



DCUSA Second Consultation

DCP 230– Rate of Return Enduring Solution

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 the second consultation issued to all DCUSA Parties, interested third parties, and the Authority in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 230 'Rate of Return Enduring Solution'.
- 1.3 Parties are invited to consider the proposed legal drafting set out in Attachment 2 to this document and submit comments using the response form provided as Attachment 1 to DCUSA@electralink.co.uk by **29 July 2015**.

2 DCP 230 'Rate of Return Enduring Solution'

- 2.1 DCP 230 has been raised by Western Power Distribution and seeks to revise the legal text within the DCUSA for the 'Annuity Rate of Return' to equal the pre-tax real weighted average cost of capital set for each DNO.
- 2.2 The Proposer explains that it was identified in 2014 that the words then contained within the DCUSA for the 'Annuity Rate of Return' were aligned to the Distribution Price Control Review 5 (DPCR 5) Distribution Licence and were no longer applicable under the RIIO-ED1 Distribution Licence. DCP 217 'Rate of Return' was raised to address this issue within the short-term, and was subsequently approved on 1 December 2014 by the Authority, and was implemented into the DCUSA on 1 April 2015. However, an enduring solution is felt to still be required.

3 CONSULTATION ONE – APRIL 2015

- 3.1 The Working Group issued its first consultation on 30 April 2015 in order to garner industry views on DCP 230. The Working Group developed the following formula which was used for the impact analysis:

- $\text{pre-tax cost of capital} = (\text{gearing assumption} \times \text{CDE}) + (1 - \text{gearing assumption}) \times (\text{post tax cost of equity} / (1 - \text{Corporation Tax Rate}))$
- Where CDE (Cost of Corporate Debt) is the latest CDE value for the licensee, directed by the Authority for use in the Annual Iteration Process for the ED1 Price Control Financial Model (or the opening value for CDE contained in the PCFM if no direction has been made at the time of calculation).¹
- For the avoidance of doubt, the post-tax cost of equity for use in the above formula is the fixed value shown in the [ED1 Price Control Financial Model](#) for the licensee and is not subject to change during the price control period (even if the corporation tax rate changes).
- See chapter 5 of the ED1 Price Control Financial Handbook for an explanation of CDE.²

3.2 The Working Group had originally concluded that there would be little or no impact on EDCM all the way tariffs, and a small impact on EDCM LDNO tariffs. However, during the consultation, it was determined that there would be a larger effect on the EDCM than previously considered.

4 CONSULTATION TWO – JULY 2015

4.1 The Working Group have now completed an impact assessment on the EDCM tariffs and are seeking industry views on this work. Although this does see a movement in the charges to individual customers, the net effect across this group of customers is minimal. The impact assessment is included as Attachment 3.

5 LEGAL DRAFTING

5.1 The proposed legal drafting is included as Attachment 2.

6 IMPLEMENTATION

6.1 The proposed implementation date for DCP 230, subject to Authority consent, is 1 April 2016.

¹ <https://www.ofgem.gov.uk/ofgem-publications/92966/schedule2ced1pricecontrolfinancialmodel.zip>

² <https://www.ofgem.gov.uk/ofgem-publications/92965/ed1handbookslowtrackfeb2015.pdf>

7 CONSULTATION

7.1 The Working Group is seeking views on the below questions:

1. Do you have any comments on the proposed legal text?
2. Do you have any comments on the EDCM impact analysis completed by the Working Group? Please provide supporting comments on this, and the results of the impact analysis.
3. Are there any alternative solutions or unintended consequences that should be considered by the Working Group?

7.2 Responses should be submitted using Attachment 1 to DCUSA@electralink.co.uk no later than **29 July 2015**.

7.3 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.

8 NEXT STEPS

8.1 Responses to the Consultation will be reviewed by the DCP 230 Working Group. The Working Group will then determine the progression route for the CP.

8.2 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 or telephone 020 7432 3014.

9 ATTACHMENTS

Attachment 1 – DCP 230 Consultation Response Form

Attachment 2 – DCP 230 Proposed Legal Drafting

Attachment 3 – DCP 230 EDCM Impact Analysis

Attachment 4 – DCP 230 Change Proposal