



## **DCUSA Change Report**

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### **DCP 217 – Rate of Return**

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 217 'Rate of Return'.
- 1.2 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.
- 1.3 Parties are invited to consider the proposed amendments (Attachment 2) and submit their votes using the form attached as Attachment 3 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **24 October 2014**.

## 2 BACKGROUND

- 2.1 The Proposer of DCP 217 explains that it has been identified during discussions as part of the Distribution Charging Methodologies Forum – Methodologies Issues Group (MIG) that the words currently contained within the DCUSA for the 'Annuity Rate of Return' in DCUSA Schedule 16 and the 'Discount Rate' in DCUSA Schedules 17 & 18 which aligned to the Distribution Price Control Review (DCPR) 5 Licence are no longer applicable under the new RIIO-ED1 Price Control Distribution Licence. As a result, the DCUSA will not align with the Distribution Licence with the commencement of the RIIO-ED1 price control arrangements that are coming into effect from 1 April 2015.
- 2.2 Following discussions within MIG, it was agreed that there would be insufficient time to undertake a consultation under the DCUSA governance arrangements on any alternative options which could be utilised for this input to the charging methodologies, as any solution would require a decision by no later than early December 2014 to ensure that a decision would be known and could be incorporated into charge setting for April 2015. As a result it was agreed that this change proposal would be raised with a tight intent to formalise the value currently used within the Common Distribution Charging Methodology (CDCM) since April 2011 and EHV Distribution Charging Methodology (EDCM) since 2012 remains and is clearly stated within the methodology. This change will assist with mitigating the risk of an increase in volatility of Use of System (UoS) charges, until such time as the full impact of a change to this input has been consulted upon and is understood by all Parties.

- 2.3 There is further work underway outside of the DCUSA arrangements which are likely to see a further Change Proposal raised which would allow for all options for this element of the methodology to be considered and fully consulted upon.
- 2.4 It is highlighted that due to the restricted nature and intent of this Change Proposal it is the view of the Proposer that this change does not require a working group to be established and can be quickly progressed to a vote, in order so that it can be utilised for charge setting. The DCUSA Panel agreed with this recommendation and the CP was progressed straight to the Report Stage of the DCUSA Change Process.
- 2.5 It is also noted that this change has been submitted as an Urgent Change Proposal to reflect the timings of DUoS price setting in December 2014 and governance thereof and the need for an early decision to be known.

### **3 INTENT OF DCP 217 'RATE OF RETURN'**

- 3.1 DCP 217 was raised by UK Power Networks and seeks to revise the legal text within DCUSA for the 'Annuity Rate of Return' in Schedule 16 and 'Discount Rate' in Schedules 17 and 18 to reflect the current value used, which is 5.6%.

### **4 PROPOSED LEGAL TEXT**

- 4.1 The DCP 217 proposed legal drafting has been reviewed by the DCUSA legal advisors and is provided as Attachment 2.

### **5 EVALUATION AGAINST THE DCUSA OBJECTIVES**

- 5.1 DCP 217 has been assessed against the DCUSA General Objectives:

- Objective 1<sup>1</sup> – Better Facilitated
- Objective 2<sup>2</sup> – No Impact
- Objective 3<sup>3</sup> – No Impact

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<sup>1</sup>The development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System

<sup>2</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

<sup>3</sup>The efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.

- Objective 4<sup>4</sup> – No Impact
- Objective 5<sup>5</sup> – No Impact

5.2 DCP 217 has been assessed against the DCUSA Charging Objectives:

- Charging Objective 1<sup>6</sup> – No Impact
- Charging Objective 2<sup>7</sup> – Better Facilitated
- Charging Objective 3<sup>8</sup> – No Impact
- Charging Objective 4<sup>9</sup> – No Impact
- Charging Objective 5<sup>10</sup> – No Impact

5.3 The Proposer explains that DCUSA Charging Objective 2 and DCUSA General Objective 1 are both better facilitated as a result of this DCP 217 by utilising an existing modelling input, whilst an enduring solution is considered, which will minimise the volatility seen in Distribution Use of System (DUoS) charges.

5.4 The proposer also feels that this change is important as failure to address the matter at this time would result in DCUSA not aligning to the Distribution Licence from the start of RIIO-ED1.

## 6 IMPACT ON GREENHOUSE GAS OMISSIONS

6.1 It is not believed that there is any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

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<sup>4</sup> The promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it

<sup>5</sup> Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

<sup>6</sup> 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

<sup>7</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>8</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

<sup>9</sup> that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business

<sup>10</sup> that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.

## 7 IMPLEMENTATION

7.1 Subject to Authority approval, DCP 217 will be implemented on 1 April 2015.

## 8 PANEL RECOMMENDATION

8.1 The DCUSA Panel approved the DCP 217 Change Report on 10 October 2014 via an ex-Committee decision. The timetable for the progression of the CP is set out below:

Activity	Target Date
Change Report Approved by DCUSA Panel	10 October 2014
Change Report Issued For Voting	10 October 2014
Party Voting Ends	24 October 2014
Change Declaration	28 October 2014
Authority Decision <sup>11</sup>	2 December 2014
Implementation	1 April 2015

8.2 Parties are invited to vote on DCP 217 using the voting form provided as Attachment 3.

## 9 ATTACHMENTS:

- Attachment 1 – DCP 217 Change Proposal
- Attachment 2 – DCP 217 Proposed Legal Text
- Attachment 3 – DCP 217 Voting Form

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<sup>11</sup> Indicative decision date based on the 25 Working Day KPI