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13<sup>th</sup> October 2017

Dear Chris

### **Derogation request from Distribution Connection and Use of System Agreement requirements for Use of System charges for two customers**

We are writing to request a derogation under paragraph 7 of SLC 20 of the electricity distribution licence from certain specific clauses of the Distribution Connection and Use of System Agreement (DCUSA) when setting Use of System charges for an Independent Distribution Network Operator (IDNO) with respect to two prospective customers expected to connect to the IDNO's network which will itself be connected to the Northern Powergrid (Yorkshire) distribution system in November 2017.

Both customers in question will connect to the IDNO network at 132kV, and so will be subject to tariffs set in accordance with the Extra High Voltage (EHV) Distribution Charging Methodology (EDCM) as set out in Schedule 18 of the DCUSA.

### **Background on the new connections**

The two new connections being considered will both be connected at 132kV, with the boundary between DNO assets and IDNO assets (the 'DNO/IDNO boundary') also at 132kV, as shown in Figure 1.

The IDNO network would itself qualify as a Designated EHV Property if it were an end customer connected at the same point. The customers would also themselves qualify as Designated EHV Properties if they were connected directly to the DNO network, so Northern Powergrid (the host DNO) would calculate EDCM charges at the DNO/IDNO boundary for each customer in line with DCUSA clause 24.2:

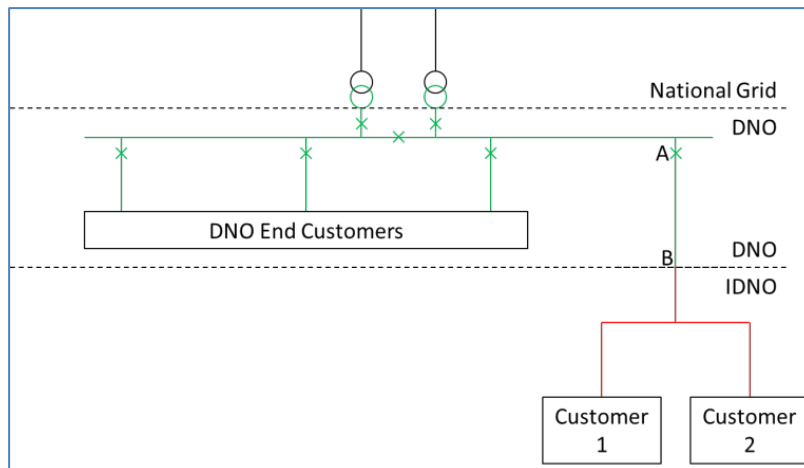
*"An IDNO Party with a Distribution System that qualifies as an EDCM "Designated EHV Property" could itself have Connectees who would fall under the scope of the EDCM. Since the EDCM is a locational charging method, the host DNO Party would calculate EDCM charges at the DNO Party's boundary for each EDCM-like Connectee on the IDNO*

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*Party's network. No discounts are calculated for such EDCM Connectees as the DNO Party's charges are based only on the specific site's equivalent use of the DNO Party's network."*



**Figure 1 - New customers in question**

## The Issue

Under the EDCM, the DNO is required to set the customer category of each IDNO connected end customer based on the network level of the DNO/IDNO boundary, and whether or not higher network levels are used by the IDNO in line with DCUSA clause 24.8:

*"IDNO Party Distribution Systems are split into 15 categories based on the network level of the boundary between the host DNO Party and the IDNO Party, and whether or not higher network levels are used by the IDNO Party."*

In this case, the DNO/IDNO boundary is at the point marked 'B' in Figure 1, and fits the definition of boundary category 1000:

*"In England or Wales only, boundary at a voltage of 132 kV, unless the Connectee qualifies for category 0000."*

Where category 0000 is defined as:

*"Boundary at the GSP, whether the GSP is shared or not, with no use of any circuits."*

The use of category 1000 for these customers indicates that they use shared 132kV circuits (i.e. 132kV circuits which are used by other customers) with no other shared assets.

The DNO is also required to define which assets on the DNO network are for the sole use of the IDNO network in line with clauses 26.7 and 26.8:

*"The EDCM will include in the charges for Embedded Designated EHV Properties a fixed charge relating to any assets on the DNO Party's network that are for the sole use of an Embedded IDNO Party's network. These fixed charges would be calculated in the same way as it would be for EDCM Connectees connected directly to the host DNO Party's network."*

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*In calculating charges for assets on the DNO Party's network that are for the sole use of an Embedded IDNO Party's distribution system, DNO Party's will charge only for the proportion of sole use assets deemed to be used by Embedded Designated EHV Properties. This proportion will be calculated, in respect of each Embedded Designated EHV Properties, as the ratio of the boundary equivalent capacity of that Connectee to the capacity at the IDNO Party - DNO Party boundary."*

In this case, the assets from the point marked 'A' to the point marked 'B' in Figure 1 are for the sole use of the IDNO; hence in order to determine the charges to the IDNO with respect to the two customers, each would be assigned a proportion of the sole use asset value of these assets based on a proportion of the capacity at the boundary which each customer requires. Each customer's proportion of the total sole use asset value would then be used to derive a fixed charge.

However, the result of applying the boundary category of 1000 and treating assets from the point marked 'A' to the point marked 'B' in Figure 1 as sole use assets is that charges are levied in respect of these assets as both sole use and shared assets, and so the IDNO will effectively be double charged in respect of the use of these assets by the IDNO's two customers.

### **Derogation Sought**

In order to avoid the double charging of these assets, we are seeking a derogation from clause 24.8, and will instead set the customer category to the Point of Common Coupling which would be assigned to an end customer if they were to connect at the point marked 'B' in Figure 1, which would be done in line with clause 14.3:

*"The Point of Common Coupling for a particular single Connectee is the point on the network where the power flow associated with the single Connectee under consideration, may under some (or all) possible arrangements interact with the power flows associated with other Connectees, taking into account all possible credible running arrangements."*

This is in effect the point marked 'A' in Figure 1 which fits the definition of Point of Common Coupling 0000:

*"Point of Common Coupling at the GSP, whether the GSP is shared or not."*

This would result in the customers being charged for the assets from the point marked 'A' to the point marked 'B' in Figure 1 as sole use assets only, and so avoid any double charge.

### **Enduring Solution**

Northern Powergrid has raised DCUSA Change Proposal (DCP) 305 to rectify this issue on an enduring basis by amending the DCUSA legal text to remove the perceived defect. A consultation will be issued on DCP 305 over the coming weeks, but given the requirement on DNOs to give 15 months' notice of a change to Use of System charges and the timeframes involved with progressing such a change meaning that a decision by the end of this year is very unlikely, the earliest feasible implementation date for DCP 305 will be 1 April 2020.

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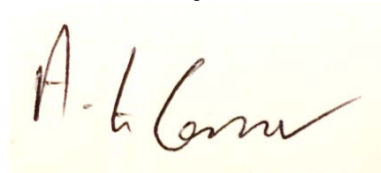
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Hence this derogation is requested to commence immediately (and in any case by the expected connection date of the new customers on 3 November 2017), and continue until such time as a decision is made, and if applicable implemented, with respect to DCP 305. We accept any derogation made is without prejudice to the exercise of any function Ofgem may have with respect to DCP 305. If no such derogation is made at the point in time when the IDNO customers are connected and energised, we will charge the IDNO in line with the requirements of DCUSA (i.e. set the customer category to 1000 and treat assets from the point marked 'A' to the point marked 'B' in Figure 1 as both sole use and shared assets) until such time as a derogation is made or DCP 305 is approved and implemented.

### Customer Impact

As the IDNO in question will be subject to site specific Use of System tariffs with respect to the two customers, we cannot allow details of the impact on these tariffs into the public domain, but have shared this with Ofgem confidentially. There is a material impact on the tariffs applicable to the IDNO with respect to the two customers in question, with immaterial impacts ( $\pm 1.5\%$  on annual charge) on all other EDCM customers in the Yorkshire area.

Yours sincerely

A handwritten signature in black ink on a yellow background, reading 'A. Enzor'.

Andrew Enzor  
Charges Policy Manager