

DCUSA Change Proposal Form

This form is issued in accordance with Clause 10.5 of the DCUSA.

Completed forms should be returned to dcusa@electralink.co.uk for assessment by the DCUSA Panel. Failure to complete all parts of the form may result in it being rejected by the DCUSA Panel.

- PART A – Mandatory for all Change Proposals
- PART B – Mandatory for Non Charging Methodologies Proposals
- PART C – Mandatory for Charging Methodologies Proposals
- PART D – Guidance Notes

PART A - MANDATORY FOR ALL CHANGE PROPOSALS

| Document Control | |
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| CP Status | Standard |
| CP Number | 265 |
| Date of submission | 1 st March 2016 |
| Attachments | i) Ofgem's open letter dated 17 th December 2014 on whether the voltage rule should take precedence over the High Cost Cap for Distributed Generation connections. ii) Ofgem's position letter dated 11 January 2016 on whether the voltage rule should take precedence over the High Cost Cap for Distributed Generation connections. |
| Originator Details | |
| Company Name | Western Power Distribution (South West) PLC |
| Originator Name | Tim Hughes |
| Category | DNO |
| Email Address | thughes@westernpower.co.uk |
| Phone Number | 0117 933 2148 |
| Change Proposal Details | |
| CP Title | High Cost Cap/Voltage Rule Precedence - revision to Schedule 22 of the DCUSA (the Common Connection Charging Methodology) |
| Impacted parties | DNO's/DG Parties |
| Impacted Clause(s) | Paragraph 1.15 of Schedule 22 of the DCUSA |
| Part 1 / Part 2 Matter | Part 2 |
| Provide your rationale why you consider this change is a Part 1 or Part 2 Matter | This change is considered to be a Part 2 Matter to the extent that it is proposed purely to facilitate Ofgem's wishes that a modification be made to the CCCM which specifies clearly that the voltage rule takes precedence over the High Cost Cap in circumstances where both rules were triggered. |
| Related Change Proposals | None |
| Change Proposal Intent | |
| 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. | |
| Business Justification and Market Benefits | |
| Each DNO Party is obliged by Standard Licence Condition 13 to have a connection charging methodology in force (each a Connection Charging Methodology). Each DNO Party is obliged by Standard Licence Condition 13 to include the CCCM within its Connection Charging Methodology. | |

The COG Connections Sub-Group is tasked with co-ordinating the on-going maintenance of the CCCM.

The CCCM 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

Paragraph 1.15 of Schedule 22 falls under those costs to be paid in full by the Customer and states;

"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."

This is commonly known as the £200/kW rule or High Cost Cap rule.

The concept of 'high-cost projects' was introduced under the Authority's Electricity Distribution Price Control Review Final Proposals document issued in November 2004. Paragraph 5.23 of the document set out the reasons for implementing the £200/kW rule. It stated:

"5.23. There may be certain projects which, because they are of such unusually high cost, or have requirements significantly in excess of the DNOs' design standards, are not adequately addressed within the parameters of the main DG incentive scheme. In such circumstances, Ofgem would expect the generator seeking connection (and giving rise to the costs) to fund the required additional investment through connection charges. Ofgem would expect that this would include any projects with direct reinforcement costs in excess of £200/kW – which is four times the average capital expenditure estimate."

Paragraph 1.30 of Schedule 22 states:

"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."

This obligation is placed upon the DNO in accordance with Licence Condition 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;...."*

These rules are satisfactory when considered in isolation but when a connection scheme triggered both rules there was some uncertainty as to which rule should take precedence. Interpretation can have a very significant impact on the applicant's contribution to the costs.

To demonstrate the significance of applying the precedence differently an example is provided below.

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

Scenario A – Voltage Rule takes precedence

The voltage at the point of connection to the existing distribution system is at LV.

Reinforcement is required at EHV and so the voltage rule applies (see paragraph 1.32 of the CCCM). Under the rules the customer makes no contribution to the £500k costs (ignoring sole use assets).

Scenario B - £200/kW Rule takes precedence

The Cost Apportionment Factor applied is $100/10,000 \times 100\% = 1\%$

The requested capacity is 100kW therefore the high cost threshold is $100\text{kW} \times £200 = £20,000$.

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

$$\begin{array}{rcl} £20,000 \times 0.01 & = & £200 \\ \text{Plus } £500,000 - £20,000 & = & \underline{£480,000} \\ \text{Total} & = & £480,200 \end{array}$$

This clearly demonstrates the disparity in applying a different precedent.

Further to the above there does appear to be an inconsistency between the CCCM and the Licence Condition in relation to the Voltage Rule insofar that the Licence provides some latitude of application by using the term "will not generally". It is uncertain how the disparity between the CCCM and the Licence arose although it is anticipated the Licence should take precedence. There is some debate as to what may be inferred by the addition of this term and whether it may cater specifically for cases 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.

In order to ensure the DNO's were interpreting the CCCM correctly and were all working in a consistent manner they sought the view of the Authority and asked the Authority to clarify which approach they believed the DNO's should be taking when confronted with this scenario.

In its letter to relevant stakeholders of 17 December 2014, (Attached as Appendix 1) the Authority stated its view, subject to consultation, was that the voltage rule should take precedence over the High Cost Cap, i.e. the Customer should only pay for reinforcement up to one voltage level above the point of connection. The Authority considered that this position allowed for more consistent treatment between different types of customers and fairer allocation of costs.

Following the consultation the Authority issued a further letter on 11 January 2016 (Attached as Appendix 2). In the letter Ofgem stated position was that, where the circumstances arose, the voltage rule should take precedence over the High Cost Cap. They added that they would welcome a modification to be brought forward to the CCCM to reflect this position.

Proposed Solution and Draft Legal Text

It is proposed to amend paragraph 1.15 of Schedule 22 of the DCUSA 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. In circumstances where the voltage rule detailed in paragraph 1.30 also applies, the voltage rule will take precedence."

Amending the CCCM as set out above will provide clarity with regard to the charging methodology when both the High Cost Cap and the voltage rules are coincidentally triggered.

Proposed Implementation Date

Next DCUSA release following approval.

Impact on Other Codes

Please tick the relevant boxes and provide any supporting information.

- | | |
|-----------|-------------------------------------|
| BSC | <input type="checkbox"/> |
| CUSC | <input type="checkbox"/> |
| Grid Code | <input type="checkbox"/> |
| MRA | <input type="checkbox"/> |
| SEC | <input type="checkbox"/> |
| Other | <input type="checkbox"/> |
| None | <input checked="" type="checkbox"/> |

If other please specify

Consideration of Wider Industry Impacts

None identified by Proposer.

Environmental Impact

None identified by Proposer.

Confidentiality

None identified by Proposer.

PART B – MANDATORY FOR NON CHARGING METHODOLOGIES CHANGE PROPOSALS

DCUSA Objectives

General Objectives:

Please tick the relevant boxes. [See Guidance Note 9]

- 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
- 2 The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity
- 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences
- 4 The promotion of efficiency in the implementation and administration of this Agreement
- 5 Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally

binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

Detailed rationale for better facilitation of the DCUSA Objectives identified above

General Objective 3 will be better facilitated through the requirement under Standard Licence Condition 14.20 that places an obligation on the licensee (i.e. the DNO) 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 the CCCM.

PART C – MANDATORY FOR CHARGING METHODOLOGIES CHANGE PROPOSALS

DCUSA Charging Objectives

Please tick the relevant boxes. [See Guidance Note 11]

Charging Objectives:

- 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
- 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)
- 3 that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business
- 4 that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business
- 5 that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

General Objectives:

- 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
- 2 The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity
- 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in

their Distribution Licences

- 4 The promotion of efficiency in the implementation and administration of this Agreement
- 5 Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

Detailed rationale for better facilitation of the DCUSA Objectives identified above

Charging Objectives:

DCUSA Charging Objective 1 will be better facilitated through the requirement under Standard Licence Condition 14.20 that places an obligation on the licensee (i.e. the DNO) 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 the CCCM.

General Objectives:

DCUSA General Objective 3 will be better facilitated through the requirement under Standard Licence Condition 14.20 that places an obligation on the licensee (i.e. the DNO) 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 the CCCM.

Has this issue been discussed at any other industry forums? If so please specify and provide supporting documentation

The issue has been discussed by the COG Connections Sub-Group and referred to the Connection Charging Methodology Forum for comment.

PART D – GUIDANCE NOTES FOR COMPLETING THE FORM

Guidelines for Working Group Members and Working Group Terms of Reference are available on the DCUSA Website and provide more information about the progression of the Change Process. www.dcusa.co.uk

| Ref | Data Field | Guidance |
|-----|---------------------------------|--|
| 1 | Attachments | Append any proposed legal text or supporting documentation in order to better support / explain the CP. |
| 2 | Part 1 / Part 2 Matter | A CP must be categorised as a Part 1 or Part 2 matter in accordance with Clause 10.4.7 of the DCUSA. All Part 1 matters require Authority Consent. |
| 3 | Related Change Proposals | Indicate if the CP is related to or impacts any CP already in the DCUSA or other industry change process. |
| 4 | Proposed Solution and | Outline the proposed solution for addressing the stated |

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| | Draft Legal Text | <p>intent of the CP. The Change Proposal Intent will take precedence in the event of any inconsistency. A DCUSA Working Group may develop alternative solutions. The plain English description of the proposed solution should include the changes or additions to existing DCUSA Clauses (including Clause numbers).</p> <p>Insert proposed legal drafting (change marked against any existing DCUSA drafting) which enacts the intent of the solution. The legal text will be reviewed by the Working Group (if convened) and is likely to be subject to legal review as part of its progress through the DCUSA change process.</p> |
| 5 | Proposed Implementation Date | <p>The Change can be implemented in February, June, and November of each year or as an extraordinary release. For Charging Methodology CPs, select an implementation date which takes in to consideration the deadlines for publishing indicative tariffs.</p> <ul style="list-style-type: none"> • Submission of Company indicative tariffs is 31 December of each year. • Final tariffs are published on 1 April of each year. <p>Please select an implementation date that provides sufficient time for the change to be incorporated into the appropriate charging model and the DCUSA in order to be reflected within the December indicative tariffs.</p> <p>Contact the DCUSA helpdesk for any further information on the releases dcusa@electralink.co.uk.</p> |
| 6 | Consideration of Wider Industry Impacts | <p>Indicate whether this Change Proposal will be impacted by or have an impact upon wider industry developments. If an impact is identified, explain why the benefit of the Change Proposal may outweigh the potential impact and indicate the likely duration of the Change.</p> |
| 7 | Environmental Impact | <p>Indicate whether it is likely that there would be a material impact on greenhouse gas emissions as a result of the proposed variation being made. Please see Ofgem Guidance.</p> |
| 8 | Confidentiality | <p>Clearly indicate if any parts of this Change Proposal Form are to remain confidential to DCUSA Panel (and any subsequent DCUSA Working Group) and Ofgem.</p> |
| 9 | DCUSA General Objectives | <p>Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.</p> |
| 10 | Detailed Rationale for DCUSA Objectives | <p>Provide detailed supporting reasons and information (including any initial analysis that supports your views) to demonstrate why the CP will better facilitate each of the DCUSA Objectives identified.</p> |

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| 11 | DCUSA Charging Objectives | Indicate which of the DCUSA Charging Objectives will be better facilitated by the Change Proposal. Please note that a CDCM or EDCM change may also facilitate the DCUSA General objectives. |
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