Direction issued by the Gas and Electricity Markets Authority (the Authority) to the holders of an electricity distribution licence in relation to the Access and Forward-Looking Charges Significant Code Review (the 'Access SCR').

On 18 December 2018 the Authority published a notice[1] pursuant to Standard Licence Condition (**SLC**) 22 of the electricity distribution licence[2] granted under section 6(1)(c) of the Electricity Act 1989[3] that it was commencing a Significant Code Review (**SCR**) in relation to network access and forward-looking charges, setting out the scope of the SCR and the reasons why it considered it to be appropriate.

On 3 May 2022 the Authority published its conclusions on the Access SCR (the **Access SCR Decision[4]**). In that document the Authority indicated it was issuing a Direction to the holders of an electricity distribution licence[5] (the **DNOs**) in relation to the Access SCR.

In accordance with paragraph 22.9E(a) of SLC C22 the Authority hereby directs the DNOs to raise one or more change proposals in the terms and for the reasons set out in the Annex hereto (the **Direction**). The Authority directs that the DNOs raise the necessary change proposal(s) in sufficient time to enable the changes to be effective as of 1 April 2023.

The Authority will consider all DNOs to have collectively complied with this Direction once the changes set out herein are addressed by proposals brought forward by one or more of the DNOs.

This Direction[6], together with the Access SCR Decision, constitute notice pursuant to section 49A (Reasons for decisions) of the Electricity Act 1989.

Patrick Cassels
Head of Distribution Charging Reform
Signed for and on behalf of the Authority
03 May 2022

[1] The full Access SCR launch statement can be found here: https://www.ofgem.gov.uk/sites/default/files/docs/2018/12/scr_launch_statement.pdf
[2] The distribution standard licence conditions are available here: https://epr.ofgem.gov.uk//Content/Documents/Electricity%20Distribution%20Consolidated%20Standard%20Licence%20Conditions%20%20-%20Current%20Version.pdf
[3] The Electricity Act 1989 is available here: https://www.legislation.gov.uk/ukpga/1989/29/contents
[4] Further background to the Access SCR can be found in the Decision published alongside this Direction.
[5] For clarity, in this Direction we use the term "DNOs" to refer to both IDNOs and DNOs, excepting where these groups are subject to specified different treatments.
[6] Unless the context otherwise requires, words or expressions in this Direction have the meaning ascribed to them in the DCUSA.

Annex
Direction issued to DNOs in relation to the Access SCR

The Direction to bring forward proposals to modify the Distribution Connection and Use of System Agreement (the DCUSA)[7] is in relation to distribution connection charging and access rights arrangements.

Reasons for the Direction

1) The reasons for the Direction are set out in the Access SCR Decision and the associated Impact Assessment[8] and should be read in that context. Without prejudice to the generality of the reasoning set out in the Access SCR Decision, and for ease of reference, we refer below to particular elements of that reasoning in relation to specific elements of the Direction.

2) In particular, the Authority considers for the reasons set out in Chapter 3 (Decision on the Distribution Connection Charging Boundary) and Chapter 4 (Decision on Access Rights) of the Access SCR Decision that proposals should be developed to reform the distribution connection charging and access rights provisions.

3) These reforms are to ensure that electricity networks are used efficiently and flexibly, reflecting users' needs and allowing consumers to benefit from new technologies and services while avoiding unnecessary costs on energy bills in general. We consider that these changes will reduce barriers to entry and support the transition to net zero.[9]

Terms of the Direction

4) The Authority hereby directs that the DNOs must raise one or more proposals to modify the DCUSA (the **Proposal(s)**) in accordance with the terms specified in this Direction in sufficient time to enable the Proposal(s) to be effective as of 1 April 2023. We consider that this timescale may warrant treatment of the Proposal(s) as urgent[10] to enable these changes to come into effect by 1 April 2023. The DNOs must not withdraw such Proposal(s) unless it has first obtained the Authority's consent to do so.

5) Consistent with the reasons for the Direction specified in the Access SCR Decision and in alignment with the objectives of the Access SCR, the terms of this Direction are intended to enable the DNOs and industry to bring forward relevant proposals to modify the DCUSA under the Proposal(s) with a view to addressing the respective points identified below.

6) The connection charge boundary interacts with the Electricity (Connection Charges) Regulations 2017 (the ECCR), which requires legislative change to give effect to these

[7] The latest version of DCUSA (currently v14.1) is available here: https://www.dcusa.co.uk/dcusa-document/
[8] For more detail please refer to the Impact Assessment published alongside this Direction.
[9] In accordance with the Access SCR objectives and guiding principles, as set out in the Access SCR Decision paragraph 2.28.
[10] In accordance with the relevant code procedures and Ofgem guidance on code modification urgency criteria, available here: https://www.ofgem.gov.uk/publications/ofgem-guidance-code-modification-urgency-criteria-0

DCUSA changes. We do not anticipate that the Authority would be able to approve the relevant DCUSA change Proposal(s) raised pursuant to this Direction before the required legislative changes. This may result in a delay to the implementation of this Direction by 1 April 2023.

General requirements

7) In preparing the Proposal(s), the DNOs must:

   i) include such changes to the DCUSA and any other associated provisions as required as a result of the Proposal(s).
   ii) have regard to (and to the fullest extent practicable comply with) the guiding principles of the Access SCR as defined in paragraph 2.28 of the Access SCR Decision.

8) In order to ensure that the Proposal(s) is/are capable of implementation by 1 April 2023, the Authority directs the DNOs to present a detailed plan no later than 31 May 2022, or such later date with the approval of the Authority. This plan should set out how they intend to work with other DNOs and other relevant industry stakeholders to ensure that the Proposal(s) is/are submitted to the Authority for decision no later than 31 October 2022, or such later date with the approval of the Authority.

9) For the avoidance of doubt, the Proposal(s) put forward by the DNOs pursuant to this Direction are intended to facilitate and not preclude (a) any further consideration of the relevant issues (b) development of the Proposal(s) under the DCUSA Change Process so that it addresses the issues identified above in a way that better achieves the purposes and objectives of the Proposal(s) as set out in this Direction.

10) In addition to the Proposal(s), the DNOs must raise any such consequential proposals for changes to the DCUSA or other industry codes (to the extent the DNOs are able to raise modifications to such codes), as are required for the purpose of giving effect to this Direction.

11) In order to keep the Authority appraised of progress under this Direction (in particular, but not limited to progress against the detailed plan referred to in paragraph 8 above), the Authority directs the DNOs to advise it (in a timely manner) of potential issues arising which could prevent the Proposal(s) being effective as of 1 April 2023 along with information as to its proposed steps to address any such issues.

Distribution connection charge boundary[11]

12) Reforms to distribution connection Cost Allocation rules[12] as defined in the Common Connection Charging Methodology (CCCM) under DCUSA Schedule 22[13] are explained under 'Details of our Decision' in Chapter 3 of the Access SCR Decision (Decision on the Distribution Connection Charging Boundary), specifically in the following sections:

   i) 'Definition of Demand and Generation Connections', paragraphs 3.37 – 3.42

[11] Reforms set out under 'Distribution connection charge boundary' pertain to Part B of Electricity Distribution Standard Licence Condition 13A, which does not apply to IDNOs.
[12] Informally referred to as the distribution connection charge boundary in the Decision
[13] DCUSA Schedule 22 (the CCCM) is available here: https://www.dcusa.co.uk/dcusa-document/

ii) 'DUoS mitigations: the high-cost cap', paragraphs 3.50 – 3.67
iii) 'DUoS mitigations: speculative developments', paragraphs 3.68 – 3.79

13) The Proposal(s) must set out definitions of:

i) Demand Connection which should encompass all connections which would be classed as a Final Demand Site for the purposes of Schedule 32 of the DCUSA[14], and any other terms considered necessary for purposes of connection charging.
ii) Generation Connection which should encompass all connections which would not be classed as a Final Demand Site for the purposes of Schedule 32 of DCUSA, including Non-Final Demand Sites, and any other terms considered necessary for purposes of connection charging.
iii) Generation high-cost project threshold[15] set at £200/kW, calculated using Reinforcement at the voltage at Point of Connection plus the voltage above, which will supersede the informal definition in DCUSA Schedule 22 Clause 1.15.
iv) Demand high-cost project threshold set at £1720/kVA, calculated using Reinforcement at the voltage at Point of Connection plus the voltage above.
v) Any additional terms considered necessary to give effect to this Direction.

14) The Proposal(s) should result in cost allocation for Generation Connections as follows:

i) The costs of Reinforcement at the voltage of the Point of Connection should be apportioned between the customer and the DNO using the existing cost apportionment factor methodology set out in the CCCM[16], excepting where the Generation high-cost project threshold is exceeded, or where other exceptions[17] apply.
ii) Where the Generation high-cost project threshold is exceeded, the sum of Reinforcement costs at the voltage of the Point of Connection and the voltage above in excess of the threshold should be paid in full by the customer. Reinforcement costs below the threshold should be apportioned between the customer and the DNO using the existing cost apportionment factor methodology set out in the CCCM, including where these costs are at the voltage above the Point of Connection.
iii) For the avoidance of doubt, Reinforcement costs at one or more voltages above the Point of Connection should be paid in full by the DNO, and the cost of Extension Assets will continue to be paid in full by the connecting customer.
iv) The above cost allocations will be superseded where exceptions apply.

15) The Proposal(s) should result in cost allocation for Demand Connections as follows:

[14] DCUSA Schedule 32 is available here: https://www.dcusa.co.uk/dcusa-document/
[15] A high-cost project threshold for generation is defined for generation in DCUSA Schedule 22, Clause 1.15, and is informally referred to as a high-cost cap or HCC in the Access SCR Decision.
[16] The existing cost apportionment factor methodology is set out in DCUSA Schedule 22, Clause 1.23
[17] By way of example, but not limited to, the treatment of Speculative Developments, as outlined in paragraph 16 of this Direction.

i) The cost of Reinforcement should be paid in full by the DNO, excepting where the Demand high-cost project threshold is exceeded, or where other exceptions[18] apply.
ii) Where the Demand high-cost project threshold is exceeded, the sum of Reinforcement costs at the voltage of the Point of Connection and the voltage above in excess of the threshold should be paid in full by the customer. Reinforcement costs below the threshold will be paid in full by the DNO, including where these costs are at the voltage above the Point of Connection.
iii) For the avoidance of doubt, the cost of Extension Assets will continue to be paid in full by connecting customers.
iv) The above cost allocations will be superseded where exceptions apply.

16) The Proposal(s) should include amendments to the description of Speculative Developments, as defined in the CCCM.[19] These amendments should include consideration of the following:

i) Greater clarity on the characteristic "the capacity requested caters for future expansion rather than the immediate requirements of (an) end user(s)", provided through clearer indication of the information required to determine whether the connection should be treated as speculative.
ii) Greater clarity on the characteristic "the capacity requested caters for future speculative phases of a development rather than the initial phase(s) of the development", provided through clearer indication of what constitutes a "speculative phase" or an "initial phase", and what information is required to determine this distinction. This should include clarification that phased developments are not always treated as speculative developments where the customer can provide sufficient relevant evidence.
iii) Consideration of introducing a methodology for connections with planned phases or future expansion which would otherwise be deemed speculative, where a case can be made for the cost efficiency and wider network benefit.

17) The Proposal(s) should ensure that:

i) Terms are reflected throughout Schedule 22 (the CCCM) of the DCUSA, including worked examples.
ii) For the avoidance of doubt, the following terms will continue to reflect their current purpose under the new connection charging boundaries:
    a) Three phase connections
    b) The Minimum Scheme
    c) An Enhanced Scheme
    d) Point of Connection

Non-firm Access Rights

18) Reforms to the definition and choice of access rights are explained under 'Details of our Decision' in Chapter 4 of the Access SCR Decision - Decision on Access Rights (in the case for change section), specifically in the following sections:

[18] By way of example, but not limited to, the treatment of Speculative Developments, as outlined in paragraph 16 of this Direction.
[19] The treatment of speculative developments is set out in DCUSA Schedule 22, Clause 1.39.

i) 'The definition of curtailment', paragraphs 4.35 – 4.44
ii) 'Setting curtailment limits', paragraphs 4.45 – 4.47
iii) 'Obligations on the network operator if curtailment is required above accepted limits', paragraphs 4.48 – 4.62
iv) 'End dates for curtailable access', paragraphs 4.63 – 4.75

19) The Proposal(s) must set out a definition of Curtailment which captures any action taken by the network operator to restrict a user's access to the distribution system, explicitly excluding interruptions caused by a fault or damage to the distribution system which results in loss of supply to the customer, and excluding distribution network actions resulting from constraints on the transmission network.

20) The Proposal(s) should include restrictions on the circumstances in which a connection offer can include a provision for Curtailment, referred to here as a Curtailable Connection. Those circumstances must include:

    i) A Curtailable Connection is only offered where the network operator has identified a requirement for Reinforcement to facilitate a connection
    ii) A Curtailable Connection is not available to small users, which should capture households and non-domestic users that are billed on an aggregated and non-site-specific basis or who are metered directly using whole current meters, and is not available to unmetered users.
    iii) A Curtailable Connection offer should be accompanied by supporting information on the expected costs of the counterfactual non-Curtailable Connection, to enable the customer to make an informed decision.

21) The Proposal(s) should set out a standardised approach to the application of parameters which would apply to connection offers for Curtailable Connections, including:

    i) The capacity that is curtailable, which could be anything up to and including the full capacity requested by the customer ("Curtailable Capacity").
    ii) Calculating the number of hours for which a customer has been subject to Curtailment, as the number of hours the customer has been curtailed multiplied by proportion of Curtailable Capacity which was Curtailed ("Curtailment Hours")
    iii) Setting a limit on the maximum number of Curtailment Hours ("Curtailment Limit") which should:
        a) be applied in respect of Curtailment Hours over a rolling 12-month period.
        b) be set by the DNO via a defined process on the basis of maximising network benefit, taking into account network availability and forecast time-profiled levels of demand/generation associated with the relevant network constraint, as well as a probabilistic assessment of the level of Curtailment required.
        c) be applied consistently across all network operators.
    iv) The steps the network operator must take in order to avoid exceeding the Curtailment Limit, namely the provision of required network capacity or the procurement of flexibility in line with the requirements of Electricity Distribution Standard Licence Condition 31E.

v) The steps which will be taken if the network operator is unable to avoid exceeding the Curtailment Limit, including specifying requirements for notifications from the network operator to the customer prior to exceeding the Curtailment Limit, and payments to the customer at a set price ("Exceeded Curtailment Price") when the Curtailment Limit is exceeded. The Exceeded Curtailment Price should:
   a) be sufficiently high so that network operators are disincentivised to exceed the Curtailment Limit.
   b) be markedly higher than contracted market prices of flexibility in the licence area under the requirements of SLC 31E, or the cost of Reinforcement required to provide a connection where contracted market prices are unavailable.
   c) be calculated consistently across all network operators.

vi) The date by which the provisions of the Curtailable Connection will cease ("End Date"), and at which point the user will be provided firm access on their full requested capacity. If the customer requests enduring non-firm access, then the Curtailable Connection arrangements will endure.

22) The Proposal(s) should be based on several principles:

i) The process should be as simple as possible whilst achieving the Direction's stated objectives.

ii) The processes implemented must be common to all DNOs and be repeatable.

iii) Limits accepted by customers will be included in both their Curtailable Connection offer and connection agreement.

iv) Customers subject to Curtailment will receive regular reporting on the level of curtailment relative to their accepted limits.