



## **DCUSA Change Report**

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DCP 096 - Treatment of Transmission Exit  
Charges in CDCM Price Control Disaggregation  
Model (Method M)

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 096 – Treatment of Transmission Exit Charges in CDCM Price Control Disaggregation Model (Method M). The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.2 Parties are invited to consider the proposed amendments (Appendix A), together with the Consultation documentation (Appendix B), the reconfigured analysis (Appendix C) and submit their votes using the form attached as Appendix D to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by 02 November 2011.

## 2 SUMMARY

- 2.1 DCP 096 was raised by the Electricity Network Company and seeks to change the methodology for the calculation of the LDNO discounts, which are used to determine portfolio tariffs applied in respect of LDNO networks connecting to a DNO's distribution system.
- 2.2 The CDCM calculates portfolio tariffs for LDNO networks by applying LDNO discounts to final tariffs (i.e. tariffs calculated in respect of end consumers on the DNO Party's network). It is step 4 of Schedule 16 within the DCUSA which describes the principles that the CDCM employs to calculate LDNO discounts.
- 2.3 In practice these principles are embedded in an Excel workbook entitled "Method M". In calculating the LDNO discounts the methodology allocates certain DNO indirect opex costs to different network levels using different cost drivers (RRP data already allocates direct costs to the relevant network level). It then calculates weighted average percentages for allocating the DNO opex costs. In practice the weighted average percentages are calculated in the Method M 'WPD – Opex Allocation' worksheet and used to allocate opex costs in the Method M 'WPD- Final Allocation' worksheet.
- 2.4 One of the costs allocated in determining the LDNO discounts is transmission exit charges, and this cost is completely allocated to EHV. The effect of this is that a greater proportion of Price Control Revenue Operating Cost is allocated away from lower network levels towards EHV. This is due to the increase in the EHV network level proportion of overall cost when the

individual cost type allocations are aggregated. This impact of this is increased due to the fact that a significant proportion of other cost types are not used by the methodology to determine LDNO discounts.

- 2.5 The intent of DCP096 is that transmission exit charges should not play a part in determining the weighted average percentages used to allocate opex to different network levels.
- 2.6 Transmission exit charges are charges levied on the Distributor by the relevant transmission company in respect of providing connections to the transmission system. It is recognised that the DNO needs to recover the transmission exit charge in full. However, transmission exit charges do not result in any other costs being incurred by the DNO for the operation of the distribution network, and therefore should not influence the weighting of other opex costs to different network levels.
- 2.7 Supplier tariffs calculated in the CDCM's Model 100 already include transmission exit charges which are recovered from end users of the distribution system. A way to ensure that transmission exit charges are fully recovered by the upstream DNO while having no adverse effect on LDNO tariffs is to apply the same treatment to transmission exit charges as is given to incentive payments in the methodology. This will have the effect of adding the total transmission exit charges, levied on the DNO in a given year, to that year's price control revenue "not to be split" between the DNO and LDNO. This will ensure that the DNO retains 100% of the transmission exit charge element of the Supplier tariffs regardless of the network level at which the LDNO takes its connection from the upstream DNO.

### **3 DCP 096 – WORKING GROUP**

- 3.1 The DCUSA Panel established a Working Group to assess and refine DCP 096.
- 3.2 The DCP 096 Working Group met on 6 occasions and consisted of representatives from DNOs, IDNOs and Ofgem.

### **4 CONSULTATION**

- 4.1 The Working Group carried out a Consultation to give Parties an opportunity to review and comment on the CP.

- 4.2 All respondents, except one DNO, to the Consultation were supportive of DCP 096.
- 4.3 The DNO response which was contrary to the rest of the ones received, did not agree that this CP better met the DCUSA objectives that were outlined in the CP and detailed below in section 6.
- 4.4 In addition, the DNO also felt that the intent of DCP 096 was very narrow and although the CP met the intent by removing exit charges from the calculation, they did not agree that the proposed change is more cost reflective.
- 4.5 One respondent was of the opinion that Supplier Parties will be materially affected if this CP were to be implemented and that it would, therefore, be appropriate for Suppliers to be eligible to vote on this matter. The working group noted this point, and although it was felt that the impact on Suppliers is minimal, the Working Group agreed to give Suppliers the opportunity to vote and comment on DCP 096.
- 4.6 There were also various comments that addressed the governance of the Method M, as well as the cumulative effects of implementing the four CPs (DCP 094 – 097) which this working group reviewed. These comments were discussed and deemed to be outside the scope of the Working Group.
- 4.7 A complete and detailed summary of all Party responses are set out in Appendix B.
- 4.8 Whilst reviewing the Consultation responses, it was brought to the Working Group's attention by Ofgem that it would like to see the impacts and materiality of DCP 096 expressed in monetary values. The analysis has been reconfigured to show both the percentage and monetary value changes.
- 4.9 The additional analysis was circulated to the Working Group, and it was concluded that these changes will have a minimal impact upon tariffs. The additional analysis details the changes in tariffs in both percentage and monetary value changes and is attached as Appendix C.

## 5 PROPOSED LEGAL DRAFTING

- 5.1 The proposed legal drafting of DCP 096 has been drafted by the Working Group, and reviewed by Wragge and Co and is attached as Appendix A.

## 6 EVALUATION AGAINST THE DCUSA AND CHARGING OBJECTIVES

- 6.1 The Working Group considered the Consultation responses regarding whether DCP 096 better facilitated each DCUSA General and CDCM Objectives.
- 6.2 Following the review of the Consultation responses, the Working Group was not able to reach a consensus in agreeing that the DCUSA General Objectives were better facilitated by this Change Proposal. The majority of the Working Group, except one DNO member, felt that following DCUSA General Objectives were better facilitated:
- Objective 2<sup>1</sup> – Better Facilitated - The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity.
- 6.3 The majority the Working Group considers that General Objective 2 will be better facilitated by DCP096 as it will improve the cost reflectivity of the methodology and thus better promotes competition in distribution. Cost reflectivity is improved because DCP096 removes transmission exit charges as an EHV costs from the allocation of total operational charges and thereby reduces the distortion in the calculation of discount factors used to determine LDNO tariffs. The CP enables the DNO to recover transmission exit charges in full whilst ensuring that such charges do not play a part in allocating operational costs.
- 6.4 The Working Group was also not able to reach a consensus in agreeing that the DCUSA CDCM Objectives were better facilitated by this Change Proposal. The majority of the Working Group, except one DNO member, felt that following DCUSA General Objectives were better facilitated:

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<sup>1</sup> The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity

- Objective 2<sup>2</sup> – Better Facilitated – Will result in improved cost reflectivity and will aid the facilitation of competition.
- Objective 3<sup>3</sup> – Better facilitated - The CP will improve cost reflectivity.

6.5 The Working Group, except one DNO respondent, considers that under DCP 096, CDCM Objective 2 will be better facilitated as the CP will enhance cost reflectivity in DNO charges thereby reducing distortion in the allocation of costs associated with the distribution of electricity.

6.6 The majority of the Working Group, except one DNO respondent, considers that under DCP 096, CDCM Objective 3 will be better facilitated as imposed cost reflectivity aids the facilitation of competition.

## **7 IMPLEMENTATION**

7.1 DCP 096 is classified as a Part 1 matter in accordance to Clause 9.4.2 (B) of the Agreement, and therefore will go to the Authority for determination after the voting process has completed.

7.2 The implementation date, subject to Authority approval, would be 01 April 2012.

7.3 The outcome of DCP096 will be known by early December 2011, allowing Distributors to take the proposal into account when publishing their indicative charges in December 2011 and final prices in February 2012 for implementation from 01 April 2012.

## **8 ENGAGEMENT WITH THE AUTHORITY**

8.1 Ofgem has been fully engaged throughout the development of DCP 096 as a member of the Working Group.

## **9 PANEL RECOMMENDATION**

9.1 The Panel approved this Change Report by ex-Committee on 18 October 2011. The Panel considered that the Working Group had carried out the

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<sup>2</sup> 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)

<sup>3</sup> 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

level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 096.

9.2 The timetable for the progression of the Change Proposals is set out below:

<b>Activity</b>	<b>Date</b>
Change Report issued for voting	19 October 2011
Voting closes	02 November 2011
Change Declaration	04 November 2011
Authority Determination	09 December 2011
CP Implemented	01 April 2012

## **10 APPENDICES:**

Appendix A - DCP 096 - Legal Drafting

Appendix B - DCP 096 – Consultation Documents

Appendix C – DCP 096 – Reconfigured Analysis

Appendix D - DCP 096 - Voting Form