

Proposed variation:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP140: Inclusion of the Common Connection Charging Methodology (CCCM) into the DCUSA</b>		
Decision:	The Authority <sup>1</sup> directs that proposal DCP140 be made <sup>2</sup>		
Target audience:	DCUSA Panel, parties to the DCUSA and other interested parties		
Date of publication:	29 October 2012	Implementation Date:	1 November 2012

## Background to the modification proposal

Distribution Network Operators (DNOs) are required by Standard Licence Condition (SLC) 13 of the Distribution Licence (the 'Licence') to have in force at all times a Connection Charging Methodology that has been approved by us on the basis that it achieves the Relevant Objectives set out in the Licence.<sup>3</sup> DNOs are also required by SLC 14 to prepare, and make available in a form approved by us, a Connection Charging Statement. SLC 13.13 requires DNOs to publish their Charging Methodology and their Charging Statement in a combined document. In practice, each DNO publishes its Connection Charging Methodology and Connection Charging Statement in a wider connection charging document, which it makes available on its website. This document also contains information which does not form part of the Connection Charging Methodology or Connection Charging Statement as defined under the Licence but may be useful to customers seeking to connect to the DNO's network (for example, their application process).

Since 1 October 2010, the DNOs' Connection Charging Methodologies have comprised a section common to all DNOs, (the 'Common Methodology' or CCCM) and a section specific to each DNO (the 'Company Specific Methodology'). These form sections five and six of each DNO's connection charging document, respectively.

In February 2011, we published a letter stating that we considered that the CCCM should be subject to open governance arrangements.<sup>4</sup> We considered it important that affected parties should be given the opportunity to propose changes to the CCCM and that arrangements should be introduced to ensure that it remains common. We explained that the DNOs had developed a proposal to achieve this through incorporating the CCCM as a schedule to the DCUSA.

In February and May 2012 we issued consultations setting out proposals to change the Licence to facilitate the incorporation of the CCCM into the DCUSA.<sup>5</sup> In June 2012 we issued a decision to implement these changes to the Licence.<sup>6</sup> The changes came into effect on 1 September 2012. They required:

- that the CCCM be incorporated into the DCUSA by 1 October 2012 unless otherwise advised by us;<sup>7</sup> and
- DNOs to include the CCCM in their Connection Charging Methodologies.

<sup>1</sup> The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> These Relevant Objectives are set out at SLC 13 of the Licence. Connection Charging Methodology, as defined in the Licence 'means a complete and documented explanation, presented in a coherent and consistent manner, of the methods, principles, and assumptions that apply in relation to connections, for determining the licensee's Connection Charges.'

<sup>4</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=374&refer=Licensing/IndCodes/CGR>

<sup>5</sup> February 2012 consultation -

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=775&refer=Networks/ElecDist/Policy/DistChrgMods>

May 2012 consultation -

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=795&refer=Networks/ElecDist/Policy/DistChrgMods>

<sup>6</sup> <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=803&refer=Networks/ElecDist/Policy/DistChrgMods>

<sup>7</sup> Due to delays in the progress of DCP140, the Authority advised DNOs that the implementation date by which the CCCM must be incorporated into the DCUSA had been amended to 1 November 2012.

## The modification proposal

DCP140 was raised by Electricity North West Limited (the proposer) on 9 July 2012. The change proposal is to include the existing Common Connection Charging Methodology (CCCM) into the open governance and change management processes of the DCUSA. It seeks to do this by including the CCCM as a new schedule to the DCUSA.

The proposer stated that the proposed changes would better facilitate the achievement of DCUSA General Objectives 3.1.2 and 3.1.3.<sup>8</sup> They took this view as incorporating the CCCM into the DCUSA would discharge their obligations under the amended Licence. Further, they considered that incorporating the CCCM into the DCUSA would facilitate competition by allowing customers and competitive connection providers to estimate connection costs more accurately.

While the proposal was not submitted until July 2012, as the proposer was awaiting the publication of our decision on changes to the Licence to facilitate open governance, it presented the proposal to the Electricity Connections Steering Group on 25 May 2011. It was also discussed at the Connections Charging Methodologies Forum.

## DCUSA Parties' recommendation

The DCP140 Change Declaration indicates that DNO, IDNO/Offshore Transmission System Operator (OTSO), Supplier and Distributed Generation (DG)<sup>9</sup> parties were eligible to vote on DCP140. As shown in the table below, the sum of the weighted votes in favour of the proposal was greater than 50 per cent in all categories that voted. In accordance with the weighted vote procedure, the recommendation to us is that DCP140 be accepted. The outcome of the weighted vote is set out in the table below:

DCP140	DNO		IDNO/OTSO		SUPPLIER	
	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION %	100	0	100	0	100	0
IMPLEMENTATION DATE %	100	0	100	0	100	0

## The Authority's decision

We have considered the issues raised by the proposal and the Change Declaration of 24 September 2012. We have also taken into account the vote of the DCUSA Parties on the proposal set out in the Change Declaration.

### We have concluded that:

- **implementation of the change proposal DCP140 will better facilitate the achievement of the General DCUSA objectives;<sup>10</sup> and**
- **directing that the change is made is consistent with our principal objective and statutory duties.<sup>11</sup>**

<sup>8</sup> DCUSA General Objective 3.1.2 is that that compliance with the DCUSA will facilitate 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. DCUSA General Objective 3.1.3 is that compliance with the DCUSA will facilitate the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.

<sup>9</sup> No votes were cast in the DG category.

<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 Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

## Reasons for the Authority's decision

This section sets out our reasons for accepting the change proposal against the DCUSA General Objectives which, in our view, are relevant to our decision.

DCUSA General Objective 3.1.2 - that compliance with the DCUSA facilitates 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 introduction of the CCCM introduced commonality and consistency across DNO methodologies and clarified 'grey areas' in the DNOs' previous methodologies. We consider that this improved customers' ability to estimate connection charges, reducing the risk that some developers associate with connection costs. Increased confidence in connection costs may facilitate competition in the generation and connections markets.<sup>12</sup> We therefore consider that, in ensuring that the benefits introduced by the CCCM are retained and that it remains common, DCP140 should facilitate greater competition in the generation and distribution markets.

Furthermore, we consider that the incorporation of the CCCM into the DCUSA governance process will facilitate competition by empowering affected parties<sup>13</sup> to propose improvements to the CCCM where they consider current arrangements could pose barriers to the development of effective competition in the connections market.

We therefore consider that the proposal better facilitates General Objective 3.1.2.

DCUSA General Objective 3.1.3 - that compliance with the DCUSA will facilitate the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.

We consider that the change proposal would better facilitate this objective because, since 1 September 2012:

- SLC 13.1(b) of the Licence has required that the CCCM be incorporated into the DCUSA; and
- SLC 22A.2(d) of the Licence has required that DNOs include the CCCM, as set out in the DCUSA, in their Connection Charging Methodologies.<sup>14</sup>

We therefore consider that the proposal better facilitates General Objective 3.1.3.

## Decision notice

In accordance with SLC 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP140 '*Inclusion of the Common Connection Charging Methodology (CCCM) into the DCUSA*' be made.

## Andy Burgess

### Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose

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<sup>12</sup> In particular, small generators connected to the distribution network may face reduced risk associated with connection costs, allowing them to invest with more confidence.

<sup>13</sup> Including IDNOs, Generators and, where they have been designated in writing by the Authority (see clause 10.2.4 of the DCUSA), other affected parties including connections customers and Independent Connection Providers (ICPs).

<sup>14</sup> It should be noted that the Licence does not place this requirement on IDNOs.