

Modification proposal:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP181 – Previous Connection Terms Enduring</b>		
Decision:	The Authority <sup>1</sup> directs that this modification <sup>2</sup> be made <sup>3</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	15 June 2016	Implementation date:	Next DCUSA Release 3 months after our decision

## Background

Non-standard connections to the distribution network are becoming increasingly common as Distribution Network Operators (DNOs) and Independent Distribution Network Operators (iDNOs) (“distributors”) offer customers bespoke bilateral connection terms. In some instances, these bilateral connection terms (flexible connections) enable customers to connect to the network without the required reinforcement, on the basis that the distributor can constrain customers off supply or from exporting if the network is reaching its operational limits.

At present, if a customer who has agreed to non-standard terms sells or moves out of the connected property, the incoming owner or occupier defaults to the generic National Terms of Connection (NTC). By defaulting to the NTC terms, the new owner/occupier is not bound by the previous non-standard terms and could (either deliberately or accidentally) use the connection in a way which is contrary to the previous agreement (the terms of which formed the basis of the price of the connection) and which the network is not designed to facilitate.

## The modification proposal

DCP181 was proposed by UK Power Networks and aims to ensure that non-standard bilateral connection terms endure when there is a change of owner or occupier at non-domestic Current Transformer (CT) metered premises.<sup>4</sup> The Final Modification Report (FMR) was originally submitted to us for a decision on 16 February 2016. We directed that the FMR was revised to address certain deficiencies before being resubmitted to us.<sup>5</sup>

The proposal has since been modified and now includes the following proposed changes:

- amends the NTC so that the terms of the original bilateral connection agreement will become binding on the incoming customer, until varied;
- amends DCUSA to require distributors to disclose to anyone proposing to be an owner/occupier or prospective owner/occupier whether or not non-standard bilateral connection terms apply to a particular connection;
- amends DCUSA to require distributors to ensure that bespoke bilateral connection contracts contain clauses providing for the consent of the customer for the distributor to disclose the existence of these bespoke contracts to a prospective owner or occupier; and
- amends DCUSA to require distributors to ensure that bespoke bilateral connection contracts contain an obligation on the customer to inform the potential future owner/occupier about the existence of the bespoke bilateral connection agreement,

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

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

<sup>4</sup> Current Transformer meters are generally installed at premises of large industrial and commercial customers.

<sup>5</sup> [Authority decision to 'send back' DCUSA modification proposal 181 'Previous Connection Terms Enduring' \(21 March 2016\)](#)

its terms, and that they may be bound by such terms in accordance with the NTC (unless they negotiate with a distributor changes to such a contract).

### DCUSA Parties' recommendation

The Change Declaration for DCP181 indicates that all parties were eligible to vote on DCP181. In two (of the three) party categories where votes were cast (no votes were cast in the DG party category),<sup>6</sup> there was majority (>50%) support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP181 is accepted. The outcome of the weighted vote is set out in the table below:

DCP181	WEIGHTED VOTING (%)									
	DNO <sup>7</sup>		IDNO/OTSO <sup>8</sup>		SUPPLIER		DG <sup>9</sup>		Gas Supplier	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	0%	100%	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	100%	0%	100%	0%	0%	100%	n/a	n/a	n/a	n/a

### Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 12 May 2016. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the DCUSA General objectives;<sup>10</sup> and
- directing that the modification is approved is consistent with our principal objective and statutory duties.<sup>11</sup>

### Reasons for our decision

The working group that assessed DCP181 considered that the modification proposal better facilitates DCUSA General Objectives 1 and 2 and has a neutral impact in respect of the other DCUSA General Objectives. We have considered DCP181 against DCUSA General Objectives 1 and 2 and set out our views below. In respect of the other DCUSA General Objectives, we also consider that there is a neutral impact.

#### ***DCUSA General Objective 3.1.1 'the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System'***

The working group considered that objective 1 is better facilitated as it will ensure the DNO can maintain an efficient network and avoid the risk of potential reinforcement costs due to a new owner/occupier of a premises not being bound to previous connection terms.

<sup>6</sup> There are currently no gas supplier parties.

<sup>7</sup> Distribution Network Operator

<sup>8</sup> Independent Distribution Network Operator/Offshore Transmission System Operator

<sup>9</sup> Distributed Generation

<sup>10</sup> The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

<sup>11</sup> 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.

We agree that DCP181 does better facilitate this DCUSA objective. There are areas of the distribution network where it is not possible to connect customers without undertaking significant reinforcement works. This can create delays and add to costs for both customers seeking to connect to the network and existing users of the network. We have encouraged distributors to find innovative ways to connect customers in a cost effective and timely manner. Flexible connections with bespoke connection terms are one way of achieving this aim.

For flexible connections to work, we understand that distributors need to have certainty that the bilateral connection contracts agreed to make a new connection to the network will remain in place, until varied by agreement. DCP181 will enable distributors to rely on active network management techniques (such as flexible connections) to endure even when the original party to the flexible connection agreement transfers ownership. In doing so, this will avoid or defer the need for network reinforcement which would otherwise need to be funded by general distribution connected customers. New customers taking ownership of properties that are subject to these agreements will still be able to request a 'firm' connection, but they will be expected to contribute towards the associated costs of network reinforcement.

***DCUSA General Objective 3.1.2 'the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity'***

The working group also considered that objective 2 is better facilitated by DCP181 as it allows customers who are willing to accept non-standard terms of connection to benefit from the lower costs that they offer. They also noted that the proposal would facilitate better management of the network by constraining certain connections, thus allowing more connections to the network.

One voting party noted that DCP181 does not better facilitate any of the DCUSA objectives and believed that, in particular, it would hinder objective 2. The key concern raised by that party relates to how the previous connection terms are brought to the attention of a micro business customer. We agree that it is important that all prospective customers should find out about the terms of a bespoke bilateral contract that may apply to them. This is why we sent the original DCP181 proposal back to the Panel and the working group and asked them to strengthen the safeguards to ensure customers are aware of such terms. As the proposal now includes these additional measures, it is our view that they adequately deal with these concerns and will not have a negative impact on competition in the generation and supply of electricity.

It is our view that DCP181 better facilitates this objective as it enables generators to connect to areas of the network without triggering costly reinforcements, or their successors to benefit from a firm connection that has not been paid for. This proposal allows distributors to facilitate cheaper and more timely connections in those parts of the network, with consequential benefits for competition.

**Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP181 '*Previous Connection Terms Enduring*' be made.

**James Veaney**  
**Head of Electricity Connections and Constraint Management**  
Signed on behalf of the Authority and authorised for that purpose