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for energy consumers

To generators, distribution and transmission network operators, suppliers, electricity customers, and other interested parties

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Dear Stakeholder

Consultation on a derogation request from WPD from Standard Licence Conditions (SLC) 13.1 and 14.15 of its Electricity Distribution Licence

As part of our 'Quicker and more efficient connections'¹ work, we are keen to identify mechanisms to enable customers to connect to the network more efficiently. We are aware that at present a barrier to the connection of Distributed Generation (DG) customers can be the 'High Cost Cap' (HCC).

Western Power Distribution (WPD) has applied for a derogation under SLC 13.1 and 14.15 of its licence to allow them to not apply the HCC when the following conditions are met:

- (i) where WPD has identified a group of DG customers applying for connections in the same part of the network; and
- (ii) the aggregate total capacity required (**Minimum Capacity**) – and accepted in Section 22² connection offers - is less than £200/kW and therefore does not trigger the HCC.

We provide a summary of the proposal below and more detail is provided in WPD's submission to us (published as an associated document to this open letter). We are consulting on this proposal as it is the first derogation of this nature that we have received and we would welcome your views before making a decision.

Background to the proposal

In accordance with SLC 13 Distribution Network Operators³ (DNOs) have developed a Common Connection Charging Methodology (CCCM). This seeks to provide cost-reflective distribution connection (and associated) charges for customers across Great Britain (GB). This approach encourages efficient use of network assets, hence limiting the costs to consumers of reinforcements.

¹ <https://www.ofgem.gov.uk/ofgem-publications/93479/quickerandmoreefficientdistributionconnections-final-pdf>

² A Section 22 connection offer is a special agreement with respect to connections. An agreement under Section 22 establishes the rights and liabilities of the parties, rather than these being provided by Section 16-21 of the Electricity Act. In this instance it would allow WPD to issue a connection offer that takes account of the aggregate requirements of all the DG customers in a group and apportion the reinforcement costs amongst them.

³ DNOs are Distribution Services Providers as defined in SLC 1 of the electricity distribution licence.

Section 5 of the CCCM gives the method for calculating a customer's connection charge. The connection charge is split into three categories:

- (a) Costs paid in full by the Customer;
- (b) Costs apportioned between a DNO and the Customer; and
- (c) Costs paid by the Customer in respect of works that have previously been constructed (or are committed) and are used to provide the new connection.

Paragraph 5.15 of that section⁴ states that; *"For generation connection only, reinforcement costs in excess of the high-cost project threshold of £200/kW shall be charged to you [i.e. the Customer] in full as a Connection Charge."*

This rule is known as the "£200/kW rule" or the High Cost Cap (the HCC). Reinforcement costs that do not trigger the HCC are apportioned between connecting customers and the DNO (recovered from the wider customer base).

In practice, the HCC applies to the first generation customer who accepts a connection offer that triggers the HCC on a section of the network. When this happens the customer at the front of the queue faces significant – sometime prohibitive - costs, which can prevent them from proceeding. If they do not connect, then the next customer who moves to the front of the queue then faces the same issue.

The HCC was introduced to protect Distribution Use of System (DUoS) customers from subsidising reinforcement for projects where costs are in excess of £200/kW.

Summary of proposal

WPD want to run trials where the HCC will be dis-applied in the following conditions -

- on areas of its network where it has identified a number of DG connection applications and the HCC would be triggered for each scheme that made a separate application; and
- the cost of reinforcement to meet the combined capacity of all those DG customers would be less than £200/kw (the amount of capacity required to bring reinforcement costs below £200/kw is defined as the '**minimum capacity**').

Once the minimum capacity has been reached, the total cost of reinforcement will be apportioned between the connecting customers and the DNO.

For DG customers in these schemes, the reinforcement costs apportioned to them will be recovered from the group in proportion to the capacity required in their connection offer. These arrangements will be set out in their Section 22 agreement.

Customers participating in these arrangements would sign up to an indemnity for their full contribution towards their apportioned share of the reinforcement costs. In the event that one of these customers drops out of the process and as a result, the revised aggregate capacity falls below the HCC threshold, the additional costs are covered by the indemnity, rather than the wider customer base.

It will be entirely voluntary for customers to enter these arrangements and at all times a customer will be entitled to request a connection under Section 16. If the Minimum Capacity has been met by DG customers accepting Section 22 offers, any DG customers

⁴ <https://www.westernpower.co.uk/docs/connections/Charging-Statements/Connections-West-Midlands-Nov-2014-doc.aspx>

who did not sign up to this agreement (and have accepted a Section 16 offer) cannot then benefit from the disapplication of the HCC.

Reasons for derogation

The derogation will allow for these arrangements to be trialled. WPD believe that if it is successful these arrangements could provide a fairer apportionment of costs between DG customers requiring capacity in the same part of WPD's network, but without exposing the wider customer base to additional costs.

Scope and duration of the derogation

It is requested that the derogation is granted for a period of six years in each of their four licence areas. WPD believe this will allow them to make a sufficient number of offers to meet the Minimum Capacity required to make the scheme viable. The derogation period also ensures that WPD is better able to re-offer capacity to customers, should accepted connection schemes cancel and release some of the capacity created by the reinforcement.

Reporting

If this derogation were to be granted, we would expect WPD to report annually on the following:

- (i) The costs of connection for DG customers accepting Section 22 connection offers under the derogation vs the costs of the original Section 16 connection offers.
- (ii) The acceptance rate of Section 22 connection offers made.
- (iii) Any costs associated with reinforcement for these schemes that could not be recovered from DG customers participating in the scheme (and reasons why not).

Post-derogation implementation

If the trial is successful, it is proposed that the CCCM is amended so that the aggregate capacity offers can be made in compliance with Standard Condition 13.1 of the Electricity Distribution Licence.

Your views

We would be very interested in any views you may have on this derogation, in particular on the benefits it may deliver and any associated risks or downsides. We would also be interested in your views on the scope, duration and proposed reporting requirements that we have outlined above.

Please provide your response by **6 January 2017** to connections@ofgem.gov.uk

If you would like to discuss this issue further, please contact Olivia Powis (olivia.powis@ofgem.gov.uk).

Yours faithfully,



James Veaney
Head of Electricity Connections and Constraint Management