

## DCUSA Change Proposal Form

This form is issued in accordance with Clause 10.5 of the DCUSA.

Completed forms should be returned to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) for assessment by the DCUSA Panel. Failure to complete all parts of the form may result in it being rejected by the DCUSA Panel.

- PART A – Mandatory for all Change Proposals
- PART B – Mandatory for Non Charging Methodologies Proposals
- PART C – Mandatory for Charging Methodologies Proposals
- PART D – Guidance Notes

### PART A - MANDATORY FOR ALL CHANGE PROPOSALS

| Document Control   |   |
|--|---|
| CP Status  | Standard  |
| CP Number  | DCP 230   |
| Date of submission   | 11/02/15  |
| Attachments  | [See Guidance Note 1]   |
| Originator Details   |   |
| Company Name   | Dave Wornell  |
| Originator Name  | WPD   |
| Category   | <del>DG</del> / DNO / IDNO / <del>OTSO</del> / SUPPLIER / OTHER   |
| Email Address  | dwornell@westernpower.co.uk   |
| Phone Number   | 01179332032   |
| Change Proposal Details  |   |
| CP Title   | Rate of Return Enduring Solution  |
| Impacted parties   | DNOs, IDNOs and Suppliers   |
| Impacted Clause(s)   | Schedule 16, Schedule 17, Schedule 18   |
| Part 1 / Part 2 Matter   | Part 1  |
| Provide your rationale why you consider this change is a Part 1 or Part 2 Matter   | The changes are part of schedule 16, 17 and 18 and will effect prices and are therefore treated as a part 1 matter. |
| Related Change Proposals   | n/a   |
| Change Proposal Intent   |   |
| To revise the legal text within DCUSA for the 'Annuity Rate of Return' to equal the pre-tax real weighted average cost of capital set for each DNO.  |   |
| Business Justification and Market Benefits   |   |
| It was identified in 2014 that the words then contained within DCUSA for the 'Annuity Rate of Return' that were aligned to the DCPR5 Distribution Licence were no longer applicable under the ED1 Distribution Licence. A change proposal was raised to fix this for the short term which has been approved. A more enduring solution is required. |   |
| The enduring solution is to use the latest value of the pre-tax real weighted average cost of capital at the time of calculating charges. The value of 5.6% used in the DPCR5 period was the pre-tax real weighted average cost of capital set at the beginning DPCR5 and was calculated using the following formula.                              |   |
| pre – tax cost of capital = (gearing assumption x pre-tax cost of debt) + (1- gearing assumption)*(post tax cost of equity/(1-Corporation Tax Rate))   |   |

or

$$5.6\% = (0.65 \times 3.6) + ((1 - 0.65) \times (6.7 / (1 - 0.28)))$$

The same formula applied in ED1 for WPD as an example is

$$4.5\% = (0.65 \times 2.6) + ((1 - 0.65) \times (6.4 / (1 - 0.2)))$$

For other DNOs the answer will be different and will be dependent on the OFGEM decision.

### **Proposed Solution and Draft Legal Text**

Make the following changes to the references to cost of capital in the CDCM and EDCM:

Schedule 16, Paragraph 57, Table 3:

Annuity rate of return :

~~Set to equal the latest pre-tax real weighted average cost of capital for each DNO at the time of setting charges. 6.9% until the 31 March 2011, and thereafter the "allowed pre-tax weighted average cost of capital" set by the Authority as part of the then most recent review of the charge restriction conditions applying under the DNO Party's Distribution Licence.~~

Schedule 17, paragraph 2.16

~~i = discount rate, which is set to equal the latest pre-tax real weighted average cost of capital for each DNO at the time of setting charges, assumed to be the pre-tax cost of capital set by the Authority as part of the then most recent review of the charge restriction conditions applying under the DNO Party's Distribution Licence.~~

Schedule 17, paragraph 9.2

~~i = discount rate, which is set to equal the latest pre-tax real weighted average cost of capital for each DNO at the time of setting charges, assumed to be the pre-tax cost of capital set by the Authority as part of the then most recent review of the charge restriction conditions applying under the DNO Party's Distribution Licence.~~

Schedule 17, Annex 2

~~i is the discount rate, which is set to equal the latest pre-tax real weighted average cost of capital for each DNO at the time of setting charges, assumed to be the pre-tax cost of capital set by the Authority as part of the then most recent review of the charge restriction conditions applying under the DNO Party's Distribution Licence;~~

Schedule 18, paragraph 2.9

~~Discount rate is Set to equal the latest pre-tax real weighted average cost of capital for each DNO at the time of setting charges, equal to the (pre-tax) cost of capital set by the Authority as part of the then most recent review of the charge restriction conditions applying under the DNO Party's Distribution Licence.~~

Schedule 18, Attachment 1, paragraph 1

~~Discount rate is Set to equal the latest pre-tax real weighted average cost of capital for each DNO at the time of setting charges, equal to the (pre-tax) cost of capital set by the Authority as part of the then most recent review of the charge restriction conditions applying under the DNO Party's Distribution Licence.~~

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|--|-------------------------------------|
| <b>Proposed Implementation Date</b>                                    |                                     |
| Tariffs effective from 1 April 2016.                                   |                                     |
| <b>Impact on Other Codes</b>   |                                     |
| Please tick the relevant boxes and provide any supporting information. |                                     |
| BSC  | <input type="checkbox"/>            |
| CUSC   | <input type="checkbox"/>            |
| Grid Code  | <input type="checkbox"/>            |
| MRA  | <input type="checkbox"/>            |
| SEC  | <input type="checkbox"/>            |
| Other  | <input type="checkbox"/>            |
| None   | <input checked="" type="checkbox"/> |
| If other please specify  |                                     |
| <b>Consideration of Wider Industry Impacts</b>                         |                                     |
| N/A  |                                     |
| <b>Environmental Impact</b>  |                                     |
| None   |                                     |
| <b>Confidentiality</b>   |                                     |
| N/A  |                                     |

**PART B – MANDATORY FOR NON CHARGING METHODOLOGIES CHANGE PROPOSALS**

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| <b>DCUSA Objectives</b>  |
| <u>General Objectives:</u>   |
| Please tick the relevant boxes. [See Guidance Note 9]  |
| <input type="checkbox"/> 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks   |
| <input type="checkbox"/> 2 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 |
| <input type="checkbox"/> 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences   |

- 4 The promotion of efficiency in the implementation and administration of this Agreement
- 5 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.

**Detailed rationale for better facilitation of the DCUSA Objectives identified above**

[See Guidance Note 10]

**PART C – MANDATORY FOR CHARGING METHODOLOGIES CHANGE PROPOSALS**

**DCUSA Charging Objectives**

Please tick the relevant boxes. [See Guidance Note 11]

Charging Objectives:

- 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
- 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)
- 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
- 4 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
- 5 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.

General Objectives:

- 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
- 2 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
- 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in

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| <p>their Distribution Licences</p> <p><input type="checkbox"/> 4 The promotion of efficiency in the implementation and administration of this Agreement</p> <p><input type="checkbox"/> 5 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.</p>  |
| <p><b>Detailed rationale for better facilitation of the DCUSA Objectives identified above</b></p> <p>Charging Objective 1 and General Objective 3 are both better facilitated as a result of this change proposal by ensuring that the <del>rate of return wording wi in the CDCMthin DCUSA does not create an and EDCM is inconsistent</del> <u>rate of return</u> <del>with the ED1 pre-tax Distribution Licence cost of capital, which would be in place at that time.</del> <u>is inconsistent</u> with the <u>ED1 pre-tax Distribution Licence cost of capital</u>.</p> |
| <p><b>Has this issue been discussed at any other industry forums? If so please specify and provide supporting documentation</b></p> <p>This matter has been discussed within the DCMF MIG from which this change proposal has originated from.</p>   |

#### PART D – GUIDANCE NOTES FOR COMPLETING THE FORM

Guidelines for Working Group Members and Working Group Terms of Reference are available on the DCUSA Website and provide more information about the progression of the Change Process. [www.dcusa.co.uk](http://www.dcusa.co.uk)

| Ref | Data Field                                    | Guidance  |
|-----|---|---|
| 1   | <b>Attachments</b>                            | Append any proposed legal text or supporting documentation in order to better support / explain the CP.   |
| 2   | <b>Part 1 / Part 2 Matter</b>                 | A CP must be categorised as a Part 1 or Part 2 matter in accordance with Clause 10.4.7 of the DCUSA. All Part 1 matters require Authority Consent.  |
| 3   | <b>Related Change Proposals</b>               | Indicate if the CP is related to or impacts any CP already in the DCUSA or other industry change process.   |
| 4   | <b>Proposed Solution and Draft Legal Text</b> | <p>Outline the proposed solution for addressing the stated intent of the CP. The Change Proposal Intent will take precedence in the event of any inconsistency. A DCUSA Working Group may develop alternative solutions. The plain English description of the proposed solution should include the changes or additions to existing DCUSA Clauses (including Clause numbers).</p> <p>Insert proposed legal drafting (change marked against any existing DCUSA drafting) which enacts the intent of the solution. The legal text will be reviewed by the Working Group (if convened) and is likely to be subject to legal review</p> |

|           |  |   |
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|           |  | as part of its progress through the DCUSA change process.   |
| <b>5</b>  | <b>Proposed Implementation Date</b>            | <p>The Change can be implemented in February, June, and November of each year or as an extraordinary release. For Charging Methodology CPs, select an implementation date which takes in to consideration the deadlines for publishing indicative tariffs.</p> <ul style="list-style-type: none"> <li>• Submission of Company indicative tariffs is 31 December of each year.</li> <li>• Final tariffs are published on 1 April of each year.</li> </ul> <p>Please select an implementation date that provides sufficient time for the change to be incorporated into the appropriate charging model and the DCUSA in order to be reflected within the December indicative tariffs.</p> <p>Contact the DCUSA helpdesk for any further information on the releases <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a>.</p> |
| <b>6</b>  | <b>Consideration of Wider Industry Impacts</b> | Indicate whether this Change Proposal will be impacted by or have an impact upon wider industry developments. If an impact is identified, explain why the benefit of the Change Proposal may outweigh the potential impact and indicate the likely duration of the Change.  |
| <b>7</b>  | <b>Environmental Impact</b>                    | Indicate whether it is likely that there would be a material impact on greenhouse gas emissions as a result of the proposed variation being made. Please see <a href="#">Ofgem Guidance</a> .   |
| <b>8</b>  | <b>Confidentiality</b>                         | Clearly indicate if any parts of this Change Proposal Form are to remain confidential to DCUSA Panel (and any subsequent DCUSA Working Group) and Ofgem.  |
| <b>9</b>  | <b>DCUSA General Objectives</b>                | Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.   |
| <b>10</b> | <b>Detailed Rationale for DCUSA Objectives</b> | Provide detailed supporting reasons and information (including any initial analysis that supports your views) to demonstrate why the CP will better facilitate each of the DCUSA Objectives identified.   |
| <b>11</b> | <b>DCUSA Charging Objectives</b>               | Indicate which of the DCUSA Charging Objectives will be better facilitated by the Change Proposal. Please note that a CDCM or EDCM change may also facilitate the DCUSA General objectives.   |