

Pants On Fire, episode 3

by Franck Latrémolière on Friday 19 June 2015

1. DCP 161 was a proposal to increase the rate charged for exceeded capacity under the CDCM. Exceeded capacity is defined in respect of each billing month as the part, if any, of the maximum kVA flow during the month that exceeds the contracted maximum import capacity (MIC).
2. Ofgem ordered implementation of DCP 161 in a decision dated 15 October 2014.

Ofgem did not seem to understand the proposal

3. Ofgem's decision to approve DCP 161 contains the words quoted in exhibit 1.

Exhibit 1 Extract from Ofgem's description of the DCP 161 change proposal

DCP161 was raised by Electricity North West Limited on 6 February 2013. It proposes to remove the discount on excess capacity charges so that the remaining discount (on capacity charges) is equivalent to the upfront contribution and to avoid the risk of a perverse incentive.

4. The text quoted in exhibit 1 is so badly written that the only message that it succeeds in conveying is that the author did not have much of a clue what he or she was on about. And it's not even like a lazy option was not available. Exhibit 2 is the text near the beginning of the change report, which is an adequate and concise overview. A competent regulator could have adapted that.

Exhibit 2 Extract from the DCP 161 change report's description of the change proposal

DCP 161 [...] seeks to improve the cost reflectivity of the excess capacity charge calculation [...] by removing customer contributions [...].

The Proposer feels [¹] that this will remove the incentive upon customers to avoid contracting for the capacity they require and place a stronger incentive on customers to manage their capacity more effectively where they wish to avoid elevated capacity charges and should generally cause a reduction in the need for reinforcement to the benefit of all customers.

Ofgem did not seem to understand the case study or its critique

5. Ofgem's decision to approve DCP 161 contains the words quoted in exhibit 3.

Exhibit 3 Extract from Ofgem's description of the DCP 161 change proposal

One DNO presented a case study suggesting how exceeded capacity by one customer could trigger reinforcement. This case study was challenged on the grounds that the proposal provided no financial incentive for the customer to seek a higher MIC.

¹ How can a big corporation "feel"? It is not just Ofgem that seems unable use language accurately.

6. In fact, the case study did not suggest how exceeded capacity by one customer could trigger reinforcement: it merely recorded that a large customer taking more than its maximum import capacity was leading to total substation demand in excess of “Firm Capacity (MVA) Based on Continuous Rating for Season”. There is no discussion in the case study of the basis on which any reinforcement might be needed.
7. The case study critique (which I wrote) pointed out this shortcoming in the case study, but the case study promoter (ENWL) chose not to address these points. Ofgem was observing these proceedings of the working group. Yet Ofgem thought the case study suggested how exceeded capacity by one customer could trigger reinforcement.
8. Ofgem then alleges (see second sentence in exhibit 3) that the case study critique was “on the grounds that the proposal provided no financial incentive for the customer to seek a higher MIC”. A cursory examination of the case study critique shows this to be a misrepresentation of the scope of the critique. Exhibit 4 shows the titles and main conclusions of each section in the case study critique.

Exhibit 4 Sections in the DCP 161 case study critique (attachment 8 to the change report)

Does the case study establish a need for reinforcement?

4 ... This suggests that the load on the substation is not regularly exceeding the relevant measure of firm capacity. 5. There is no information on how much headroom actually exists between current maximum load levels and the relevant measure of firm capacity.

What is the cost to the DNO of the additional network use in the case study?

7. The case study does not identify any investment or reinforcement cost that is caused by the unauthorised network use.

How does DCP 161 affect the charges for additional network use?

13. Overall, therefore, the additional consumption (over and above agreed capacity) might be bringing additional revenues of the order of £20,000–£40,000 a year to the DNO without DCP 161, and additional revenues of the order of £40,000–£60,000 a year with DCP 161.

Does DCP 161 incentivise the customer to seek a higher maximum import capacity?

14. There is no information in the case study about the costs of reinforcing the network.

17. If the unauthorised use by the customer exceeding its capacity was leading the distributor to make that investment, then use of system charges including exceeded capacity charges, with or without DCP 161, do not come close to funding this investment: £60,000 a year is not an adequate return on a £4.6 million investment. If P2/6 compliance was jeopardised by the excess consumption, then the only reasonable course of conduct open to the DNO

would be to enforce the maximum import capacity (e.g. by fitting current limiting equipment) so as to force the customer to choose between seeking an upgraded connection or reducing its demand.

19. From the exceeding customer's point of view, the economics of seeking an upgraded connection are as follows: (a) Without DCP 161, there is no benefit in seeking an upgraded connection unless the DNO enforces the maximum import capacity. (b) With DCP 161, seeking an additional 4,300 kVA of capacity would save £21,765 a year. But if the DNO considers that reinforcement is necessary, then the likely capital outlay (connection charge) for this is of the order of £430,000. This is a rate of return on investment of only 5 per cent, which is unlikely to be attractive unless the customer is very certain of its long-term electricity needs.

20. Thus, on this example, DCP 161 would probably not provide an effective incentive to contribute to network reinforcement by seeking an upgraded connection.

Does DCP 161 protect the interests of new connectees?

24. Thus, on the example presented above, DCP 161 does not protect the interests of new connectees any better than the status quo ...

Does this matter?

9. The errors noted above might cast some doubt on the efficiency of public expenditure on Ofgem staff salaries, and on the usefulness of contributing to the work of DCUSA working groups, but they do not matter much by themselves as far as the substance of DCP 161 and its impact on customers is concerned.
10. What matters for customers is whether Ofgem's reason for directing implementation of DCP 161 were valid. This will be for another episode.