

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP 348 – DNO Charging for Installing Capacity Management and Communications Equipment to Enable Flexibility in Connections		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	21 February 2020	Implementation date:	01 April 2020

Background

Distribution Network Operators (DNOs) have introduced the option for users to agree to Flexible Connections. The term Flexible Connections (defined in the Open Networks Project Terms and Definitions Document), refers to a range of “connection arrangements whereby a customer’s export or import of electricity is managed (often through real-time control) based upon contracted and agreed upon principles of availability or capacity”.⁴ These can allow users to connect more quickly and more cheaply in congested areas of the network, compared to traditional connection arrangements, in exchange for agreeing to have their network access curtailed by their DNO at certain times. Currently there is no clear and consistent methodology across all DNOs for charging network users the costs associated with Flexible Connection schemes. Current and potential users may therefore face a lack of clarity and understanding regarding any costs they may incur associated with such schemes.

On 5 December 2017, Scottish and Southern Electricity Networks (SSEN) submitted a proposal to modify their Statements of Methodology and Charges for Connection for Scottish Hydro Electric Power Distribution and Southern Electric Power Distribution in accordance with Standard Licence Condition (SLC) 13 of the Electricity Distribution Licence (the “Licence”).⁵ The salient change related to the recovery of costs incurred in the provision of Flexible Connections.

We directed SSEN not to make the proposed modification, because we considered that it had failed to sufficiently demonstrate how the modification would have better achieved the Relevant Objectives (as set out in the SLC 13 of the Licence) in all cases.⁶ We stated in our decision letter that we expected all the DNOs to keep their charging methodologies under review as they gathered further experience with Flexible Connections. We added that we expected further consideration from them in order to help provide clarity to consumers about how the costs of providing Flexible Connections are treated.

Currently the Connection Charge is calculated based on the Minimum Scheme. The Minimum Scheme, as defined in Schedule 22 of the Distribution Connection and Use of System Agreement (DCUSA), is “the Scheme with the lowest overall capital cost (as estimated by [the DNO]), solely to provide the Required Capacity”. SSEN’s 5 December

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 ‘Change’ and ‘modification’ are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ [https://www.energynetworks.org/assets/files/180723%20ON-PRJ-WS2%20-%20P3%20Terms%20and%20Definitions%20V1.1%20\(published\).pdf](https://www.energynetworks.org/assets/files/180723%20ON-PRJ-WS2%20-%20P3%20Terms%20and%20Definitions%20V1.1%20(published).pdf)

⁵ https://www.ofgem.gov.uk/system/files/docs/2018/01/annex_a_-_ssen_modification_report_0.pdf

⁶ https://www.ofgem.gov.uk/system/files/docs/2018/04/decision_to_direct_ssen_not_to_make_a_modification.pdf

2017 proposal prompted discussion regarding whether a Flexible Connection could be a Minimum Scheme. We sought views on this in our 29 January 2018 consultation and received extensive responses.⁷ There was no consensus, but the majority of the respondents agreed that a Flexible Connection could qualify for this classification if certain conditions were met.

Our Network Access and Forward-Looking Charges Significant Code Review (the "Access SCR") is considering improvements to the choice of Flexible Connections, and is reviewing whether there is a case for recovering less cost through connection charges.⁸ We expect changes from this review to be implemented from 1 April 2023. We set out in the Access SCR launch statement that we expected the Electricity System Operator and network companies to lead on incremental improvements to the allocation of access rights. This modification is a result of the Active Network Management (ANM) Charging product identified for delivery by the Access Rights Allocation Working Group (ARAWG) as part of these incremental improvements.

The modification proposal

Western Power Distribution (South Wales) Plc (the "Proposer") raised modification DCP348 on 17 July 2019.⁹ It aims to provide a consistent methodology across all DNOs for charging network users costs for installing capacity management and communications equipment that enables new or modified access via Flexible Connections, therefore providing greater clarity for users facing these costs. The proposer believes that the proposed modification will better facilitate DCUSA charging objectives 1, 2, 3 and 4. A working group set up by the DCUSA panel (the "Working Group") assessed the proposal.

Flexible Connection schemes fall into two main types:

- Dedicated Schemes - a scheme managing constraint(s) where there are no customers downstream of the constraint(s) who could connect new or additional generation and demand without being controlled by a Dedicated Scheme; or
- Wide Area Schemes - a scheme managing constraint(s) where there are customers downstream of the constraint(s) who could connect new or additional generation and demand without being controlled by the Wide Area Scheme.

The proposal suggests that Schedule 22 of the DCUSA, which sets out the Common Connection Charging Methodology (the "CCCM"), is amended to cater for Flexible Connections and to include the definitions of the different types of schemes. It is proposed that the new section includes a table that shows, for each type of Flexible Connection, when the costs of types of equipment associated with capacity management and communications will be funded by individual or multiple users, or when they will be funded by the DNO (via Use of System charges).

During the assessment of the proposal, the ARAWG considered whether Flexible Connections could be considered as a Minimum Scheme. They agreed with the majority of the respondents to our 29 January 2018 consultation and concluded that the principles surrounding the Minimum Scheme remained fit for purpose across the range of Flexible Connection products.

⁷ <https://www.ofgem.gov.uk/publications-and-updates/consultation-principles-be-considered-when-recovering-costs-providing-flexible-connections>

⁸ https://www.ofgem.gov.uk/system/files/docs/2018/12/scr_launch_statement.pdf

⁹ <https://www.dcusa.co.uk/change/dno-charging-for-installing-capacity-management-and-communications-equipment-to-enable-flexibility-in-connections/>

The implementation date originally proposed was five working days following Authority approval. After reviewing the consultation responses, the Working Group agreed to update the suggested implementation date to 1 April 2020 to allow the DNOs to engage with their customers before implementation.

DCUSA Parties' recommendation

In each party category where votes were cast (no votes were cast in the Supplier, CVA Registrant nor the DG party category) there was unanimous support for the proposal and majority or unanimous support for its proposed implementation date.¹⁰ In accordance with the weighted vote procedure, the recommendation to the Authority was that DCP348 is accepted. The outcome of the weighted vote is set out in the table below:

DCP348	WEIGHTED VOTING (%)									
	DNO		IDNO/ OTSO ¹¹		SUPPLIER		CVA REGISTRANT		DG ¹²	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	n/a	n/a	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	89%	11%	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, the Change Declaration and the Change Report dated 17 January 2020. We have also considered and taken into account the responses to the consultation that the Working Group issued to DCUSA Contract Managers on 02 October 2019 (the "Consultation") and the vote of the DCUSA Parties on the proposal attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the Applicable Charging Methodology Objectives;¹³ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁴

Reasons for our decision

We consider this modification proposal will better facilitate Applicable Charging Methodology Objectives 1, 2, 3 and 4 and has a neutral impact on the other relevant objectives.

¹⁰ There are currently no gas supplier parties.

¹¹ Independent Distribution Network Operator/Offshore Transmission System Operator

¹² Distributed Generation

¹³ The DCUSA Charging Objectives (Relevant Objectives) are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence.

¹⁴ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

First Applicable Charging Methodology Objective – that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider¹⁵ of the obligations imposed on it under the Act and by its licence

The Proposer, the Working Group and the majority of the Consultation respondents believe that the proposed solution will better facilitate the first charging objective. The consensus is that updating the CCCM will enable each DNO to meet their obligation to prepare a charging statement that sets out the basis on which charges will be made for the provision of connections to the licensee's Distribution System.

Our Position

We agree that the DCP348 proposal will better facilitate the first charging objective. This is because the increased clarity, transparency and consistency that will arise as a result of the modification will better enable each DNO to meet relevant obligations. In particular, the obligations to prepare a charging statement in accordance with the relevant charging methodology, and to present the charging statement in a form and with the detail that would enable users of the Distribution System to make a reasonable estimate of the charges they will face for a Flexible Connection.

Second Applicable Charging Methodology Objective – that compliance with the Relevant Charging 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 or in the participation in the operation of an Interconnector

The Proposer, the Working Group and the majority of the Consultation respondents believe that the proposed solution will better facilitate the second charging objective. The consensus is that updating the CCCM will ensure each DNO's methodology for charging for Flexible Connections is clear and transparent and will not restrict, distort, or prevent competition in the transmission or distribution of electricity.

Our Position

We agree that the DCP348 proposal will better facilitate the second charging objective because increasing the clarity, transparency and consistency in charging for Flexible Connections will reduce the barriers to market entry for those prospective users who wish to enter into a Flexible Connection agreement. It will therefore enable the potential for greater competition in the supply or generation of electricity, while not negatively affecting competition in electricity transmission or distribution or in the participation of the operation of an electricity Interconnector.

Third Applicable Charging Methodology Objective – that compliance with the Relevant Charging Methodology results in charges that, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by a Distribution Services Provider in its Distribution Business

¹⁵ Distribution Services Provider: '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).'

The Proposer, the Working Group and the majority of the Consultation respondents believe that the proposed solution will better facilitate the third charging objective. The consensus is that updating the CCCM will allow the DNOs to demonstrate how charges for recovery of the costs of Flexible Connections are structured to reflect both specific and wider benefits to participants.

Our Position

We agree that the DCP348 proposal will better facilitate the third charging objective. This is because the modification will result in the cost of equipment associated with Flexible Connections being consistently and practically recovered from individual or multiple users as part of their connection charge, where the costs associated with the connection can be attributed to those users, but the equipment doesn't bring wider system benefits. In parallel, where the equipment does bring wider system benefit, those costs will be consistently recovered via use of system charges.

Fourth Applicable Charging Methodology Objective – so far as is consistent with the first three Applicable Charging Methodology Objectives, the Relevant Charging Methodology, so far as is reasonably practicable, properly takes account of developments in a Distribution Services Provider's Distribution Business

The Proposer, the Working Group and the majority of the Consultation respondents believe that the proposed solution will better facilitate the fourth charging objective. The consensus is that the proposed change will ensure that the DNOs' charging methodologies reflect developments in the way that connections are provided, particularly in relation to the implementation of flexible solutions as opposed to traditional reinforcement.

Our Position

We agree that the DCP348 proposal will better facilitate the fourth charging objective because including a clear and consistent approach to charging for Flexible Connections in the CCCM takes account of the evolving way in which DNOs are managing their networks. In particular, it recognises the increasing importance of flexible arrangements to meet the needs of network users while avoiding the need for traditional reinforcement.

Decision notice

In accordance with standard licence condition 22.14 of the Licence, the Authority hereby directs that modification proposal *DCP348: DNO Charging for Installing Capacity Management and Communications Equipment to Enable Flexibility* in Connections be made.

Jon Parker
Head of Electricity Network Access

Signed on behalf of the Authority and authorised for that purpose