
Distribution Connection and Use of System Agreement (DCUSA) – DCP 433

“Limitation for backdating of rebates/charges under Schedule 32”

Decision:	The Authority ¹ directs that this modification be made ²
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties
Date of publication:	14 November 2024
Implementation date:	19 November 2024

Background

DCP389 ‘TCR – Clarification on Exceptional Circumstances and Allocation Review for ‘New’ Sites’ was implemented on 1 April 2023. DCP389 introduced a process for an annual allocation review of any new Final Demand Sites, as well as those Final Demand Sites which were initially allocated to a Residual Charging Band based on no recorded data (ie, by using a ‘best guess’ approach). The proposer of DCP433 considers that the DCP389 implementation introduced a defect, whereby the DCP389 solution requires DNOs/IDNOs to potentially backdate rebates/charges past a point which is realistically practical within the current industry arrangements.

The DNOs/IDNOs requested, and the DCUSA Panel approved, a Derogation from Paragraph 6.11 of Schedule 32 to the DCUSA on 20 September 2023. The Panel specified that this Derogation would operate until 31 March 2024. The Panel also encouraged a Party to raise a Change Proposal as soon as possible to amend the relevant text in the DCUSA such that it reflects the reality of how sites are billed and the practical limitations for backdating of sites on the basis of LLFC IDs. Electricity North West Limited (the Proposer) raised DCP433 on 5 January 2024.

The modification proposal

¹ References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

The proposal aims to update Schedule 32³ of the DCUSA to ensure arrangements relating to backdating of rebates/charges are reflective of practical limitations within the current industry arrangements.

DCP 389 introduced a process for an annual allocation review of any new Final Demand Sites, as well as those Final Demand Sites which were initially allocated to a Residual Charging Band based on no recorded data. This process included changes to Paragraph 6.11 of Schedule 32, which, whilst not explicitly obligating DNOs/IDNOs to backdate any rebates or additional charges, infers (in the Proposer's view) that rebates or additional charges are backdated "to the date on which the Final Demand Site was first charged the Old Charging Band residual fixed charge". The Proposer considers this a defect - as billing systems are set up to use standard settlement data, it would not be possible to backdate rebates or additional charges further than is allowed by this settlement date. The longest period of settlement data available is from "Final Reconciliation" (FR) settlement data, which extends only to 14 months and does not allow further historic backdating.

The Proposer considers that it would only be possible to backdate the rebates or additional charges as far as the 14 months that the FR run allows, and that consequently, any backdating should explicitly be limited to such a time period. Other options were considered by the workgroup, including moving to a manual process for periods beyond the 14 months, which the Proposer did not consider possible, especially in the Non Half-hourly settled (NHH) market due to the use of aggregated data for billing.

Workgroup discussions

Workgroup participants were broadly supportive of the proposal and generally considered it to address the described defect. It was noted that other options might be available to address the issue in a way that was not constrained by FR data limitations, but that this would not provide the immediate, pre-annual allocation review solution sought by the workgroup during this process. In addition, a number of alternative proposals were made that would use other existing processes or new processes to allow rebates and additional charges to be backdated further into the past without the existing practical limitations. While these were explored, they were seen to have practical repercussions and amount

³ [DCUSA Schedule 32](#)

to a different solution by the workgroup i.e. they were not a clarification within the existing arrangements, but changes to allow different arrangements that would not have the same practical limitations.

Overall, while there were a variety of views on the Proposal's performance against specific objectives, the workgroup participants tended to consider that the Proposal was aligned to wider practices, and so aided in efficient administration. It was also noted that no users would be negatively impacted by the Proposal, as the status quo arrangements are covered by the aforementioned Derogation and do not go further than the Derogation in impact.

DCUSA Parties' recommendation

For the majority of the Party Categories that were eligible to vote, the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the proposal and implementation date was more than 50%. DNO parties voted by majority in favour of both the Proposal and the proposed implementation date, as did IDNO/OTSO parties. While a majority of suppliers voted for the proposal overall, 40% of suppliers did not accept either the Proposal's eventual solution or the proposed implementation date. No CVA Registrant parties participated in voting.

DCP-433	WEIGHTED VOTING (%)							
	DNO ⁴		IDNO/OTSO ⁵		SUPPLIER		CVA ⁶ REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	60%	40%	No votes received	
IMPLEMENTATION DATE	100%	0%	100%	0%	60%	40%	No votes received	

Our Decision

⁴ Distribution Network Operator

⁵ Independent Distribution Network Operator/Offshore Transmission System Operator

⁶ Central Volume Allocation

We have considered the issues raised by the proposal, the Change Declaration dated 10 June 2024 and Change Report dated 15 May 2024. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the Applicable DCUSA Charging objectives⁷;
- directing that the modification is approved is consistent with our principal objective and statutory duties.⁸

Reasons for our decision

We consider this modification proposal will better facilitate DCUSA Charging objectives (2), (3), and (6) with a neutral impact on the other applicable objectives.

Applicable DCUSA Charging Objective Two– 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)

A number of workgroup parties considered the Proposal to better facilitate this objective, though little detail was provided on the specific mechanisms by which this would be achieved. We note that some participants considered the Proposal to lead to a “standardized approach” that applies similarly to all parties, regardless of data availability, while others noted little impact. The Proposer noted that a lack of clarity, and the potential for different levels of available data for different types of site might lead to different application of charges, affecting competition.

Our View

⁷ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

⁸ 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.

We agree that clarity that leads to a standard approach where all parties are treated equally is better for competition. This Proposal does further that aim, and so does better facilitate this objective. We consider the impact on competition is likely to be minor, but do agree that the potential for different application of charges for different users is lower with a common solution. We therefore agree that this Proposal better facilitates DCUSA Charging Objective Two.

Applicable DCUSA Charging Objective Three - compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business

As with Objective Two, while many of the workgroup participants considered that Objective Three would be better facilitated, they did not put forward extensive reasoning. One party noted that the Proposal allowed “the reflection of costs incurred or expected by DNOs only back to a specific point”. Another noted that “arbitrary applications” of charging methodologies could be considered to create a situation where charges that do reflect costs are not applied.

Our View

We agree that different applications of rebates or additional charges may see varying levels of cost-reflectivity. This is partly a competition issue, but it seems appropriate that cost-reflectivity is better served by charges which are seen to reflect cost also being applied in a consistent manner. We note that this reasoning goes both ways: this Proposal proposes that 14 months is a limit for which cost-reflectivity will apply, and even if costs might be known for periods further in the past, they are not applied. We consider consistent application of cost-reflectivity to be preferable to inconsistency that may reach further back. We would also note that this proposal, as noted by the workgroup, would not prevent another process being established in future that provides greater backdating functionality. We agree that this Proposal better facilitates charges which reflect the costs incurred by the DNO Party in its Distribution Business.

Applicable DCUSA Objective Six - that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration

The workgroup broadly considered this Proposal to provide benefits in the efficiency of administration of the charging methodologies as it will allow standard industry billing processes to be used for backdated rebates/charges, rather than manual calculations. We note that one party did not agree, and considered more work to be needed on this proposal.

Our View

We agree that a standardised process that does not require manual intervention is more efficient. We also consider the Proposal is less susceptible to human error or differences in application than a non-standardised process, something we also consider to be more efficient. To that end, we consider that this Proposal better facilitates DCUSA Charging Objective Six and leads to a methodology that better promotes efficiency in its own implementation and administration.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP433, "Limitation for backdating of rebates/charges under Schedule 32" be made.

Andrew Malley
Head of Distribution and Residual Charging,
Energy Systems Management & Security

Signed on behalf of the Authority and authorised for that purpose