly.
- Can ultimately cause other customers to lose their connection and be off supply where the demand on the network is exceeded beyond what it has been built to provide.

Further detail of the impacts can be found within the response to the question in Attachment 4: DCP 443 RFI Responses

Question 3 – Could you please populate the template in Attachment 3 with the following data from April 2010 to October 2024: ‘MIC Data’ – Populate: -

Table 1 with the sum of MIC (kVA) per customer group –

Table 2 with the sum of Chargeable Capacity (Max of MIC and MD) per customer group. –

Table 3 and 4 will populate themselves.

‘Customer Numbers’ – Populate: -

Table 1 with the number of sites that exceeded their capacity –

Table 2 with the revenue from exceeded capacity charges –

Table 3 with the total number of sites on tariffs with capacity charges –

Table 4 with the total revenue invoiced to customers on tariffs with capacity charges.

4.150 The aggregated data for this question can be found in Attachment 5: DCP 443 RFI Analysis.

4.151 Analysis and conclusions from the data can be found in paragraphs 4.158-4.1591 below.

Question 4 – Do you have any other comments?

4.152 Four responses offered no further comment.

4.153 One response noted that they were in support of the intent of this modification and accept any means that it is implemented.

4.154 One response stated that the process currently can mean that billing adjustments can cause one month to be shown in excess capacity where in reality the MPAN has not exceeded within that month. It was suggested that this scenario should be considered when looking at charging a customer as they should not be penalised if they have not actually exceeded.

4.155 It was explained that if a customer exceeds and then is charged excess, but then a revised consumption figure adjustment means that they did not exceed, then any excess charges would need reversing.

4.156 Another response mentioned that this change introduces an element of risk into cost recovery of distribution charges for fixed price contract Customers as it will not be possible to predict the level of higher excess capacity charges that will be incurred.

4.157 The Working Group noted that the risk mentioned has been present for many years and is not new to this change potentially being introduced.

Analysis and Conclusions

4.158 The data (as per Attachment 5) shows that:

- Figure 1 below shows the proportion of customers exceeding their capacity in each year.
- In the last eleven years, the number customers exceeding their capacity, as a share of all customers on tariffs with capacity charges, has been on a downward trend for all four relevant voltage groups (LV HH, LV sub HH, HV HH and EHV).
- The EHV group has the largest proportion of customers exceeding their capacity (by customer numbers), most recently at just over a fifth. The other three groups show significantly lower proportions of exceedance, all at around 7.5% in 2020/21 to 2023/24.
- The total proportion for all voltage groups peaked most recently in 2017/18, followed by year-on-year decreases until 2020/21, and remaining broadly unchanged from 2020/21 to 2023/24.
- The data for later years was not available at the time that the RFI was issued.

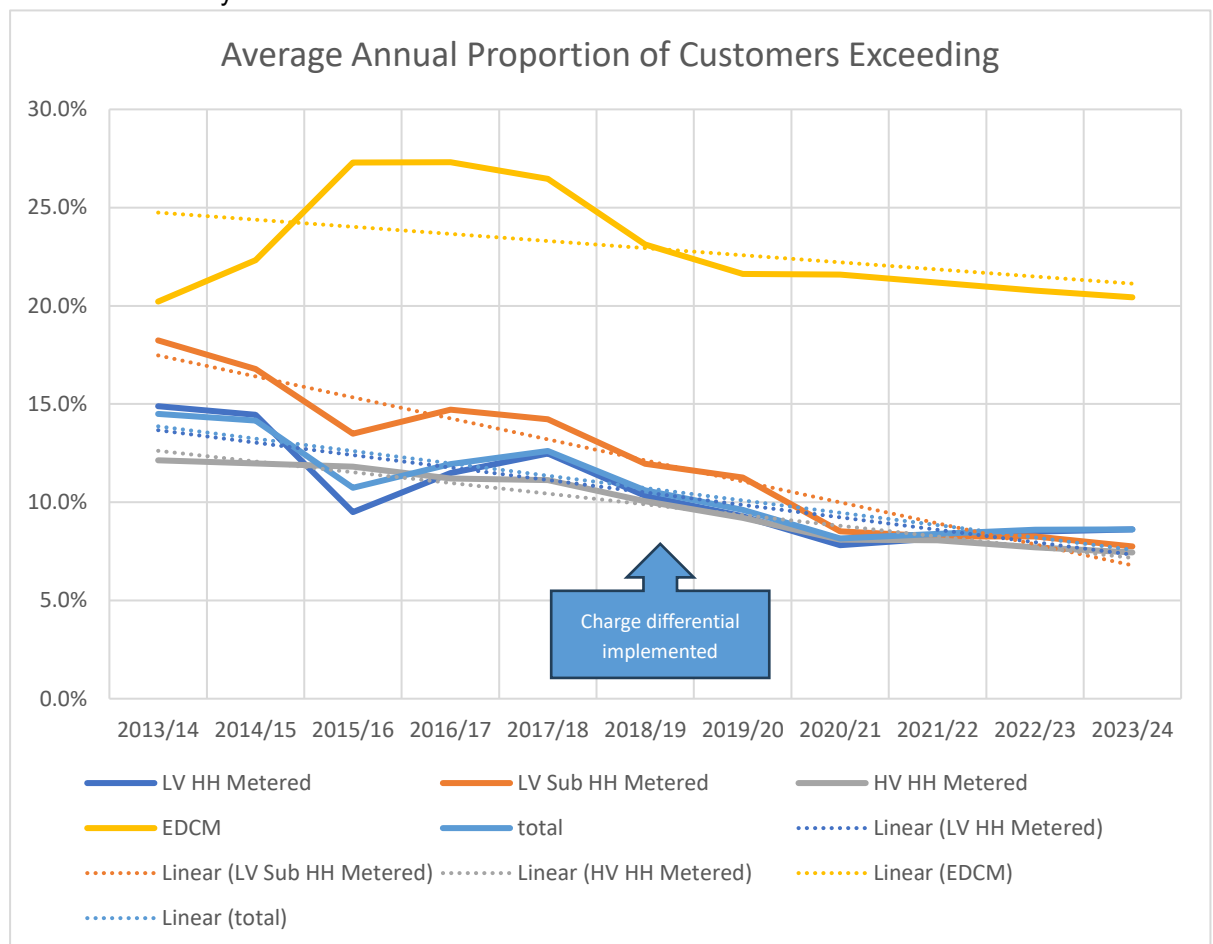


Figure 1 - Proportion of Customers Exceeding their MIC in each regulatory year

- This decrease could be argued to be as expected, given that up until 2017/18, the tariffs for the CDCM capacity charges and the excess capacity charges were equal (i.e. no higher signal discouraging exceedance), with a differential (i.e. a higher signal discouraging exceedance) coming into effect from 2018/19.
- At the individual voltage levels, the decrease in the proportion of customers exceeding their capacity between 2017/18 and 2023/24 was:
 - LV HH – 3.9%,
 - LV Sub HH – 6.5%,
 - HV HH – 3.7%, and
 - EHV – 6.0%.

- Whilst these decreases are not large, they are consistent and enduring across all voltage levels.
- From 2025/26, the CDCM capacity charge tariff and excess capacity charge are once more equal, as a result of measures taken by the DNOs following Ofgem's Access SCR which made distribution connection charges shallower.

4.159 It is theorised that this could result in an increase in the proportion of customers exceeding their capacity. However, at the time of the RFI the data for 2025/26 was not available so it cannot be quantitatively assessed using this RFI whether this is the case.

4.160 The Working group agreed that the RFI provided sufficient data on both the impacts of exceedance on the network and other customers, and on the proportion of customers exceeding their MIC.

4.161 Following this the Working Group agreed to progress the three options for the solution and to proceed to a second consultation.

5 Consultation 2

5.1 Based on the consultation and RFI responses, the Working Group have identified 3 potential solutions, as follows:

Option A – 12-Month Maximum Demand (MD) Charging

5.2 Charge excess capacity charges based on the highest MD in the preceding 12 months. This is how some DNOs charged excess capacity prior to the implementation of the CDCM. The other DNOs used other methods to charge for capacity in excess of the MIC, including some that used the method currently implemented in the CDCM.

5.3 For the avoidance of doubt, this solution wouldn't alter the excess capacity charge, it would remain as currently calculated within the CDCM. The excess capacity charge would simply be applied for the next 12 months.

5.4 The impact of this solution would be that excess capacity charges would change from being billed for one complete month (being the month in which the capacity was exceeded) to being billed for 12 months (being the month in which the capacity was exceeded and the following 11 months). Excess capacity charges will only be levied on the highest exceeded capacity in the preceding 12 months (i.e. if there is an excess capacity in more than one month then the higher of the two will be billed for 12 months from the date it occurs).

5.5 If there is an increase in MIC then the new MIC will take precedence and the excess capacity will be reset. This is because the excess capacity was an excess over a different underlying MIC, and so continuing to charge for the excess once the new increased MIC is in place could result in double charging for the capacity. Worked examples have been included within 'Attachment 8:

Excess Worked Examples' and further details of these can be found within the DCP Consultation 1 document.

Option B Differential Charge - Multiplier Approach

- 5.6 Reintroduce a differential between the capacity charge and excess capacity charge using a simple multiplier to scale the excess capacity charge. This would be applied for the full month in which the capacity was exceeded, in line with the current methodology.
- 5.7 This could be done artificially e.g. doubling the excess capacity charge in comparison to the capacity charge (which is broadly the difference between the two charges when Customer Contributions was utilised). However, it was noted that whatever solution is proposed needs to be cost reflective and it is not clear how this solution would align to the cost reflectivity principles.
- 5.8 This would require changes to the CDCM model to apply the scalar to the excess capacity charge that is output from the model but would not require any changes to the billing system as the application of the charge would be the same as it currently is.

Option C – Differential Charge - Model-Integrated

- 5.9 Reintroduce a differential between the capacity charge and excess capacity charge by calculating a differential within the CDCM model. This would be applied for the full month in which the capacity was exceeded, in line with the current methodology.
- 5.10 This would require changes to the CDCM model to apply the scalar to the excess capacity charge that is output from the model but would not require any changes to the billing system as the application of the charge would be the same as it currently is.
- 5.11 Under this option, the excess capacity charge would be derived through the CDCM rather than through a predefined multiplier or tariff uplift. The approach seeks to create a differential between standard capacity charges and excess capacity charges that is rooted in the underlying charging methodology and reflects the way that excess demand is considered within the network charging framework.
- 5.12 This option is intended to provide a more methodologically sound and cost-reflective solution than a simple charge multiplier. However, the approach is more complex and may require additional model development.
- 5.13 Advice was taken from the modelling consultants at CEPA/TNEI and supporting guidance documentation has been produced which can be found within Attachment 6: DCP 443 Test Model (ENWL data), to explain the conceptual design and operation of the modelled solution in greater

detail. This guidance can be found in Attachment 7: Excess Capacity Test Model - guidance documentation.

- 5.14 Please note that the test model has been populated with ENWLs published data to show an illustrative view of the model, but this data can be amended with other DNOs published data if desired.
- 5.15 The Working Group considered the pros and cons of each of the three options and these are summarised in the Table 1 below.

Table 1 - Pros and Cons of the proposed options

Solution	Pros	Cons
Option A – 12-Month Maximum Demand (MD) Approach	• Creates a strong and enduring incentive for customers to remain within their MIC. • Better reflects the impact of exceeding capacity by applying charges over a longer period. • Has historical precedent, as similar approaches were used by some DNOs before the CDCM. • Likely to encourage customers to formally increase capacity where appropriate rather than rely on excess usage.	• More complex for customers to understand than a single-period charge. • Requires billing systems to track the highest MD over a rolling 12-month period. • Raises questions around how to treat an increase or decrease in MIC after an exceedance. • Could result in customers paying excess charges after the original exceedance event has passed. • A change in tenancy could mean a customer has to pay for the exceedance of the previous tenant.
Option B – <u>Differential Charge - Multiplier Approach</u>	• Simple and easy for customers and suppliers to understand. • Likely to require minimal system changes because it changes the tariff value rather than the charging logic.	• May be viewed as arbitrary unless a clear rationale is established for the chosen multiplier. • Difficult to demonstrate that a simple multiplier is cost-reflective.

	• Provides an immediate financial signal for exceeding MIC. • Has historical precedent for differential in tariffs, which from the RFI appears to be effective. • Broadly recreates the historical differential between standard capacity and excess capacity charges.	• May not fully align with charging methodology principles. • The charge may not always be proportionate to the scale or duration of the exceedance.
Option C – Differential Charge - Model-Integrated Approach	• Most consistent with CDCM charging principles. • Has the strongest argument for being cost-reflective if the differential is derived through the model. • Has historical precedent for differential in tariffs, which from the RFI appears to be effective. • Creates a differential without relying on an arbitrary multiplier. • Better aligned with the underlying charging methodologies.	• More complex to design, develop and explain. • Could require significant modelling and industry analysis before implementation. • Less transparent for customers than a simple multiplier. • Potentially longer implementation timescales and greater development effort.

5.16 The Working Group are seeking industry views on these options.

5.17 The following questions are specific to each Option.

Option A – 12-Month Maximum Demand (MD) Approach

Question 1 – Is the 12-month excess capacity charge a strong enough price signal for Customers not to exceed their MIC? Please provide your rationale.

Option B - Differential Charge - Multiplier Approach

Question 2 – If this option was to be taken forwards, what do you believe the fixed multiplier should be in order to send a strong enough price signal for customers not to exceed their

MIC? i.e. the excess capacity charge should be 1.5 times the capacity charge, 2 times the capacity charge etc? Please provide your rationale.

Option C - Differential Charge – Model-Integrated Approach

Question 3 – This option is specifically designed to be cost reflective. In your view, does this approach achieve that? Please provide rationale.

Question 4 - Would this solution send a strong enough price signal for customers not to exceed their MIC? Please provide your rationale.

Question 5 – Do you have any comments around this approach? Please provide rationale.

Question 6 - What are the potential benefits of calculating the differential excess capacity charge within the model rather than using a fixed multiplier (Option B)?

Question 7 - Do you have any comments on how the model has been designed for this solution? Detail/guidance on the model and how it is intended to work can be found within attachment 7

- 5.18 With respect to reintroducing a differential between the capacity and excess capacity charge, the Working Group would like views on whether there are any other approaches to calculating a differential that have not been considered in Option B or C.

Question 8 - Is there another approach that could be taken that applies a differential to the excess capacity charge other than the two options (B and C)? Please provide details and any rationale.

- 5.19 The following questions are relevant to all three proposed solutions.

Question 9 - Which of the 3 options do you prefer? Please provide your rationale.

Question 10 – Are there any additional pros or cons that are not already listed in Table 1 for:

- a) Option A
- b) Option B
- c) Option C

Please provide details.

Question 11 – Are changes needed to any systems (such as the DNO billing system) for:

- a) Option A
- b) Option B
- c) Option C

Please provide a summary of any system changes required for each solution, and what the timescales would be for these changes to be implemented.

Question 12 – Are there any other points that you would like the Working Group to consider for any of the Options? Please provide details and your rationale.

- 5.20 Following the first consultation the Working Group considered the issue of cost reflectivity. Further detail of these conclusions can be found in section 4 of this consultation.
- 5.21 Firstly, Options A and B are primarily designed to give a currently missing signal to disincentivise users to not exceed their MIC. However, it has been highlighted that the solutions for A and B may not necessarily be fully cost-reflective.
- 5.22 Secondly, capacity exceedance is difficult to forecast as users shouldn't exceed their MIC in the first place.
- 5.23 Given these two factors, exceeded capacity revenue differs in nature from most other elements of the recovered revenues, and is hard to project. It may therefore be helpful to separate any exceeded capacity revenue from the main recovered revenues to avoid the issue of over-recovery (and the risk of DNOs breaching their licence). This revenue could then be separately redistributed, in a 'fair' and, potentially, cost-reflective (yet to be developed) manner, in future years via the price control.
- 5.24 It was questioned whether revenue from excess capacity charges could be considered as excluded revenue or additional revenue. This would exclude the revenue for excess capacity charges from the Recovered Revenue and therefore it would not impact the DNOs' allowed revenue or over-/under-recovery.
- 5.25 The Working Group are seeking industry views on whether it would be appropriate to treat revenue from excess capacity charges as either excluded revenue or additional revenue, and whether the current Distribution Licence would allow excess capacity revenue to be classified as such, or whether licence changes would be needed to facilitate this.
- 5.26 For the avoidance of doubt, the Working Group believe this could be applied to each of the proposed solutions and is not an independent solution on its own.

Question 13 – Do you believe it would be appropriate to treat revenue from excess capacity charges as either excluded revenue or additional revenue or otherwise excluded from Recovered Revenue. Please provide your rationale.

Question 14 – Can excess capacity revenue be considered excluded revenue or additional revenue or otherwise excluded from Recovered Revenue under the current Distribution Licence? Please provide your rationale and specify any relevant Licence Conditions.

Question 15A – If the answer to the above question was no, then what changes do you believe would need to be made to the current Electricity Distribution Licence to facilitate this?

Question 15B- Are there any other regulatory considerations that need to be taken into account in order to treat revenue from excess capacity charges in this way? Please provide details, including any processes that would need to be followed and any expected timescales for these processes.

Question 16 – Do you have concerns about revenue from excess capacity charges being considered as either excluded revenue or additional revenue or otherwise excluded from Recovered Revenue? Please provide details.

Question 17 - What are the potential benefits of treating revenue from excess capacity charges as either excluded revenue or additional revenue or otherwise excluded from Recovered Revenue?

Question 18- Do you have any other comments?

6 Consultation Questions

6.1 The Working Group is seeking industry views on the following consultation questions:

No.	Questions
1	Option A – 12-Month Maximum Demand (MD) Approach Is the 12-month excess capacity charge a strong enough price signal for Customers not to exceed their MIC? Please provide your rationale.
2	Option B Differential Charge - Multiplier Approach If this option was to be taken forwards, what do you believe the fixed multiplier should be in order to send a strong enough price signal for customers not to exceed their MIC? i.e. the excess capacity charge should be 1.5 times the capacity charge, 2 times the capacity charge etc? Please provide your rationale.
3	Option C - Differential Charge – Model-Integrated Approach This option is specifically designed to be cost reflective. In your view, does this approach achieve that? Please provide rationale.
4	Option C - Differential Charge – Model-Integrated Approach Would this solution send a strong enough price signal for customers not to exceed their MIC? Please provide your rationale.
5	Option C - Differential Charge – Model-Integrated Approach Do you have any comments around this approach? Please provide rationale.
6	Option C - Differential Charge – Model-Integrated Approach What are the potential benefits of calculating the differential excess capacity charge within the model rather than using a fixed multiplier (Option B)?
7	Option C - Differential Charge – Model-Integrated Approach

	Do you have any comments on how the model has been designed for this solution? Detail/guidance on the model and how it is intended to work can be found within attachment 7.
8	Is there another approach that could be taken that applies a differential to the excess capacity charge other than the two options (B and C)? Please provide details and any rationale.
9	Which of the 3 options do you prefer? Please provide your rationale.
10	Are there any additional pros or cons that are not already listed in Table 1 for: Option A Option B Option C Please provide details.
11	Are changes needed to any systems (such as the DNO billing system) for: Option A Option B Option C Please provide a summary of any system changes required for each solution, and what the timescales would be for these changes to be implemented.
12	Are there any other points that you would like the Working Group to consider for any of the Options? Please provide details and your rationale.
13	Do you believe it would be appropriate to treat revenue from excess capacity charges as either excluded revenue or additional revenue or otherwise excluded from recovered revenue. Please provide your rationale.
14	Can excess capacity revenue be considered excluded revenue or additional revenue or otherwise excluded from Recovered Revenue under the current Distribution Licence? Please provide your rationale and specify any relevant Licence Conditions.
15A 15B	Question 15A – If the answer to the above question was no, then what changes do you believe would need to be made to the current Electricity Distribution Licence to facilitate this? Question 15B- Are there any other regulatory considerations that need to be taken into account in order to treat revenue from excess capacity charges in this way? Please provide details, including any processes that would need to be followed and any expected timescales for these processes

16	Do you have concerns about revenue from excess capacity charges being considered as either excluded revenue or additional revenue or otherwise excluded from Recovered Revenue? Please provide details.
17	What are the potential benefits of treating revenue from excess capacity charges as either excluded revenue or additional revenue or otherwise excluded from Recovered Revenue?
18	Do you have any other comments?

6.2 Responses should be submitted using Attachment 2 to dcusa@electralink.co.uk no later than 09 October 2026

6.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

7 Attachments

Attachment 1: DCP 443 Consultation 2 Response Form

Attachment 2: DCP 443 Change Proposal Form

Attachment 3: DCP 443 Consultation 1 Responses

Attachment 4: DCP 443 RFI Responses

Attachment 5: DCP 443 RFI Analysis

Attachment 6: DCP 443 Test Model (ENWL data)

Attachment 7: Excess Capacity Test Model - guidance documentation

Attachment 8: Excess Capacity Worked Examples