

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP406A – Access SCR: Changes to CCCM (DCP406A)		
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:	09 February 2023	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 The Access SCR refers to the Access and Forward-looking charging Significant Code Review, available at: <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 Connections.⁴

- Existing protections for bill payers will be retained and strengthened.⁵
- Standardised non-firm access options will 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 level will better meet users' needs, reduce risks to connecting customers, and allow Distribution Network Operators (DNOs) to use these arrangements as a tool to effectively maximise the use of existing capacity while network development is undertaken.

As noted above, alongside our Access Decision, we issued the Access Direction for the 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 (DCP404, DCP405, DCP406, DCP406A, and DCP407) brought forward for decision by the Authority, which collectively aim to implement the Access Direction.⁶

In summary, DCP406 and DCP406A propose to reduce the applicable charging boundaries for connecting customers and make consequential changes to Schedule 32 of the DCUSA. We consider access rights improvements to be valuable reforms in isolation, while also supporting efficient network development under our proposed connection charging changes.

⁴ Also referred to as 'fully shallow' and 'shallow-ish' connection charging boundary, for Demand and Generation Connections, respectively.

⁵ Such protections include 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.

⁶ DCP 404 (Access SCR: Changes to Terms of Connection for Curtailable Customers) and DCP 405 (Access SCR: Managing Curtailable Connections between Licensed Distribution Networks) were approved by us on 15 December 2022. Our decision on DCP 406A (Access SCR: Changes to CCCM) is being published alongside this decision letter, whereas our decision on DCP 407 (Access SCR: Speculative Development) is forthcoming.

The modification proposal

Background

Four DCUSA modification proposals were initially raised to implement the reforms resulting from the Access Decision.⁷ Electricity North West Limited (the 'Proposer') raised modification DCP406 on 6 May 2022. In the course of the DCP406 Working Group ('WG'), DCP406A (the 'Proposal') was also raised by the Proposer, as a separate but complementary change proposal. DCP406A was accepted into the DCUSA change process ex-committee⁸ on 20 October 2022. DCP406A complements DCP406 by providing a workaround for what the WG has stated they see as two situations arising from the implementation of DCP406 that would result in potentially inequitable treatment of connection customers.

Send back and preliminary assessment of DCP406 and DCP406A

On 3 November 2022 a single Change Declaration ('CD') for DCP406 and DCP406A was submitted to Ofgem. Notwithstanding that DCP406 and DCP406A are two distinct Change Proposals ('CPs'), the WG elected to group them together in a single Change Report ('CR') and single CD.

On 15 December 2022, we issued our decision to send back the two CPs on the basis that we were unable to properly form an opinion on the two proposals based on a single CR.⁹ In particular, we considered that the WG did not provide an independent assessment of DCP406 and DCP406A as no distinction between the modifications was made during the party voting process and their assessment against the DCUSA Charging Objectives.

We therefore asked the DCUSA Panel and the associated WG(s) to address our concerns through either (i) amalgamating the changes proposed by DCP406 into DCP406A within a single modification CP; or (ii) through a full and formal separation of DCP406 and DCP406A, implying the provision of two separate CRs with individual assessments against DCUSA Charging Objectives and consolidated party votes. Alongside our send back decision, we outlined our preliminary assessment of the options under DCP406 and DCP406A and indicated our initial view that based on the information available at that time, we would be minded to approve DCP406 Alternative Proposal (formerly referred to as Solution 2) and DCP406A.

⁷ DCP404/405/406/407.

⁸ This is a special DCUSA Panel meeting convened outside of the regular monthly panel meetings.

⁹ <https://www.ofgem.gov.uk/publications/dcp406-and-dcp406a-access-scr-changes-cccm-authority-decision-send-back>

In response to our send back letter, the WG and the DCUSA Panel separated DCP406 and DCP406A and issued a full consolidated party vote on two separate CRs (the second option outlined in our send back letter). On 12 January 2023, DCP406 and DCP406A were resubmitted to Ofgem with individual CDs. Alongside this publication, we have published our decision to approve the Alternative Proposal of DCP406.

*The Proposal*¹⁰

DCP406A has been raised in order to address, in the Proposer's view, flaws in one current 'Exception' (Exception 1) and the need for one new Exception (Exception 5) identified during the process of developing the DCP406 changes to the connection boundary. 'Exceptions'¹¹ set out specific cases where alternative charging arrangements apply. The proposed amendments seek to ensure that those in exceptional situations do not benefit from reduced charges as compared with similar sites utilising the standard process. This also protects against unnecessary costs being socialised via Distribution Use of System charges (DUoS).

Exception 1 as currently written deals with a scenario where an interconnection is to take place (ie a customer's site is to be connected to a higher voltage level via a transformer. This is then connected back into a part of the existing network at the site's voltage level). This would lead to a charging scenario where it would be cheaper to interconnect the new site than it would be to connect via a simple 'teed' connection (ie where the site is connected via only the transformer 'route' to the higher voltage level, a standard connection).

The WG suggested amending Exception 1 for these scenarios, whereby customers will pay for new assets they require to facilitate their connection as Extension Assets. All other assets in this scenario would be treated as reinforcement under the applicable charging arrangements.

Were the connection boundary changes proposed under DCP406 to go ahead without the implementation of DCP406A alongside, there could be a situation where certain parties would benefit from no reinforcement charge whereas others would be faced with significant sole use asset costs. This could result in a distortion in the market and a competitive advantage for certain parties over others without any fair justification.

¹⁰ The specifics of the proposal are more fully described in our send back letter of 15 December 2022.

¹¹ [DCUSA Schedule 22 under 'Costs to be apportioned between you and us', beginning with paragraph 1.16](#)

DCP406A mitigates this risk by ensuring appropriate and equivalent treatment for parties in exceptional circumstances, as for those connecting under more standard connections.

Under the proposed amendment to Exception 1, the costs for the Extension Assets, irrespective of whether the interconnection is built, would remain charged to the customer. The cost for the additional interconnecting equipment would be borne by whomever requests the interconnection – either the customer or the DNO. This means that should the interconnection be necessary for the network, then the DNO will fund the assets. However, if the customer requests it, the costs will remain with the customer. This avoids a situation where it is cheaper to connect with a looped connection than a 'teed' connection.

The proposed new Exception 5 deals with a scenario where a connection is to be 'looped' (ie connected to two different parts of the existing network simultaneously) which would lead to a charging scenario where it is cheaper to connect a looped connection than it would be to connect a 'teed' connection (ie where the site is connected via only one wire, a standard connection).

The WG suggested the introduction of a new Exception 5 for these scenarios, whereby customers will pay for the cheaper of the two wires that constitute the looped connection as Extension Assets whilst the more expensive leg is treated as reinforcement under the applicable charging arrangements.

The Views of the Proposer

The Proposer believes that DCP406A would better facilitate the DCUSA Charging Objectives¹², specifically Charging Objective 1 by ensuring DNOs are compliant with licence requirements in relation to Significant Code Reviews (SCRs) and by implementing specific requirements set out in the Access Direction. The Proposer's view was that Charging Objective 6 was not better facilitated and that there was a potential negative impact on Charging Objective 3. These views were not shared by the Working Group of Voting Party, on which we have focussed our assessment below.

DCUSA Parties' recommendation

Votes were cast in three out of the four party categories (no votes were cast in the CVA

¹² The DCUSA Charging Objectives are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence.

Registrant party category).¹³

In each party category where votes were cast, there was unanimous support for the Proposal and for its proposed implementation date of 1 April 2023. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP406A is accepted. The outcome of the weighted vote is set out in the table below:

DCP406A	WEIGHTED VOTING (%)							
	DNO ¹⁴		IDNO/OTSO ¹⁵		SUPPLIER		CVA ¹⁶ REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100%	0%	100%	0%	100%	0%	n/a	n/a
IMPLEMENTATION DATE	100%	0%	100%	0%	100%	0%	n/a	n/a

Our decision

We have considered the issues raised by the Proposal and the Change Declaration and Change Report dated 23 December 2023. We have considered and taken into account responses to the consultation that the WG issued and the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the Applicable DCUSA objectives;¹⁷ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.¹⁸

Reasons for our decision

We consider the Proposal will better facilitate DCUSA Charging Objectives 1 and 2, and has a neutral impact on the other applicable objectives.

DCUSA Charging Objective 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

¹³ There are currently no gas supplier parties.

¹⁴ Distribution Network Operator.

¹⁵ Independent Distribution Network Operator/Offshore Transmission System Operator.

¹⁶ Central Volume Allocation.

¹⁷ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹⁸ 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.

The Working Group View

In the consultation issued on 12 August 2022 on questions specifically related to what DCP406A is seeking to achieve, the majority of respondents supported this change and only one respondent did not. The WG expressed their view that while the proposal to add a new Exception 5 and issue amendments to Exception 1 is in line with Ofgem's broad policy intent in the Access Decision, these changes are not explicitly identified in the Direction.

The WG notes that DCP406A protects against situations where there could be a deterrence for DNOs to take network investment decisions, which they note could lead to conflicts with DNO obligations to have an efficient, coordinated and economical network as per their Distribution Licence. Overall, the WG concludes that the Proposal has a positive impact on Charging Objective 1.

The Voting Party View

In the Voting Party's view, DCP406A better facilitates Charging Objective 1 as it allows DNOs and IDNOs to implement the changes required to adhere to the Access SCR which enables all parties to run an efficient and economical distribution system. It is seen to enable each DNO party to comply with the Charging Methodologies and discharge the obligations imposed on it under the Act and by its Distribution Licence.

Our View

Our view is that the adoption of DCP406A has a positive impact on Charging Objective 1. The modification brings forward a solution that meets the terms of our Access Direction. Specifically, the Access Direction required that "the DNOs must raise any such consequential proposals for changes to the DCUSA [...] as are required for the purpose of giving effect to this Direction." It also explicitly recognised in the paragraphs relating to amendments to the connection boundary that proposals must include "any additional terms considered necessary to give effect to this Direction". The need for additional/revised terms with regard to Exception 1 and 5 has been established through the Working Group process and we agree that these are required in order to fulfil the intent of the Access Decision and Direction. In addition, we agree with the Voting Party that these changes help facilitate obligations imposed on the licensees via their licence, specifically the requirement to run an efficient and economical distribution system. As such, our view is that adoption of DCP406A has a positive impact on Charging Objective 1.

DCUSA Charging Objective 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)

The Working Group View

The WG observed that the Proposal addresses a potential distortion under the status quo which could lead to some customers having the costs of their Extension Assets covered while others would need to pay. This may see some parties obtain a competitive advantage over others. At the same time, the Working Group considered that this would result in extensions which are open to competition, becoming reinforcement assets which are non-contestable, creating a competition distortion. As DCP406A addresses these potential effects, it is seen to have a positive impact on Charging Objective 2.

The Voting Party View

In the Voting Party's view, DCP406A better facilitates Charging Objective 2 by reducing the risk of any unintended distortion arising from the pricing treatment of different customers. It mitigates the risk of distortions between what customers pay and the extent of competition available because of interconnection or reinforcement.

Our View

Our view is that the Proposal has a positive impact on Charging Objective 2. This agrees with the Working Group's assessment that the Proposal would ensure more proportionate charging arrangements by requiring that even in exceptional circumstances, a share of the costs are charged to the connecting customer, in line with other connecting customers requiring similar network development under standard circumstances. This leads to similar users facing similar costs, which in turn would result in a more level playing field between connectees treated under the Exceptions versus those treated under the regular connection arrangements and fairer competition.

DCUSA Charging Objective 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

The Working Group View

The Access Decision implemented explicit changes to the treatment of charges for reinforcement for both Demand and Generation customers and the Working Group have

identified issues arising under the Exceptions process as an unintended consequence of these changes. The WG has noted that DCP406A would protect DUoS customers from increased costs with no detriment to the connection customer. The WG therefore considers the Proposal to have a positive impact on Charging Objective 4.

The Voting Party View

The Voting Party's view is that DCP406A better facilitates Charging Objective 4 by avoiding perverse outcomes that could add unjustified costs to all DUoS bill payers. It is therefore seen to protect DUoS customers from increased costs with no detriment to the connection customer.

Our View

Our view is that DCP406A is neutral against Charging Objective 4 on the basis that we do not consider the Proposal to directly take account of specific developments in DNO Parties' Distribution Businesses.

OFGEM's Principal Objective and statutory duties

Our assessment suggests 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 the shallower connection charges, as brought forward under DCP406 and DCP406A, would help bring forward investment in low carbon technologies, reducing and removing barriers to connection. The Proposal better facilitates competition and the efficient development of the distribution system while also reducing costs to consumers. In conjunction with DCP406, it also allows for more strategic reinforcement, ahead of customer need, where it is in the interests of customers to do so, reducing costs for consumers and supporting the net zero transition.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP406A: 'Access SCR: Changes to CCCM' be made.

Amy Freund

Head of Electricity Connections

Energy Systems Management & Security

Signed on behalf of the Authority and authorised for that purpose