

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP406 – Access SCR: Changes to CCCM (DCP406)		
Decision:	The Authority ¹ directs that the Alternative of this modification be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	10 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.

We consider that the reductions in distribution connection charges brought about by our reforms will serve to bring forward connections of low carbon technologies (LCTs) and allow DNOs to reinforce the network more strategically, ahead of customer need, where it is in the interest of customers to do so. We also consider that our position on the connection boundary strikes the right balance between maximising benefits, such as removing barriers and limiting the cost impacts on wider network customers.

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, supporting the growth of LCTs required for net zero.

As noted above, alongside our Access SCR Decision, we issued the Access SCR 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.

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

Electricity North West Limited (the 'Proposer') raised modification DCP406 (the 'Proposal') on 6 May 2022.⁷ In the course of the Working Group ('WG'), it became apparent that the development of DCP406 would require additional potential solutions. As DCUSA governance only allows for two alternative options to be presented in a single Change Proposal (CP), DCP406A was additionally raised by the Proposer, not as an alternative option to those included in DCP406 but as a separate, stand-alone CP and approved ex-committee⁸ on 20 October 2022.

In effect, DCP406A seeks to complement DCP406 in addressing 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. By raising this proposal separately, the WG and DCUSA Panel have appropriately presented additional options for consideration. We have published our decision to approve DCP406A alongside this decision.

The Proposal

DCP406 aims to implement the aspects of the Access Direction relating to the connection charging boundary arrangements. This includes the implementation of a 'shallow' boundary for Demand Connections (ie with no reinforcement contribution for the connecting customer) and a reduced 'shallowish' boundary for Generation Connections (ie with a reduced reinforcement contribution required at the voltage level of connection only).⁹

The Proposal also considers the elements of the Access Direction related to the High Cost Project Threshold ('HCPT' or 'High Cost Cap'). It maintains the current HCPT for Generation Connections (£200/kW) and introduces a HCPT for Demand Connections (£1,720/kVA).¹⁰ The proposed legal text would update and introduce additional examples in the 'Worked Examples Illustrating the Application of the Connection Charging Methodology' section of the Common Connections Charging methodology (CCCM) (following paragraph 1.60) for clarity and consistency of implementation.

⁷ See DCP 406 Working Group's documents at <https://www.dcusa.co.uk/group/dcp-406-working-group/>

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

⁹ Access SCR Direction – Paragraphs 14 (i), 15(i).

¹⁰ Access SCR Direction – Paragraphs 13(iii), 13(iv), 14(ii), 15(ii). The details of our decision on the HCPT are set out in Access SCR Decision, paragraphs 3.50-3.67, and

Our Access Decision also requested measures to ensure that applications received prior to the implementation date of 1 April 2023 (known as 'in-flight projects') are treated under the existing arrangements. These measures have been included by retaining the current version of Schedule 22 of DCUSA for relevant applications.¹¹

DCP406 presents two possible solutions for the Authority's consideration regarding which sites will be classed as Demand and Generation Connections:

The Original Proposal

Under this proposal, the definitions of a Demand Connection and a Generation Connection would reflect those set out in Schedule 32 of DCUSA, such that:

- a Generation Connection is defined as "*a connection to a Premises where electricity will be consumed only for the purposes of Electricity Generation and/or Electricity Storage*"; and
- a Demand Connection is defined as "*a connection which is not a Generation Connection*".

This solution would see any site connecting to the network that would be considered Final Demand for the purpose DCUSA Schedule 32 (residual charging bands) treated under the demand connection boundary, while sites classed as Non-Final Demand Sites in Schedule 32 would be treated under the generation connection boundary.

The WG identified concerns that this proposal introduced a risk of gaming on the basis that under this proposal, a site with the presence of any Final Demand (no matter how small) would be categorised as a Demand Connection. The WG considered this had the potential to introduce perverse outcomes whereby a site which is primarily generation could benefit from the shallow connection boundary for Demand Connections by also using the site for Final Demand, no matter how minimal.

The WG presented their evidence regarding the gaming risk, which indicates that using industry standard calculations, 46% of Generation Connection offers may see a strong enough incentive to seek to be classified as a Demand Connection in order that they would avoid paying reinforcement costs and accept higher ongoing use of system and policy costs (associated with being classified as demand).

¹¹Access SCR Decision – Paragraph 3.90

The Alternative Proposal

This Alternative Proposal was developed to mitigate the gaming risk identified by the Proposer in the Original Proposal. Here, the definitions of Demand Connection and Generation Connection would reflect the primary purpose of a site for a connection to the network. This would require the DNO/IDNO providing that connection to conduct an objective assessment of the site to determine it.¹²

The WG consider the Alternative Proposal to be aligned with the policy intent stated in our Access Decision.¹³

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 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.¹⁴ 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

¹²The proposed legal text of the Alternative Proposal defines a 'Generation Connection' as:

"a connection to a Premises where the primary purpose of the Premises is wholly or mainly Electricity generation and/or Electricity Storage. In determining such primary purpose we will consider:

i. if the Maximum Capacity of the connection of the Premises to the Distribution System for export is greater than the Maximum Capacity for import;
ii. if the Premises has a Generation Licence;
iii. if the Premises has a Generation Licence Exemption;
and/or
iv. any other information we consider relevant."

¹³ In par. 3.37 of our Access SCR Decision we stated:

"The policy intent is that sites whose primary purpose for a connection to the network is to consume other than for the purposes of generation or export onto the electricity network should be charged under a shallow boundary. Sites that do not meet these criteria, including generation, should be charged under a shallow-ish boundary"

The WG initially interpreted this requirement to be inherently in conflict with TCR, in that a site (eg, a windfarm) whose primary purpose is to generate electricity though having some import could be eligible to be classed as Non-Final Demand site under TCR rules. However, that site may decide not to provide the necessary Non-Final Demand certification and therefore be deemed to be a Final Demand site by default, thus facing a shallow connection boundary by alignment of 'Demand Connection' definition with TCR.

¹⁴<https://www.ofgem.gov.uk/publications/dcp406-and-dcp406a-access-scr-changes-cccm-authority-decision-send-back>

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.

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 Change Declarations.

We note that in the first CD received on 3 November 2022, the solutions in DCP406 were labelled as "Solution 1" and "Solution 2". Following the separation of DCP406 and DCP406A into two independent CRs, the same solutions are now referred to as "Original Proposal" (formerly, Solution 1) and "Alternative Proposal" (formerly, Solution 2). To avoid any confusion, we have used this terminology in this letter, even where reference may be made to the first version of the CR.

DCUSA Parties' recommendation

The updated DCP406 Change Report was issued to DCUSA Parties for voting on 23 December 2022 with the voting time window ending on 11 January 2023.

In each party category where votes were cast (no votes were cast in the CVA Registrant party category),¹⁵ there was unanimous support for the Alternative Proposal and for its proposed implementation date. All parties unanimously rejected the Original Proposal. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP406 Alternative Proposal is accepted. The outcome of the weighted vote is set out in the table below:

¹⁵ There are currently no gas supplier parties.

DCP406	WEIGHTED VOTING (%)							
	DNO ¹⁶		IDNO/OTSO ¹⁷		SUPPLIER		CVA ¹⁸ REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
Original Proposal	0%	100%	0%	100%	0%	100%	0%	0%
Alternative Proposal	100%	0%	100%	0%	100%	0%	0%	0%
IMPLEMENTATION DATE	100%	0%	100%	0%	100%	0%	0%	0%

Our decision

We have considered the issues raised by the Proposal, the CD received on 12 January 2023 and the CR dated 23 December 2022.

We have considered and taken into account the responses to the consultation that the WG issued and the vote of the DCUSA Parties on the Proposal, which are attached to the CD. We have concluded that:

- implementation of DCP406 Alternative Proposal will better facilitate the achievement of the DCUSA Charging Objectives (as compared with the Original Proposal and the status quo);¹⁹ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.²⁰

Reasons for our decision

We consider that the Alternative Proposal will better facilitate Charging Objectives 1 and 2. Whilst we expect that the Original Proposal will also better facilitate Charging Objective 1 through a positive impact equivalent to the Alternative Proposal, we agree that it has the potential to produce major negative impacts in relation to Charging Objective 2. The Alternative Proposal mitigates this risk. We consider both proposals to have a negative

¹⁶ Distribution Network Operator

¹⁷ Independent Distribution Network Operator/Offshore Transmission System Operator

¹⁸ Central Volume Allocation

¹⁹ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

²⁰ 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.

effect on Charging Objective 6 and a neutral effect on the remaining DCUSA Charging Objectives.

Therefore, whilst both Proposals would bring about a net improvement on the status quo, we believe that the Alternative Proposal will facilitate the achievement of the DCUSA Charging Objectives (the 'Charging Objective' or the 'Objectives') better than the Original Proposal, as we set out below.

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

Working Group view

The Working Group (WG) agreed with the Proposer that both the Original Proposal and the Alternative Proposal would better facilitate this Charging Objective when compared with status quo. They highlighted that both proposals ensure DNOs are compliant with licence obligations in relation to the SCR, by implementing requirements set out in the Access Direction.

Notwithstanding the WG's initial view that the Alternative Proposal better facilitated this Objective, we note for completeness that they expressed concern that this did not precisely comply with the requirements set out in the Access Direction in relation to its use of terms other than those defined under the TCR.

Nonetheless, the Working Group considered that the Alternative Proposal was justifiable on the basis that it met the terms of the Access SCR Decision in that it intended to categorise sites by reference to their primary purpose.

The Voting Party view

The voting parties agreed with the views expressed by the WG in the Change Report that both the Original Proposal and the Alternative Proposal would better facilitate this Objective, as generally implementing DCP406 would achieve the requirements set by Ofgem at the end of the Access SCR process and thus would be positive with regard to Charging Objective 1. One voting party felt that while the Original Proposal and the Alternative Proposal both better facilitate Objective 1, the latter is more pragmatic than the former, without adding any further explanation or evidence on this point.

Our view

Our view is also that both the Original Proposal and the Alternative Proposal of DCP406 better facilitate this Objective than the status quo, as the WG has brought forward solutions that meet the Access Direction, which licensees are required to deliver. Both solutions would implement the directed changes regarding the connection boundary, establishing a reduced shallowish boundary for Generation Connections and a fully shallow boundary for Demand Connections. These Proposals also address other changes directed as part of the Access SCR, namely the implementation of a HCPT, and ensuring in-flight connection requests are treated under the existing rules and appropriate examples are included to assist with implementation.

As we explained in our send back letter in December 2022, we noted the initial concern of the WG that the Alternative Proposal is not fully compliant with the Access Direction. In our view, whilst the Original Proposal is most closely aligned with paragraph 13 (section (i) and (ii)) of our Access Direction, the Direction envisaged flexibility for DNOs to develop proposals which addressed the relevant issues in a way that better achieved the purposes and objectives of the Access Decision and Direction (see paragraph 9 of the Access Direction). The Alternative Proposal performs better against this element of the Direction by specifically taking account of issues identified in the course of development of the modification proposal, and also the policy intent of our Access Decision. Our view is therefore that both proposals are positive against this Objective, including in regard to the HCPT and in-flight projects.

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)

Working Group view

The WG concluded that the Original Proposal would negatively affect the second Charging Objective. As outlined above, they considered that this could allow some generators to avoid reinforcement charges therefore having the potential to cause a distortion.

The WG stated that the Alternative Proposal would have a neutral effect on this Objective. They reached this conclusion on the basis that the Alternative Proposal

mitigates the risk that some generators could avoid charges, and therefore reduces the likelihood of leading to any perverse outcome.

The Voting Party view

The reasons given at Party Voting stage by those believing Alternative Proposal better achieved Charging Objective 2 aligned with consultation responses and the WG's assessment regarding the mitigation of the risk of gaming. One party argued that the Original Proposal "*would lead to perverse outcomes where generation connections could seek to avoid reinforcement costs by adding a nominal amount of final demand to the connection*", suggesting this would introduce a distortion and thus perform negatively against Charging Objective 2. This view was reflected in similar wording by a number of respondents across all industry groups.

Our view

In line with our Access Decision, we consider that reducing the connection boundary could help facilitate competition by reducing upfront barriers to connecting to the distribution network. Additionally, a step towards further aligning the arrangements across transmission and distribution should also facilitate competition.

The WG has provided analysis which it considers demonstrates that some sites primarily for the activity of generation would see a financial incentive to categorise as Demand Connections under the Original Proposal. This analysis leads us to consider that this proposal could present a credible risk of gaming which could lead to a significant distortion. We have not seen evidence to the contrary throughout our engagement during the DCP406 change process and whilst we do not expect that all generators which faced this incentive would seek to capitalise on it, the introduction of such a potential distortion could lead to providing an unfair competitive advantage to some generators.

We consider that the Alternative Proposal mitigates the risk of introducing a new distortion as seen under the Original Proposal. We note the responses to the consultation on DCP406 supporting the Original Proposal in which some respondents suggested that if Generation Connections did seek classification as demand to avoid reinforcement costs, then subsequent code modifications or Ofgem intervention could counter this. Whilst we agree in principle that this could be possible, this does not appear to be necessary in circumstances where we have an alternative option available to us which would largely remedy the concerns highlighted.

In summary, alongside the benefits for competition of reforms to the connection boundary envisaged in our Access Decision, we expect the Original Proposal could introduce distortions which may impede competition. On balance, we would therefore expect the Original Proposal to have a broadly neutral effect overall on DCUSA Charging Objective 2, noting each aspect is subject to some uncertainty and hard to quantify.

On the other hand, the Alternative Proposal is positive against this Objective. This is because it is likely to mitigate the risk of gaming identified with the Original Proposal and provide the flexibility required to ensure connections are accurately categorised according to their primary purpose, leading to sites of a similar nature being treated equally, supporting fair competition. We encourage DNOs to collaborate closely in implementing the solution in order to ensure fair and equivalent treatment for customers across all DNO areas. When taken together with the expected benefits to competition of the reforms as identified in our Access Decision, we therefore consider the Alternative Proposal to be positive overall against Charging Objective 2.

DCUSA Charging Objective 6: that compliance with the Charging Methodologies promotes efficiency in its own implementation and administration

Working Group view

The WG considered that both proposals would have a negative effect on Charging Objective 6. They stated that this modification introduces different charging arrangements for Demand and Generation Connections and therefore adds complexity into the assessment of the type of connection in order for the appropriate charging regime to be applied. Currently, DCUSA treats both connection types in the same way, thus differential treatment adds a degree of further complexity. However, the WG recognised that the Access Decision has determined that this change compared to the current arrangements is justified.

The Voting Party view

One voting party disagreed with the WG's view on Charging Objective 6. This party considered that, as the Access SCR Decision has determined this change to be justified compared to current arrangements, the impact on Charging Objective 6 would be either positive or neutral.

Our view

Our assessment aligns with that of the WG, that both the Original Proposal and the Alternative Proposal are negative regarding Charging Objective 6. However, we note that

while the introduction of either proposal would lead to a more complex assessment in the CCCM, we expect this to be manageable and proportionate, and justified by the long-term benefits.

For the reasons detailed above, we believe that the ultimate benefits to consumers deriving from lowering the connection boundary will largely exceed any negative impact arising from the additional administrative burden imposed on the DNOs.

Impact assessment

The policy development and respective sections in the Access Decision which are being implemented through DCP406 on 1 April 2023 are based on a quantitative impact assessment (IA). The initial draft IA was published alongside our June 2021 Consultation on minded-to positions and the final IA was published in May 2022 alongside our Access SCR Decision and Direction. We consider that the modelling and results of the draft IA published in June 2021 (presented in Section 3.18-3.25 of the Access SCR Decision and the accompanying IA) continue to provide a robust estimate of the quantitative impacts associated with these proposals.

OFGEM's Principal Objective and statutory duties

Our assessment suggests that the Alternative 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 shallower connection charges, as brought forward under DCP406, would help bring forward investment in low carbon technologies, reducing and removing barriers to connection. They should also allow 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.

Interactions with the Electricity (Connection Charges) (Amendment) Regulations 2022

Within our Access Direction, we recognised that the changes to the connection boundary (proposed through DCP406) interact with the Electricity (Connection Charges) Regulations 2017 ('ECCR'). It was, and remains, our view that we would not be able to approve the relevant DCUSA change proposal without legislative changes being made. On 6 December 2022, Statutory Instrument (SI) 2022/1265 was laid before parliament, which proposed to amend the ECCR so as to be compatible with a decision to approve

DCP406. This SI was confirmed and will become law on 1 April 2023. We are therefore satisfied that the necessary legislative changes to support this decision are in place.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that the Alternative Proposal of modification proposal DCP406 "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