



Making a positive difference  
for energy consumers

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Date: 21 February 2020

Dear Brandon,

## **Decision to approve the Connection Charging Methodology and Connection Charging Statement to the Electricity Distribution System of ESP Electricity (ESPE) Limited**

This letter sets out our<sup>1</sup> decision to approve the Connection Charging Methodology and Connection Charging Statement to the Electricity Distribution Systems of ESP Electricity (ESPE) Limited ('the Company'). ESPE holds an electricity distribution licence and is an Independent Distribution Network Operator (IDNO).<sup>2</sup>

### **Background**

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

In accordance with SLC 14 of the Licence, all licensees are required to have in force at all times a Connection Charging Statement ('CCS') which has been approved by us on the basis that charges will be made for the provision of connections to the licensee's Distribution System and is prepared in accordance with the relevant CCM within the meaning of SLC 13.

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

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<sup>1</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>2</sup> Independent Distribution Network Operators (IDNOs) develop, operate and maintain local electricity distribution networks. IDNO networks are directly connected to the Distribution Network Operator (DNO) networks or indirectly to the DNO via another IDNO.

<sup>3</sup> 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>

The Distribution Connection and Use of System Agreement (DCUSA)<sup>4</sup> contains the Common Connection Charging Methodology ('CCCM').<sup>5</sup> While the CCCM applies to Distribution Network Operators (DNOs) and not IDNOs, it does however set out a common approach to connections charging and has been assessed based on achieving the Relevant Objectives.

You submitted your final proposed CCM and CCS hereafter known as 'CCMS' to us on 05 February 2020 for approval.

## Our decision

In making our decision, we have considered whether your CCMS 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 either the existing CCCM used by DNOs, or existing CCM used by other IDNOs, which we have previously approved. We note though that whilst SLC 13.1(b) says 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.

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 the CCCM, we considered the CCMS of other IDNOs which have been approved by us in the past, or any reasons provided for taking a different approach and how these better meet the Relevant Objectives.

We have also assessed your CCMS against SLC 14 and are content that it meet the requirements set out in that condition.

In our assessment, we have not seen any evidence to indicate that your CCMS does not meet the Relevant Objectives. We have therefore decided to **approve** it.<sup>6</sup>

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

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<sup>4</sup> The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between licensed electricity distributors, suppliers and generators in Great Britain concerned with the use of electricity distribution system

<sup>5</sup> Schedule 22 of the DCUSA

<sup>6</sup> 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 CCMS does not imply that we find the drafting in your CCMS to be preferable to the wording in the approved methodologies used by DNOs.
- Our approval of your CCMS does not indicate our position for potential DCUSA CCCM modifications or future approval of DNOs' CCMSs.
- Your CCMS will only apply to the customers connecting to your networks. The content of your CCMS does not necessarily reflect connection arrangements between your networks and those operated by DNOs, where the relevant DNO's CCMS will apply. Costs 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 licensees 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 CCMS, we will assess proposed changes against your most recently approved CCMS. 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.

While we note that your CCMS is compliant with SLC 13, we encourage you and other IDNOs to consider alignment between your CCMS and DNOs' CCCM. 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. Where an IDNO's CCMS does differ from the CCCM, we encourage the IDNO to explain why the difference better achieves the Relevant Objectives.

If you have any questions in relation to this letter please contact Kieran Brown at [Kieran.Brown@ofgem.gov.uk](mailto:Kieran.Brown@ofgem.gov.uk) or on 01413316040

**Yours sincerely**

**Jon Parker**  
**Head of Electricity Network Access**  
**Systems & Networks**

Signed on behalf of the Authority and authorised for that purpose