

**DCUSA DCP 097 Consultation Responses – Collated Comments**

<b>Question One</b>	<b>Do you understand the intent of the CP and are you supportive of its principles?</b>
Electricity North West Ltd	We understand the intent of the change proposal and support some, but not all, of the principles behind the proposal.
ES Pipelines	Yes
Inexus	Yes, we believe the intent is clearly stated and we support the proposed solution.
NELD/YEDL	We understand the intent of the proposal and given that this appears to have been worked up to a level of detail that demonstrates increased cost reflectivity we feel it would better meet the DCUSA objectives.
UK Power Networks	UK Power Networks understands the intent of the change proposal and is fully supportive of its underlying principle - the calculation of more cost reflective DUoS charges.
The Electricity Network Company	Yes, we believe the intent is clearly stated and we support the principles. The proposal exposes a flaw in the current methodology and puts forward a pragmatic solution.
<b>Question Two</b>	<b>Do Supplier Parties consider themselves materially impacted by the CP and eligible to vote?</b>
Electricity North West Ltd	N/A
ES Pipelines	N/A

Inexus	Not applicable to IPNL as we are not a supplier party.
NEDL/YEDL	N/A
UK Power Networks	<p>UK Power Networks is of the opinion that Supplier Parties will be materially affected were this CP to be implemented and that it would, therefore, be appropriate for Suppliers to be eligible to vote on this matter.</p> <p>The intent of this CP is to increase the level of discounts given to LDNOs. Since the total revenue that a DNO is allowed to receive remains fixed (by the DNO's price control) the consequences of this CP are firstly to move costs from LDNOs to Suppliers and secondly to increase the 'all-the-way' prices.</p> <p>Given that the current LDNO market share is small the immediate financial impact on Supplier is also small; however as LDNOs' overall market share expands we would expect to see this small difference become larger with time.</p>
The Electricity Network Company	Not Answered. We are not a supplier party.
<b>Question Three</b>	<b>Do you agree with the level of data used in the Impact Analysis undertaken by DNOs on behalf of the Working Group? Provide supporting comments</b>
Electricity North West Ltd	We agree with the level of data used in the impact analysis
ES Pipelines	Yes. The data analysis exercise was carefully crafted by the working group to deliver a useful illustration of the impacts of the proposed change.
Inexus	Yes
NEDL/YEDL	The data collected by the working group is sufficient to make a sound impact assessment although we note that there is no data for four of the DNO's.
UK Power Networks	Given the questions asked by the RFI, yes.
The Electricity Network	Yes.

Company	The analysis impacted directly on the Model M workbook. Although the workbook is outside the governance of DCUSA, the work group provided guidance on the steps required to undertake the impact analysis in the Method M workbook.
<b>Question Four</b>	<b>Do you agree with the associated impact assessment completed by the Working Group?</b>
Electricity North West Ltd	We agree with the impact analysis provided by the working group
ES Pipelines	Yes, the impact assessment is based on sound and consistent analysis across all DNO groups.
Inexus	The impact assessment appears to be generally consistent with our expectations.
NEDL/YEDL	The impact assessment demonstrates the difference between applying two different costs drivers.
UK Power Networks	UK Power Networks is in agreement that impact assessment conducted by the Working Group is correct in principle however we would question the Working Group's assessed impact on suppliers – see our points made in response to the second question, above.
The Electricity Network Company	<p>Each DNO has had to undertake its own analysis separately because the Method M workbook is outside the scope of DCUSA governance.</p> <p>Impact analysis was carried out by DNOs separately, with the outputs from such analysis being provided back to DCUSA secretariat on an anonymous basis. Therefore we are unable to agree nor disagree with the impact assessment undertaken by DNOs. This is because we (and the workgroup) did not have full access to the data or the work undertaken separately by DNOs. Therefore it is not possible to comment on the quality or the accuracy of the impact assessment.</p> <p>Our assessment was carried out using pre DCP71A versions of the Method M. However, broadly speaking the impact assessment is similar with our own work.</p>

<b>Question Five</b>	<b>Do you agree that the legal drafting in section Error! Reference source not found. is appropriate to meet the Intent of DCP 097?</b>
Electricity North West Ltd	We agree that the legal text meets the intent of DCP096
ES Pipelines	Yes.
Inexus	Yes
NEDL/YEDL	We are in agreement with the legal drafting.
UK Power Networks	If the CP were to be implemented then UK Power Networks considers that the legal drafting would fulfil the intent of the change proposal.
The Electricity Network Company	<p>We agree that the legal drafting is appropriate.</p> <p>In respect of implementation, separate guidance may be required in respect of amending the Model M worksheet. However, we note that the DCUSA Panel has determined that the Method M Excel workbook, used to derive the LDNO discount factors, is outside the scope of DCUSA governance. Therefore, given that this workbook is outside the governance of DCUSA, changes to the workbook are also outside DCUSA governance.</p> <p>This is an unfortunate lacuna in DCUSA arrangements and is unhelpful since much of the detail of the methodology is embodied in the Model M workbook.</p> <p>Whilst this lacuna exists we believe it is important that each DNO make available up to date Method M workbook.</p>
<b>Question Six</b>	<b>Do you agree with the Working Group's assessment that DCP097 better meets the DCUSA General and Charging objectives as outlined in section Error! Reference source not found.? If not, please explain why and provide your assessment</b>

	<b>against the objectives.</b>
Electricity North West Ltd	<p>We agree that it would be more cost reflective to allocate the customer call centre costs based on customer numbers rather than MEAV. However, we do not agree that changing the remaining categories as per the proposal is more cost reflective and therefore do not accept that overall the change proposal better meets the DCUSA general and charging obligations.</p> <p>We believe that HR &amp; Non-operational Training, Finance &amp; Regulation and CEO etc should continue to be allocated on MEAV rather than customer numbers. These costs are incurred by a DNO even if the DNO does not have any individual customers, as in the case of an IDNO connection. Basing the cost allocation on customer numbers allocates 100% of this cost to LV and does not allow the DNO to recover an appropriate level of costs for the part of the network they need to maintain.</p> <p>We believe that Property Management and IT &amp; Telecoms should continue to be unallocated or allocated based on MEAV. It would not appropriate to allocate these categories on customer numbers for the reasons outlined above.</p>
ES Pipelines	Yes.
Inexus	<p>We agree with the Work Group's assessment against the relevant objectives. The use of MEAV as the cost allocation driver for all cost categories does not produce the required level of granularity that recognises the differences in these types of costs. For instance, the cost of running a customer call centre is much more closely related to the number of customers served than to the value of assets that the network operator owns. Both options in the CP when considered in their entirety represent an improvement in the cost allocation methodology currently in place. Our preferred option is that customer numbers is used as the cost allocation driver in all of the categories identified in the CP as these costs are more closely linked to the number of customers served by the network operator rather than the value of the asset base.</p>
NEDI/YEDL	Using customer numbers as a cost driver for allocating costs for these particular categories would seem to be more appropriate given that there is no direct relationship to actual assets.

<p>UK Power Networks</p>	<p>No.</p> <p>UK Power Networks has considered the proposed changes to the costs drivers as shown in the table contained in para 2.3 and although we would agree some of the proposed changes better facilitate the Charging Objectives, we are not convinced that the totality of the proposed change would necessarily better facilitate the Charging Objectives.</p> <p>This CP proposes to change the cost drivers used to allocate some of the indirect costs. The manner in which Model M manages the assignment of indirect cost is through a cost driver matrix factoring a portion of these costs to each network level, where the declared cost drivers are used as a proxy for indirect costs. The use of a proxy is necessary because the costs must be scaled down from the overall DNO business to a proportion of the individual tariffs. The principle of the cost allocation driver is to determine firstly whether a cost type should be allocated to a network level and if so to identify the most appropriate proxy for the differences in size of DNOs businesses.</p> <p>We consider that it is not possible to assess all six changes collectively – they must be assessed individually:</p> <table border="1" data-bbox="632 787 1732 1352"> <thead> <tr> <th data-bbox="632 787 909 836">Cost Category</th> <th data-bbox="909 787 1182 836">Proposed</th> <th data-bbox="1182 787 1732 836">Does proposed better current</th> </tr> </thead> <tbody> <tr> <td data-bbox="632 836 909 950">Customer Call Centre</td> <td data-bbox="909 836 1182 950">No. Customers</td> <td data-bbox="1182 836 1732 950"><b>Yes</b>, the number of customers constitute a better proxy for Customer Call Centre costs than MEAV.</td> </tr> <tr> <td data-bbox="632 950 909 1096">IT and Telecoms</td> <td data-bbox="909 950 1182 1096">MEAV/Customer Numbers</td> <td data-bbox="1182 950 1732 1096"><b>Yes</b>, these costs should be allocated and since they are primarily driven by business/network size and complexity <b>MEAV</b> is the best available proxy.</td> </tr> <tr> <td data-bbox="632 1096 909 1242">Property Management</td> <td data-bbox="909 1096 1182 1242">MEAV/Customer Numbers</td> <td data-bbox="1182 1096 1732 1242"><b>Yes</b>, these costs should be allocated and since they are primarily driven by business/network size and complexity <b>MEAV</b> is the best available proxy.</td> </tr> <tr> <td data-bbox="632 1242 909 1352">HR and Non Operational Training</td> <td data-bbox="909 1242 1182 1352">No Customers</td> <td data-bbox="1182 1242 1732 1352"><b>No</b>, these costs are driven by the overall business/network size and complexity, therefore MEAV is a better</td> </tr> </tbody> </table>	Cost Category	Proposed	Does proposed better current	Customer Call Centre	No. Customers	<b>Yes</b> , the number of customers constitute a better proxy for Customer Call Centre costs than MEAV.	IT and Telecoms	MEAV/Customer Numbers	<b>Yes</b> , these costs should be allocated and since they are primarily driven by business/network size and complexity <b>MEAV</b> is the best available proxy.	Property Management	MEAV/Customer Numbers	<b>Yes</b> , these costs should be allocated and since they are primarily driven by business/network size and complexity <b>MEAV</b> is the best available proxy.	HR and Non Operational Training	No Customers	<b>No</b> , these costs are driven by the overall business/network size and complexity, therefore MEAV is a better
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			proxy than customer numbers.	
	Finance and Regulation	No Customers	<b>No</b> , these costs are driven by the overall business/network size and complexity, therefore MEAV is a better proxy than Customer Nos.	
	CEO	No Customers	<b>No</b> , these costs are driven by the overall business/network size and complexity, therefore MEAV is a better proxy than customer numbers.	
The Electricity Network Company	<p>UK Power Networks notes the Working Groups comment (para 6.1.2) that the DNOs' EDCM submission observed that indirect costs are not closely linked to assets.</p> <p>Indirect costs are linked to overall DNO's business size including the size and complexity of their networks. The cost allocation drivers are proxies for this. There is nothing in the Working Group's assessment that has tested and proven that for HR and Non Operational Training, Finance and Regulation and CEO costs Customer Numbers is a better proxy for these costs than MEAV.</p> <p>UK Power Networks considers that the very tightly worded intent of the CP may in practice precluded the Working Group from considering this</p> <p>We agree with the Working Group's assessment that it does.</p> <p>We believe that it is important to consider whether DCP097 in its entirety (both options) better meets the objectives compared to the current methodology.</p> <p>This is because:</p> <ul style="list-style-type: none"> <li>• The opex costs which are allocated by the weighted average percentages from the 'Calc – WPD Opex Allocation' worksheet include costs described as "other" as well as the indirect costs and direct costs not allocated to voltage tiers by RRP2.2 (non operational capex for example).</li> <li>• We do not believe that the use of MEAV to allocate all indirect/other costs to different network tiers is appropriate. Many costs described as 'indirect' or other are not driven</li> </ul>			

	<p>by the value of assets. This point was recognised by DNOs in their EDCM submission.</p> <p>In looking at the proposed changes to the cost driver we have looked at the description of the costs given in the “<b>Price Control and cost reporting Rules: Instructions and Guidance</b>” and believe that these particular costs are more related to customer numbers at a voltage tier than they are to the value of assets at a particular network tier.</p> <p><b>Customer Call Centre:</b> Since this activity is about responding and managing telephone lines we believe that customer numbers is a much better proxy than MEAV for allocating these costs.</p> <p><b>IT and Telecoms:</b> DCP097 puts forward that MEAV or Customer numbers be used for allocating these costs. Currently these costs are not allocated. To leave them so means that they are allocated to network tiers on the weighted average of all other costs (which includes certain direct opex). RRP guidance describes these costs as “<b>IT Maintenance and running costs</b>”. Such costs exclude, inter alia:</p> <ul style="list-style-type: none"> <li>• IT equipment used in the real time management of the network assets</li> <li>• IT equipment deemed to form part of the distribution network assets.</li> </ul> <p>Many of the cost descriptions in the RRP guidance appear to be of a fixed nature. As DCP097 recognises, CE-Electric UK’s proposal for IDNO charges, which was non-vetoed by Ofgem, put forward that customer numbers was the appropriate driver for these costs. However, we recognise that Ofgem’s decision considered the proposal as a whole and did not hinge on any one element.</p> <p>Notwithstanding this it is relevant that a DNO, who we would expect to have a detailed understanding of these costs has expressed the view that they are more likely to be driven by customer numbers.</p> <p>Therefore, whilst we note, and have put forward, that MEAV be used since it is better than not allocating such costs; subject to evidence in the working group suggesting the contrary we support the use of customer numbers as a driver.</p> <p><b>Property Management:</b> We believe such costs should be allocated. This activity relates to non operational premises. Whilst there is a case for arguing that non operational premises are located on the basis of the topography of the network, and as such MEAV offers a better cost driver, we do not support such view. The merger of distribution businesses has resulted in non operational premises being centralised and rationalised. Therefore we do not see a</p>
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	<p>relevant link to MEAV. We believe that many of these costs are fixed and as such customer numbers offers a better proxy for allocating such costs.</p> <p><b>HR and Non Operational Training:</b> These costs are likely to be driven by the number of employees as opposed to MEAV. However given that employees may work for contracting or affiliate organisations this may not be easy to determine the right figure. Therefore, we believe the customer numbers is a proxy for the network activity and the number of employees.</p> <p><b>Finance and Regulation and CEO:</b> We continue to believe that in respect these activities, as described by the RRP guidance, customer numbers offers a better proxy than MEAV.</p>
<b>Question Seven</b>	<b>Do you believe that the intent of DCP 097 is adequately met, or that there are alternative ways of meeting the intent of DCP 097?</b>
Electricity North West Ltd	We do not agree with the overall intent of DCP 097 as we believe it is less cost reflective than the existing methodology.
ES Pipelines	The intent of DCP 097 was intentionally narrowly drafted and the proposed solution is the optimum way of meeting this intent.
Inexus	Yes
NEDL/YEDL	The proposal does change the cost drivers used to allocate some indirect costs.
UK Power Networks	<p>An alternative approach to the identified defects would be to examine ways of improving the underlying values and to model this case within Model M accordingly. When considering these changes we consider that many of costs would be better represented though a value derived from more than one cost allocation driver, i.e. a composite value or factor.</p> <p>UK Power Networks did not suggest this during the RFI as we consider that the very tightly</p>

	worded intent of the CP in practice precluded proposing any alternative.
The Electricity Network Company	Yes. The intent is quite tightly defined. Therefore we do not believe there are any alternatives.
<b>Question Eight</b>	<b>Please state any other comments or views on the Change Proposal?</b>
Electricity North West Ltd	N/A
ES Pipelines	N/A
Inexus	N/A
UK Power Networks	<p>As requested by the Working Group UK Power Networks has modelled the impact on DCP096 in isolation. We would ask whether the Working Group has considered the cumulative impacts of DCP094, DCP095, DCP096, DCP097 and any other DCPs currently in progress with target implementation dates of 1 April 2012 on DUoS Charges, and whether parties voting may be influenced by the lack of knowledge on cumulative impacts.</p> <p>UK Power Networks would be able to support a CP that proposed to revise the cost allocation driver of Customer Call Centre costs from "MEAV" to "No. of Customers" and IT &amp; Telecoms and Property Management costs from "Do Not Allocate" to "MEAV". We would recommend to the Working Group that such an alternative (DCP097A) be raised if they considered that the very tightly worded intent of the CP did not preclude this.</p>
NEDI/YEDL	N/A
The Electricity Network Company	<p>We have always believed that whilst the Method M approved by Ofgem offered a first step, the discount factors produced by the methodology (and thereby the margins available to downstream operators) are understated</p> <p>The impact analyses undertaken by DNOs shows increases in discount factors of between 3.0% and 6.1% which may be of concern to some DNOs. However, the discount factors identified by the impact assessments are still less than those put forward by DNOs in their CDCM consultation of 12 June 2009.</p> <p>We believe that DCP097 is a significant first step in looking at the way operational costs are</p>

	<p>allocated, but that further work is required in this area. We note that in the CDCM only 60% of indirect costs are allocated to network tiers using asset values. This was on the basis that 40% of costs were not linked to MEAV at different voltage tiers. On this basis, and to be consistent with the CDCM, it could be argued that only 60% of operational costs should be allocated using MEAV, with the remaining 40% of costs being allocated by customer numbers.</p>
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