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Modification Proposal:	**Distribution Connection and Use of System Agreement (DCUSA) DCP392 – Charging of Third Party DNO works to transmission connection users. (DCP392)**		
Decision:	The Authority[1] has decided to reject[2] this modification[3] proposal		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	16 February 2024	Implementation date:	n/a

Background

This modification proposal is in respect of the Distribution Connection and Use of System Agreement (DCUSA[4]). DCUSA Change Proposal (DCP392[5]) seeks to apply the common connection charging methodology (CCCM[6]) to all electricity connections in respect of DNO works, regardless of whether they are directly connected to a distribution system or not, and to apply the equivalent of the Electricity (Connection Charges) Regulations (ECCR[7]) for reimbursement to the transmission-connected customer where cost apportionment factor (CAF) rules do not apply, so that full charge for works is initially made to the transmission connected customer.

Customers seeking a connection or modifying an existing connection to the transmission system may be obliged to undertake a Connection and Use of System Code (CUSC) Third Party Works assessment with an affected Third Party (typically a DNO/Distribution System Operator) as a condition of their contract with the National Electricity Transmission System Operator (NETSO). Transmission connected customers are required to pay for the full cost of DNO works triggered by their connection. Distribution network connection customers who trigger the same distribution works are charged according to the CCCM (which is part of the DCUSA) and the ECCR.

- The CCCM stipulates the way an electricity Connection Charge[8] between a connectee and licensee is calculated and how the licensee may recover the reasonable costs incurred, both direct and indirect, in providing the connection to the electricity distribution system. Section 1.17-1.18 of Schedule 22 of the DCUSA defines reinforcement works and states that costs for reinforcement works will be borne between the connectee and licensee. Costs for reinforcement works borne by the licensee (DNO) are recovered through Distribution Use of System (DUoS) charges.

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 by section 49A of the Electricity Act 1989.
3 'Change' and 'modification' are used interchangeably in this document.
4 DCUSA Document - DCUSA
5 DCP 392 Charging of Third Party DNO works to transmission connection users.
6 DCUSA Schedule 22
7 The Electricity (Connection Charges) Regulations 2017 (legislation.gov.uk)
8 Connection charge is the payment made by the applicant to licensee for the provision of the connection.

- The ECCR helps to ensure that costs of obtaining a connection to an electricity distribution network are shared fairly between different connecting parties. The ECCR does this by making provision for a person who has paid for a first connection to a distribution network, to be reimbursed for part of those costs when other persons subsequently obtain a connection to the network, and for subsequent connectees[9] to pay a charge to fund such reimbursement.

The CCCM and the ECCR apply only to distribution network connected customers. This results in different charges for transmission and distributions connection customers when their connection triggers the same distribution works.

We note this is the second change proposal on extending the principles of the ECCR in recent years; the first being DCP384[10] which was later withdrawn. DCP384 (Charging of Third Party DNO Works to Transmission Connected Users) was withdrawn as it was found to be in scope of our previous decision on Access & Forward Looking Charging SCR (Access SCR[11]).

An associated CUSC modification CMP328[12] is intended to introduce a new Distribution Impact Assessment (DIA) process into the CUSC for Transmission Connections triggering an impact upon the Distribution System, requiring works to be undertaken by the affected Distribution Network, and aims to tackle similar problems as this modification. On the 14 of February 2023 we sent back this proposal due to deficiencies in the Final Modification Report which prevented us from forming an opinion on the merits of the proposal.

The modification proposal

DCP392 was raised by EDF Energy on 12 July 2021. In the proposer's view, the current charging arrangements do not treat transmission customers fairly, increasing costs of connections in certain circumstances and making otherwise viable projects unviable. Additionally, the proposer believes the current charging arrangements incentivise connections at distribution voltage rather than transmission voltage.

The modification proposal sets out that its purpose is:

A. to apply a cost apportionment approach similar to those contained in the CCCM to distribution works which are triggered by a customer seeking a connection to the transmission system.
B. to apply the equivalent of the ECCR to provide reimbursement to transmission-connected customers in circumstances where CAF rules of the CCCM do not apply and the full charge for works is initial made to the transmission-connected customer.

[9] Subsequent contributor is defined in ECCR 2017, part 1, as "a person who has (a) obtained a Second Connection and (b) received a demand for a Reimbursement Payment under Regulation 7".
By virtue of paragraph 1(4) of Schedule 5B, a second connection is made where any electric line or electric plant provided for the purpose of making a first connection is used for the purpose of making another connection between premises and a distribution system, or between two distribution systems.
[10] Charging of Third Party DNO Works to Transmission Connected Users - DCUSA
[11] Access SCR - Final Decision (ofgem.gov.uk)
[12] CMP328: Connections Triggering Distribution Impact Assessment | ESO (nationalgrideso.com)

In implementing the CCCM to distribution works triggered by a customer seeking connection to the transmission system, this modification would result in costs for reinforcement works associated with transmission connected customers being apportioned to the DNO and recovered through DUoS charges.

DCUSA Parties' Recommendation

The DCP392 change report was issued to DCUSA Parties for voting on 23 September 2022. The DCUSA Parties unanimously voted to recommend to the Authority that the modification be rejected.

All DCUSA Parties considered that this modification proposal did not better facilitate the DCUSA Objectives[13]. The DCUSA Parties agreed that the modification proposal fell outside the scope of the DCUSA and the ECCR. There was a unanimous rejection by parties eligible to vote for the modification proposal and its proposed implementation date.

The result of the weighted vote is set out in the table below[14]:

DCP392	WEIGHTED VOTING (%)							
	DNO[15]		IDNO/OTSO[16]		SUPPLIER		CVA[17] REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	0%	100%	0%	100%	N/A	N/A	N/A	N/A
IMPLEMENTATION DATE	0%	100%	0%	100%	N/A	N/A	N/A	N/A

Our decision

We have considered the issues raised by the modification proposal, the Change Report and the Change Declaration dated 18 October 2022. We have considered and taken into account the responses to the consultation that the Working Group (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 would not better facilitate the achievement of the Applicable DCUSA Objectives. Therefore, we have decided to reject DCP392 for reasons set out below.

[13] The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.
[14] DCUSA DCP 392 Change Declaration – Attachment 2 Consolidated Party Votes
https://www.dcusa.co.uk/change/charging-of-third-party-dno-works-to-transmission-connection-users/
[15] Distribution Network Operator
[16] Independent Distribution Network Operator/Offshore Transmission System Operator
[17] Central Volume Allocation

Reasons for our decision

The Change Declaration identifies that some DCUSA Panel members raised significant concerns relating to the possible impacts of this modification proposal. Voting Parties noted that the DCUSA is not the right place in which to codify the rules for transmission connection customers' contribution to distribution works. As set out in our reasoning below, we agree with the DCUSA Voting Parties that the DCUSA is not the right forum to codify the rules for transmission connected customers' contribution to distribution works as transmission connected customers are not signatories to the DCUSA and have no contractual relationship with the DNOs.

Further, the ECCR was enacted through secondary legislation, and it is not possible that secondary legislation can be amended via the DCUSA code change process.

We consider this modification proposal would not better facilitate DCUSA objectives (a), (b), and (d), and would have a neutral impact on (c)[18] and (e)[19].

(a) the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System;

Working Group View

While some members believe the modification proposal has a positive impact on objective (a) citing the correct approach on investments, the majority of the WG believed that this objective is not better facilitated given that investment made for transmission connection may not be able to be recovered through the DUoS charging methodology.

Voting parties expressed that it would seem more appropriate that aspects of this change proposal should be considered together across distribution and transmission.

Our View

We consider that objective (a) is not better facilitated by this change proposal given that there is not a clear mechanism to recover distribution network reinforcement costs associated with transmission connections through DUoS. Additionally, we consider that the issue that DCP392 is trying to address is better thought of in a holistic way across transmission and distribution. Therefore, we consider that this change proposal would not better facilitate an efficient, coordinated, and economical operation of the distribution system.

[18] the efficient discharge by the licensee of the obligations imposed upon it by its licence
[19] compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators

(b) the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity;

Working Group View

The majority view of the WG is that objective (b) is not better facilitated. Some members of the WG believed the modification proposal will enhance competition by providing a level playing field for those transmission customers that impacted the distribution system. Those that believed there would be an adverse impact on objective (b) cited that this change, if not fully considered together across distribution and transmission may have a negative impact on the generation and supply of electricity. It follows that this proposal has the potential to exacerbate other distortions which make it preferable to connect to the transmission network rather than levelling the playing field between transmission and distribution connected customers.

Our View

We agree with the WG that this proposal has the potential to exacerbate existing inconsistencies between transmission and distribution connected customers. We would like to consider and be satisfied of the pricing signals we are sending to enable strategic network investment and ensure there is suitable competition by customers regardless of whether they are connecting at distribution or transmission voltages. We do not want to give preferential treatment to the transmission customers over distribution, and we do not want to approve a modification proposal with unintended consequences, such as the incentivisation of customers to connect at transmission level over distribution due to a more preferential charging regime. Therefore, we agree with the WG that the modification proposal does not better facilitate objective (b).

(d) the promotion of efficiency in the implementation and administration of the DCUSA arrangements;

Working Group View

Some members of the WG believed that the modification proposal would have a negative impact on objective (d) as transmission connections are not covered by either the DCUSA or the ECCR, and there are no contractual relationships between transmission connectees and the DNO.

Our View

We agree with the WG that this proposal does not better facilitate objective (d). It is unclear how this proposal could be implemented in practice, and it would not promote efficient administration of the DCUSA, because transmission connectees do not have a contractual

relationship with a DNO, they are not a signatory to the DCUSA and do not have a connection agreement with a DNO. Further, the ECCR was enacted through secondary legislation, and it is not possible that secondary legislation can be amended via the DCUSA code change process. Therefore, we agree with the WG that the modification proposal does not better facilitate objective (d).

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification proposal DCP392: Charging of Third Party DNO Works to Transmission Connection Users should be rejected.

Tessa Hall

Head of Electricity Connections

Systems Planning, Energy and Technology

Signed on behalf of the Authority and authorised for that purpose.