

DCUSA Change Proposal (DCP)

DCP 425:

Cost Apportionment Factor “cap” methodology

Date raised: 13 July 2023

Proposer Name: Lee Wells

Company Name: Northern Powergrid

Company Category: DNO

01 – Change Proposal

02 – Consultation

03 – Change Report

04 – Change Declaration

Purpose of Change Proposal:

The intent of this Change Proposal (“CP”) is to provide further clarification as to how costs of Reinforcement are apportioned between the Company and the Customer (a Generation Connection) when the High-Cost Project Threshold is triggered.

Governance:



The Proposer recommends that this Change Proposal should be:

- Treated as a Part 1 Matter;
- Treated as a Standard Change; and
- Progressed to the Definition Phase (via a Working Group).

The Panel will consider the proposer’s recommendation and determine the appropriate route.



Impacted Parties:

DNOs, Customers (Generation Connection).



Impacted Clauses:

Schedule 22.

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Indicative Timeline			
The Secretariat recommends the following timetable:			
Initial Assessment Report		16 August 2023	
Consultation Issued to Parties		October 2023	
Change Report Approved by Panel		15 November 2023	
Change Report issued for Voting		17 November 2023	
Party Voting Closes		08 December 2023	
Change Declaration Issued to Parties / Authority		12 December 2023	

1 Summary

What?

- 1.1 Prior to the implementation of the Authority’s Access SCR final decision (the “Access SCR Decision”),¹ and for (i) an application received prior to 1 April 2023 and (ii) a Customer that was a Generation Connection, both the:
- costs of Reinforcement subject to the Cost Apportionment Factors (“CAFs”); and
 - calculation of the High-Cost Project Threshold,
- were assessed based on costs of Reinforcement at the Voltage Level of the Point of Connection and one Voltage Level above.
- 1.2 The Access SCR Decision changed apportioned costs of Reinforcement such that, for a Generation Connection, the CAFs apply at the Voltage Level of the Point of Connection only.
- 1.3 [DCP 422 “Access SCR Clarifications and Corrections”](#) amended Paragraph 1.16 of Schedule 22 (“Common Connection Charging Methodology”) to clarify that, if (for a Generation Connection only) the costs of Reinforcement at the same Voltage Level as the Point of Connection exceed the High-Cost Project Threshold, the costs of Reinforcement subject to the CAFs shall be applied up to and including the High-Cost Project Threshold only.
- 1.4 For example, if the High-Cost Project Threshold was £200k and the costs of Reinforcement at the Voltage Level of the Point of Connection were £300k, the Customer would be required to pay £100k (the amount in excess of the High-Cost Project Threshold) plus a contribution to the £200k per the CAFs.² If the Reinforcement related to a single asset and CAF only (e.g. replacement of an overhead line for thermal constraints only), the cost of Reinforcement to be used in the CAF shall simply be £200k rather than £300k. This clarity provided by DCP 422 mitigates the risk of double-charging costs of Reinforcement.
- 1.5 However, if the Reinforcement related to multiple assets and/or CAFs – say separate costs of £250k and £50k respectively – it is unclear how the Company should CAF the “capped” value of £200k per the example in paragraph 1.4.

Why?

- 1.6 Example 13 of Schedule 22 demonstrates Reinforcement charging principles for a Generation Connection where both the Security CAF and Fault Level CAF are applicable. In the example, the High-Cost Project Threshold is £1.2m (6,000kW x £200) and the costs of Reinforcement total £820k; therefore the High-Cost Project Threshold is not exceeded.

¹ https://www.ofgem.gov.uk/sites/default/files/2022-05/Access_SCR_Final_Decision.pdf

² Examples given for the purpose of this document intentionally exclude other costs such as Extension Assets.

- 1.7 However, assuming the Required Capacity in example 13 was (e.g.) 3,000kW and all other assumptions (including costs) remained unchanged, the High-Cost Project Threshold would be £600k (3,000kW x £200) and therefore the costs of Reinforcement of £820k would be £220k higher than the HCPT Schedule 22 does not clarify how the CAF should apply in this instance.
- 1.8 Further, example 30 of Schedule 22 demonstrates Reinforcement charging principles for a Generation Connection where the High-Cost Project Threshold is exceeded and costs of Reinforcement at the Voltage Level of the Point of Connection need to be apportioned. However, in this example the High-Cost Project Threshold is only exceeded due to costs of Reinforcement at the Voltage Level above the Point of Connection i.e. the full costs of Reinforcement at the Voltage Level of the Point of Connection need to be apportioned. In addition, there is only one cost of Reinforcement at the Voltage Level of the Point of Connection to be apportioned.
- 1.9 Whilst the scenario set out in paragraph 1.7 could have applied prior to the implementation of the Access SCR Decision, as the CAF methodology and High-Cost Project Threshold both treated costs of Reinforcement consistently (i.e. at both the Voltage Level of the Point of Connection and the Voltage Level above), it is understood to have never manifested. Whilst it is unclear how the Company must CAF capped costs of Reinforcement, it is also expected that the need to do so will be a relatively rare occurrence going forward too

How?

- 1.10 There are several options to apply a CAF to capped costs of Reinforcement to ensure no double-charging by amending the CAF methodology. Some of these options have been considered in the development of this CP. Options considered (which are not mutually exclusive) to apply adjustments to the CAFs include capping costs of Reinforcement:
- only where that cost exceeds the High-Cost Project Threshold;
 - on a proportionate basis to the aggregated costs of Reinforcement to be apportioned;
 - on a proportionate basis to the unadjusted cost apportioned amounts to the Customer; and
 - only to the maximum costs of Reinforcement to be apportioned.
- 1.11 Attachment 1 to this CP sets out several modelled approaches based on several examples.³
- 1.12 The proposed approach is to amend the CAF methodology to cap costs of Reinforcement proportional to the unadjusted CAF contribution from the Customer. This approach retains the proportionality of the Customer's contribution to the costs of Reinforcement, and based on the modelled illustrative scenarios, generally results in the cheapest post-adjustment cost to the Customer.

³ Costs used are illustrative and used to demonstrate nuances only.

- 1.13 To prevent a situation where the Customer contribution may be a negative value (i.e. a payment to the Customer)⁴ a hierarchical approach is proposed where the methodology defaults to capping costs of Reinforcement on a simple proportionate basis.

2 Governance

Justification for Part 1 and Part 2 Matter

- 2.1 This CP will impact the Connection Charge and subject to a policy decision that was not set out in the Access SCR Decision, and therefore should be a Part 1 Matter.

Requested Next Steps

- 2.2 This CP should:
- Be treated as a Part 1 Matter;
 - Be treated as a Standard Change; and
 - Proceed to the Working Group phase.

3 Why Change?

- 3.1 As set out in paragraphs 1.6 to 1.9, unless the relevant legal text is changed, there risks a situation arising that Schedule 22 does not address.

4 Solution and Legal Text

Legal Text

- 4.1 The legal text to achieve the Proposer's preferred option (set out in paragraphs 1.12 to 1.13) can be found as "option 5" in Attachment 2 to this CP and relates to Schedule 22 only.
- 4.2 Legal text for other options considered in the development of this CP are also included in Attachment 2.

Text Commentary

- 4.3 It is proposed that Paragraph 1.18 is amended to further add to the clarity provided by DCP 422 in Paragraph 1.16.
- 4.4 For the Proposer's preferred option, Paragraph 1.28A sets out that, subject to Paragraph 1.28B, the CAF methodology shall be applied to capped costs of Reinforcement by subtracting the "excess" from the relevant costs of Reinforcement proportional to the Customer's CAF contribution for that cost of Reinforcement relative to total Customer's CAF contributions for all costs of Reinforcement.

⁴ The illustrative modelling scenarios identified this as being a possibility.

- 4.5 Paragraph 1.28B sets out the hierarchal approach such that, if the approach in Paragraph 1.28A results in a negative Customer contribution to any cost of Reinforcement, the CAF methodology shall be applied to capped costs of Reinforcement by subtracting the excess from the relevant costs of Reinforcement on a proportional basis relative to the total costs of Reinforcement to be apportioned (and not the approach set out in Paragraph 1.28A).
- 4.6 The approaches in Paragraph 1.28A and Paragraph 1.28B are also set out in algebraic form to make the proposed approach more clear, transparent, and to promote consistent application.

5 Code Specific Matters

Reference Documents

- 5.1 Links to reference documents are included in footnotes throughout.

6 Relevant Objectives

	DCUSA Charging Objectives	Identified impact
<input checked="" type="checkbox"/>	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	Positive
<input checked="" type="checkbox"/>	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)	Positive
<input checked="" type="checkbox"/>	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	Positive
<input type="checkbox"/>	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	None
<input type="checkbox"/>	5. That compliance by each DNO Party with the Charging Methodologies facilitates 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; and	None
<input checked="" type="checkbox"/>	6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	Positive

- 6.1 This CP will better facilitate Charging Objectives 1, 2, 3 and 6, with no impact to the others.

- 6.2 Charging Objective 1 will be better facilitated by ensuring that a DNO Party can demonstrate via its charging statement the basis on which Connection Charges will be recovered – and be applied consistently – where a Generation Connection (i) triggers Reinforcement at the Voltage Level of the Point of Connection, (ii) the costs of Reinforcement at that Voltage Level exceed the High-Cost Project Threshold, and (iii) multiple CAFs are required.
- 6.3 Charging Objective 2 will be better facilitated by ensuring that each DNO Party applies a consistent approach.
- 6.4 Charging Objective 3 will be better facilitated by ensuring that the Connection Charge applicable in a situation described in paragraph 6.2 is reasonable and calculated based on an appropriate CAF methodology in such circumstances (e.g. to avoid double-recovery of costs).
- 6.5 Charging Objective 6 will be better facilitated by ensuring that Schedule 22 provides clarity in how to consistently calculate the Connection Charge in a situation described in paragraph 6.2.

7 Impacts & Other Considerations

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

7.1 No – this policy area was not covered in the Access SCR Decision.

Does this Change Proposal Impact Other Codes?

7.2 The Proposer does not believe that there are any cross-code impacts.

BSC.....	<input type="checkbox"/>	MRA.....	<input type="checkbox"/>
CUSC.....	<input type="checkbox"/>	SEC.....	<input type="checkbox"/>
Grid Code.....	<input type="checkbox"/>	REC.....	<input type="checkbox"/>
Distribution Code..	<input type="checkbox"/>	None.....	<input checked="" type="checkbox"/>

Consideration of Wider Industry Impacts

7.3 The issue which this CP seeks to remedy has been discussed in the DCP 422 Working Group and at the ENA Connections Commercial Operations Group (“Connections COG”).

Confidentiality

7.4 Non-confidential.

8 Implementation

Proposed Implementation Date

- 8.1 As this CP is to remedy a known gap in Schedule 22, it should be implemented at the earliest opportunity once approved by the Authority.

9 Recommendations

The Code Administrator will provide a summary of any recommendations/determinations provided by the Panel in considering the initial Change Proposal. This will form part of a Final Change Report.