

Proposed variation:	<b>Amendment to Northern Powergrid’s<sup>1</sup> Connection Charging Methodology and Statement including Updates for Competition in Connections Code of Practice; Competition Test Changes to Margin in Connection Offers; and full implementation of DCUSA Change Proposal 190</b>		
Decision:	The Authority’s <sup>2</sup> decision is that this modification <sup>3</sup> is not vetoed <sup>4</sup>		
Target audience:	Distribution Network Operators (DNOs), Independent Distribution Network Operators (IDNOs), Independent Connection Providers (ICPs) and other interested parties		
Date of publication:	23 February 2016	Implementation date:	As soon as practical after Ofgem decision

## Background

In accordance with standard licence condition (SLC) 13 of the Electricity Distribution Licence (the Licence’), Distribution Network Operators (DNOs) are required to have in force at all times a Connection Charging Methodology (‘the methodology’) which has been approved by us.

Since 1 October 2010 the DNOs’ methodologies have contained a section common to all DNOs (the Common Connection Charging Methodology or CCCM) and a section specific to each DNO (Company Specific Connection Charging Methodology). These form sections 5 and 6 of each DNO’s methodology. Each DNO must review their methodology at least once a year and make any modifications necessary for the purpose of better achieving the relevant objectives.

Amendments to the methodology are required to reflect changes in the arrangements for new connections.

The Competition in Connections Code of Practice<sup>5</sup> (COP) came into effect on 30 October 2015. This requires amendments to a DNO’s methodology to indicate that ‘point of connection determination’ and ‘design approval’ may be carried out by an Independent Connections Provider (ICP) as described in the COP.

DCP190<sup>6</sup> was approved by us on 24 March 2015 and implemented from 1 April 2015. This amendment (to section 5.33 of the CCCM) allows customers to receive a credit where there is a net value in the equipment recovered from the disconnection of a temporary connection. It also permits each DNO to specify a de minimis value for this credit in their Company Specific Connection Charging Methodology. This is to ensure that credits are not provided in those circumstances where it would be uneconomical to do so, for example where administrative costs are higher than the amount refunded to the customer.

<sup>1</sup> Northern Powergrid holds two distribution licenses – Northern Powergrid (Northeast) PLC and Northern Powergrid (Yorkshire) PLC.

<sup>2</sup> References to the “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>3</sup> ‘Change’ and ‘modification’ are used interchangeably in this document.

<sup>4</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/our-decision-approve-revised-competition-connections-code-practice>

<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/distribution-connection-and-use-system-agreement-dcusa-dcp190-and-dcp190a-credit-equipment-recovery-associated-temporary-connections>

Distribution Price Control Review 5 (DPCR5) introduced measures to incentivise DNOs to facilitate competition in connection services. This is referred to as the Competition Test. The margin a DNO is permitted to charge in different segments of the market depends on the extent to which they can demonstrate that there is effective competition. In 2012 we approved the inclusion of a table in all DNO Company Specific methodologies detailing the margin arrangements in each market segment. These tables are updated as and when a DNO can demonstrate there is effective competition and therefore passes the Competition Test.

Each DNO's Connection Charging Methodology and Statement also includes additional information (eg sections 1 to 4, 7 and 8) which a DNO considers may be useful to connection customers. This includes general information about the DNO and its procedures. It is practical to update this information from time to time, and these updates can be made at the same time as changes to sections 5 and 6. SLC13 does not require our approval for updates of this type of information.

### **Northern Powergrid's modification proposal**

On 18 December 2015 Northern Powergrid submitted a proposal for changes to its Company Specific methodology in accordance with SLC 13.4. The proposal is to make the following changes to its methodology to reflect the implementation of the COP:

- additional wording in paragraphs 6.3 and 6.4 to explain that ICPs can carry out certain works in accordance with the COP
- a new paragraph 6.5 which explains the Operational Access arrangements in accordance with the COP. Additional references to this paragraph have also been added in Section 6
- changes to paragraphs 6.7 and 6.8 to explain the revised inspection and monitoring regime
- deletion of the words "at your discretion" in paragraph 6.10 to clarify that the ICP or the developer can be the customer
- change to paragraph 6.11 to reflect that there will not be a direct charge for design approval
- a new paragraph 6.15 which clarifies the circumstances where a diversion associated with a connections project can be carried out by an ICP
- changes to the Table of Contestable/Non-Contestable Work in paragraph 6.19 to reflect the COP arrangements.

Northern Powergrid also proposes to add a new paragraph 6.31 setting out the de minimis level with respect to credit for equipment recovered following the disconnection of a temporary connection.

In addition to the above Northern Powergrid proposes to amend its methodology to reflect the following:

- update the table in paragraph 6.30 (Margin included in Connection Offers) to reflect passing the competition test<sup>7</sup> in the HV work market sector.
- amend paragraphs 2.5 and 3.9 by changing "three months" to "sixty five working days" to reflect SLC12.<sup>8</sup>

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<sup>7</sup> The Competition Test assessment process enabled DNOs to apply to us to have price regulation lifted if they can demonstrate that competition is sufficiently effective to constrain prices in its absence.

<sup>8</sup> SLC12 (Requirement to offer terms for use of system and connection) includes setting out the period within which the licensee must offer terms on receipt of a completed application for connection. The period set out in SLC12 under the RII0-ED1 licence (from 1 April 2015 – 31 March 2023) changed from that of the previous price control period (DPCR5) and necessitated an update to the CCMS.

Northern Powergrid considers that the changes better achieve Relevant Objective<sup>9</sup> 13.3(b) as it allows compliance with its obligations under the COP by providing clarity on the activities ICPs can carry out and to provide details of the inspection and monitoring regime, and also reflects the competitive environment in the HV work market sector. Northern Powergrid also considers that the changes better achieve Relevant Objective 13.3(c) as it provides clarity on what it considers is the reasonable cost of determining whether the equipment used for a temporary connection can be reused, calculating any refund due and processing any credit payment.

### **Reasons for our decision**

We have decided **not to veto**<sup>10</sup> Northern Powergrid's proposed modifications to the Statement of Methodology and Charges for Connection for each of its licenced distribution networks. In coming to this decision, we have considered the proposed modifications against the relevant objectives and our principle objectives and wider duties.<sup>11</sup>

We have made this decision on the basis that UPKN's proposals better achieve Relevant Objectives 13.3 (b) and (c). The reasons for this decision are set out below.

#### ***Relevant Objective 13.3 (b) – that compliance with the methodology facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity***

On 16 July 2015 we published our decision to approve the COP. We stated that we expect DNOs to be able to comply with the new licence condition from the date of its implementation, and that DNOs should take actions to ensure compliance with processes outlined in the COP.

We consider that the changes to its methodology proposed by Northern Powergrid constitute such actions, and that these changes will better facilitate competition by addressing potential barriers to competition. BY updating the Table in paragraph 6.30 to reflect passing the Competition Test in the HV work market segment Northern Powergrid provides additional clarity that it is permitted to charge an unregulated margin in this sector of the market. This reflects our assessment that there is now a sufficient level of effective competition for this type of work and that continuing to apply a regulated margin may itself distort competition.

#### ***Relevant Objective 13.3 (c) – that compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business***

We consider that the change proposed by Northern Powergrid (to introduce paragraph 6.31 setting out this de minimis value) is consistent with the arrangements introduced through DCP190. It provides clarity on what Northern Powergrid considers is the reasonable cost of determining whether the equipment used for a temporary connection can be reused, calculating any refund due and processing any credit payment, and results in credits received by customers which more accurately reflect the costs incurred by the DNO.

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<sup>9</sup> Relevant Objectives in relation to the Charging Methodology are set out in SLC13.3 and in the section on 'reasons for our decision'

<sup>10</sup> Our decision not to veto this modification proposal does not in any way constitute any form of approval, guidance or comfort in respect of the DNO's compliance with competition law

<sup>11</sup> The Authority's statutory duties are detailed mainly in the Electricity Act 1989 (as amended) as well as arising from European Union legislation.

## **Timetable for implementation**

Northern Powergrid intends to implement the proposed changes contained in this modification proposal in February 2016, as soon as practical after receiving our decision.

If you have any questions relating to the issues discussed in this letter please contact Lesley Ferrando on 0207 901 1808 or [Connections@ofgem.gov.uk](mailto:Connections@ofgem.gov.uk).



**James Veaney**  
**Head of Connections and Constraint Management**  
**Energy Systems**

Signed on behalf of the Authority and authorised for that purpose