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Proposed modification:	**Distribution Connection and Use of System Agreement (DCUSA) DCP162 and DCP162A - Non-Secure Connections in the Common Connections Charging Methodology**		
Decision:	The Authority[1] directs that modification DCP162 be made[2]		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	15 October 2014	Implementation Date:	Next DCUSA Release following Authority consent

Background to the modification proposal

Under the Standard Licence Conditions (SLCs) of the Electricity Distribution Licence, Distribution Network Operators (DNOs) are required to have a Methodology and a Charging Statement in place to cover network connections activities. These requirements are met by DNOs by developing a Common Connection Charging Methodology (CCCM) common to all DNOs and subject to open governance change through the DCUSA. The CCCM is set out in Schedule 22 of the DCUSA.

The CCCM details how DNOs calculate connection costs. In particular, the CCCM explains how different categories of costs are allocated to the connecting customer. Connection costs generally fall into two categories as follows:

- costs paid in full by the connecting customer, ie. the costs of the extension assets required to establish the connection; and
- costs shared between the connecting customer and the DNO, ie. the costs of reinforcement assets

In order to calculate the proportion of reinforcement costs to be charged to the connecting customer, the DNOs use a Cost Apportionment Factor (CAF). In order to calculate the CAF, the DNOs first need to determine what the New Network Capacity (NNC) on the Relevant Section of the Network (RSN) will be once the connection has been established.

We gave our view on the charging of reinforcement costs associated with the provision of a 'non-secure' connection in our Determination (DET160) of 7 July 2011.[3] In DET160, we also stated that, when charging for connections, DNOs must take into account existing feeder circuits when determining the RSN for the calculation of the CAF. 'Feeder circuits' are the electrical lines which are installed to establish a connection.

DCP162 is seeking to clarify charging arrangements associated with 'non-secure' connections within the CCCM, in light of the principles set out in DET160.

The modification proposal

DCP162 was raised by Scottish Hydro Electric Power Distribution plc (the Proposer) in February 2013. The modification proposal seeks to amend the CCCM to include within it connection charging arrangements, to be applied by the DNOs, that are associated with

[1] The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.
[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.
[3] This Determination involved a dispute between a generator seeking to connect to the network and a DNO. The Authority was asked to determine the Reinforcement costs, the apportionment of the Reinforcement costs, and the potential transmission charge for this connection. https://epr.ofgem.gov.uk//Content/Documents/Erratum%20letter%20Correcting%20Error%20in%20Determination%20re%20a%20Dispute%20Over%20the%20Provision%20of%20an%20Electricity%20Connection%20-%2001-12-2011.pdf

'non-secure' connections and to provide accompanying illustrative examples (three are proposed).

The proposal was originally discussed within the connections sub-group of the ENA Commercial Operations Group (COG) and the Connections Charging Methodology Forum (CCMF). DCP162 proposes the following amendments to the CCCM:

- a replacement definition of New Network Capacity;
- a replacement definition of Relevant Section of Network;
- adjustments to illustrative Examples 4, 5, 6, 8A, 8B and 10; and
- the addition of new Examples 11, 12, 13 (following Example 10).

The Proposer identified DCP162 as better facilitating the DCUSA charging objectives 3.2.1 and 3.2.2 compared with the DCUSA baseline.

A DCUSA Working Group was established to assess the proposal with DNOs, Ofgem and other (non-DCUSA) parties whose work involves electricity network connections attending. The Working Group met on nine occasions over the course of one year to consider the proposal.

The majority of Working Group members supported the general principle of DCP162 and the three proposed new examples. However, some Working Group members disagreed with the number of feeder circuits taken into account in new Example 13 'Secure Connection with Secure Reinforcement' in the CAF calculation.

The Working Group carried out an industry consultation through which concerns were raised that Example 13 was outside the scope of the intent of DCP162. However, the Working Group considered that although the focus of DCP162 was on non-secure connections, it was not possible to look at non-secure connections without considering the impact on secure connections as well. Disagreements also emerged on the maximum number of feeders included in the CAF calculation in Example 13, with some respondents questioning whether setting a maximum number of feeders in Example 13 was appropriate. The number of feeders is key to determining the RSN and the NNC needed to calculate the CAF.

The majority view in the Working Group was that the maximum number of feeder circuits to be considered in the situation set out in Example 13 was three. Other Working Group members believed that the maximum number of feeder circuits in Example 13 to be considered should be four. As a result, one Working Group member raised an alternative proposal (DCP162A). DCP162A differs from DCP162 only with respect to Example 13 and includes four feeder circuits in the CAF calculation.

DCUSA Parties' recommendation

The Change Declaration for DCP162 and DCP162A indicates that all parties were eligible to vote on these modifications. Votes were only cast in one category of parties (no votes were cast in any of the IDNO/OTSO, Supplier or DG party categories)[4], and there was majority (>50%) support for DCP162 and its proposed implementation date. The majority (>50%) of votes cast in the DNO party category rejected DCP162A. In accordance with the weighted vote procedure, the recommendation to us is that DCP162 is accepted and DCP162A is rejected. The outcome of the weighted vote is set out in the table below:

[4] There are currently no gas supplier parties.

DCP162	WEIGHTED VOTING (%)							
	DNO[5]		IDNO/OTSO[6]		SUPPLIER		DG[7]	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	92	8	n/a	n/a	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	100	0	n/a	n/a	n/a	n/a	n/a	n/a

DCP162A	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	8	92	n/a	n/a	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	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 as set out in the Change Report. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration dated 10 September 2014. We have concluded that

- implementation of change proposal DCP162 will better facilitate the achievement of the DCUSA charging objectives[8]; and
- directing that the change is approved is consistent with our principal objective and statutory duties.[9]

Reasons for our decision

We consider that DCP162 will better facilitate DCUSA charging objectives 3.2.1 and 3.2.2. Our assessment against these objectives is set out below. We consider that both DCP162 and DCP162A have a neutral impact on the other objectives.

DCUSA Charging Objective 3.2.1 'that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence'

We agree with the majority of Working Group members and respondents who consider that DCP162 better facilitates DCUSA charging objective 3.2.1. In particular, we consider that the amendments to the definitions of RSN and NNC, the adjustments suggested to some of the examples, as well as the inclusion of three new examples will help clarify the CCCM in line with the principles we set out in DET160.

We note that members of the Working Group and consultation respondents disagreed on the number of feeder circuits taken into account in the CAF calculation in Example 13 of DCP162. As a result, DCP162A was raised. Example 13 illustrates 'Secure Connection with Secure Reinforcement'. Example 13 in DCP162 caps the number of feeders in the calculation at three, whereas Example 13 in DCP162A sets the limit at four. DCP162 and DCP162A differ only in respect to Example 13 and the number of feeders taken into account in the CAF calculation.

[5] Distribution Network Operator.
[6] Independent Distribution Network Operator/Offshore Transmission System Operator.
[7] Distributed Generation.
[8] 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. The DCUSA Charging Objectives are set out in Clause 3.2 of the DCUSA.
[9] 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.

In DET160, we stated that when determining the RSN to be used for calculating the CAF, DNOs should take into account both new feeder circuits required to connect the customer and any existing feeder circuits. The purpose of Example 13 in DCP162 is to illustrate how this principle could be applied in the CCCM. As provided for in the CCCM, Examples do not necessarily represent the Minimum Scheme and are provided purely for illustrative purposes. We consider that the limit to the number of feeders set in Example 13 in DCP162 is for purely illustrative purposes only, and that the number of feeders taken into account in the CAF calculation will need to be determined on a case-by-case basis.

On this basis, we consider that DCP162 accurately translates the principles we set out in DET160. We are not expressing a view on which is the appropriate number of feeders to be taken into account in any situation. DCP162 does not preclude a situation where four feeders may be taken into account in the CAF calculation, where appropriate. As a result, and taking the views of the DCUSA panel into account, we see no additional benefit to the inclusion of four (rather than three) feeders in the CAF calculation in Example 13 in DCP162A.

We therefore consider that Charging Objective 3.2.1 is better facilitated by DCP162 and do not consider DCP162A provides any additional benefit for the reasons outlined above.

DCUSA Charging Objective 3.2.2 'that compliance by each DNO Party with the Charging Methodologies 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 participation in the operation of an Interconnector (as defined in the Distribution Licences)'

A majority of Working Group members and respondents considered that DCUSA charging objective 3.2.2 is also better facilitated by DCP162. We consider that DCP162 would facilitate this charging objective by enabling a more consistent approach among DNOs when charging for non-secure connections, based on the principles set out in DET160.

However, for the reasons set out above, we consider that DCP162A would not bring any additional clarity to CCCM.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP162: *'Non-Secure Connections in the Common Connections Charging Methodology'* should be made.

Andy Burgess
Associate Partner – Transmission and Distribution Policy
Signed on behalf of the Authority and authorised for that purpose