

Proposed modification:	Distribution Connection and Use of System Agreement (DCUSA) DCP240 – Nominated Calculation Agent to calculate the LV Mains Split		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	2 September 2015	Implementation date:	1 April 2016

Background

The distribution network operators (DNOs) operate 14 distribution service areas (DSAs). Independent distribution network operators (IDNOs) can own and operate smaller networks in the DSAs and provide competition for some of the distribution network activities. The charges the IDNOs pay to DNOs for use of their distribution networks are discounted to reflect the fact that IDNOs provide the 'last mile' of the distribution network. The discount factors are calculated in the Price Control Disaggregation Model (PCDM).

One of the inputs into the PCDM is the proportion of a DNO's low voltage (LV) or high voltage (HV) mains that the IDNO is deemed to use at the level of connection. Currently, the DNO calculates the LV value (known as the 'LV Mains split') but an independent Nominated Calculation Agent⁴ (NCA) calculates the HV value (known as the 'HV Mains split').

The modification proposal

DCP240 was raised by Scottish and Southern Energy Power Distribution and proposes that the current arrangement should be changed so that an NCA would also calculate the LV Mains split instead of the DNOs.

DCUSA Parties' recommendation

The Change Declaration for DCP240 indicates that all parties⁵ were eligible to vote on the proposal. Votes were only cast in the DNO⁶ party category where there was unanimous support (all DNOs voted) for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP240 is accepted. The outcome of the weighted vote is set out in the table below:

DCP240	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO ⁷		SUPPLIER		DG ⁸	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	N/A	N/A	N/A	N/A	N/A	N/A
IMPLEMENTATION DATE	100	0	N/A	N/A	N/A	N/A	N/A	N/A

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ Independent person appointed by the DNOs for the purposes of clauses 42.13 and 42.14 and Schedule 16 of DCUSA

⁵ There are currently no gas supplier parties.

⁶ Distribution Network Operator.

⁷ Independent Distribution Network Operator/Offshore Transmission System Operator.

⁸ Distributed Generation.

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 11 August 2015. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the DCUSA Charging Objectives;⁹ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁰

Reasons for our decision

We consider this modification proposal will better facilitate DCUSA Charging Objectives 3.2.2 and 3.2.3 and has a neutral impact on the other relevant objectives.

DCUSA Charging Objective 3.2.1 – 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

The DCP240 working group, which assessed the modification proposal, considered that DCP240 better facilitates this objective by assisting the DNOs to meet their obligation to undertake the LV Mains split calculation. In their view, having the NCA collate the data and calculate the proportion of the split reduces the resources required by each DNO to do so and provides a more efficient process.

Although we accept that having a third party calculate the split for all the DNOs may improve the efficiency of the process, we consider that the proposal overall has a neutral impact on this objective. The DNOs are still responsible for the LV mains split calculation. We do not consider that procuring a third party's services to discharge this obligation, compared with the DNOs undertaking the calculation themselves, is likely to significantly impact their ability to meet this licence obligation and is therefore neutral in relation to this objective.

DCUSA Charging 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)

DCUSA Charging 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

The DCP240 working group and the majority of parties who voted on the proposal considered that DCP240 better facilitates charging objective 3.2.2. In their view, the DNOs may not have accurate data to calculate the LV Mains split under the current arrangements, resulting in potential distortions to the calculation of the DNOs' revenue.

⁹ The DCUSA Charging Objectives (Relevant Objectives) are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

¹⁰ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

They considered that if the NCA centrally collects the data from IDNOs and DNOs and calculates the LV Mains split, it should result in more accurate IDNO discounts and will better facilitate competition by removing potential distortion under the current calculation arrangements.

We agree with the working group that DCP240 better facilitates this objective for the reasons outlined above. We also consider that this change better facilitates charging objective 3.2.3 because, if the data used to calculate the LV Mains split is more accurate, then it will result in more cost reflective IDNO discounts.

We note that better accuracy could result in increases or decreases in the IDNO discounts. We are satisfied that any such changes would be justified as an improvement in cost reflectivity.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP240 '*Nominated Calculation Agent to calculate the LV Mains Split*' be made.

Ian Rowson

Associate Partner – Regulatory Finance and Compliance

Signed on behalf of the Authority and authorised for that purpose