

Modification proposal:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP328 – Use of system charges for private networks with competition in supply (DCP328)</b>		
Decision:	The Authority <sup>1</sup> has decided to reject <sup>2</sup> this modification <sup>3</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	12 July 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 GB. There are 14 geographically defined regions for electricity distribution, each with its own licensed DNO. DNOs recover the costs of running their network by charging Distribution Use of System (DUoS) charges.

There are some smaller networks connected to the DNO network, which are owned by licensed distribution network operators (LDNOs). A LDNO can be either an Independent Distribution Network Operator (IDNO) or a DNO operating outside of its own region. DNOs and LDNOs are collectively referred to as Distributors in this document.

Licence Exempt Networks (ie private networks) can be connected to either a DNO or LDNO network. They are operated by Private Network Operators (PNO) who distribute electricity to the customers connected to the private network under an exemption from holding a distribution licence. In order for DUoS charges to be levied on a private network, there is usually a meter at the boundary point (ie the point where the private network meets the Distributor network).

On 10 November 2011, the Gas and Electricity (Internal Markets) Regulations<sup>1</sup> (the Regulations) came into force. The Regulations enabled certain customers connected to private networks to choose their electricity supplier, rather than the PNO appointing a supplier for the whole network. The arrangements introduced by the Regulations are known as Third Party Access<sup>2</sup> or competition in supply.

Where a customer on a private network (an “embedded customer”) is able to contract with a supplier of its choice under the Regulations (a “third party supplier”), a different set of charging arrangements come into effect. In order to facilitate competition in supply, Distributors are required to provide these embedded customers with their own meter in order to calculate the DUoS charges to be levied on the third party supplier.

### *DUoS Charges*

For domestic and non-domestic properties with Non Half-Hourly (NHH) meters, DUoS tariffs are made up of unit and fixed charges. For sites with Half-Hourly (HH) metering, DUoS tariffs are made up of unit charges, fixed charges, capacity charges and reactive power charges. DNOs use customers’ consumption data in order to calculate these charges for suppliers. There is also a residual element to DUoS charges which are recovered via the fixed charge, as explained in more detail below.

The way in which DNOs calculate their DUoS tariffs for Low Voltage (LV) and High Voltage (HV) connected customers is governed under the Common Distribution Charging Methodology (CDCM) in the DCUSA. The Extra High Voltage Charging Methodology (EDCM), also contained in the DCUSA, applies to Extra High Voltage (EHV) customers.

The charges that the LDNOs pay to the respective DNOs to operate within their regions are discounted to reflect the fact that the LDNO provides the ‘last mile’ of the distribution network. LDNOs may charge their domestic customers no more than the equivalent DNO tariff. The potential margin available to an LDNO is dependent on the difference between the equivalent DNO tariff and the discounted LDNO tariff.

### **The modification proposal**

Northern Powergrid (the “Proposer”) raised modification DCP328 on 15 August 2018 (the “Proposal”). DCP328 is seeking to formalise the approach which DNOs should take when

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<sup>1</sup> Gas and Electricity (Internal Markets) Regulations SI 2011/2704 <http://www.legislation.gov.uk/ukpga/2000/27/contents>

<sup>2</sup> Third Party Access gives electricity and gas customers the right to choose electricity and gas suppliers of their choice - [Third Party Licence Exempt Distribution Guidance Note - Elexon Digital BSC](#).

invoicing DUoS charges (both forward-looking and residual) in respect of private networks where competition in supply is in place. It aims to ensure commonality between different DNOs and to maintain cost reflectivity wherever possible.

Currently, if there are multiple suppliers in a private network, the lack of a codified practice for Distributors can mean that different Distributors follow different practices and in some cases, multiple DUoS charges can be applied to a site. This can result in additional DUoS charges being levied in circumstances where there is competition in supply notwithstanding that no physical changes to the network are required to support such arrangements. The Proposer believes that DCP328 would prevent the duplication of charges in private networks with competition in supply by codifying DUoS charging arrangements for these circumstances.

#### *Status quo for charging DUoS to private networks*

Exelon has a guidance document on competition in supply for private networks<sup>3</sup>. This focuses on the Balancing and Settlement Code (BSC) obligations and processes associated with facilitating competition in supply for electricity customers connected to private networks. As summarised in that guidance, there are three types of metering arrangements on private networks with competition in supply:

- Difference metering: where volumes recorded on embedded meters in the private network are deducted from volumes recorded on the boundary meter for the purposes of allocating charges.
- Shared metering: where a meter at the boundary point is shared between two or more suppliers in order to split volumes between them for charging and Settlement<sup>4</sup> purposes<sup>5</sup>. To determine the split between the suppliers, the embedded customers will have 'non-settlement meters' installed.
- Full settlement metering: where every customer on a private network has opted for competition in supply and has its own meter and is charged in accordance with metered consumption. There is no boundary meter in this type of arrangement. The BSC refers to private networks in these circumstances as an 'Associated Distribution System'.

Under all metering options, the Distributor is obliged to provide meters to customers on the private network who have requested competition in supply. This allows metering data

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<sup>3</sup> [Third Party Licence Exempt Distribution Guidance Note - Exelon Digital BSC](#)

<sup>4</sup> Settlement reconciles the difference between a supplier's contractual purchases of electricity and the demand consumed by its customer.

<sup>5</sup> [BSCP550: Shared SVA Meter Arrangement - Exelon Digital BSC](#)

to be recorded in settlement and includes data from the non-settlement meters associated with shared metering arrangements.

Under all metering options, there is only one connection from the private network to the host Distributor network, with the relationship between the PNO and Distributor limited to a Connection Agreement. When an embedded customer requests competition in supply, there are no physical changes to the network or changes in use of the network. However, when embedded customers request competition in supply and are given a meter (for their chosen supplier to measure their consumption), all suppliers on the private network can be charged DUoS, resulting in the Distributor recovering multiple DUoS charges. The Proposer asserts that total DUoS charges applied to private networks with competition in supply should not differ from those without.

#### *DCP328: Solutions proposed for each metering arrangement (forward looking charges)*

DCP328 is one proposal which includes several solutions to cater for the different types of metering arrangements used in private networks. All of the solutions proposed are summarised below.

##### *Difference metering*

For difference metering installations in both the CDCM and the EDCM, DCP328 proposes that DNOs would charge DUoS (including the fixed charges and capacity and reactive power charges if applicable) to the boundary point supplier along with unit charges for all of the consumption on the private network. Third party suppliers would not be charged by the Distributor even though metering data is received for each metering point within the private network. This means that the boundary supplier would be responsible for recovering the charges from the embedded suppliers in line with an agreement between them. This would ensure that the Distributor would apply DUoS charges to the boundary meter only.

##### *Shared metering arrangements*

Under the BSC, it's possible for multiple suppliers to share a metering system, where the imports and exports are measured at the boundary meter and apportioned between suppliers (differentiated between the primary and other, secondary suppliers) based on readings from non-settlement meters embedded on the private network.

Similar to the difference metering solution, under the Proposal, all DUoS charges would be billed to a single supplier, in this case the primary supplier. No charges would be applied to any settlement or non-settlement metering data received for meters contained within the private network. Similar to the solution proposed for difference metering arrangements, the primary supplier would then be responsible for recovering charges from

embedded suppliers in line with agreements between them. This solution would apply to customers in both the CDCM and EDCM.

#### *Full settlement arrangements – CDCM customers*

For private networks where all customers have obtained competition in supply, the proposed solution would involve the Distributor invoicing all embedded suppliers based on units received through settlement, using new tariffs (referred to as Licence Exempt System (LES) tariffs). These tariffs in the CDCM would reflect the type of customer connected and the voltage of connection (eg domestic aggregated with residual, non-domestic aggregated, LV sub site specific, etc). They would be similar to LDNO tariffs in that they aim to recognise that the Distributor is not responsible for the last part of the network by conferring a discount on the DNO tariff. Furthermore, fixed and capacity charges would form part of the fixed charge for these tariffs.

The LES tariffs proposed for this type of metering arrangement would apply regardless of whether the PNO was connected to a DNO or LDNO. In the instance where the PNO is connected to an LDNO, the LES tariff charged interacts with the potential level of profit margin for the LDNO.

#### *Full settled arrangements – EDCM customers*

For embedded EHV customers on a private network who have all obtained competition in supply, the Proposal suggests using a set of nominal boundary tariffs created by the Distributors which are then split between the embedded customers and charged to the embedded suppliers.

#### *Status quo for allocation of residual charges to private networks*

Residual charges are charged to users once forward-looking charges (ie charges which send signals to users about the effect of their behaviour on the network) have been applied to ensure DNOs recover their allowed revenue under price control conditions.

In November 2019, we published our Decision on the Targeted Charging Review (TCR) Significant Code Review.<sup>6</sup> Alongside our Decision, we issued a Direction to the DNOs (the 'TCR Direction'), to bring forward proposals to modify the DCUSA in relation to residual charges, to give effect to the terms of the TCR Decision. In the TCR Direction, we di-

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<sup>6</sup> [TCR Final Decision \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/tcr-final-decision)

rected (para 30.c) that “any consequential charges that may be required in relation to residual charges for [...] consumers connected to private wire<sup>7</sup> and complex sites”, should be made.

In September 2020, we approved DCP359<sup>8</sup> which identified which customers would be liable for a residual fixed charge. The way in which residual charges are levied on private networks was de-scoped from DCP359 on the basis that they should be considered alongside the forward-looking charges as part of this Proposal. We recognised that multiple meter points can sometimes be associated with a single site. In general, we said it was not our policy intention to apply multiple fixed charges to single sites. Our assessment therefore considers compliance with this element of the TCR Direction.

Following the implementation of DCP359, residual charges are applied to private networks based on the agreed capacity at the boundary, ie a single residual charge relating to the capacity cited in a single connection agreement between the PNO and Distributor.

However, with competition in supply in place, each meter on the private network will incur a residual charge inclusive within its fixed charge, meaning multiple residual charges will be paid by the customers on the private network.

To enable compliance with TCR, the Working Group considered it appropriate that a single residual charge is levied on private networks at single site level based on capacity at the boundary. Below we have explained the proposed residual charge allocation solutions for the different metering arrangements under the Proposal.

*DCP328: Solution proposed for allocation of residual charges to difference and shared metering arrangements (for both CDCM and EDCM customers)*

A single residual charge would be applied at the boundary point, with the private network being allocated as a single site to a charging band on the basis of the agreed capacity at the boundary. This is the same approach as for any other connection to the distribution network.

*Solution proposed for allocation of residual charges to full settlement metering arrangements for CDCM customers*

For context, the CDCM model calculates a set of tariffs for LV and HV customers which generates a forecast revenue, using its forecast of usage for each customer group. This can be referred to as the revenue before matching. In order to match this forecasted revenue to the allowed DNO revenue (calculated for the price control period), a residual

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<sup>7</sup> Private wire is another term for private network.

<sup>8</sup> [DCP359 Ofgem decision letter](#)

charge will be applied in the form of a fixed charge (ie matching the forecasted revenue to the price control revenue).

Under DCP328, the calculation of the residual charge for this type of metering arrangement proposes that the volumes for fully settled sites are to be scaled. This scaling of volumes is achieved by calculating the ratio between the revenue before matching (calculated using the new (LES) tariffs) and the revenue before matching (calculated using the all-the-way tariffs).

*Solution proposed for allocation of residual charges to full settlement metering arrangements for EDCM customers*

For this type of arrangement, DCP328 proposes to recover the residual via the fixed charge based on the capacity at the boundary (as is currently done in the EDCM) and split this fixed charge between the embedded customers on the private network. This would ensure that the same level of residual charge is applied as if there was a boundary meter in place (as with shared and difference metering). The fixed charge would be applied to each embedded customer based on the proportion of their capacity relative to the boundary capacity.

### **DCUSA Parties' recommendation**

In each party category where votes were cast (no votes were cast in the CVA Registrant party category),<sup>9</sup> there was majority (>50%) support to reject the proposal and its proposed implementation date. Therefore, in accordance with the weighted vote procedure, the recommendation to the Authority is that DCP328 is rejected. The outcome of the weighted vote is set out in the table below:

*WEIGHTED VOTING (%)*

<b>DCP328</b>	<i>DNO<sup>10</sup> Accept</i>	<i>DNO Reject</i>	<i>IDNO/ OTSO<sup>11</sup> Accept</i>	<i>IDNO/ OTSO Reject</i>	<i>SUPPLIER Accept</i>	<i>SUPPLIER Reject</i>	<i>CVA<sup>12</sup> REGIS- TRANT Accept</i>	<i>CVA REGIS- TRANT Reject</i>
<i>CHANGE SOLUTION</i>	25%	75%	0%	100%	0%	100%	0%	0%
<i>IMPLEME- NTATION DATE</i>	25%	75%	0%	100%	100%	0%	0%	0%

<sup>9</sup> There are currently no gas supplier parties.

<sup>10</sup> Distribution Network Operator

<sup>11</sup> Independent Distribution Network Operator/Offshore Transmission System Operator

<sup>12</sup> Central Volume Allocation

## Our decision

We have considered the issues raised by the Proposal, and the Change Declaration and Change Report dated 1 November 2022. We have considered and taken into account the vote of the DCUSA Parties on the Proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the Proposal will not better facilitate the achievement of the Applicable DCUSA objectives.<sup>13</sup>
- directing that the change is made would not be consistent with our principal objective and statutory duties.<sup>14</sup>

## Reasons for our decision

We consider this Proposal will not better facilitate the second and sixth Applicable DCUSA Objectives and has a neutral impact on the other applicable objectives.

### ***First Applicable Charging Methodology 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 majority of the Working Group and DCUSA voting parties offered no comments regarding this particular objective. One DCUSA voting party considered the Proposal, particularly the solution for fully settled customers in the CDCM, to be negative against this objective as it believes the Proposal is not compliant with the Electricity Distribution Licence Condition 4.6(b) – *“the licensee must not restrict, distort, or prevent competition in the generation, transmission, distribution, or supply of electricity, or in participation in the operation of an Interconnector”*<sup>15</sup>.

The DCUSA voting party considers the element of the Proposal dealing with fully settled CDCM customers to be negative against this objective. It considers that the LES tariffs created are unduly discriminatory in favour of private networks compared to the way charges are levied on LDNOs.

## Our view

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<sup>13</sup> The Applicable DCUSA Objectives are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence.

<sup>14</sup> The Authority’s statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

<sup>15</sup> [Electricity Distribution Consolidated Standard Licence Conditions \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/electricity-distribution-consolidated-standard-l licence-conditions)



We recognise that the Proposal has been developed with a view to discharging obligations imposed on the licensee as a result of the TCR Direction, which constitutes an obligation imposed on the licensee. For the reasons given in this letter, in particular in respect of the second and sixth Applicable DCUSA Objectives, we do not consider the solution is capable of approval and we therefore view this aspect of the TCR Direction to remain outstanding. On this basis, we conclude that the Proposal is neutral against this objective.

With regards to the views given by the DCUSA voting party against this objective, we consider that these arguments apply more to the Second DCUSA Charging Objective.

***Second Applicable Charging Methodology Objective – that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)***

The majority of the Working Group considered the Proposal to be positive against this objective. Similarly, the majority view of consultation respondents was that the Proposal will prevent distortion in the application of DUoS charges for some or all customers connected to private networks where there is competition in supply. However, the majority of DCUSA voting parties considered the Proposal to be negative against this objective. Those who made negative comments focussed on the fully settled metering solutions for CDCM and EDCM customers. We outline these in turn below.

*Working Group and DCUSA Voting Parties' view regarding fully settled metering solution for CDCM customers (ie LES tariffs)*

Two consultation respondents considered the Proposal to be negative against this objective. One respondent noted the lack of consideration of the impacts the Proposal may have on wider IDNO charging. The other respondent voiced similar concerns, highlighting that there are potential impacts on the profit margins for IDNOs in the instance where they have a private network connected to their network.

Furthermore, similar views were also shared by the majority of DCUSA voting parties with the exception of two parties, one who considered it to be positive and the other neutral against this objective. The majority view of the voting parties was that the Proposal would introduce tariffs for private networks which are different to that for single sites, and therefore may introduce distortions. Another voting party noted concerns that the LES tariffs could either be higher or lower than existing LDNO tariffs for some customer types, causing potential margin squeeze for LDNOs.

*Working Group and DCUSA Voting Parties' view regarding fully settled metering solution for EDCM customers*

The majority of the Working Group were comfortable with the proposed solution for fully settled EDCM customers on private networks. One respondent highlighted that the proposed solution would simplistically address the issue of overbilling customers the fixed and capacity charges. It also noted that private networks are easily identifiable in the EDCM and the information required for this solution to be implemented should be accessible either from the connection agreement or directly from customers.

However, another respondent raised concerns regarding disparity in charges between a fully settled private network and an equivalent private network with a single meter at the boundary point.

*Our position*

We do not consider that the Proposal better facilitates this objective and is negative against this objective. It has not been demonstrated that the Proposal facilitates competition in any of the market activities as defined in the objective. The arguments put forward in favour of the Proposal suggest that competition would be better facilitated based on appropriate application of DUoS in respect of customers on private networks requesting competition in supply. While we recognise that some elements of the Proposal would confer a positive outcome in some cases, we do not consider that these arguments relate to the promotion of more effective competition. In addition, we consider that the Proposal has the potential to introduce distortions by applying different charges to similar connections to the LDNO network (ie difference in DUoS applied to private networks based on the type of metering arrangement).

We note the concerns highlighted in the voting statements and consultation that implementation of the Proposal could result in anti-competitive effects for IDNOs, potentially placing one or more of the DNOs in breach of their competition law obligations. Despite the modelling provided as part of the Workgroup assessment, we have not seen evidence to discount such risks.

***Third Applicable Charging Methodology 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, reflects the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business***

The majority of the DCUSA voting parties considered DCP328 to be negative against this objective, noting in particular the element of the Proposal dealing with fully settled private network arrangements for CDCM customers. They highlighted that averaging the capacity and reactive charges into a fixed charge results in charges which are less cost reflective than the current charges. It was also noted by one party that the proposed tariffs rely on the CDCM model, which is based on hypothetical increments and does not relate to the actual total costs that are incurred by the Distributors.

The Working Group had mixed views as to whether the Proposal would better facilitate this objective or not. Those not in favour highlighted similar concerns to the DCUSA voting parties, suggesting that applying different charges to different private networks (based on their metering configuration) does not properly reflect the costs incurred by the Distributor, while another respondent highlighted that the CDCM model does not ensure cost reflective charges are produced.

The consultation respondents in favour of the Proposal outlined that it would introduce a charging mechanism to increase alignment for all private networks, despite the metering arrangements in place and whether they have competition in supply or not.

#### *Our position*

Whilst we recognise that cost reflectivity may be better facilitated by the components of the Proposal whereby a single DUoS charge would be applied to the boundary or primary supplier, as opposed to multiple suppliers as is currently the case, we do not consider that the analysis presented demonstrates that the LES tariffs produced for fully settled CDCM customers would increase cost reflectivity of charges. We also consider that the impacts of the LES tariffs on final consumers' bills have not been explored enough by this Proposal.

The intent of the Proposal was to ensure cost reflectivity regardless of whether competition in supply is in place or not, and some elements of this proposal have not achieved this. We agree with the view that applying different charges to private networks based on their metering arrangement does not properly reflect the costs incurred by the Distributor. Overall, we consider this Proposal to be neutral against this objective.

#### ***Sixth Applicable Charging Methodology Objective – that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration***

The majority of the Working Group considered the overall solution to be negative against this objective. Those giving reasons generally cited problems with the solution for CDCM

fully settled private network customers, mainly in relation to the implementation of the LES tariffs proposed for these customers.

The DCUSA voting parties unanimously agreed that the overall solution does not promote efficiency. They highlighted that the introduction of extra tariffs into the CDCM and new classes of customer would add further complication in the application of the charging methodologies, therefore not improving efficiency in the administration of the charging methodologies.

Another DCUSA voting party noted that significant implementation work would be required if this solution was approved, and separate Line Loss Factor Classes (LLFCs) would also be required in order to identify which customers would be charged the LES tariff. Another respondent raised concerns that it would be difficult to identify where these new tariffs should be applied.

The majority of the Working Group agreed with these concerns, outlining that the solution proposed would increase the tariffs in the CDCM from 32 tariffs per DNO to 96 tariffs per DNO. They suggested that, given the number of meters connected to private networks is relatively small, it seems that the Proposal introduces a disproportionate level of complexity to the charging regime.

### *Our position*

We agree with the views of the Working Group and DCUSA voting parties that the solution proposed under DCP328, in particular the arrangements for fully settled CDCM customers, would introduce further complexity into the charging regime and therefore would not promote efficiency. Furthermore, we agree with industry parties that increasing the number of tariffs in the charging models, along with the requirement to create new LLFCs and classes of customers for potentially a low number of customers, would require significant implementation work for Distributors and Elexon which is likely disproportionate.

We recognise the importance of developing a standard process for the allocation of DUoS costs to private networks where competition in supply is in place. However, we consider that the process for achieving this should provide clarity to parties and be relatively simple to implement and this has not been demonstrated in this case for the Proposal.

Therefore, we believe the Proposal would be negative against this objective.

### **Next steps**

#### *DUoS Charging arrangements for private networks*

As mentioned in the reasons for our decision, we understand the importance of developing appropriate DUoS charging arrangements for private networks with competition in

supply. We are supportive of another proposal being raised in order to achieve a harmonised approach to deal with DUoS charging arrangements for these sites, which we would consider on its merits.

If a future modification is raised, we would encourage industry to consider the impacts on final consumer bills more thoroughly as this is something which was overlooked in DCP328. Further, we consider that focus should be placed on ensuring that any future modification is relatively simple and efficient for parties to implement.

In the TCR Direction, we directed DNOs to propose appropriate residual charging arrangements for private networks. We believe there are some fundamental issues with the solutions proposed under DCP328 and we consider that element of the TCR Direction still needs to be met.

#### *Approach to complex modification proposals*

For future change proposals where there are several elements to the solution, we would encourage industry to comment and give views on all elements of the proposal, rather than focusing on one element. We considered the DCP328 voting party statements to lack views relating to the difference and shared metering arrangements and the solution proposed for EDCM fully settled metering sites, focussing largely on the impacts for CDCM fully settled metering sites. Whilst we consider there is sufficient information available to us to make this decision, we consider we would be better apprised of industry views where voting statements and consultation responses addressed all elements of the decision. However, we recognise the conflated and complex nature of this proposal.

Furthermore, the Code Administrator and DCUSA Panel should consider whether it might be appropriate to separate components of a proposal into separate modifications in future. We consider there would be benefits to this approach, on the basis that it allows the Authority to take separate decisions on discrete parts of a proposal, with clear independent solutions and input from stakeholders, albeit we appreciate it may remain appropriate for multiple solutions to be progressed by a single Working Group.

#### **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification proposal DCP328: *'Use of system charges for private networks with competition in supply'* will not be made.

**Tom Kenyon-Brown**

## **Head of Electricity Network Charging**

Signed on behalf of the Authority and authorised for that purpose