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Dear Mike

Decision to approve the Statement of Methodology and Charges for Connection to the Electricity Distribution Systems of the Electricity Network Company Limited and Independent Power Networks Limited

This letter describes our¹ decision to approve the Statement of Methodology and Charges for Connection to the Electricity Distribution Systems of the Electricity Network Company Limited and Independent Power Networks Limited ('the Companies')².

Background

In accordance with standard licence condition ('SLC') 13 of the Electricity Distribution Licence ('the Licence'), all Independent Distribution Network Operators (IDNOs) are required to have in force at all times a Connection Charging Methodology ('CCM') which has been approved by us on the basis that it achieves the Relevant Objectives.³

Each IDNO must also review their methodology at least once a year and make any modifications necessary for the purpose of better achieving the Relevant Objectives.

The Distribution Connection and Use of System Agreement (DCUSA) contains the Common Connection Charging Methodology ('CCCM').⁴ The CCCM applies to Distribution Network Operators (DNOs)⁵ but not IDNOs. It sets out a common approach to connections charging and has been assessed based on achieving the Relevant Objectives. Within the CCCM, there is a section where each DNO can provide details of company-specific connection charging arrangements.

The approval process

In February 2016, you first submitted your proposed CCM to us for approval. Following discussions and revisions over the course of 2016, in February 2017 we issued a consultation⁶

¹ 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.

² <https://www.gtc-uk.co.uk/docs/default-source/regulation---etcl---connection-charging-statement/statement-of-methodology-and-charges-for-electricity-connections.pdf>

³ These Relevant Objectives are set out in SLC 13.3 of the Distribution Licence:
<https://epr.ofgem.gov.uk/Content/Documents/Electricity%20Distribution%20Consolidated%20Standard%20Licence%20Conditions%20-%20Current%20Version.pdf>

⁴ Schedule 22 of the DCUSA
<https://www.dcuda.co.uk/DCUSA%20Document%20Public%20Version/DCUSA%20Schedule%2022%20v9.2.pdf>

⁵ Distribution Service Providers (DSPs) are required to comply with the CCCM - this means any Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence have effect (whether in whole or in part). It includes DNOs but does not include IDNOs.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/consultation-gtc-s-statement-methodology-and-charges-connection-electricity-distribution-system>

on your proposed CCM. After considering the responses received, you agreed to make amendments to the content of certain sections of the document and to align its format with that of DNOs' CCMs.

Our decision

In making our decision, we have considered whether your CCM reasonably achieves the Relevant Objectives as described in SLC 13.3:

- 13.3 (a) - that compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence;
- 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
- 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
- 13.3 (d) - that, so far as is consistent with 13.3 (a), (b), and (c), the methodology, as far as is reasonably practicable, properly takes account of developments in the licensee's Distribution Business
- 13.3 (e) - compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

We have taken account of the extent to which your proposed methodology mirrors the existing CCCM used by DNOs and which we have previously approved. We note though that whilst SLC 13.1 (b) prescribes that all licensees should have a CCM approved by us in place at all times, the licence does not require an IDNO to adopt the CCCM.

Though your CCM largely followed the CCCM, there were seven key areas of difference. These were:⁷

- Speculative developments
- Reservation of import capacity
- Adoption of Independent Connection Provider (ICP) Assets
- Treatment of aggregated capacity
- Treatment of additional charges by the upstream DNO as pass-through
- Areas where you included more detailed charges in comparison to the CCCM
- Areas where you included less detailed charges in comparison to the CCCM

In assessing whether your CCM meets the Relevant Objectives, we adopted the following approach:

- I. We considered areas where your CCM follows the CCCM, or the company specific methodology used by individual DNOs, to achieve the Relevant Objectives, since these methodologies have been approved by us in the past.
- II. In areas where your CCM differs from previously approved methodologies, we considered the reasons you gave for taking a different approach, alongside stakeholder responses to our consultation.

In our assessment, we have not seen any evidence to indicate that your CCM does not meet the Relevant Objectives. We have therefore decided **to approve**⁸ it.

⁷ Further details are provided in the annex of this document

⁸ Our decision to approve this methodology does not in any way constitute any form of approval, guidance of comfort in respect of the DNO's compliance with competition law

Our approval of your methodology does not require us to consider whether your methodology meets the Relevant Objectives better than the methodology used by DNOs. Therefore the following should be noted -

- Our approval of your CCM does not imply that we find the drafting in your CCM to be preferable to the wording in the approved methodologies used by DNOs.
- Our approval of your CCM does not indicate our position for potential DCUSA CCCM modifications or future approval of DNOs' CCMs.
- Your CCM will only apply to the customers connecting to your networks. The content of your CCM does not necessarily reflect connection arrangements between your networks and those operated by DNOs, where the DNO CCM will apply. Areas of cost that are not recovered from connecting customers through your methodology may still be recovered from you by a DNO applying its methodology.

Annual review and future modification

SLC 13.2 requires IDNOs to review their methodology at least once a year and raise any modifications necessary for the purpose of better achieving the Relevant Objectives. The process of modifications should be in line with the procedures set out in Part C of SLC 13. In approving future submissions of your CCM, we will assess proposed changes against your most recently approved CCM. We expect methodologies to improve over time to reflect changes in network conditions and operations and feedback from customers. We also see benefit in IDNOs adopting best practice used by other similar network companies and maintaining consistency across methodologies where practicable.

Disapplication of Condition 13C - Recovery of Reinforcement Costs arising in respect of Relevant Customers

We note that the additional requirements introduced by SLC 13C⁹ have been included in your methodology. SLC 13C.9 allows that once we are satisfied that this has been done we will issue a direction so that SLC 13C ceased to have effect for that licensee. This process will follow your methodology approval.

Future Connection Charging Methodologies submission by other IDNOs

Noting your CCM is the first methodology to be approved for an IDNO, we expect other IDNOs to follow in order to be compliant with SLC 13. We expect IDNOs to draw from the CCM approved in this document but also encourage them to consider the CCCM and other DNOs' CCMs. Although IDNOs are not obliged to follow the CCCM, we see benefits to customers in DNOs and IDNOs having a consistent approach to the structure and form of connection charging methodologies.

If you have any questions in relation to this letter please contact Shai Hassid at shai.hassid@ofgem.gov.uk or on 020 3263 9841.

Yours sincerely



Andrew Burgess
Associate Partner, Energy System Integration
Duly authorised on behalf of the Gas and Electricity Markets Authority

Signed on behalf of the Authority and authorised for that purpose

⁹ Under paragraphs 4.37 and 4.38

Annex: The Companies' CCM and CCCM comparison¹⁰

Paragraph - the Companies' CCM	Paragraph - DCUSA CCCM	Reference in the Companies' CCM
4.10 New Roads and Street Works Act (NRSWA) noticing	1.7	Includes reference to costs associated with NRSWA. <i>Noticing</i> costs are not explicitly outlined in the CCCM.
4.10 Overhead lines	1.7	Removed references to costs associated with surveys for overhead lines.
4.19 Pass-through of additional charges levied by the DNO	N/A	Added a paragraph in a separate, headed section of the CCCM. This paragraph is incorporated into the "Costs to be paid in full by you" section: <i>"To facilitate the Maximum Capacity requested by you in your connection application, we may be required to pay additional charges to the operator of the Distribution System to which our network connects. The upstream network operator will be required to calculate these charges in accordance with their connection charging methodology. Where we receive charges from the upstream network operator we will pass such charges on to you as part of the overall Connection Charge. The rules for apportionment described in paragraphs 4.21 to 4.33 below will not apply. See Example 14."</i>
4.20 Reinforcement of the Transmission System	1.43	Costs for reinforcement of the Transmission System are included in a separate, headed section of the CCCM. This paragraph is incorporated into the "Costs to be paid in full by you" section.
4.39 Recovered Equipment and Deferral of Asset Replacement	1.33	Included a specific de minimis level of £100.
4.45-4.52 Speculative Developments	1.39-1.41	Added further detail to the definition of speculative developments and the basis for classification of a connection as speculative: <i>"4.45 In the majority of cases, parties will be able to provide information that gives us certainty that the capacity requested will be largely utilised once the development has matured. We use the term 'Speculative Development' to describe those types of developments where we have significant uncertainty about:</i> <ul style="list-style-type: none"> <i>the nature or size of the development</i>

¹⁰ Based on the accompanying document submitted to us by the Companies:

<https://www.gtc-uk.co.uk/docs/default-source/regulation---etcl---connection-charging-statement/proposal-to-implement-our-connection-charging-methodology-statement.pdf>

Paragraph - the Companies' CCM	Paragraph – DCUSA CCCM	Reference in the Companies' CCM
		<ul style="list-style-type: none"> • <i>the type of premises (e.g. manufacturing, office/business use, warehousing, generation, domestic) to be connected</i> • <i>the expected timescales over which the development will utilise the capacity requested.</i> <p>4.46 <i>More specifically, we may consider developments which have one or more of the following characteristics as speculative where:</i></p> <ul style="list-style-type: none"> • <i>limited or no information is provided in respect of the detailed electrical load requirements for individual premises making up the development and as a consequence for the development as a whole;</i> • <i>the proposed phasing and /or timing of the phasing of the development is unknown or unclear;</i> • <i>a significant proportion of the capacity requested caters for future expansion rather than the immediate requirements of (an) end user(s);</i> • <i>the capacity requested caters for future speculative phases of a development rather than the initial known phase(s) of the development; or [existing CCCM text]</i> • <i>only infrastructure is provided and where limited or no connections are provided to the premises of end users (e.g. high or low voltage mains being provided along a spine road). [existing CCCM text]</i> <p>4.47. <i>In determining whether a development is considered as speculative we will take a holistic view of the development in relation to the load requested, the timing of the development and the scope of the development.</i></p> <p>4.48. <i>For example, we may treat a connection request for 10 large commercial units as speculative where the end users or types of end users are not yet known and therefore the load requirements for each of the premises is uncertain. In contrast a mixed development of residential plots, shops and a school is unlikely to be considered as speculative as there is a greater degree of certainty about what the overall electrical load of the development will be.</i></p> <p>4.49. <i>In considering the timing of the development we will consider, among other things, whether planning permission exists, the likelihood of the development progressing and any projected build out phasing of the development that you provide us.</i></p> <p>4.50. <i>We will provide an explanation if we consider your development to be speculative. If you disagree with our decision then we will happy consider any additional information you provide to /us with more certainty about the requirements for your development.</i></p>

Paragraph - the Companies' CCM	Paragraph - DCUSA CCCM	Reference in the Companies' CCM
		<p>4.51. Where we are asked to provide a connection to a speculative development then the cost of the work is charged in full. Additional charges to reflect ongoing operation, repair and maintenance costs may also be levied. [existing CCCM text]</p> <p>4.52. We may, at our sole discretion, allow capacity to be reserved on the infrastructure provided to service the speculative development on commercial terms agreed between you and us in respect of the of development. [existing CCCM text]"</p>
4.59-4.62 Land Rights	1.45-1.46	<p>Addition to the CCCM wording:</p> <ul style="list-style-type: none"> • "We require the transfer of the freehold or alternatively the grant of long leasehold of any substation site which forms part of the Contestable or Non-Contestable Works. • We require the grant of a permanent easement (deed of grant) for any Electric Line cable that forms part of the Contestable or Non-Contestable Works which does not fall within land adopted highway."
4.58 Competition in Connection Charges	1.60	Does not require competition in Connection (CIC) charges: "Should you choose to have any Contestable Work undertaken by an ICP, we will <u>not</u> levy Competition in Connection Charges associated with design approval, inspection and adoption of the Contestable works."
Adoption Payments (omitted)	1.59	Removed the paragraph relating to adoption payments, originally in CCCM: "Where we adopt assets installed by an ICP we will not make any adoption payment in respect of those assets"
4.15 + 6.2 Capitalised Operation and Maintenance Charges	N/A	Added specific percentage (24%) for capitalisation costs of future operation and maintenance. GTC's justification: "Given that we operate across all Distribution Services Areas, we have calculated a figure that is the midpoint of the figures used by DNOs and have applied this to our methodology"
6.3 Projects (additional paragraphs in "Our specific connection charging methodology" section)	N/A	Added the following text: "Where we have reason to believe that an application for connection forms part of a larger project then we will use the aggregate capacity of the projects to determine the appropriate Connection Charge."
6.4 Non-Standard Substation Buildings (additional paragraphs in "Our specific connection charging	N/A	Included an additional paragraph: "Where you require us to locate substation plant and equipment within a non-standard building or enclosure e.g. where the substation is to form an integral part of a building also to be used for other purposes then other charges will normally apply for building and design work and on-site inspections. Charges for this type of work will be consistent with those we make where we adopt networks from an ICP."

Paragraph - the Companies' CCM	Paragraph - DCUSA CCCM	Reference in the Companies' CCM
methodology" section)		
6.5 Charges for Assessment and Design (additional paragraphs in "Our specific connection charging methodology" section)	N/A	Included an additional paragraph: <i>"Where permitted under relevant legislation, charges for Assessment and Design may be applied. This may be by way of a standard charge based on the type, voltage and maximum required capacity of the connection, as indicated in section 6C of this document. Where the applicant changes its requirements or requests multiple quotes in respect of the same or a similar connection to the premises, additional Assessment and Design work, not covered in the standard charge, may be required to update the original design. Where this is the case, the customer's charge in respect of Assessment and Design will be equal to the standard charge associated with the original Assessment and Design work, plus a charge in respect of the additional work applied by way of an hourly rate."</i>
6.6 – 6.8 Reservation of Import Capacity (additional paragraphs in "Our specific connection charging methodology" section)	N/A	Added the following text: <i>"6.6. We may, on occasion, be required to pay charges for reserving capacity on another LDNO's network at the boundary between our network and theirs. On such occasions these charges will be passed through to you and will form part of the Connection Charge. 6.7. Any costs relating to the reservation of import capacity will be calculated in accordance with the upstream LDNO's own connection charging methodology and will be passed through to you as they are charged to us. 6.8. We will not make charges relating to the reservation of import capacity where the capacity being reserved relates directly to capacity available on our networks and an equivalent capacity charge has not been levied on us."</i>
6.9 Contestable and Non-Contestable works (additional paragraphs in "Our specific connection charging methodology" section)	N/A	Added a reference to paragraph 3.3-3.11 to works that they deem to be contestable and works that they deem to be non-contestable.