



## **DCUSA CHANGE REPORT**

### **DCP 265 – High Cost Cap/Voltage Rule Precedence**

#### **Executive Summary**

DCP 265 seeks to update the Common Connection Charging Methodology (CCCM) to clarify which of the £200/kW rule (the 'High Cost Cap') set out under paragraph 1.15 of Schedule 22 of the DCUSA and the voltage rule set out under paragraph 1.30 of Schedule 22 of the DCUSA, takes precedence when both apply.

This document presents the Change Report for DCP 265 and invites all Parties to vote on the proposed change by the **16 May 2016**.

## 1 PURPOSE

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- 1.1 This document is issued in accordance with Paragraph 11.20 of the DCUSA, and details DCP 265 – ‘High Cost Cap/Voltage Rule Precedence’. The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.2 Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 4) to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **16 May 2016**.

## 2 EXECUTIVE SUMMARY

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- 2.1 DCP 265 was raised by Western Power Distribution to update the Common Connection Charging Methodology (CCCM) to clarify which of the £200/kW rule (the ‘High Cost Cap’) set out under paragraph 1.15 of Schedule 22 of the DCUSA and the voltage rule set out under paragraph 1.30 of Schedule 22 of the DCUSA, takes precedence when both apply.
- 2.2 This change is designated as a Part 2 Matter as it simply sets out to reflect the advice given by Ofgem in its document, ‘*Ofgem’s position on whether the voltage rule should take precedence over the High Cost Cap for Distributed Generation connections*’ published on the 11 January 2016, i.e. that a modification should be brought forward to the Common Connection Charging Methodology to clarify that the voltage rule takes precedence over the High Cost Cap rule in circumstances where both rules are triggered. The draft legal text is set out in Attachment 3.

## 3 HIGH COST CAP (HCC) AND VOLTAGE RULE: WHICH RULE SHOULD TAKE PRECEDENCE IN THE COMMON CONNECTION CHARGING METHODOLOGY (CCCM)?

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### What is the Common Connection Charging Methodology?

- 3.1 Under Distribution Standard Licence Condition (SLC) 13 each DNO Party is obliged to have in place a connection charging methodology which must include the Common Connection Charging Methodology (CCCM) as set out in the DCUSA. The CCCM (DCUSA Schedule 22) provides a common framework on calculating charges to connect to DNO’s distribution systems with worked examples illustrating the application of the

connection charging methodology. It sets out how the costs for a connection should be allocated between the DNO and the Customer. Specifically, it sets out those costs which are to be:

- i) paid in full by the Customer;
- ii) apportioned between the DNO and the Customer; and
- iii) paid in full by the DNO.

- 3.2 Where a Distributed Generator (DG) chooses to connect to the DNO's distribution system and both the voltage rule and High Cost Cap (HCC) rule apply, it is unclear in the CCCM which of these rules should take precedence.

#### **What is the Voltage Rule and when does it apply?**

- 3.3 The Customer pays for their dedicated connection assets but only contributes to the wider reinforcement costs up to one voltage level above the Point of Connection (PoC) to the existing distribution system and up to and including the cost of circuit breakers provided at that voltage. This is commonly referred to as the 'One Voltage Rule' and the principle of this rule is captured in Schedule 22 Paragraph 1.30.

*1.30 "We [the DNO] will fully fund Reinforcement carried out greater than one voltage level above the voltage at the POC to the existing Distribution System."*

The application of the One Voltage Rule in relation to reinforcement is further illustrated in tabular format under Schedule 22 Paragraph 1.32.

- 3.4 This obligation is placed upon the DNO in accordance with SLC 14.20 which states:

*14.20 "The licensee must have regard to the principles that Connection Charges:  
(a) will not generally take into account Distribution System reinforcement carried out at more than one voltage level above the voltage of the connection;....."*

- 3.5 Where there is an inconsistency between the Licence and the CCCM, the Licence takes precedence. SLC 14.20 in relation to the One Voltage Rule utilises the phrase "will not generally" which could be interpreted where the costs of reinforcement more than one voltage level above the voltage of connection to the existing distribution system will be charged under the high cost project threshold.

#### **What is the High Cost Cap Rule and when does it apply?**

- 3.6 Where the network reinforcement required to connect a Distributed Generator (DG) to the distribution system is significant the associated costs may be high. As a cost signal to the DG customer they are required to fully fund any reinforcement costs in excess of £200/kW of proposed export capacity. Only reinforcement costs up to that threshold will be apportioned. This is referred to as the High Cost Cap (HCC) Rule and the principle of this rule is captured in Schedule 22 paragraph 1.15.

*1.15 "For generation connections only, Reinforcement costs in excess of the high-cost project threshold of £200/kW shall be charged to you in full as a Connection Charge."*

### Example

A practical example where both rules apply clearly demonstrates the disparity in applying a different precedent:

A customer wishes to install a 100kW generator. Connection can be made to the DNO's low voltage (LV) distribution system but upstream reinforcement of the extra high voltage (EHV) distribution system is required. The cost of reinforcing the distribution system is £500,000 and the new distribution system capacity created is 10,000kW.

### Scenario A – One Voltage Rule takes precedence

The voltage at the PoC to the existing distribution system is at LV.

Reinforcement is required at EHV and so the One Voltage Rule applies (see paragraph 1.32 of the CCCM).

Under the One Voltage Rule the customer makes no contribution to the £500k costs.

### Scenario B - HCC Rule takes precedence

In accordance with paragraph 1.25 of the CCCM the 'Security CAF' is applied. This rule determines the proportion of the reinforcement costs that should be paid by the customer:

$$\text{Security CAF} = \frac{\text{Required Capacity}}{\text{New Network Capacity}} \times 100\%$$

Therefore:

$$\begin{aligned} \text{Security CAF} &= \frac{100\text{kW}}{10,000\text{kW}} \times 100\% \\ &= 1\% \end{aligned}$$

The requested capacity is 100kW therefore the high cost threshold is 100kW x £200 = £20,000.

The customer's contribution (ignoring sole use assets) is:

£20,000 x 0.01	=	£200 (under Security CAF)
Plus £500,000 - £20,000	=	<u>£480,000 (cost of reinforcement – HCC)</u>
Total	=	£480,200

- 3.7 DNO's approached Ofgem to request clarification on which of these two rules should take precedence when both apply. Ofgem issued a consultation on the 17 December 2014 and provided their final decision on whether the One Voltage Rule should take precedence over the HCC for Distributed Generation connections on the 11 January 2016 as set out in Attachment 2.
- 3.8 Ofgem determined that the One Voltage Rule would take precedence over the HCC Rule and publicised that they would be in favour of a modification being raised to the CCCM to clarify this position. This came to the attention of the COG Connections Sub-Group who is tasked with co-ordinating the on-going maintenance of the CCCM. Discussions at the COG Connections Sub-Group resulted in the submission of DCUSA Change Proposal (DCP) 265 to the DCUSA formal change process.

#### 4 INTENT OF THE DCP 265 CHANGE PROPOSAL

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- 4.1 DCP 265 was raised as a Part 2 Matter by Western Power Distribution to update the CCCM to clarify which of the HCC Rule set out under paragraph 1.15 of Schedule 22 of the DCUSA and the One Voltage Rule set out under paragraph 1.30 of Schedule 22 of the DCUSA, takes precedence when both apply.
- 4.2 The DCUSA Panel have directed that this change be designated as a Part 2 Matter as this Change Proposal will only propose legal text changes that are as a direct consequence of the Ofgem decision document (Attachment 2).
- 4.3 To amend the legal text to reflect that the One Voltage Rule takes precedence, it is proposed to add the following text to Paragraph 1.15:

*"In circumstances where the voltage rule detailed in paragraph 1.30 also applies, the voltage rule will take precedence".*

## 5 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

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5.1 The proposer considers that the following DCUSA Objective is better facilitated by DCP 265:

- **General Objective Three - The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences**

General Objective three is better facilitated by DCP 265 as DNO Parties are obligated under Standard Licence Condition 14.20 to have regard to the principles that Connection Charges:

(a) will not generally take into account Distribution System reinforcement carried out at more than one voltage level above the voltage of the connection;.....". This principle is reflected in paragraph 1.30 of Schedule 22 of the DCUSA. Adding clarity to which rule takes precedence will ensure that DNO's do not act in contradiction of SLC 14.20.

## 6 DCP 265 - LEGAL DRAFTING

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6.1 The proposed legal text has been considered by the proposer and reviewed by the DCUSA legal advisor and acts as Attachment 3. It is proposed to amend DCUSA Schedule 22 Paragraph 1.15 as follows:

*"1.15 For generation connections only, Reinforcement costs in excess of the high-cost project threshold of £200/kW shall be charged to you in full as a Connection Charge. Where both this paragraph 1.15 and paragraph 1.30 below apply to a generation connection, the provisions of paragraph 1.30 shall take precedence".*

## 7 ENVIRONMENTAL IMPACT

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7.1 In accordance with DCUSA Clause 11.14.6, the proposer assessed whether there would be a material impact on greenhouse gas emissions if DCP 265 were implemented. The proposer did not identify any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

## 8 IMPLEMENTATION

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- 8.1 Subject to Party approval, the DCP 265 change will be implemented in the first DCUSA release following approval.

## 9 PANEL RECOMMENDATION

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- 9.1 The Panel approved this Change Report at its meeting on **20 April 2016**. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 265.
- 9.2 The timetable for the progression of the CP is as follows:

Activity	Date
Change Report approved by DCUSA Panel	20 April 2016
Change Report Issued for Voting	22 April 2016
Party Voting Closes	16 May 2016
Change Declaration Issued	18 May 2016
Implementation <sup>1</sup>	First DCUSA Release following Approval

## 10 NEXT STEPS

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- 10.1 Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **16 May 2016**.
- 10.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3011.

## ATTACHMENTS

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- Attachment 1 – DCP 265 Change Proposal
- Attachment 2 – Ofgem decision on CMP223
- Attachment 3 - DCP 265 Draft Legal Text
- Attachment 4 - DCP 265 Voting Form

<sup>1</sup> The next DCUSA release is scheduled for the 30 June 2016.