



## **DCUSA Change Report**

DCP 240 - 'Nominated Calculation Agent to calculate the LV Mains Split'

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 240 *‘Nominated Calculation Agent to calculate the LV Mains Split’*.
- 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 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **07 August 2015**.

## 2 EXECUTIVE SUMMARY

- 2.1 DCP 240 was raised by SSE on the 08 April 2015, the intent is to use the Nominated Calculation Agent (NCA) to calculate the LV mains split percentage as defined in Schedule 16 of DCUSA and used in the PCDM and Extended PCDM.
- 2.2 Over a period of three months the DCP 240 Working Group met three times and issued one consultation. The consultation considered revising Section 2B Clause 42 on the data for calculating use of system charges to include the LV Mains Split. It also considered revising Schedule 16 Clause 114 to place an obligation on the DCUSA Panel to procure a NCA to estimate for each DNO area the proportion of the LV mains which LV-connected embedded networks are deemed to use. The Working Group unanimously supports the principles of this change and the legal text.

## 3 INTENT OF DCP 240 CHANGE PROPOSAL

- 3.1 DCP 240 has been raised by SSE as a Part 1 Matter<sup>1</sup>, to use the NCA to calculate the LV mains split percentage as defined in Schedule 16 of DCUSA and used in the PCDM and Extended PCDM.

## 4 DCP 240 – WORKING GROUP CONSIDERATIONS

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<sup>1</sup> DCP 240 has been classified as a Part 1 matter in accordance with Clause 9.4 as it is likely to amend Schedule 16 Common Distribution Charging Methodology. Once progressed, the CP will require Authority consent.

- 4.1 The DCUSA Panel established a Working Group to assess DCP 240. The Working Group met on three occasions and was comprised of DNOs, IDNOs and Ofgem representatives.
- 4.2 Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – [www.dcusa.co.uk](http://www.dcusa.co.uk).
- 4.3 All Working Group members were supportive of the general principle of DCP 240.
- 4.4 On review of the DCP 240 CP form, the Working Group noted that the wording of the intent of the CP form suggested that the LV Mains Split calculation was defined in Clause 42 and Schedule 16. However, Section 2B Clause 42 defines the role of the NCA and Schedule 16 Clause 114 defines the LV Mains Split calculation. The Working Group submitted a request to the DCUSA Panel to be allowed to correct the legal text references in the intent of the CP. The DCUSA Panel denied this request as the Working Group did not need to change the intent of the CP as the Working Group are already tasked with developing and refining the change. Any change to the draft legal text would be part of the development of a solution for this CP.
- 4.5 The current obligation in DCUSA Schedule 16 Clause 114 stipulates that the DNO is responsible for calculating the LV mains split which LV-connected embedded networks are deemed to use. The Working Group agreed that the total length of LV mains or the number of end users that are adopted within the LV-connected licensed embedded networks is not always transparent to DNOs. This change proposes that a NCA is procured to centrally collate the data provided by DNO and IDNO Parties in order to calculate the LV Mains Split.
- 4.6 The Working Group noted that this change did not set a precedent as the obligation proposed by this CP mirrors the obligation set out in DCUSA Schedule 16 Clause 116 and 117. This obligation requires a NCA be procured to collect data from all DNOs and IDNOs on their HV Network length and the number of HV connections which is then used to calculate the HV Network Split. As a result this modification will bring the calculation of the LV Mains Split in line with other PCDM inputs providing a common approach.

## **5 DCP 240 CONSULTATION**

- 5.1 The Working Group carried out a consultation to give DCUSA Parties and other interested organisations (Attachment 4) an opportunity to review and comment on DCP 240. There were six DNO responses received to this consultation. The Working Group discussed each

response and its comments are summarised alongside the collated Consultation responses in Attachment 4.

- 5.2 A summary of the responses received, and the Working Group's conclusions are set out below:

**Question 1: Do you understand the intent of the CP?**

- 5.3 All respondents understood the intent of the CP.

**Question 2: Are you supportive of the principles of the CP?**

- 5.4 All respondents were supportive of the principles of the CP.

**Question 3: Do you consider that the introduction of this change will provide greater efficiency and accuracy in the calculation of the LV Mains Split?**

- 5.5 All respondents considered that introduction of this change will provide greater efficiency and accuracy in the calculation of the LV Mains Split.
- 5.6 One respondent advised that the change would provide greater consistency for Parties as the change would introduce an organised process similar to the process undertaken for the HV Split Calculation. Another respondent noted the additional cost of utilising a Nominated Calculation Agent in comparison to the cost for each DNO performing the task individually should be considered by the Working Group.
- 5.7 The Working Group noted the responses. The contract for utilising the NCA will be procured by the DNOs and as such it will not be possible to quantify any specific cost savings. There will be no real savings for DNOs as this work needs to be carried out now, so any real benefit will be in providing greater consistency and it will be carried out at the same time as the HV split which is currently provided by the Nominated Calculation Agent.

**Question 4: Do you have any comments on the proposed legal text?**

- 5.8 Five of the six respondents had no further comments on the draft legal text. One respondent suggested that Section 2B Clause 42.13 should reference "DNO parties operating out of their DSA" and that "the formula in Schedule 16 refers to 3 data items which can only be sourced from the DNO party and 1 data item (number of end users on LV connected licensed embedded networks) that is best sourced from the embedded network operator". This respondent also suggested changes to a spreadsheet.

5.9 The Working Group reviewed the draft legal text based on the comments provided. Section 2B of the draft legal text includes embedded network operators in its drafting which the Working Group considered sufficient for including DNOs operating out of area. The Working Group noted that although an initial 'LV Mains Calculation' excel spreadsheet had been drafted, it had not been finalised and was not provided in the DCP 240 consultation. The Working Group had deemed the excel spreadsheet outside the scope of this CP.

**Question 5: Which DCUSA General Objectives does the CP better facilitate? Please provide supporting comments.**

5.10 The following table provides a summary of which DCUSA Objectives respondents specifically identified as being better facilitated.

Respondent Party Type	Objective 1	Objective 2	Objective 3	Objective 4	Objective 5	None	Undecided
<b>DNOs</b>	2	4	1	0	0	1	1

5.11 The respondents who considered that DCUSA General Objective 1 was better facilitated by this change advised that the change would ensure that the methodology used by the DNO is more co-ordinated and consistent and it would ensure that appropriate data was provided by the Party that held that data.

5.12 The respondents who considered that DCUSA General Objective 2 was better facilitated advised that:

- this change will result in a more accurate value for the LV split and therefore more cost reflective tariffs for LDNOs;
- procuring the Nominated Calculation Agent to undertake the LV Mains Split percentage would ensure timely and accurate update of such data item in the PCDM, ensuring transparency of such process and cost reflective IDNO discount factors and DUoS charges to be calculated;
- the calculation of the LV Mains split will be consistently and efficiently carried out; and
- the fourth respondent agreed with the rationale set out by the Working Group in the consultation.

5.13 One respondent referred to their response to question 6 where they proposed DCUSA Charging Objectives that were better facilitated by this change. Another respondent did not provide a preference for any DCUSA General Objective being better facilitated but simply restated the rationale provided in the consultation for DCUSA General Objective 2 to be better facilitated.

5.14 The Working Group noted the responses. Please refer to the Working Group conclusions on the DCUSA Objectives in Section 8 below.

**Question 6: Which DCUSA Charging Objectives does the CP better facilitate? Please provide supporting comments.**

5.15 The following table provides a summary of which DCUSA Charging Objectives respondents specifically identified as being better facilitated.

Respondent Party Type	Objective 1	Objective 2	Objective 3	Objective 4	Objective 5	None	Undecided
<b>DNOs</b>	4	6	1	1	0	0	0

5.16 The respondents who considered that DCUSA Charging Objective 1 was better facilitated by this change advised that the change:

- ensures that the methodology used by each DNO is more consistent and more co-ordinated; and
- there will be increased efficiency and use of resources in the Nominated Calculation Agent undertaking this calculation as opposed to a number of Parties undertaking this calculation individually.

5.17 One respondent provided a rationale for why both Objective 1 and Objective 2 were better facilitated as “To procure the Nominated Calculation Agent to undertake the LV Mains Split percentage would ensure timely and accurate updates in the PCDM, ensuring transparency of the process and cost reflective IDNO discount factors (and hence DUoS charges) are calculated. Such cost reflective charges would promote competition in the distribution and supply of electricity”.

5.18 The respondents who considered that DCUSA Charging Objective 2 was better facilitated

advised that:

- it will result in a more accurate value for the LV split and therefore more cost reflective tariffs for LDNOs;
- the submission of consistent data for the LV Mains Split Calculation to the Nominated Calculation Agent would prevent distortion of DNO's revenue ensure greater cost reflectivity is passed through to charges; and
- the improvements to sourcing of data should help to prevent distortion.

5.19 One respondent advised that Objective 4 was better facilitated as the data source used is being changed so that it is provided by the party who has the best information on that data.

5.20 Another respondent advised that they considered Objective 2 and 3 better facilitated for the same rationale provided in response to question 5 that the calculation of the LV Mains split will be consistently and efficiently carried out.

5.21 The Working Group noted the responses. Please refer to the Working Group conclusions on the DCUSA Objectives in Section 8 below.

**Question 7: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?**

5.22 The Working Group noted that all respondents were not aware of any wider industry developments that may impact upon or be impacted by this CP.

**Question 8: Do you agree with the implementation date proposed by the DCP 240 change?**

5.23 Five respondents agreed with the implementation date proposed by this CP. One respondent suggested that further work may need to be undertaken by the Working Group on this CP which may impact upon the proposed implementation date.

5.24 The Working Group noted the responses and considered that they had addressed the concerns of this respondent in their response to question 4.

**Question 9: Are there any alternative solutions or matters that should be considered by the Working Group?**

5.25 Four respondents did not have any alternate solutions for the Working Group to consider and another respondent referred to their previously stated concerns which are set out in

their response to question 4 and addressed by the Working Group at this question.

- 5.26 One respondent requested clarification on whether “the intention is for the NCA to calculate one LV split value for all DNOs or a DNO specific value”. This respondent suggested they were supportive of the change if a separate value will be calculated for each DNO but requested for the legal text to more clearly state this approach.
- 5.27 The Working Group advised that the intention is for the NCA to calculate each DNOs specific value. The Working Group considered that the proposed legal text change to Schedule 16 Clause 114 which requests the NCA to provide an estimate for each DNO area is sufficiently clear in its intent.

## **6 PROPOSED LEGAL TEXT**

- 6.1 The proposed legal text has been reviewed by the DCUSA legal advisor and acts as Attachment Two.

## **7 DCP 240 – WORKING GROUP CONCLUSIONS**

- 7.1 The Working Group reviewed each of the responses received to the consultation and concluded that all of the respondents understood the intent of DCP 240.
- 7.2 The Working Group agreed that all of respondents were supportive of the principle of the CP.
- 7.3 The Working Group noted that the majority of respondents felt that specifically DCUSA General Objectives 1 and 2 and DCUSA Charging Objective 1 and 2 were better facilitated by this change.
- 7.4 The Working Group concluded that the CP will provide the following benefits:
- by procuring the NCA to undertake the LV Mains Split percentage it would ensure a timely and accurate update of this data item in the PCDM;
  - it will ensure increased efficiency and use of resources in the NCA undertaking this calculation as opposed to a number of Parties undertaking this calculation individually; and
  - the submission of transparent data for the LV Mains Split Calculation to the NCA would prevent distortion of DNO Revenue and ensure greater cost reflectivity.



## 8 EVALUATION AGAINST THE DCUSA OBJECTIVES

- 8.1 The Working Group considers that DCUSA General Objectives 1 and 2 and DCUSA Charging Objectives 1 and 2 are better facilitated by DCP 240. The reasoning against each objective is detailed below:

### General Objectives

**General Objective One –** *The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks.*

- 8.2 The Working Group agreed that the introduction of an NCA to undertake the LV Mains Split calculation would ensure a more common, consistent and co-ordinated approach to the calculation as set out in the methodology. There will be increased efficiency and use of resources as the calculation will be undertaken centrally by the NCA as opposed to a number of Parties undertaking the calculation on an individual basis.

**General Objective Two –** *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.*

- 8.3 The Working Group agree that Charging Objective two is better facilitated by this change as by procuring an NCA to undertake the calculation it ensures transparency of process, co-ordinated, consistent and timely collation of data from the relevant Parties including cost reflective IDNO discount factors. Such cost reflective charges would promote competition in distribution, generation and supply of electricity.

### Charging Objectives

**Charging Objective One -** *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.*

- 8.4 The Working Group agreed that this change better facilitates the DNO Party complying with the Charging methodologies as it assists with the DNO meeting the obligation to undertake the LV Mains Split Calculation. The NCA will centrally collate the data and undertake the

calculation thus reducing the number of resources required by each DNO individually to meet this obligation and providing a more efficient streamlined process.

**Charging Objective Two** - *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).*

- 8.5 The Working Group agreed that the submission of transparent data for the LV Mains Split Calculation to the Nominated Calculation Agent would prevent distortion of DNO Revenue and ensure greater cost reflectivity.

## **9 IMPACT ON GREENHOUSE GAS OMISSIONS**

- 9.1 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP 240 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

## **10 IMPLEMENTATION**

- 10.1 Subject to Authority approval, DCP 240 will be implemented on the 01 April 2016.

## **11 PANEL RECOMMENDATION**

- 11.1 The DCUSA Panel approved the DCP 240 Change Report on the 15 July 2015. The timetable for the progression of the CPs is set out below:

<b>Activity</b>	<b>Date</b>
Change Report approved by DCUSA Panel	15 July 2015
Change Report Issued for Voting	17 July 2015
Party Voting Closes	07 August 2015
Change Declaration Issued	11 August 2015
Authority Decision	16 September 2015
Implementation	1 April 2016

## **12 ATTACHMENTS:**

- Attachment 1 – DCP 240 Voting Form
- Attachment 2 – DCP 240 Proposed Legal Text
- Attachment 3 - DCP 240 Change Proposal
- Attachment 4 – DCP 240 Consultation Documents