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## **DCUSA Consultation**

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DCP096 Treatment of Transmission Exit  
Charges in CDCM Price Control Disaggregation  
Model (Method M)

## PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors, electricity Suppliers and large Generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.
- 1.2 This document is a consultation issued to DCUSA Distributor and Supplier Parties and to all other interested parties in accordance with Clause 11.14 of the DCUSA seeking views on the proposed implementation of DCUSA CP 096<sup>1</sup> entitled "Treatment of Transmission Exit Charges in CDCM Price Control Disaggregation Model (Method M)". This proposal seeks to change the methodology for the calculation of the LDNO discounts, which are in turn used to determine portfolio tariffs applied in respect of LDNO networks connecting to a DNO's distribution system.
- 1.3 Parties are invited to consider the following:
  - 1.3.1 The impact assessment carried out by the Working Group as set out in section 3 and associated analysis in Appendix A, and
  - 1.3.2 The proposed legal drafting changes to Schedule 16 of the DCUSA as set out in section 5, and
  - 1.3.3 The Working Groups evaluation of DCP096 against the DCUSA and Charging objectives as set out in section 6, and
  - 1.3.4 The consultation questions listed in section 8.
- 1.4 Parties should submit comments using the consultation response form attached as Appendix C - DCP096 Response Form
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- 1.6 should be sent to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by no later **than 12 pm on 2nd September 2011**.

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<sup>1</sup> <http://www.dcusa.co.uk/Extranet/CP.aspx?id=116>

## 2 SUMMARY

- 2.1 The CDCM calculates portfolio tariffs for LDNO networks that connect to a DNO's distribution system by applying LDNO discounts to final tariffs (i.e. tariffs calculated in respect of end consumers on the DNO Party's network). Step 4 of Schedule 16 in DCUSA describes the principles that the CDCM employs to calculate LDNO discounts. In practice these principles are embedded in an Excel workbook entitled "Method M". In calculating the LDNO discounts the methodology allocates certain (but not all) 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..
- 2.2 One of the costs allocated to determine LDNO discounts is transmission exit charges. This cost is allocated wholly 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 is made worse by the fact that a significant proportion of other cost types are not used by the methodology to determine LDNO discounts.
- 2.3 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.
- 2.4 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.

- 2.5 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 IMPACT ASSESSMENT OF DCP096**

- 3.1 To enable the Working Group to complete its impact assessment of DCP096, a request for information (RFI) was issued to the DNOs on the 5th August 2011.
- 3.2 The RFI requested DNOs to assess the impact that the change proposal DCP096 would have on the LDNO discounts used in the October 2011 version of the CDCM (i.e. taking the implementation of DCP-71A into account). To facilitate this impact assessment the RFI identified changes that would need to be made to the October 2011 version of their Method M model(s). The specification for the impact analysis provided in the RFI was based on the method employed when the original draft of DCP096 was submitted to the DCUSA Secretariat for initial assessment.
- 3.3 The RFI requested that DNOs propose alternative ways to meet the intent of DCP096 where they felt it was appropriate. The RFI also specified the format in which the data required by the Working Group was to be returned.
- 3.4 The data returned by DNOs was anonymised by the DCUSA Secretariat prior to analysis by the Working Group, and consisted of updates to LDNO discount tariff and Supplier tariff information as shown in tables 1037 and 3701 of the

CDCM Model, respectively. The returned data is attached in Appendix A – Anonymised Impact Analysis Returned by DNOs.

- 3.5 The Working Group found that the impacts on LDNO discount tariffs (Table 1037) were in line with expectations and can be summarised as follows:

	Discount factors under DCP096				Difference from Current LDNO Discount			
	LDNO LV: LV user	LDNO HV: LV user	LDNO HV: LV sub user	LDNO HV: HV user	LDNO LV: LV user	LDNO HV: LV user	LDNO HV: LV sub user	LDNO HV: HV user
DNO 1	34.9%	63.7%	41.7%	31.4%	0.7%	0.9%	0.7%	0.6%
DNO 2	29.8%	65.0%	47.9%	38.1%	1.0%	1.4%	1.1%	1.0%
DNO 3	31.5%	56.8%	34.1%	23.0%	1.2%	1.6%	1.0%	0.8%
DNO 4	32.0%	67.0%	47.9%	40.8%	1.6%	2.4%	2.1%	1.8%
DNO 5	30.4%	60.6%	39.0%	31.9%	1.4%	2.1%	1.6%	1.2%
DNO 6	22.3%	47.9%	28.6%	20.2%	1.7%	3.5%	2.7%	2.7%
DNO 7	28.9%	55.6%	34.3%	26.5%	0.8%	1.1%	0.7%	0.5%
DNO 8	28.1%	50.9%	27.9%	19.6%	0.7%	0.8%	0.4%	0.3%
DNO 9	30.9%	52.1%	28.5%	18.7%	2.2%	1.2%	0.7%	0.4%
DNO 10	27.6%	49.5%	28.4%	19.5%	0.7%	0.8%	0.4%	0.2%
DNO 11	34.5%	62.9%	40.5%	26.9%	1.4%	1.4%	0.8%	0.7%
DNO 12	31.5%	64.2%	42.0%	29.9%	0.9%	1.1%	0.9%	0.8%
DNO 13	32.6%	58.3%	37.0%	28.5%	1.1%	1.4%	1.0%	0.8%
DNO 14	25.7%	59.3%	44.6%	39.6%	0.9%	1.5%	1.3%	1.1%

- 3.6 The impact on Supplier tariffs was analysed by DNOs; the absolute impact was small or negligible in all cases.
- 3.7 This Consultation seeks confirmation from respondents that the Working Group Assessment is correct.

#### **4 ALTERNATIVE OPTIONS TO THE MEET THE INTENT OF DCP096**

- 4.1 The Working Group considered that there were no alternative options available to meet the intent of DCP096. Furthermore, no alternative options were put forward by any DNOs in their response to the RFI.

#### **5 PROPOSED AMENDMENT AND LEGAL DRAFTING**

5.1 The following proposed legal drafting amendments to Schedule 16 of the DCUSA have been compiled by the Working Group:

5.1.1 Change Paragraph 103 to read as follows:

*"Transmission exit charges are ~~allocated to the EHV network level~~ not allocated to any of the network levels. These charges are deducted from the allowed revenue as described on paragraph 111 of this schedule."*

5.1.2 Change Paragraph 111 to read as follows:

"For the purpose of that calculation, allowed revenue is adjusted by deducting the net amount earned or lost by the DNO Party under price control financial incentive schemes:

- *the net amount earned or lost by the DNO Party under the price control financial incentive schemes; and*
- *transmission exit charges"*

## 6 EVALUATION AGAINST THE DCUSA AND CHARGING OBJECTIVES

6.1 The Working Group considers that DCP 096 has an impact the following DCUSA objective:

6.1.1 Objective 3.1.2: 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.

6.2 The Working Group considers that Objective 3.1.2 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 reduces distortion in the allocation of costs that currently exists where the allocation of 100% of the transmission exit charge to the EHV network level has the effect of artificially inflating the weighted average percentage to allocate opex costs to the EHV network level.

6.3 Transmission exit charges are charges levied on the distributor by the relevant transmission company in respect of providing connections to the transmission system. DCP096 recognises 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. The current methodology of wholly allocating these costs to the EHV network level influences the allocation of other indirect opex costs to the network levels with a bias towards the EHV level.

6.4 Supplier tariffs calculated in the CDCM's Model 100 already includes transmission exit charges which are recovered from end users of the distribution system. DCP 096 ensures that transmission exit charges are fully recovered by the upstream DNO while having no adverse effect on LDNO tariffs by applying the same treatment to transmission exit charges as is currently given to incentive payments in the methodology.

6.5 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.

- 6.6 The Working Group considers that DCP 096 will have an impact to the following Charging Methodologies objectives:

6.6.1 Objective 3.2.2: 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);

6.6.2 Objective 3.2.3: 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;

- 6.7 The Working Group considers that under DCP 096 Objective 3.2.3 will be better facilitated as imposed cost reflectivity aids the facilitation of competition.

- 6.8 The Working Group considers that under DCP 096 Objective 3.2.2 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.

## **7 IMPLEMENTATION**

- 7.1 The Working Group recommends, subject to Authority approval, implementation from 1 November 2011 and reflected in tariffs from 1 April 2012. In light of the next steps set out in section 9, the outcome of DCP094 will be known by November 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 1 April 2012.

- 7.2 Suppliers are invited to note that this implementation date will coincide with a price change by DNOs. As noted above the changes to Supplier prices are not



expected to be material but this will result in the normal administration activities for all Parties arising from end of year price changes.

## 8 CONSULTATION

8.1 This consultation seeks views from DCUSA Distributor and Supplier Parties, and all interested parties, on the following questions.

8.1.1 Do you understand the intent of the DCP096 and are you supportive of its principles?

8.1.2 Do Supplier Parties consider themselves materially impacted by the CP and eligible to vote?

8.1.3 Do you agree with the Impact Analysis undertaken by DNOs on behalf of the Working Group?

8.1.4 Do you agree with the associated impact assessment completed by the Working Group?

8.1.5 Do you agree that the legal drafting in section 5 is appropriate to meet the intent of DCP096?

8.1.6 Do you agree with the Working Group's assessment that DCP096 better meets the DCUSA General and Charging objectives as outlined in section 6? if not, please explain why and provide your assessment against the objectives.

8.1.7 Do you believe that the intent of DCP096 is adequately met, or that there are alternative ways of meeting the intent of DCP096?

8.1.8 Please state any other comments or views on the Change Proposal?

8.2 Responses should be submitted using Appendix C to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **12 pm on 2 September 2011**.

8.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

## **9 NEXT STEPS**

- 9.1 Following the end of the consultation period the responses will be considered by the Working Group in preparation of their final report and recommendation to the DCUSA Panel. The Change Proposal will then be issued to the DCUSA panel for voting and following the vote will be issued to Ofgem for final determination.
- 9.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) or telephone 020 7432 3011.

## **10 APPENDICES**

Appendix A - DCP096 Anonymised Impact Analysis returned by DNOs

Appendix B - Request for Information (RFI) for DCP096

Appendix C - DCP096 Response Form