Possible increase of exceeded capacity charges from 1 April 2015

Domestic customers	Non half hourly business customers	Half hourly CDCM business customers	Site-specific EDCM business customers
			
Slight reduction in network costs	**Slight reduction in network costs**	**Significant detriment to some customers**	**No impact now, but dangerous precedent**

1. This alert is about a proposal of the electricity industry to increase charges for exceeded capacity from 1 April 2015. An industry consultation closed on 30 April 2014.

Who is affected?

2. The tariff directly affected by this change is the one that applies to half hourly metered sites across England, Wales and Scotland, except the 1,700 EDCM sites that are supplied directly from a primary substation or at voltages of 22,000 Volts or more.

3. The increase only bites where recorded consumption (active and reactive) exceeds the Maximum Import Capacity figure (kVA) held in the DNO's records. Out of about 100,000 half hourly metered sites, some **25,000 sites are affected by the increase**.

What is the proposed change about?

4. Distribution Network Operators (DNOs) are distinct from suppliers. DNOs run networks and charge suppliers for their use; suppliers recover the costs from users, sometimes explicitly, sometimes as part of a bundled supply tariff.

5. The proposal is to increase the capacity charges levied by DNOs on suppliers in respect of half hourly metered demand sites (except EDCM sites) in months where the half hourly metering data (active and reactive) shows consumption in excess of the Maximum Import Capacity figure (kVA) held in the DNO's records. Suppliers generally pass charges of this kind directly through to the customer.

What is the impact?

6. The increase in exceeded capacity charges is **up to 5 p/kVA/day (£18.25/kVA/year)**. The following table summarises the data (14 DNO, three tariff categories).

	Increase in exceeded capacity charge (p/kVA/day)	Increase in exceeded capacity charge (percentage)
Minimum	0.68	14%
Median	2.19	75%
Maximum	5.03	217%

7. I estimate that the increase in exceeded capacity charges would earn about **£10 million** more annual revenue for DNOs. Other charges would fall so as to keep DNOs' total revenue the same: about half of the £10 million would go to suppliers of domestic customers.

8. Here is a specific example. Take a HV customer in Manchester (ENWL area) with a Maximum Import Capacity of 4,000 kVA and an average monthly maximum demand of 5,000 kVA. The proposal **increases annual capacity charges by £12,994**, from £55,845 to £68,839. Appendix A has examples in other parts of the country. (My numbers differ slightly from those in the consultation document due to different assumptions — the industry has not released all the data underpinning its calculations.)

9. Exceeded capacity charges are in addition to the fixed, reactive and active unit rate elements of distribution charges, and to energy, transmission and other costs.

Why this change?

10. The proponents of this change are some of the DNOs. They say that the higher charge better reflects the costs of capacity on the network. This is because the ordinary capacity charge incorporates a discount to take account of the costs borne by customers through connection charges, and under the proposal this discount would no longer be applied for exceeded capacity charges.

11. They also claim that the increase will improve incentives on customers to manage their capacity and reduce an incentive to avoid contracting for required capacity.

Who will decide whether the change happens?

12. The proposed change is under DCUSA, a governance regime overseen by Ofgem.

13. This change will only be made if Ofgem approves it. There is a risk that Ofgem may rely on the DCUSA consultation responses as a complete record of concerns, and take a decision without any further consultation. If there are no or few customer responses to the DCUSA consultation, then the change may go through by default.

For more information about this alert

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14. There is nothing confidential in this alert. Feel free to pass it on to others who might be interested or to include it with any consultation response you make. Microsoft Word and PDF versions of this alert, and of any further updates on this topic or other areas of interest to electricity customers, can be found at **http://dcmf.co.uk/alerts**.

Appendix A — Differences in exceeded capacity charge increases between DNO areas

15. The following table shows, for each DNO area, my estimates of the annual capacity charges with and without DCP 161 for a high-voltage (HV) customer with a Maximum Import Capacity of 4,000 kVA and an average monthly maximum demand of 5,000 kVA (i.e. the average exceeded capacity is 1,000 kVA).

	Current exceeded capacity charge p/kVA/day	Increased exceeded capacity charge p/kVA/day	Illustrative capacity charges before the change £/year	Illustrative capacity charges after the change £/year	Illustrative cost of the change £/year
ENWL	3.06	6.58	55,845	68,839	12,994
NPG Northeast	1.87	3.79	34,128	41,282	7,154
NPG Yorkshire	1.81	3.57	33,033	39,457	6,424
SPEN SPD	4.86	6.11	88,695	93,404	4,709
SPEN SPM	3.85	6.65	70,263	80,629	10,366
SSEPD SEPD	5.14	6.50	93,805	98,769	4,964
SSEPD SHEPD	9.81	11.39	179,033	185,092	6,059
UKPN EPN	4.08	6.04	74,460	81,614	7,154
UKPN LPN	7.72	8.81	140,890	144,869	3,979
UKPN SPN	3.93	6.59	71,723	81,432	9,709
WPD EastM	3.97	5.99	72,453	79,826	7,373
WPD SWales	3.30	7.48	60,225	75,628	15,403
WPD SWest	2.29	7.25	41,793	60,043	18,250
WPD WestM	4.57	6.28	83,403	89,790	6,388

16. Increases of a broadly similar nature would apply to low-voltage tariffs (LV and LV Sub) for half hourly metered customers.

17. My scenario analysis tools and compilations of public data can be accessed through **http://dcmf.co.uk/models/dcp161.html**.

18. The figures in the table above are my own estimates, based on data and models published by DNOs. There might be small differences in the data or assumptions with industry consultation documents in cases where I have not used exactly the same assumptions (in this case, the DNOs have not released all the data underpinning their calculations). There is also a risk that I have made an error — do not hesitate to contact me if anything looks strange or if you would like any help with understanding these data, or the impact on your business.

Appendix B — Summary of arguments for and against the proposal

The cost reflectivity argument supporting the proposal seems sound in theory

19. It is true in theory that it seems logical not to discount exceeded capacity charges for contributions deemed to have been made through connection charges. This is because a customer who is using more capacity than what was agreed with the DNO is unlikely to have paid a connection charge for the exceeded element of the capacity.

But in practice, the cost reflectivity argument is a fallacy driven by a narrow examination of capacity charges without considering the charging methodology in the round

20. Even if exceeded capacity charges, on their own, reflect DNO costs, the overall structure of charges resulting from the proposal would lead to charges for consumption in excess of agreed capacity which, in some cases, grossly exceed costs.

21. For example, in respect of HV consumption in the red time band in the ENWL area, the unit rate of 10.7 p/kWh is made up of 4.7 p/kWh for upstream network costs and 6 p/kWh for revenue matching (see M-ATW sheet in the CDCM model). The red time band runs for 10 hours a week, so £0.60 a week is paid over and above network costs for each kW of excess usage in red. This is over 8 p/kVA/day. The discount applied to capacity charges in respect of customer contributions is only 3.5 p/kVA/day (the difference between the proposed agreed and exceeded capacity charges). Customers already pay over the odds for excess consumption; the change would increase this overcharge and turn it into a penal charge for breach of Maximum Import Capacity.

The change would add to the unfair effects of the CDCM/EDCM boundary

22. The change would increase charges for some CDCM half hourly sites, but not for any EDCM sites. On average, CDCM HV charges are higher than EDCM HV charges. This change would increase discrimination against large sites whose metering details are such that they happen to fall under the CDCM rather than the EDCM.

The change would intensify disputes between customers and DNOs, and increase administrative costs for customers and for the industry

23. There are disputes between DNO and customer in which the customer thinks that the actual agreed capacity covers their use but the DNO's figure is lower. Currently, such disputes are not urgent, as they do not affect charges significantly. The change would intensify disputes by raising the cost to the customer of an incorrect DNO figure.

24. The current single rate for all capacity charges means that customers do not necessarily need to keep updating agreed capacity as their business grows. Instead, they automatically get charged them for monthly maximum demand. The change would kill this convenience, and require every increase in demand to be specifically negotiated, even when the network can easily accommodate the additional demand.

25. It is likely that the change will require a programme of communication from the industry to customers. Insofar as the costs of this are borne by suppliers, they will end up being recovered from customers through the normal operation of competitive supply markets. There is no tangible benefit to justify these costs.