

Company Secretary
UK Power Networks
Newington House
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London
SE1 6NP

Email: sandbox@ofgem.gov.uk
Case number: ERS004
Date: 30/06/2021

Dear Company Secretary,

Sandbox Consent to not comply with Standard Licence Condition (SLC) 13.1(b) of the Electricity Distribution Licence

This letter sets out the decision of the Gas and Electricity Markets Authority (the "Authority") to grant London Power Networks plc and Eastern Power Networks plc (LPN and EPN respectively) (the "Party"), consent to not comply with SLC 13.1(b) of the Electricity Distribution Licence in relation to the application of their Connection Charging Methodology. The Authority grants this consent subject to the following conditions:

- LPN AND EPN must comply with the requirements of the Common Connection Charging Methodology, except in determining the Cost Apportionment Factors (CAFs) set out in Schedule 22 of the Distribution Connection and Use of System Agreement (DCUSA), paragraphs 1.23-1.28.
- The consent is used only to facilitate connection of on-street Electric Vehicle (EV) charge points, as part of the "Charge Collective" NIA trial ("the Trial").

The consent is effective for two years from commencement of the Trial, or from 1 November 2021, whichever is first.

Background

The [Energy Regulation Sandbox](#) was designed to support innovators in trialling and bringing to market new products, services, methodologies and business models.

The Authority received an application from LPN AND EPN on 26 March 2021 for a derogation from SLC 13.1 of the Electricity Distribution Licence. This derogation would enable LPN AND EPN to undertake an Electricity Network Innovation Allowance (NIA) funded trial called "Charge Collective". The trial aims to increase investment in on-street EV charging infrastructure in 3 Local Authority (LA) areas.

Context

As the rollout of EVs accelerates, it's necessary that the number of public chargepoints available to consumers increases. Public chargepoints connect to the distribution network. However, if the local network is constrained, then additional capacity must be constructed. Under current arrangements, the customer will pay a significant portion of the charges for this work – with the remainder being funded by the Distribution Network Operator (DNO) and recovered through ongoing Distribution Use of System (DUoS) charges. This may disincentivise investors from building public chargepoints in some areas.

Due to the risks arising from uncertainty over the optimum location and size of chargers, which may affect their ability to determine use and income, investors may be unwilling to take on these additional costs. If investment in public charging infrastructure is reduced, it may hinder efforts to reach Net Zero.

The Climate Change Committee (CCC) has called on DNOs to strategically invest in network upgrades to remove this barrier. In response to this, and the coronavirus pandemic, the Electricity Network Association (ENA) proposed that DNOs fully fund the reinforcement costs for public chargepoints. This is a short-term measure, known as the Green Recovery scheme, applying to projects that were ready to be deployed. LPN AND EPN have articulated the need for a more enduring solution to this problem.

The Trial

LPN AND EPN are proposing a change to their methodology for connection charges for the purposes of the Trial. They require consent from the Authority to do this.

Under current rules, the connecting customer's contribution to reinforcement is determined by a Cost Apportionment Factor (CAF). The CAF requires that the connecting customer pays a proportion of the reinforcement that is commensurate with their share of new capacity provided. The innovation proposed by LPN AND EPN involves replacing the CAF with a price-point discovery mechanism. They believe this should identify the optimum level of discount required to encourage investment in on-street public charging infrastructure.

The Trial is intended to take place in the Norwich, Cambridge, and Redbridge LA areas, enabling investment in ~100-1000 on-street public chargepoints.

Our decision

Based on the information provided by LPN AND EPN, Ofgem's assessment, and having regard to our principal objective and statutory duties, the Authority has decided to grant the required consent. It should be noted that LPN AND EPN requested a derogation, but the appropriate form of relief from the Authority is a consent.

We have considered the request in the context of the [Access and Forward Looking Charges Significant Code Review](#) (Access SCR) and will publish a consultation on our proposals for longer-term reform of distribution connection charging soon. If we decide to make any changes under the Access SCR, we expect these will be implemented from 2023. We are satisfied that this Trial can deliver near-term benefits and does not create a conflict with the reforms being considered by the Access SCR.

The reasons for our decision are:

- We consider that the proposed Trial meets the eligibility and desirability requirements of the Energy Regulatory Sandbox, particularly by providing increased levels of EV infrastructure, contributing to the journey to Net Zero.
- The proposal targets on-street charging, an under-invested part of the EV charging market. On-street charging is most likely to be needed by those without dedicated EV charging capabilities, most likely with a higher proportion of consumers in vulnerable situations and less affluent groups than those with access to off-street charging.
- The impact of this Trial is dependent on the number of chargepoints that connect to the network. The Trial will result in more of the cost of reinforcement being recovered through DUoS charges, which are paid by all consumers, including the chargepoint operators themselves. LPN AND EPN have modelled the impact of the trial on DUoS charges, and determined that changes in individual domestic consumer bills as part of the Trial will range from -£0.0033 to +£0.0023 per year, depending on the number of chargepoints installed as a result of the Trial. We consider any potential negative financial impacts of this Trial to be negligible.
- The project will be funded through the innovation allowance available to LPN AND EPN. However, the project's delivery is dependent on temporary relief from the rules to maximise the potential benefits to consumers. The Sandbox brings the required regulatory flexibility, complementing the funding flexibility provided through the NIA.
- Overall, we consider that the methodology proposed has the potential to deliver a more effective mechanism to encourage private investment in on-street EV charging infrastructure. Consumers stand to benefit from increased deployment of EV infrastructure.

Consent

The Authority hereby gives consent that:

- Pursuant to paragraph 13.1 of SLC 13.1(b), LPN AND EPN may disapply the requirements of the Common Connection Charging Methodology (as set out in Schedule 22 of the Distribution Connection and Use of System Agreement (DCUSA), paragraphs 1.23-1.28) in determining the applicable Cost Apportionment Factors (CAFs) attributable to the public EV charge-points supported through this Trial.
- This consent is specific to the LA areas detailed above, and is issued to enable LPN AND EPN to test a price discovery mechanism as an alternate methodology for enabling private investment in public EV charge-points.

Reporting

LPN AND EPN will provide monitoring reports every 6 months from the date of this letter for up to 2 years (or from the date of commencement if later) in a format to be agreed with Ofgem.

To help Ofgem assess the effectiveness and usefulness of the Sandbox service, LPN AND EPN will respond to a digital survey seeking views on the quality and relevance of the services provided.

LPN AND EPN will also complete an evaluation (self-assessed or independent) of the impact of the relevant product, service or methodology covering:

- a) Its effectiveness in meeting the customer's needs and delivering good consumer outcomes.
- b) The key insights gathered affecting the development / delivery of the innovation.
- c) Any insights garnered which are relevant to energy policy and regulation, residing within the spheres of responsibility of the BSC, other Codes, Ofgem, BEIS or another party.
- d) That information the Authority can publish, that which can be used to inform policy development, and that which is commercially confidential, and to be protected.

The evaluation report will be submitted to Ofgem 6 months after the end of the consent in a format to be agreed with Ofgem. This report may be combined with other required reports, if agreed by Ofgem.

If you have any questions about this decision, please contact Ofgem's Innovation Link team, at sandbox@ofgem.gov.uk.

Yours sincerely



Patrick Cassels
Head of Electricity Network Access

Signed on behalf of the Authority and authorised for that purpose.