

Proposed modification:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP167 and DCP167A – Additional Example(s) For The Common Connection Charging Methodology To Illustrate 'Remote Reinforcement' And 'Network Reconfiguration'</b>		
Decision:	The Authority <sup>1</sup> directs that modification DCP167 be made <sup>2</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	15 October 2014	Implementation Date:	Next DCUSA release following Consent

## Background to the modification proposal

Under the Standard Licence Conditions (SLCs) of the Electricity Distribution Licence, Distribution Network Operators (DNOs) are required to have a Methodology and a Charging Statement in place covering network connections activities. These requirements are met by the DNOs developing and applying a Common Connections Charging Methodology (CCCM) which is common to all DNOs and is subject to open governance change under the DCUSA.

The Energy Networks Association (ENA) Commercial Operations Group Connections Sub Group (COG CSG) identified a gap in the existing CCCM regarding the explanation of charging arrangements in cases where a remote part of the network is being reinforced in order to transfer existing demand or generation to provide for a new connection. The COG CSG considered that CCCM should be clarified, to illustrate how connection charges are calculated where it is proposed to carry out 'remote reinforcement' or 'network reconfiguration'.

## The modification proposal

DCP167 was raised by Eastern Power Networks (the 'Proposer') in February 2013 to progress the COG CSG proposals. An alternative proposal, DCP167A, was raised following discussions at the Working Group assessing DCP167.

DCP167 proposes to introduce two additional examples to the CCCM:

- Example 8C 'Connection of housing development with remote network Reinforcement'; and
- Example 8D 'Connection of housing development with load transfer'

The examples illustrate the calculation of connection costs under the CCCM where, respectively, remote reinforcement and network reconfiguration are carried out. DCP167 also proposes to amend the CCCM to clarify that the two new worked examples are for illustration purposes only.

Under the CCCM, the costs for reinforcement works are shared between the connecting customer and the DNO. In order to calculate the proportion of costs to be charged directly to the customer, the DNOs apply a Cost Apportionment Factor (CAF). Other costs will be charged in full to the connecting customer (the costs of extension assets).

In Example 8C, the CAF is applied in a way that clarifies that the network has been reinforced and so costs are apportioned between the customer and the DNO. However, under Example 8D, all costs are charged directly to the connecting customer. This is

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

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

because reconfiguring the network in order to transfer load and release capacity is not considered to be reinforcement as no new network capacity is being created.

The Proposer identified DCP167 as facilitating the DCUSA general objectives 3.1.1 and 3.1.3 as well as DCUSA charging objective 3.2.1.

A DCUSA Working Group to assess the proposal was established with the participation of DNOs, Ofgem and other (non-DCUSA) parties whose work involves electricity network connections. The Working Group met on six occasions over the course of one year to consider the proposal.

The majority of Working Group members supported the general principle of DCP167 and the two proposed new examples. However, some Working Group members disagreed with Example 8D and considered that network reconfiguration is a form of reinforcement to which the CAF should be applied. As a result, one Working Group member raised an alternate proposal, DCP167A. DCP167A differs from DCP167 only with respect to Example 8D and applies the CAF to network reconfiguration.

### DCUSA Parties' recommendation

The Change Declaration for DCP167 and DCP167A indicates that all parties were eligible to vote on DCP167 and DCP167A. In each party category where votes were cast (no votes were cast in the IDNO/OTSO, Supplier or DG party categories)<sup>3</sup>, there was unanimous support for DCP167 and for its proposed implementation date. All of the votes cast in the DNO party category rejected DCP167A. In accordance with the weighted vote procedure, the recommendation to us is that DCP167 is accepted and DCP167A is rejected. The outcome of the weighted vote is set out in the table below:

DCP167	WEIGHTED VOTING (%)							
	DNO <sup>4</sup>		IDNO/OTSO <sup>5</sup>		SUPPLIER		DG <sup>6</sup>	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	n/a	n/a	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	100	0	n/a	n/a	n/a	n/a	n/a	n/a

DCP167A	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	0	100	n/a	n/a	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	100	0	n/a	n/a	n/a	n/a	n/a	n/a

### Our decision

We have considered the issues raised by the proposal and in the Change Report dated 22 August 2014. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration dated 10 September 2014. We have concluded that:

- implementation of change proposal DCP167 will better facilitate the achievement of the DCUSA charging objectives<sup>7</sup>; and

<sup>3</sup> There are currently no gas supplier parties.

<sup>4</sup> Distribution Network Operator.

<sup>5</sup> Independent Distribution Network Operator/Offshore Transmission System Operator.

<sup>6</sup> Distributed Generation.

<sup>7</sup> The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA. The DCUSA Charging Objectives are set out in Clause 3.2 of the DCUSA.

- directing that the change is approved is consistent with our principal objective and statutory duties.<sup>8</sup>

### **Reasons for our decision**

We consider that proposal DCP167 better facilitates DCUSA charging objective 3.2.1, and has a neutral impact on the other DCUSA objectives. We note that the proposer also considers that DCP167 better facilitates DCUSA general objectives 3.1.1 and 3.1.3. However, as DCP167 and DCP167A only suggest amendments to the CCCM, we will only be assessing the proposals against the relevant DCUSA charging objectives.

#### ***DCUSA Charging Objective 3.2.1 'that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence'***

The Working Group and a majority of respondents considered that charging objective 3.2.1 is better facilitated by DCP167. In our view, by clarifying the CCCM and ensuring its consistent application, DCP167 will help DNOs fulfil their obligations under SLCs 13 and 14 of the Electricity Distribution Licence.

Under their Standard Licence Conditions, DNOs are required to have the CCCM in place. DCP167 clarifies how the CCCM should be applied in situations where remote reinforcement and network reconfiguration are carried out. In addition to improving clarity for both customers and DNOs, we also consider that DCP167 promotes efficient and coordinated networks through a consistent approach to charging.

We consider that DCP167A goes further than clarifying within DCUSA how charges are calculated in cases of network reconfiguration; it proposes to change the current approach to calculating these charges. DCUSA defines 'Reinforcement' and 'Extension Assets' as follows:

- 'Reinforcement' is defined as 'assets installed that add capacity (network or fault level) to the existing shared use Distribution System'. The CAF applies to reinforcement<sup>9</sup>; and
- 'Extension Assets' is defined as 'assets installed to connect a party or parties to the existing distribution network but which exclude Reinforcement assets'. The cost of extension assets are charged in full to connecting customers.<sup>10</sup>

Example 8D in DCP167A differs from Example 8D in DCP167 by treating Extension Assets as reinforcement assets and applying the CAF to calculate charges. This is not consistent with the definitions of 'Reinforcement' and 'Extension Assets' and the current CCCM. Reconfiguration of the network to reallocate spare capacity may, from the perspective of the connecting customer, have the same effect as network reinforcement. However, from a system perspective, no new capacity is being created.

We consider that DCP167A constitutes a departure from current arrangements by suggesting that Extension Assets should, in some situations, be treated as reinforcement assets for the purpose of charging. Any such change in charging policy would require more supporting evidence before it can be implemented. We have not been provided with sufficient evidence at this stage to assess if this change in approach would better facilitate the DCUSA charging objectives.

<sup>8</sup> The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

<sup>9</sup> Schedule 22 para 1.16 of the DCUSA.

<sup>10</sup> Schedule 22 (Glossary of Terms) in the DCUSA.

We note the argument put forward by those supporting DCP167A that there is an inconsistency in the way certain assets are treated in Examples 8C and 8D of DCP167. The proponents of DCP167A consider that the CAF is applied to certain assets in Example 8C which in themselves do not add capacity to the network. However, we consider that these joints are necessary for the reinforcement work and contribute to adding capacity to the network.

We therefore consider that charging objective 3.2.1 is better facilitated by DCP167. We have not been provided with sufficient evidence that DCP167A better facilitates the objectives.

### **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP167: *'Additional Example(s) For The Common Connection Charging Methodology To Illustrate 'Remote Reinforcement' And 'Network Reconfiguration''* be made.

**Andy Burgess**

**Associate Partner – Transmission and Distribution Policy**

Signed on behalf of the Authority and authorised for that purpose