

DCUSA Panel Chair, DCUSA
Panel, Electricity Distribution
Network Operators, Electricity
Suppliers and other interested
parties

Email: Amy.Freund@ofgem.gov.uk

Date: 15 December 2022

Dear Panel Chair,

Authority decision to send back Distribution Connection and Use of System Agreement (DCUSA) modification proposals DCP406 and DCP406A - Access SCR: Changes to CCCM

On 3 November 2022, the DCUSA Panel submitted a Change Report (CR) for DCUSA modification Change Proposals (CPs) DCP406 and DCP406A (the 'Proposals') to the Authority¹. The two solutions proposed in DCP406 aim to implement changes directed by the Authority as a result of the Access SCR². DCP406A aims to mitigate against a potential discrepancy identified by the Working Group (WG) arising from the implementation of DCP406. It refers specifically to the current Exceptions in Schedule 22 of DCUSA and is intended to be implemented in combination with one of the DCP406 Solutions.

We have decided to send back both Proposals for the following reasons:

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 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>

- In general, we are not satisfied that the analysis presented in the CR adequately considers each modification in isolation and clearly presents a full and distinct assessment for each.
- In particular, no independent analysis is presented for DCP406A against the DCUSA Charging Objectives.
- Further, in the outcome of Consolidated Party Votes no distinction is drawn between which of the two modifications is better facilitating the different DCUSA Charging Objectives.

As such, we consider that we are unable to properly form an opinion on the Proposals. It is important that the information submitted allows for a full, clear, and distinct assessment of each CP under consideration. To allow complete clarity, we are therefore sending back the CR for further revision.

Nonetheless, in Appendix 1 to this letter, we include our preliminary assessment of the solutions presented in the CR against the DCUSA Charging Objectives, to the extent practicable given the issues set out above. In doing so, we aim to provide transparency about our current policy thinking and aid industry preparations for smooth implementation of the Access SCR from 1 April 2023. However, please note that nothing in this letter, or the preliminary assessment below in Appendix 1, fetters our discretion in respect of the Proposals when they come back to us for decision.

Our preliminary assessment suggests that Solution 2 of DCP406 together with the changes proposed under DCP406A best facilitate achievement of the DCUSA charging objectives as compared with the baseline and other options available, are consistent with our Principal Objective and statutory duties, and we would support their adoption in principle, subject to any additional information provided by the Working group and dependent on necessary changes to legislation. This assessment is explained further in Appendix 1.

However, before we can reach a final decision, we ask that the DCUSA Panel and the associated WG(s) assess the modifications presented and give consideration to the concerns highlighted above. We are not requesting any revisions to these Proposals. We encourage the WG(s) to consider the following approaches to presentation of the Proposals, following the standard format of a single CR per CP. This could be done through EITHER:

- An amalgamation of the changes proposed by DCP406A into the solutions of DCP406 within a single modification CP.

OR

- A full and formal separation of the code modifications of DCP406 and DCP406A and the associated CRs. This would entail a full assessment as required by DCUSA governance of DCP406A against the DCUSA Charging Objectives, independent of the assessment of DCP406, as well as consolidated party voting referring to the Proposals separately.

We invite the WG(s) to consider the extent to which further party voting and / or consultation may be required to present a full and clearly separate assessment of each modification.

We draw the WG(s) attention to the timeframes required under the Access SCR for these changes to be implemented on 1 April 2023 and encourage early revision of the CRs to reflect the comments in this letter, to allow for a timely decision, as required by the Access Direction. We urge the WG to remain mindful of these timeframes when addressing this send back.

Direction

In accordance with Clause 13.11A of the DCUSA, the Authority directs the DCUSA Panel to review DCP406 and DCP406A to take into account the points laid out above. Further detail on our assessment of the CR can be found below. Again, for the avoidance of doubt, nothing in this letter, or the preliminary assessment below in Appendix 1, fetters our discretion in respect of the DCP406 and DCP406A proposals when they come back to us for decision.

Amy Freund

Head of Electricity Connections

Signed on behalf of the Authority and authorised for that purpose

Appendix 1 – Preliminary assessment of modification proposals DCP406 and DCP406A, pending resubmission of Change Report(s) as requested

This Appendix serves to outline Ofgem’s preliminary assessment of the changes proposed by both DCP406 and DCP406A, to the extent practicable given the issues set out in our send back letter. The purpose of including this Appendix is to give transparency on our current policy thinking and to aid industry in their preparation for a 1 April 2023 implementation date for the Access SCR. However, please note that nothing in the above letter, or the preliminary assessment in this Appendix, fetters our discretion in respect of the Proposals when they come back to us for decision.

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 reinforcement costs for Demand Connections and reducing it for Generation Connections⁴.

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>

⁴ Also referred to as ‘shallow-ish’ connection charges.

- Existing protections for bill payers will be retained and strengthened⁵
- 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 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 brought forward for decision by the Authority, which collectively aim to implement the Access Decision.

The modification proposals

Four DCUSA modification proposals were initially raised to implement the reforms resulting from the Access SCR Decision. Electricity North West Limited (the 'Proposer') raised modification DCP406 (the 'Proposal') on 6 May 2022⁶. In the course of the Working Group, DCP406A was additionally raised by the Proposer, not as an alternative but as a separate change proposal, and approved ex-committee⁷ on 20 October 2022. DCP406A would complement DCP406 (if approved) in order to provide a workaround for what the Working Group has stated they see as two situations that would result in potentially inequitable treatment of connection customers.

⁵ Also referred to as 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 See [DCP 406 Working Group's documents at https://www.dcusa.co.uk/group/dcp-406-working-group/](https://www.dcusa.co.uk/group/dcp-406-working-group/)

⁷ This is a special DCUSA Panel meeting convened outside of the regular monthly panel meetings.

DCP406 aims to implement the aspects of the Access Direction relating to the connection charging boundary. 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)⁸.

The Proposal also considers the elements of the 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)⁹. The 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.

Our Access Decision also requested measures to ensure that applications received prior to the implementation date of 1 April 2023 are treated under the existing arrangements (known as 'in-flight projects'). These measures have been included by retaining the current version of Schedule 22 of DCUSA for relevant applications.¹⁰

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

Solution 1 - The definitions of a Demand Connection and a Generation Connection reflect definitions found in Schedule 32 of DCUSA. This sees a Generation Connection 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 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 of 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 Working Group identified concerns that Solution 1 introduced a risk of gaming on the basis that under the existing arrangements a site with any presence of Final Demand (no

⁸ Access SCR Direction – Paragraphs 14 (i), 15(i).

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

¹⁰ Access SCR Decision – Paragraph 3.90.

matter how small) would be categorised as a Demand Connection. The Working Group 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 Working Group 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 avoid paying reinforcement costs (by being a Demand Connection) and accept higher ongoing use of system and policy costs.

Solution 2 - This solution was developed to mitigate the gaming risk identified by the Proposer in Solution 1. Here, the definitions of Demand Connection and Generation Connection would reflect the primary purpose of a site. This aligns with the request to DNOs in our Access Decision.

DCP406A has been raised in order to address, in the Proposer's view, flaws in two current Exceptions (Exception 1 and Exception 5) identified during the process of developing the DCP406 changes to the connection boundary. Exceptions can be found in Schedule 22 of DCUSA under 'Costs to be apportioned between you and us', beginning with paragraph 1.16 (currently), and set out specific cases where alternative charging arrangements apply. Under the proposed changes to these exceptions, further elements that would otherwise be treated as Reinforcement are instead treated as Extension Assets.

Exception 1 as currently written refers to an Interconnection (ie a situation where two different voltage levels from currently separate networks are connected). In the cases set out by Exception 1 the assets beyond the wire servicing the connecting customer are considered reinforcement of the wider network. This creates the potential for different charging outcomes under the shallow demand connection boundary dependent on whether the site is interconnected or not, whereby:

- without the interconnection, the connection customer would pay for the assets as Extension Assets; or
- with the interconnection, the costs would be fully borne by Distribution Use of System (DUoS) customers and the connecting customer would not pay anything bar the smaller extension assets from the new transformer to their site.

Under this proposed amendment, the costs for the extension assets, irrespective of if 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 change would ensure that it is not cheaper for an additional interconnector to be built with regard to the overall bill paid by the customer. The Working Group have indicated their opinion that this is a better reflection of Ofgem’s policy intent and would provide more equitable treatment for connection customers. This is due to the fact that the SCR did not intend to allow for a situation where customers could receive lower quotes for their connection when more network is built. This is not in the interest of cost reflectivity or efficient network development.

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). In this scenario, currently, the assets up to the site boundary are considered extension assets and all assets beyond the site boundary to the two points of connection are considered reinforcement (as this creates new capacity). The Working Group identified that this 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 Working Group suggested that this is an anomaly and not aligned with Ofgem’s policy intent, suggesting the introduction of a new Exception 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 fully funded by the DNO as reinforcement (in the case of Demand Connections) and apportioned according to the connection rules (in the case of Generation Connections).

The Views of the Proposer

The Proposer of DCP406 believes that either solution of the change proposal, alongside DCP406A would better facilitate the first DCUSA Charging Objective¹¹ by ensuring DNOs

¹¹ The DCUSA Charging Objectives are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence.

are compliant with licence requirements in relation to Significant Code Reviews (SCRs) and by implementing specific requirements set out in the Access Direction.

DCUSA Parties’ recommendation

DCP406

Votes were cast in three out of the four party categories (no votes were cast in the CVA Registrant party category).¹²

There was a difference of opinion between party categories with regard to whether to accept Solution 1 or Solution 2. DNOs unanimously supported Solution 2, whereas 67% of IDNOs and Suppliers supported Solution 1. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP406 Solution 1 is accepted.

DCP406A

All parties supported the proposals set out in DCP406A, in conjunction with DCP406. As such, the recommendation to the Authority is that DCP406A is accepted.

All parties supported the implementation date of 1 April 2023 for both modifications.

The outcome of the weighted vote for both modifications is set out in Table 1 below:

DCP406, 406(A)	WEIGHTED VOTING (%)							
	DNO ¹³		IDNO/OTSO ¹⁴		SUPPLIER		CVA ¹⁵ REGISTRANT	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
DCP 406 Solution 1	0%	100%	67%	33%	67%	33%	No votes	No votes
DCP406 Solution 2	100%	0%	33%	67%	33%	67%	No votes	No votes
DCP406A	100%	0%	100%	0%	100%	0%	No votes	No votes
IMPLEMENTATION DATE	100%	0%	100%	0%	100%	0%	No votes	No votes

Our preliminary assessment of the Proposals

We have considered the issues raised by the Proposals, the Change Declaration and the Change Report dated 3 November 2022. We have considered and taken into account the

¹² There are currently no gas supplier parties.
¹³ Distribution Network Operator.
¹⁴ Independent Distribution Network Operator/Offshore Transmission System Operator.
¹⁵ Central Volume Allocation.

responses to the consultation that the Working Group issued and the vote of the DCUSA Parties on the Proposals, which is attached to the Change Declaration. We are unable to reach a final decision on these code modifications due to the deficiencies identified in our send back decision letter to which this preliminary assessment is attached.

Pending revisions to the CRs as outlined in our send back decision letter, we set out our preliminary assessment here, based on the information presented to us, to provide transparency to stakeholders on our policy thinking and assist industry with their preparations for smooth implementation for 1 April 2023 as envisaged by the Access Decision, noting our view may change pending any updated assessment.

Our preliminary view is that implementation of DCP406 Solution 2 and the changes contained within DCP406A will best facilitate the achievement of the Applicable DCUSA objectives and are consistent with our principal objective and statutory duties.

Reasons for our preliminary assessment

In relation to DCP406, we have considered the impact of the Proposals as presented on the DCUSA Charging Objectives, based on the information presented to us. Our preliminary view is that Solution 2 would better facilitate Charging Objectives 1 and 2 and would negatively impact Charging Objective 6. Whilst we expect that Solution 1 would also better facilitate Charging Objective 1, we consider it would have a neutral effect on Charging Objective 2 and a negative effect on Charging Objective 6. With regard to other Charging Objectives, we expect both proposals to have a neutral effect.

In relation to the changes outlined under DCP406A, our preliminary view is that these better facilitate Charging Objective 1 and Charging Objective 2 with a neutral effect on all other Charging Objectives. We note that the Working Group has not provided an independent assessment of DCP406A against the DCUSA Charging Objectives. This information is required and forms part of our decision to send back the Change Report. Our Access SCR Decision and Direction reference the implementation of our reforms in April 2023. The Working Group recommends that the implementation date for the processes as set out by this Proposal should be set for 1 April 2023, which Ofgem agrees with.

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

DCP406: The Working Group agreed with the Proposer that both Solutions 1 and 2 of DCP406 would better facilitate this DCUSA Charging Objective. They highlighted that the Proposal ensures DNOs are compliant with licence obligations in relation to the SCR, by implementing requirements set out in the Access Direction.

Notwithstanding the Working Group's view that Solution 2 better facilitated this objective, we note for completeness that they expressed concern that Solution 2 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 Solution 2 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.

DCP406A: We note that the Working Group has not provided an independent assessment of DCP406A against the DCUSA Charging Objectives.

The Voting Party View

DCP406: The party voting process resulted in a preference for Solution 1 over Solution 2 as shown in Table 1 above. Broken into voting groups, DNOs were universally in favour of Solution 2, whereas IDNO parties and Suppliers were split 2:1 in favour of Solution 1, resulting in a weighted voting outcome in favour of Solution 1.

In support of Solution 1, one party considered this solution was better aligned with the definitions introduced as a result of the Targeted Charging Review (TCR)¹⁶ (i.e. those already in use in Schedule 32 of the DCSUA) and so fit for purpose. They also argued that any solution which is not TCR-aligned could risk undermining the uptake of low

¹⁶ The Targeted Charging Review was a Significant Code Review carried out by Ofgem and concluded in November 2019. [Targeted Charging Review: Decision and Impact Assessment | Ofgem](#)

carbon technologies, though this was not accompanied with any evidence. This reflected a party's views expressed during the consultation process earlier in the modification.

Parties that argued for Solution 2 reiterated their belief that this solution achieved the requirements set by Ofgem at the end of the Access SCR process and thus was positive with regard to Objective 1.

DCP406A: No independent views were expressed during the party voting process regarding DCP406A. Though all parties indicated they supported the solution overall, we are unable to determine parties' views on this against the Charging Objectives from the information submitted.

Our preliminary view

DCP406: Our preliminary view is that both Solutions 1 and 2 of DCP406 better facilitate this objective, as the Working Group has brought forward proposals that meet the Access Direction, which licensees are required to deliver. From the information available in the current CR, both solutions appear to implement the directed changes regarding the connection boundary, establishing a reduced shallowish boundary for Generation Connections and a fully shallow boundary for Demand Connections. The Proposal also seems to address other changes directed as part of the Access SCR, namely the implementation of a HCPT, ensuring in flight connection requests are treated under the existing rules and appropriate examples are included to assist with implementation.

We note the concern of the Working Group that Solution 2 is not fully compliant with the Access Direction. In our view, whilst Solution 1 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). Solution 2 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.¹⁷ Our preliminary view is therefore that both proposals are positive against this objective.

¹⁷ We specifically recognised in our Access Decision that the terms proposed in paragraph 13 'were not developed for the explicit purpose of connection charging' and encouraged DNOs to develop criteria necessary to allow a clear determination giving effect to the terms of our decision.

We are unclear on the reason for one party's views expressed in their comments in support of Solution 1 that any option which is not aligned with the TCR would risk undermining the uptake of low carbon technologies. Both Solutions implement the changes to the connection boundary outlined in the Access SCR, which was identified as a key driver to increase the uptake of low carbon technologies.

DCP406A: As noted in our decision letter to send back DCP406 and DCP406A, while no specific references were made to DCP406A in the Party Voting process, our own preliminary analysis suggests that adoption of DCP406A would have a positive impact on Charging Objective 1. Our direction required that "*any additional terms considered necessary to give effect to this Direction*" should be included. The need for additional/revised terms with regard to Exception 1 and 5 has been established through the Working Group process. As such, our preliminary view is that adoption of DCP406A would have 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);

Working Group View

DCP406: The Working Group concluded that Solution 1 would negatively affect the second DCUSA Charging Objective. They considered that Solution 1 could allow some generators to avoid charges and therefore has the potential to cause a distortion.

The Working Group stated that Solution 2 would have a neutral effect on the second DCUSA Charging Objective. They reached this conclusion on the basis that Solution 2 mitigates the risk that some generators could avoid charges and therefore reduce the likelihood of causing a distortion.

DCP406A: We note that the Working Group has not provided an independent assessment of DCP406A against the DCUSA Charging Objectives.

The Voting Party View

DCP406: With regard to Party Voting, the votes regarding a positive impact on Charging Objective 2 showed unanimous support for Solution 2 by DNOs, alongside one IDNO and one supplier. None of the other IDNO parties expressed a view on Charging Objective 2, while two suppliers believed Solution 1 better facilitated Charging Objective 2.

Parties supporting the adoption of Solution 1 stated in the Party Voting process that the proposed charging arrangements should *“help to provide a more effective signal for network users and to help prevent the potential slow-down of the roll-out of low carbon technologies across the energy system”*.

The reasons given at Party Voting stage by those believing Solution 2 better achieved Charging Objective 2 aligned with consultation responses regarding the mitigation of the risk of gaming. One party argued that *“Solution 1 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.

DCP406A: As with the assessment of DCP406A against Charging Objective 1, no specific voting statements were made that could be associated with parties’ views on how DCP406A performs against Charging Objective 2. Though all parties indicated they supported the solution overall, we are unable to determine parties’ views on this against the Charging Objectives.

Our preliminary view

DCP406: 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. Our preliminary view is that these benefits are likely to apply similarly to either Solution.

However, our preliminary assessment agrees with the Working Group and others who identify that Solution 1 also has the potential to have a negative impact on effective competition and introduce a distortion. The Working Group has provided analysis which it

considers demonstrates that some generation sites would see a financial incentive to categorise as Demand Connections under Solution 1. This analysis leads us to consider that Solution 1 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 undue costs for consumers.

We note the responses to the consultation on DCP406 supporting Solution 1 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 appears 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 Solution 1 would introduce distortions which may impede competition. On balance, our preliminary assessment therefore suggests that Solution 1 would 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, Solution 2 appears to be positive against Charging Objective 2. This is because it is likely to 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. Solution 2 would appear to mitigate against the risk of gaming identified with Solution 1. When taken together with the expected benefits of the reforms as identified in our Access Decision, our preliminary view is therefore that we would expect Solution 2 to be positive overall against Charging Objective 2.

We consider Solution 2, if implemented, may benefit from further ongoing collaborative development by DNOs to establish consistent approaches across DNO boundaries to support equal and consistent application for customers in different areas, leading to a level playing field.

DCP406A: Noting we have not received specific information from the Working Group assessment nor the Party Voting, our preliminary assessment is that the proposals in DCP406A appear to have a positive impact upon Charging Objective 2. This agrees with the Working Group's assessment that the proposals would ensure more cost-reflective arrangements in the future charging boundary by requiring that a proportional share of the costs would be charged to the connecting customer, in line with other connecting customers requiring similar network development. This would lead to a fairer distribution of costs, which would result in a more level playing field between connections treated under Exceptions versus those treated under the regular connection arrangements and fairer competition. This would still result in a lower than current charging arrangement for the customer in most cases given that the remaining reinforcement would be funded entirely by the DNO.

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

Working Group View

DCP406: The Working Group considered that both Solutions of DCP406 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 so that the appropriate charging regime can be applied. Currently, DCUSA treats both connection types in the same way, thus a differential treatment adds a degree of further complexity. However, the Working Group recognised that the Access Decision has determined that this change compared to the current arrangements is justified.

DCP406A: We note that the Working Group has not provided an independent assessment of DCP406A against the DCUSA Charging Objectives.

The Voting Party View

One response was received during the party voting process which disagreed with the Working Group 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.

The party did not distinguish between the DCP406 and DCP406A solutions in their comments.

Our preliminary view

DCP406: Our preliminary assessment aligns with that of the Working Group, that the proposed solutions are negative regarding Charging Objective 6. Our preliminary assessment comparing both Solutions leads us to believe that Solution 2 is somewhat more negative than Solution 1 regarding Charging Objective 6 given the additional complexity in the definition of a Generation Connection, where DNOs need to make an independent assessment of the primary purpose of a site as opposed to following a simple, established definition. However, we note that while the introduction of either Solution would lead to a somewhat more complex assessment in the CCCM, we expect this to be manageable and proportionate, and justified by the merits such that, overall, the change to the connection boundary would be in the best interest of consumers.

Ofgem notes that one Voting Party disagreed with the Working Group assessment on Charging Objective 6 by stating that "*the Access SCR Decision has determined that this change compared to the current arrangements is justified*". We agree with this response that the change is justified but on the explicit wording of Charging Objective 6, we believe that the additional complexity does constitute a negative effect.

DCP406A: While we have not received specific information from the Working Group assessment nor the Party Voting, our preliminary view is that DCP406A would have a neutral impact upon Charging Objective 6. The exceptions as currently set out in DCUSA detail cases where DNOs must apply a different charging regime in specific scenarios. This is not changed by DCP406A – only the substance of these exceptions. We therefore do not consider that the changes proposed under DCP406A can be considered to have an effect either way compared to the current charging regime with regard to Charging Objective 6.

OFGEM's Principal Objective and statutory duties

Our preliminary assessment suggests that the Proposals align 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. 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.

Summary

Our preliminary assessment of the changes proposed by DCP406 and DCP406A, based on the information and analysis presented to us so far, suggests that Solution 2 of DCP406 and the changes proposed under DCP406A best facilitate the DCUSA Charging Objectives and are consistent with our Principal Objective and statutory duties. However, as noted in our send back decision letter to which this preliminary assessment is attached, we do not consider that the Change Report as submitted provides sufficient analysis to support a fully informed decision on the modifications proposed and request its further revision.