

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP404 – Access SCR: Changes to Terms of Connection for Curtailable Customers (DCP404)		
Decision:	The Authority ¹ directs that this modification be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	15 December 2022	Implementation date:	1 April 2023

Background

We published our Decision and associated Direction on the Access and Forward-looking Charges Significant Code Review³ (Access SCR) in May 2022 (the 'Access Decision' and 'Access Direction'). The implementation of the Access Decision will lead to reduced connection charges, and better defined and standardised access right options, enabling more flexible access rights, reducing barriers to entry and supporting the transition to net zero.

The objective of the Access SCR was to ensure that electricity networks are used efficiently and flexibly, reflecting users' needs and allowing consumers to benefit from new technologies and services while avoiding unnecessary costs on energy bills in general. To achieve this, the Access SCR included a review of capacity and financial barriers for connecting to the electricity distribution network, resulting in the following decisions:

- The overall connection charge faced by those connecting to the distribution network will be reduced – removing the contribution to wider network

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

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

³ <https://www.ofgem.gov.uk/publications/access-and-forward-looking-charges-significant-code-review-decision-and-direction>

reinforcement costs for demand connections and reducing it for generation connections⁴.

- Existing protections for bill payers are retained and strengthened⁵.
- Standardised non-firm access options become available for larger distribution network users.
- Clear Curtailment Limits and end-dates for non-firm access arrangements will be introduced.

Our access rights reforms are designed to complement our decision on the connection charging boundary, enabling network capacity to be brought forward in a strategic and cost-effective manner. We consider that better-defined non-firm access arrangements at distribution will better meet users' needs, reduce risks to connecting Customers, and allow DNOs to use these arrangements as a tool to effectively maximise the use of existing capacity whilst network development is undertaken.

As noted above, alongside our Access Decision, we issued the Access Direction to the Distribution Network Operators (DNOs), to bring forward proposals to modify the DCUSA. Specifically, we directed changes in relation to Curtailable Connections, speculative connections, and connection charging methodologies.

This resulted in five complementary change proposals brought forward for decision by the Authority, which collectively aim to implement the Access Decision.

DCP404 and DCP405 propose to standardise and clarify access rights for non-firm connections. They are closely interrelated as DCP405 ensures the reforms developed under DCP404 are applied consistently across DNO and IDNO networks. DCP405 uses definitions developed as part of DCP404. We consider access rights improvements to be valuable reforms in isolation, while also supporting efficient network development under our proposed connection charging changes.

Alongside this letter, we have published our decision to approve DCP405.

⁴ Also referred to as 'shallow-ish' connection charges.

⁵ Also referred to as the high-cost cap which is a £/kW value above which the connecting customer is presently required to pay in full for any reinforcement costs and which limits the cost burden of an individual connection, which is shared with DUoS bill payers.

The modification proposal

A suite of DCUSA modifications were raised to implement our Access Direction.⁶

Modification DCP404 (the 'Proposal') was raised by Electricity North West Limited (ENWL) (the 'Proposer') on 6 May 2022 in order to implement a part of the Access Direction relating to non-firm (or curtailable) access rights. The Proposal aims to implement these changes by introducing a new schedule into DCUSA which covers provisions to facilitate Curtailable Connections with standards and obligations common across DNOs.

DCP404 seeks to implement changes in DCUSA to better define non-firm access arrangements at distribution. Specifically, it seeks to place obligations on DNOs with regard to the following areas:

- The definition of curtailment
- Setting of Curtailment Limits
- Curtailment above accepted limits
- End dates for curtailable access

DCP404 seeks to address these main aspects of the Access Direction on non-firm access rights as summarised below, to be implemented via a new proposed schedule to DCUSA, covering the following areas:

- The bilateral arrangements required to reflect Curtailable Connections: Definition of Curtailment
- The bilateral arrangements required to reflect Curtailable Connections: Circumstances under which a connection offer can include a provision for Curtailment
- The methodology for setting the Curtailment Limit
- How DNO/IDNOs will measure and report curtailment
- Measures taken to avoid, and what happens if the Curtailment Limit is exceeded
- Method for setting the Exceeded Curtailment Price
- End dates for converting a Curtailable Connection into a non-curtailable one

⁶ These DCUSA modifications are DCP404, DCP405, DCP406, DCP406A, and DCP407.

Definition of Curtailment

The legal text sets out a definition of Curtailment which captures any action taken by the network operator to restrict a user's access to the distribution system, explicitly excluding interruptions caused by a fault or damage to the distribution system which results in loss of supply to the Customer, and any distribution network actions resulting from constraints on the transmission network.

Circumstances under which a connection offer can include a provision for Curtailment

The legal text sets out that:

- a Curtailable Connection is only offered where the network operator has identified a requirement for reinforcement to facilitate a connection;
- a Curtailable Connection is not available to small users, which should capture households and non-domestic users that are billed on an aggregated and non-site-specific basis or who are metered directly using whole current meters, and is not available to unmetered users; and
- a Curtailable Connection offer should be accompanied by supporting information on the expected costs of the counterfactual non-Curtailable Connection, to enable the Customer to make an informed decision.

Methodology for setting the Curtailment Limit

This addresses the requirement to define a standardised approach to setting Curtailment Limits including defining terms set out in our Access Direction. The approach defined by the Working Group takes the annual load profile of the asset requiring reinforcement and adds capacities for accepted connection offers, offers that have been issued but not yet accepted, and new connections. This is then adjusted for a coincidence factor to represent likelihood of inflight connections materialising. The Working Group have also set out a 95% Curtailment Threshold to take into account background load growth.⁷

Methodology for measuring Curtailment and reporting

This defines curtailment per our direction, sets out how that curtailment will be measured and reported in each period and sets out the obligations on the DNO/IDNO party should outturn curtailment exceed the agreed Curtailment Limit.

⁷ While some responses to the change proposal consultation challenged the arbitrary nature of the 95% curtailment threshold, we consider the rationale provided in the Change Report reasonable grounds to include a threshold but would like to see parties monitor the effectiveness of set limits over time.

Exceeding Curtailment Limits

We set out our expectation that the DNOs take “reasonable endeavours” to avoid curtailing a Customer above agreed limits. This obligation is set out in the new schedule and includes steps the DNO should take to provide the necessary capacity/procure flexibility to avoid exceeding the limit.

Methodology for setting the Exceeded Curtailment Price

When a DNO exceeds Curtailment Limits agreed with a Customer on a Curtailable Connection, we have directed the DNOs to pay the Customer at a set price for any curtailment that takes place above the limit. Our Access Direction says that this price needs to be (i) sufficiently high to disincentivise DNOs from exceeding the limit, (ii) be markedly higher than contracted prices for flexibility and (iii) be consistent across DNOs. The legal text sets out a methodology to achieve this.

Curtailable Connection End Dates

We said in our decision that end dates for Curtailable Connections will incentivise DNO/IDNO party to invest in network capacity in a timely manner and provide certainty to Customers. DCP404 implements this in section 7 of the proposed new schedule in DCUSA providing for curtailable end dates to be agreed between the connection Customer and the DNO/IDNO party. The proposed new schedule also specifies limited circumstances under which these end dates can be moved with sufficient notice.

The Views of the Proposer

The Proposer believes that the modification better facilitates DCUSA General Objectives 1 and 3 for the following reasons:

DCUSA General Objective 1

- DCP404 is implementing part of the Access Decision aimed at facilitating more efficient development of the electricity distribution system.

DCUSA General Objective 3

- The Proposer believes that since these changes are the result of an SCR and DNOs are under direction to implement the necessary changes, the Proposal positively impacts this objective.

The impact of DCP404 on the other DCUSA Objectives is considered to be neutral by the Proposer.

DCUSA Parties' recommendation

In each party category where votes were cast (no votes were cast in the Supplier or CVA Registrant party categories)⁸, there was unanimous support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP404 is accepted. The outcome of the weighted vote is set out in the table below:

DCP 405	WEIGHTED VOTING (%)							
	DNO ⁹		IDNO/OTSO ¹⁰		SUPPLIER		CVA ¹¹ REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	100%	0%	100%	0%	n/a	n/a	n/a	n/a

Our decision

We have considered the issues raised by the proposal, the Change Declaration and Change Report dated 3 November 2022. We have considered and taken into account the responses to consultation that the Working Group issued and the votes of the DCUSA Parties on the proposal which are attached to the Change Declaration. We have concluded that:

- implementation of DCP404 will better facilitate the achievement of the Applicable DCUSA objectives;¹² and
- directing that DCP404 is approved is consistent with our Principal Objective and statutory duties.¹³

⁸ There are currently no gas supplier parties.

⁹ Distribution Network Operator.

¹⁰ Independent Distribution Network Operator/Offshore Transmission System Operator.

¹¹ Central Volume Allocation.

¹² The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹³ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

Reasons for our decision

We consider that the Proposal will better facilitate the first, second and third DCUSA General Objectives and has a neutral or no impact on the other relevant objectives.

First Applicable DCUSA General Objective (a) - the development, maintenance and operation by the licensee of an efficient, co-ordinated, and economical Distribution System

Working Group and Voting Party Views

The Working Group confirmed that all bar one consultation respondent agreed with the Proposer that DCP404 would better facilitate the first DCUSA General Objective. The majority of voting parties also agreed with this view. The respondents highlighted that the Access SCR proposals for Curtailable Connections will allow DNOs and IDNOs to have more efficient development of electricity distribution systems.

They further stressed that by facilitating faster connections to the network through use of Curtailable Connections, this change sets a common set of arrangements for Customers for whom such a connection will be beneficial and make best use of the existing capacity on the distribution network.

Our View

Curtailable Connections generally aim to ensure that parts of the network which are constrained can be used more efficiently, connecting new network users more quickly and cheaply ahead of bringing forward new capacity, eg via reinforcement. We consider DCP404 facilitates the first DCUSA objective by establishing a common definition of Curtailable Connections and thus likely increasing acceptance of such options, leading to more efficient use of the network by maximising the use of existing network capacity. Not only will DNOs and IDNOs be in a better position to offer standardised curtailable connection agreements but the increased transparency of the processes in case of exceeded curtailment are likely to offer protections to customers which will make these options more appealing. Specifically, the solution improves clarity and provides greater transparency in relation to these connection arrangements, by standardising the approach to associated terms, including the definition of curtailment, setting of Curtailment Limits, obligations on the DNO if curtailment is required above accepted limits and end dates for curtailable access.

Second Applicable DCUSA General Objective (b) - the facilitation of effective competition in the generation and supply of electricity and the promotion of such competition in the sale, distribution and purchase of electricity

Working Group and Voting Party View and Our View

While the Working Group did not consider the Second DCUSA General Objective as relevant for the Proposal and rather perceived it to have a neutral impact, Ofgem deems that more uniform connection and curtailment agreements can be viewed as better facilitating effective competition.

Better standardisation would ensure that Curtailable Connection arrangements are more consistent across the market, providing transparency and a common understanding for affected parties which helps facilitate a level playing field for generation and supply of electricity. DCP404 therefore better facilitates the second DCUSA General Objective.

Third Applicable DCUSA General Objective (c) - the efficient discharge by the licensee of the obligations imposed upon it by its licence

Working Group and Voting Party Views

The Working Group confirmed that there was majority support from consultation respondents that DCP404 would better facilitate the third DCUSA General Objective. They considered that this proposal has a positive impact on how DNOs and IDNOs can implement changes which are a result of Ofgem's Access SCR. This will allow the necessary code changes to be carried out, resulting in a positive impact on the efficient discharge of licensee obligations.

Our View

We directed DNOs to implement the Access Decision by better defining non-firm/curtailable arrangements at distribution. We agree that DCP404 better facilitates this objective as the Working Group has brought forward a proposed solution that meets the intent of the Access Decision and the Access Direction, an obligation imposed on licensees by their licence.

Further, our Access Decision and Direction reference the implementation of our reforms in April 2023. The Working Group recommends that the implementation date for the processes as set out by this Proposal should be set for 1 April 2023 which Ofgem agrees with.

Fifth Applicable DCUSA General Objective (e) – compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

Working Group and Voting Party View

The Working Group did not consider the Fifth DCUSA General Objective as relevant for the Proposal and rather perceived it to have no impact. One consultation respondent noted that DCP404 must comply with retained EU legislation, making reference to the EU Clean Energy Package (CEP) Article 13(7).

This Article, as retained, requires that “where non-market based redispatching is used, it shall be subject to financial compensation by the system operator requesting the redispatching to the operator of the redispatched generation, energy storage or demand response facility except in the case of producers that have accepted a connection agreement under which there is no guarantee of firm delivery of energy”.

This is not addressed in the legal text but is included in the Change Report under Sections 4.35-4.39.

Our View

We agree that DCP404 has a neutral impact on the fifth DCUSA Objective. DCP404 specifies compensation for new Curtailable Connections. We do not consider that this modification allows parties to avoid any liability that may be incurred under Article 13 paragraph 7 of CEP (as retained), if it is engaged.

OFGEM’s Principal Objective and statutory duties

We are satisfied that the Proposal aligns with our Principal Objective to protect the interests of existing and future consumers, and our other statutory duties which are largely contained in S3A of the Electricity Act 1989.

In our Access Decision, we set out our view that improving the definition and choice of access rights, as brought forward under DCP404 and DCP405, would complement reforms to the connection boundary, and could together support more efficient use and investment in the existing distribution network, better meeting the needs of connection customers, including facilitating the growth of low carbon technologies required for the net zero transition. We consider this will contribute to protecting the interests of

consumers, including in relation to their interests in the reduction of electricity supply greenhouse gas emissions .

In addition, we consider reforms to access rights can support cheaper and faster connection to constrained parts of the network for new generation and demand, including low carbon technologies, particularly in combination with a shallower connection boundary. Improving the definition of access rights options could support more efficient use of the network by maximising the use of existing network capacity, as well as supporting a level playing field between customers by improved clarity and standardisation of options.

We recognise that review and development of aspects of the solution once implemented may be beneficial and encourage DNOs to consider and bring forward any proposed improvements through standard industry processes.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP404: 'Access SCR Changes to Terms of Connection for Curtailable Customers' be made.

Amy Freund

Head of Electricity Connections

Energy Systems Management & Security

Signed on behalf of the Authority and authorised for that purpose