

Distribution Connection and Use of System Agreement (DCUSA) – Cost Apportionment Factor “CAP” Methodology (DCP425)

Decision	The Authority ¹ determines that this modification should be made ²
Target audience	DCUSA Panel, Parties to the DCUSA and other interested parties
Date of publication:	17 th September 2024
Implementation date:	1 st October 2024

Background

Distribution Network Operators (DNOs) are licensed companies that own and operate the network which distributes energy to homes and businesses in GB. There are 14 geographically defined Distribution Service Areas (DSAs) within GB, each operated by a licensed DNO.

Users make applications to DNOs if they wish to connect to their network, with the process defined in the Electricity Act 1989 and the DNO’s licence. If an electricity network will be overloaded by load growth or a new connection, the capacity of the network will need to be increased. The infrastructure development to increase the capacity of the network is referred to as reinforcement.

When a new generation connection is required, a cost of reinforcement will be calculated. DCUSA Schedule 22, otherwise known as the Common Connection Charging Methodology (CCCM)³, contains the concept of the High-Cost Project Threshold (HCPT), which is a £/kW value.⁴ Where an individual connection triggers reinforcement costs that breach the HCPT, the connecting user will pay 100% of the cost of reinforcement that exceeds the cap. The reinforcement costs which are below the HCPT are apportioned between the

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 [DCUSA Schedule 22](#)

⁴ The design of the HCPT means the cap is based on a £/kW threshold for reinforcement costs, rather than the absolute cost or capacity requirement of the connection. For generation connections, there is an existing HCPT set at £200/kW.

connecting user and the responsible DNO by using a CAF (Cost Apportionment Factor) calculation. This is designed to protect wider consumers from the additional costs caused by the complexity of some connections.

The CCCM, sets out the principles for charging connection users. Following, the Authority's Access SCR final decision⁵ the costs of reinforcement for generation connections would be apportioned based on the voltage level of the point of connection only. DCP422⁶ was implemented to update the CCCM in order to provide greater clarity on the application and calculation of the HCPT, with respect to generation connection charges.

There has since been concern that the CCCM does not provide adequate explanation of how the costs of reinforcement are apportioned between the DNOs and a generation connection user when the HCPT is surpassed particularly if multiple CAFs are required due to the complex nature of the project. This is as a result of a lack of a clear methodology to calculate and apportion charges for generation connections in these circumstances. As such, there is a risk that some DNOs could charge a user twice for the same reinforcement costs, depending on what calculation method is applied.

The modification proposal

DCP425 ('the Proposal') was raised by Northern Powergrid ('the Proposer') on the 13 July 2023. The Proposer states that currently under the CCCM there is no clearly defined methodology to be used to calculate connection charges when three main factors occur. These three factors are (i) a generation connection triggers reinforcement at the voltage level of the Point of Connection, (ii) the costs of reinforcement exceed the High-Cost Profit Threshold and (iii) multiple CAFs are required for calculating the connection charge. In a situation where these three factors are present the Proposer is concerned that a lack of a defined methodology to calculate the appropriate connection charges would result in inconsistent charging which negatively impacts on users and DNOs.

The Proposal is therefore intended to develop a methodology to calculate and accurately apportion connection charges in circumstances when the three factors are present. Consequently, the Proposal seeks to remove the risk of this double charging. Overall, the proposal seeks to build on the policy intent of the Access SCR and DCP422 by creating

⁵ [Access SCR - Final Decision](#)

⁶ [DCP 422 Working Group - DCUSA](#)

more clarity as to how to calculate connection charges for the situation highlighted in DCP425. The Proposal aims to cap all reinforcement costs proportionally, with the excess above the HCPT being subtracted from each cost of reinforcement proportional to the total cost of reinforcement. Under the Proposal, the existing CAF methodology would be amended to cap costs of reinforcement proportional to the unadjusted CAF contribution from the generation connection user.

The Proposer believes that the solution will better facilitate the First, Second, Third and Sixth DCUSA Charging Objectives. The Proposer believes that this approach would lead to greater consistency, transparency, and accuracy in respect to DNOs charging generation connection users.

DCUSA Parties' recommendation

In each party category where votes were cast (no votes were cast in the CVA Registrant party category),⁷ 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 DCP425 is accepted. The outcome of the weighted vote is set out in the table below:

DCP425	WEIGHTED VOTING (%)							
	DNO ⁸		IDNO/OTSO ⁹		SUPPLIER		CVA ¹⁰ 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 and the Change Declaration and Change Report dated 21 March 2024. We have considered and taken into account the vote of the DCUSA Parties on the Proposal which is attached to the Change Declaration. We have concluded that:

⁷ There are currently no gas supplier parties.

⁸ Distribution Network Operator

⁹ Independent Distribution Network Operator/Offshore Transmission System Operator

¹⁰ Central Volume Allocation

- implementation of the Proposal will better facilitate the achievement of the Applicable DCUSA charging objectives;¹¹ and
- directing that the modification is approved is consistent with our principal objective and statutory duties.¹²

Reasons for our decision

We consider that this modification proposal will better facilitate the First, Second, Third and Sixth DCUSA charging objectives and has a neutral impact on the remaining objectives.

Applicable 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

The DCP425 Working Group considered that the first DCUSA Charging Objective would be better facilitated by the Proposal. The Proposal is seen to encourage more transparent and efficient operations. The implementation of the Proposal was considered to develop clear and consistent approach to calculating connection charges for generation users when generation connection triggers reinforcement costs which exceed the HCPT and requires multiple CAFs. This would enable DNOs to generate charging statements which demonstrate a set methodology showing the basis on which connections charges will be recovered. In comparison to the current situation, the Working Group believes this outcome would enable DNO parties to better meet their licence obligations.

Our View

In comparison to the baseline, we consider that the Proposal will better facilitate the first DCUSA charging objective. The Proposal seeks to develop a methodology that would enable DNO parties to prepare charging statements in a form which is approved by the Authority and follows a consistent charging methodology. The charging statements generated if the Proposal was implemented, would be consistent across the DNO parties and present necessary information in a manner which is easily understood as required under Standard Licence Condition 14.3. We consider that the charging statements generated in line with the methodology advocated for in DCP425 will be more accurate

¹¹ The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

¹² 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.

for cases when the three factors discussed in DCP425 are present, therefore facilitating the DNO is meeting this obligation.

Applicable 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 majority of Working Group members considered that approval of the Proposal would be positive against this objective. The Working Group considered the Proposal to provide clear direction on the methodology to be applied that promotes a consistent approach across all DNOs. Presently, there is no clear methodology or example for how to calculate connection charges for generation users when generation connection triggers reinforcement costs which exceed the HCPT and requires multiple CAFs. This lack of clarity is thought to create the opportunity for inconsistent connection charging between similar users depending on the approach each DNO decides to implement as they do not have any guidance over the correct methodological approach to adopt. The development of a consistent approach is considered vital by the Working Group and the Proposer as it will develop a more accurate connection charges based on a single methodology which are also considered more transparent compared to the baseline as a clear process for calculating charges can be demonstrated in the charging statements provided.

Our View

The Authority considers that the Proposal will better facilitate the second DCUSA Charging Objective. The Proposal highlights a lack of clarity existing within the CCCM on how to calculate and apportion connection charges when (i) when a generation connection triggers reinforcement costs at the Voltage level of the Point of Connection (ii) the costs of reinforcement exceed the HCPT and (iii) multiple CAFs are required. The Proposer intends for DCP425 to provide a greater level of clarity on how to calculate connection charges while also ensuring that all DNO parties are implementing the same charging methodology for generation connected users.

We consider that the Proposal develops a consistent approach to calculating and apportioning connection charges which removes the risk that generators could be treated differently depending on which DNO area they are based in. At present, two generators with identical projects could face different costs due to their location and the DNO party responsible for their area. This is due to a lack of clarity in relation to generation

connection charging under current arrangements, which could result in DNO parties each applying different methods of calculating charges and apportioning costs for generation users.

We believe the solution proposed by DCP425, would generate increased clarity for DNOs and Users explaining how charges will be calculated. We consider that the increased sense of clarity would limit the potential for differences between generation users' connection charges and level the playing field between generators. Therefore, we consider that the impact of the Proposal with on the second DCUSA Charging Objective to be positive.

Applicable DCUSA Charging Objective 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

DCP425 was considered by the Proposer to better facilitate the third DCUSA Charging Objective, as the Proposal ensures that connection charges would be reasonable and based on an appropriate CAF methodology which would prevent the double recovery of costs. The Working Group agreed with the Proposer that DCP425 would better facilitate this objective and further stated that providing a straightforward CAF methodology would enable DNOs to demonstrate, via its charging statement, the basis on which charges have been applied and ensures a consistent approach is taken by each DNO party.

Our View

We consider that the third DCUSA charging objective is better facilitated by the solution proposed in DCP425. The implementation of an updated methodology to calculate connection charges when (i) when a generation connection triggers reinforcement costs at the Voltage level of the Point of Connection (ii) the costs of reinforcement exceed the HCPT and (iii) multiple CAFs are required, would improve the cost reflective nature of connection charges when these factors occur.

The baseline presents a risk that DNOs may use different approaches to calculate charges for generation users. This could result in double charging or charges which are not reflective of the actual costs of establishing a generation connection. Furthermore, the potential exists that costs are inaccurately apportioned between DNOs and the connecting user. The risk of double recovery, from less accurate calculations which lead

to double charging and the incorrect apportionment of costs between parties is removed through the clarity provided by the Proposal.

This results in charges that reflect the actual costs of a establishing a connection being correctly apportioned between DNOs and generation customers. The charges which the parties are liable for are more cost reflective of the actual costs than the present approach which lacks a clear methodology. For this reason, we believe that DCUSA Objective 3 is better facilitated by this Proposal.

Applicable DCUSA Objective 6 - That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.

The Proposal was considered to have a positive impact on the sixth DCUSA Charging Objective by the Proposer and some members of the Working Group. This was due to the increased clarity that DCP425 would provide to the CCCM on calculating consistent connection charges when a generation connection triggers reinforcement, the costs of reinforcement exceed the HCPT and multiple CAFs are required. The Proposer states that DCP425 provides the simplest solution to the identified problem while fostering an increased level of transparency which enables DNOs to meet their obligations in a more efficient manner. In the Working Group consultation, some respondents stated that DCP425 did not impact on the sixth DUCSA charging objective and therefore it to have a neutral impact. There were no responses advocating that the objective was negatively impacted by the Proposal.

Our View

We consider the sixth DCUSA charging objective is better facilitated by the implementation of DCP425. The Proposal is understood to improve efficiency in both its administration and implementation. The straightforward approach of the solution advocated in DCP425 will enable an efficient implementation. The solution is more user friendly than the baseline and does not create any additional barriers for DNO parties to deliver their obligations. Furthermore, the simplistic and consistent nature of applying one methodology for all DNOs makes calculating connections charges more efficient. The logic of applying an existing methodology for connection charging when required, rather than having to develop an approach when a generation connection triggers a reinforcement cost above the HCPT and Multiple CAFs are required makes the process less complex for DNO parties. In terms of administration, the proposed amendment to the CCCM aims to develop a more consistent approach which improves that transparency

of connection charging. The use of the proposed methodology will enable DNOs to issue charging statements which explain the methodology used to calculate charges with a clear explanation of charges for customers. Overall, we consider the sixth DCUSA charging objective to be positively impacted by the Proposal due to the increased clarity of implementation and administration which will improve efficiency of charging generation connection customers.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP425: 'Cost Apportionment Factor "cap" methodology' be made.

Andrew Malley

Head of Distribution and Residual Charging

Signed on behalf of the Authority and authorised for that purpose