



DCUSA CONSULTATION

DCP 117 - TREATMENT OF 'LOAD RELATED NEW CONNECTIONS & REINFORCEMENT (NET OF CONTRIBUTIONS)' IN THE PRICE CONTROL DISAGGREGATION MODEL

1 PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators.
- 1.2 Parties to the DCUSA can raise a DCUSA Change Proposal (“DCP”) to amend the Agreement. DCPs should better facilitate the DCUSA General Objectives and/or Charging Objectives of the DCUSA document.
- 1.3 Amendments to DCUSA may only be made with the consent of a majority proportion of Parties to the DCUSA, through a voting process, or (where applicable) the Gas and Electricity Markets Authority.¹
- 1.4 When a DCP is raised, a Working Group is established to assess and develop the proposal in consultation with industry parties and other interested parties.
- 1.5 This document is a second consultation issued in accordance with Clause 11.14 of the DCUSA and seeks industry views on Change Proposal DCP 117 ‘Treatment of ‘Load Related New Connections & Reinforcement (Net of Contributions)’ in the Price Control Disaggregation Model’ (PCDM).
- 1.6 The Consultation has been issued to DCUSA Parties, Interested Parties, the Distribution Charging Methodologies Forum (DCMF) Distribution List and Ofgem.
- 1.7 Parties are invited to consider the Change Proposal detailed in this consultation and submit comments using the form attached as Attachment D to dcusa@electralink.co.uk by 14 November 2014.

2 INTENT OF DCP 117 ‘TREATMENT OF ‘LOAD RELATED NEW CONNECTIONS & REINFORCEMENT (NET OF CONTRIBUTIONS)’ IN THE PRICE CONTROL DISAGGREGATION MODEL’

- 2.1 DCP 117 (see Attachment A) has been raised by GTC (For and behalf of the Electricity Network Company Limited). The intent of this change proposal is to correct distortions in the calculation of the percentage split between direct/indirect costs brought about by the way net costs described as ‘*Load related new connections & reinforcement (net of contributions)*’ are calculated and allocated to different

¹ For more information about GEMA visit the Ofgem website: <http://www.ofgem.gov.uk/TheAuthority>

network tiers. The percentage split between direct/indirect costs is used to apportion percentage of costs allocated to the network tier that the IDNO connects between the upstream DNO network and the downstream IDNO network. This is then used in the PCDM as part of the calculation of discount factors which are used to determine LDNO tariffs (Step 4 of the CDCM in Schedule 16 of DCUSA).

- 2.2 On 9 December 2011 The Authority published its decision to reject DCP094 - Treatment of '*Load related new connections & reinforcement (net of contributions)*' in the Price Control Disaggregation Model used to determine LDNO discount factors. In advice given as part of their decision Ofgem stated: "*We therefore suggest that the modification be resubmitted and the Workgroup carry out further analysis in respect of the cost reflectivity of each approach*". This change proposal is essentially a resubmission of DCP094 to enable such further analysis to be undertaken.
- 2.3 The intent of this change proposal is broader in scope than the original DCP094 since it allows alternative solutions to be considered to address the flaw brought about by the way '*Load related new connections & reinforcement (net of contributions)*' costs are treated (e.g. allocating customer contributions identified in RRP2.4 to different voltage tiers).
- 2.4 The Proposer is of the view that the way that customer contributions are treated and allocated in the current calculation and allocation of net costs described as '*Load related new connections & reinforcement (net of contributions)*' leads to the allocation of costs within a voltage tier being distorted in favour of the upstream DNO. This is because:
- Customer contributions are netted off against the cost of providing connections and general reinforcement costs at the LV level only, i.e. customer contributions are not netted off against the costs of providing connections at higher network tiers.
 - Customer contributions that are in excess of the costs reported at the LV network tier are ignored; i.e. they are excluded from further consideration by the PCDM
- 2.5 The Proposer's view is that, as far as is practicable:
- All customer contributions should be considered since they form part of the total revenue required by the DNO to own and operate the distribution system. This includes customer contributions that are received in respect of the indirect cost element.
 - Customer contributions made in respect of the costs of providing connections at higher network tiers should be allocated at that network tier.

- 2.6 The Proposer considers that by correcting the perceived defect the methodology will be more cost reflective and therefore less likely to distort competition.

3 CONSULTATION ONE – AUGUST 2012

- 3.1 The Working Group issued its first consultation in August 2012. This consultation focussed on three options for progression, and the consultation documents and responses are included as Attachment B.

4 PROPOSED SOLUTION FOR DCP 117

- 4.1 Currently the PCDM uses data provided in the “RRP 2.4” worksheet to allocate costs described as ‘*Load related new connections & reinforcement (net of contributions)*’ to network tiers in the “*Calc –Opex allocation*” worksheet. However, customer contributions provided in RRP 2.4 are not broken down by network tier; they are only provided as a total for all network tiers. Additionally, customer contributions figures reported in RRP 2.4 are significantly higher than the total connection costs reported under RRP 2.4. The Working Group understands that this is because customer contributions include an element for indirect costs, whereas the reported connection costs do not.
- 4.2 The proposed solution is to calculate connection costs net of customer contributions at each network tier using data derived from the “FBPQ LR1” worksheet for each relevant network tier. Since the “FBPQ LR1” worksheet contains information for the 10 year period 2005 to 2015 the average for the 10 year period is used to determine a figure for each network tier. Customer contributions identified as relating to indirect costs are not allocated to network tiers. Customer contributions in excess of the connection costs for each network tier are not considered under “*Load related new connections & customer specific reinforcement*”.
- 4.3 The Working Group considered what cost reflective approaches were practicably available to allocate customer contributions. This included approaching the DCMF working group tasked with reviewing Customer Contributions, however at the current time no such information was available. In considering the use of FBPQ LR1 data the Working Group noted that information from the LR1 worksheet is already used in the PCDM to determine the capex cost driver. Also, For UKPN the table “FBPQ LR1 - V5 opt3” is used in the impact assessment.

- 4.4 The value of connections costs net of customer contributions for each network tier derived using data in LR1 are added to the general reinforcement costs for the same network tier (derived from RRP table 2.4). This gives a total net cost for each network tier in respect of the costs described as “*Load related new connections & reinforcement (net of contributions)*”. (Note: Under this proposed solution customer contributions are not set off against general reinforcement as is the case with the current PCDM (at LV). This is because such costs are funded via DUoS).
- 4.5 Customer contributions in excess of connection costs at each network tier together with customer contributions reported as relating to indirect costs (in table LR1) are treated as “income” and allocated to the final allocation sheet. The costs are allocated to each network tier using the opex cost driver. The working group believes that using this cost driver to allocate customer contributions that primarily relate to indirect costs ensures that such contributions are netted off against the type of costs they are deemed to cover (as opposed to the current approach which in large part fails to consider such contributions).
- 4.6 Under the current PCDM the aggregate of the net costs allocated to each network tier using information from RRP table 2.4 are compared with the total costs for that activity in RRP table 1.3. Any difference between these two values is allocated to the relevant network tier using a MEAV cost driver. Since the proposed solution uses a different data set to allocate costs to network tiers, data from RRP1.3 is not used.

5 DCP 117 – LEGAL DRAFTING

- 5.1 Following a review of the Consultation responses in regard to the proposed solution and impact analysis, the Working Group will draft and develop the legal text which will be consulted upon with DCUSA Parties after its completion.

6 WORKING GROUP CONSIDERATIONS AND EVALUATION AGAINST THE DCUSA OBJECTIVES

- 6.1 The Working Group is comprised of DNO and IDNO Parties along with Ofgem representation; all DCUSA Parties were invited to attend the Working Group.

6.2 All Working Group members are supportive of the general principles of the proposal.

6.3 The Working Group reviewed the CP against the following DCUSA General Objectives:

- Objective 1² – Better facilitated
- Objective 2³ – Better facilitated
- Objective 3⁴ – Better Facilitated
- Objective 4 – No impact
- Objective 5 – No Impact

6.4 The Working Group reviewed the CP against the following DCUSA Charging Methodology Objectives:

- Objective 1⁵ – Better Facilitated
- Objective 2⁶ – Better Facilitated
- Objective 3⁷ – Better Facilitated
- Objective 4 – No Impact
- Objective 5 – No Impact

² The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, coordinated, and economical Distribution Networks

³ 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

⁴ The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

⁵ The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, coordinated, and economical Distribution Networks

⁶ 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

⁷ The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

- 6.5 This Proposer is of the view that this Change Proposal addresses defects within the PCDM used to calculate discount factors applied to upstream DNOs' all the way tariffs in determining the tariffs that should apply to network operators who connect to their distribution system at LV and HV.
- 6.6 The Proposer further explains that the DUoS margin available to a Licensed Distributor connecting to another Distributor operating within its distribution services area is the difference between the upstream Distributor's all the way DUoS charges to the end customer and the upstream Distributor's DUoS charge to the downstream Distributor. If the charge to the downstream distributor is not reflective of the total costs then a margin squeeze may result which could have the effect of restricting, distorting or preventing competition.
- 6.7 It is surmised that as such DCP 117 satisfies both General and Charging Objectives 1 and 3 since the current PCDM could be seen to distort cost reflectivity, and the working group agrees that this proposal assists in addressing those perceived deficiencies.

7 PROPOSED IMPLEMENTATION DATE

- 7.1 The Working Group is proposing an implementation date of 01 April 2015, or where this is not possible, under the notice periods required under DCUSA, the earliest date that the notice periods under DCUSA permit for changes to such charges.

8 CONSULTATION

- 8.1 The Working Group would like for Parties to consider the following consultation questions:
1. Do you agree with the intent of DCP 117?
 2. Do you agree with the principles of DCP 117?
 3. Do you understand the approach being proposed to address the issues presented within DCP 117?
 4. Do you agree with the approach to use data from FBPQ LR1 submissions to allocate costs and customer contributions to network tiers?
 5. Do you agree that in using data from FBPQ LR1 submissions, it is the average of data over the 10 period 2005 to 2015 that should be used? Alternatively,

should the data for the year 2007/8 only be used? Please explain your rationale.

6. Do you agree with the approach proposed to allocate customer contributions that are in excess of connection costs?
7. Do you have any comments on the impact analysis presented within Attachment C?
8. Are there any alternative solutions or matters that should be considered by the Working Group?
9. The Working Group is proposing an implementation date of 01 April 2015, or where this is not possible, under the notice periods required under DCUSA, the earliest date that the notice periods under DCUSA permit for changes to such charges, do you agree with this date? Please provide supporting comments.

8.2 The Consultation response form (Attachment D) should be submitted to dcusa@electralink.co.uk no later than **14 November 2014**. Parties are asked to provide as much relevant detail as possible to enable the Working Group to understand the comments and the reasons behind them.

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 Working Group will meet to review and consider the responses. The DCP 117 Working Group will continue to progress its work developing and analysing the CP.

9.2 If you have any questions about this paper or the DCUSA Change Process or would like to participate in the Working Group please contact the DCUSA Help Desk by email to dcusa@electralink.co.uk or telephone 020 7432 3014.

10 ATTACHMENTS

- Attachment A – DCP 117 ‘Treatment of ‘Load Related New Connections & Reinforcement (Net of Contributions)’ in the Price Control Disaggregation Model’ Change Proposal Form
- Attachment B – DCP 117 Consultation One – August 2012
- Attachment C – DCP 117 Impact Analysis
- Attachment D – Response Form