

Electricity Distribution Network
Operators, Independent
Distribution Network Operators,
Independent Connection
Providers, Distributed Connection
Generators and other interested
parties

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Dear Stakeholder

Our view, subject to consultation, on whether the voltage rule should take precedence over the High Cost Cap for Distributed Generation connections

Background

The Common Connection Charging Methodology¹ (CCCM) is used by Distribution Network Operators (DNOs) to calculate charges for providing a connection to their networks. The CCCM sets out a number of rules, including both the voltage rule and the High Cost Cap (HCC) which is applied to certain distributed generation connections. Application of each rule is clear when considered in isolation, but when a connection scheme triggers both rules there is some uncertainty within the industry as to which rule should take precedence. DNOs have asked us to clarify our policy position on the issue.

Voltage rule

Electricity distribution connection charges are calculated on the basis of a 'shallowish' connection boundary. This means that a customer will pay for their own use (dedicated) connection assets and will generally only be expected to contribute towards any wider network reinforcement required (if any) up to one voltage level above their point of connection. This is often referred to as the voltage rule.

DNOs are obliged to comply with this through their licence² and this is also reflected in the CCCM.³

The High Cost Cap

The fourth distribution price control (DPCR4, 2005-2010) introduced a Distributed Generation (DG) incentive mechanism to incentivise DNOs to invest efficiently in reinforcement (funded through use of system charges) required to connect DG. This mechanism was deemed necessary to help the DNOs manage, in a cost efficient way, uncertainty at the volume of DG that may seek to connect.

¹ Under the Electricity Distribution Licence ('the Licence') all DNOs are obliged to have in force a Common Connection Charging Methodology (CCCM), which is set out in Schedule 22 of the Distribution Connection and Use of System Agreement (DCUSA). DNOs include the CCCM in their Statement of Methodology and Charges for Connection to the Distribution System (required under Standard Licence Condition 13 of the Licence).

² Standard licence condition 14.20 places an obligation on the licensee (DNO) that it "... 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 Paragraph 1.30 of Schedule 22 states under the heading 'Costs to be paid in full by us' that "We will fully fund Reinforcement carried out greater than one voltage level above the voltage at the (point of connection) to the existing Distribution System".

We included in these arrangements⁴ a separate provision to deal with projects with particularly high costs or which have requirements significantly in excess of the DNOs' design standards. In these circumstances, we expected the generator to fund the required additional investment through connection charges. We expected this to include any projects with direct reinforcement costs in excess of £200/kW. This is commonly referred to as the HCC'. DNOs reflected these arrangements in the CCCM⁵.

We retained this mechanism for the next price control (DPCR5, 2010-2015), however for RIIO-ED1 (2015-2023) we have decided to remove the DG Incentive. From April 2015, all additional reinforcement costs not provided for in the price control settlement can be recovered through the same load-related expenditure reopener⁶.

The removal of the DG Incentive from the price control framework (and associated licence conditions) means that the principle of the HCC is now only reflected in the CCCM.

Our policy position, subject to consultation, and our reasons

We have been asked to clarify which of these two rules should take precedence. Put simply, if a customer triggers the HCC should they only pay for reinforcement work carried out up to one voltage level above their point of connection, or should they pay for all reinforcement, including work carried out at higher voltages?

Our view, subject to consultation, is that the voltage rule should take precedence over the HCC - the customer should only pay for reinforcement up to one voltage level above their point of connection. We consider that this position allows for more consistent treatment between different types of customers and a fairer allocation of costs.

In RIIO-ED1 we have amended other arrangements to ensure a consistent approach to all customers (DG and demand). Allowing the HCC precedence over the voltage rule would mean that DG customers would be treated in a different manner to demand customers. Instead of a 'shallowish' connection charging policy, a certain group of customers (DG with reinforcement costs in excess of £200/kw) would effectively be paying deep connection charges. By applying the voltage rule we enable greater consistency in the treatment of different customers.

We also note that reinforcement of the distribution network at higher voltages is more likely to create capacity that other customers may benefit from. It is therefore more appropriate that the cost of this additional capacity is spread across a wider base of customers.

Next steps

We welcome any comments you have on the views we have expressed in this letter. Please submit any written comments to Olivia.Powis@ofgem.gov.uk by 25 February 2015. Unless clearly marked as confidential, we will publish responses on our website.

Yours sincerely

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Head of Distribution Policy

⁴ DPCR4 Final Proposals Chapter 5. Distributed generation, innovation funding and registered power zones – pages 41 – 46 <https://www.ofgem.gov.uk/ofgem-publications/46251/8944-26504.pdf>

⁵ http://www.dcusa.co.uk/DCUSA%20Document%20Public%20Version/32.DCUSA%20v6%202_Schedule%2022.pdf

⁶ <https://www.ofgem.gov.uk/ofgem-publications/47070/riioed1decuncertaintymechanisms.pdf> (Section 3)