

DCUSA DCP 230 Collated Consultation Responses

Company	Confidential/Anonymous	1. Do you understand the intent of DCP 230?	Working Group Comments
			The Working Group notes that all the respondents understand the intent of DCP 230.
Supplier 1	Anonymous	Yes. To revise the legal text within the DCUSA for Annuity Rate of Return so that it uses the latest pre-tax real weighted average cost of capital set for each DNO as it applies within RIIO ED1 rather than its application within the previous price control.	
Northern Powergrid	Non-confidential	Yes, we understand the intent of DCP 230 to align the 'Annuity Rate of Return' with the allowance for the pre-tax cost of capital in the RIIO-ED1 Licence.	
SP Distribution / SP Manweb	Non-confidential	Yes we understand the intent of DCP230	
SSEPD	Non-confidential	Yes	
UK Power Networks	Non-confidential	Yes.	

Company	Confidential/ Anonymous	2. Are you supportive of the principles of DCP 230?	Working Group Comments
			The Working Group notes that all respondents are supportive of the principles of DCP 230
Supplier 1	Anonymous	Yes	
Northern Powergrid	Non-confidential	Yes, we are supportive of the principles of DCP 230.	
SP Distribution / SP Manweb	Non-confidential	Yes we are supportive of the principles of DCP230	
SSEPD	Non-confidential	Yes	
UK Power Networks	Non-confidential	Yes.	
Company	Confidential/ Anonymous	3. Do you have any comments on the proposed legal text?	Working Group Comments

Supplier 1	Anonymous	No	
Northern Powergrid	Non-confidential	No.	
SP Distribution / SP Manweb	Non-confidential	<ul style="list-style-type: none"> a. The proposed text does not set out the detailed calculation as described in the accompanying formula b. It should be stated whether or not the figure should be rounded and, if so, to how many decimal places c. It should be clarified whether pre-announced tax rates, for the regulatory year, will be applied or the statutory rate in force, at the time 	The Working Group agreed to update the legal text according to the suggestions in this response.
SSEPD	Non-confidential	Not at this time	
UK Power Networks	Non-confidential	We believe that the legal text remains unclear because as drafted 'Set to equal the latest pre-tax real weighted average cost of capital for each DNO at the time of setting charges' is open to interpretation as to what is the 'latest' view as well as 'at the time of setting charges'. We feel that the legal text should either preferably look to set a % value for 'fast tracked' and 'slow tracked' companies or if this is not possible to use the text from the licence to ensure that there can be no variance in the interpretation of what is required between companies.	

Company	Confidential/ Anonymous	4. The Working Group feel that DCUSA General Objective 3 ¹ would be better facilitated by the implementation of DCP 230; please provide your comments on this and any other DCUSA General Objective you feel will be impacted by DCP 230.	Working Group Comments
			The Working Group notes that the majority respondents agree that DCUSA General Objective 3 is better facilitated by DCP 230.
Supplier 1	Anonymous	By changing the text to apply to the ED1 licence rather than a previous price control, DCP 230 facilitates more efficient discharge of the current licence.	
Northern Powergrid	Non-confidential	<p>We agree with the Working Group that DCUSA General Objectives three is better facilitated by the implementation of DCP 230 than the baseline as the rate of return in the CDCM will be aligned with the RIIO-ED1 allowance for cost of capital, rather than the baseline (interim) position of using 5.6%.</p> <p>We also feel that general objective four is better facilitated as this change will be an enduring solution for future Licence changes, compared to the baseline position (pre-DCP 217) which requires a DCUSA change every time there is change to the Licence.</p>	
SP Distribution / SP Manweb	Non-confidential	Yes we agree with the Working Group	
SSEPD	Non-	We agree that General Objective 3 would be better facilitated	

¹ The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

	confidential	for the reason specified in the consultation document	
UK Power Networks	Non-confidential	Due to the concerns raised in relation to the legal text, we do not feel at the current time that General Objective 3 would be better facilitated as a result of this change.	The Working Group has noted the concerns raised and will review the legal text accordingly.

Company	Confidential/Anonymous	5. The Working Group feel that DCUSA Charging Objective 1 ² would be better facilitated by the implementation of DCP 230; please provide your comments on this and any other DCUSA Charging Objective you feel will be impacted by DCP 230.	Working Group Comments
			The Working Group note that the majority of respondents feel that DCUSA Charging Objective 1 is better facilitated by DCP 230.
Supplier 1	Anonymous	DCP 230 means that the legal text gets changed to ensure that the words align with the DNO's ED1 licence rather than the licence from the previous price control and therefore facilitates the obligation with the appropriate licence.	
Northern Powergrid	Non-confidential	We agree with the Working Group; under DCP 230 the rate of return will match the allowance for cost of capital in the RIIO-ED1 Licence, which is an improvement against the baseline position. We also believe that Charging Objective three will be better	

² 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

		facilitated. Under the baseline position, all DNOs will use 5.6% as the rate of return in the CDCM. Assuming that the allowances in the RIIO-ED1 Licence are a good representation of the actual cost of capital to the DNO, by bringing the cost of capital in line with the Licence, the rate or return will be closer to the actual cost of capital and hence charges will be more cost reflective.	
SP Distribution / SP Manweb	Non-confidential	Yes we agree with the Working Group	
SSEPD	Non-confidential	We agree that Charging Objective 1 would be better facilitated for the reason specified in the consultation document	
UK Power Networks	Non-confidential	Due to the concerns raised in relation to the legal text, we do not feel at the current time that Charging Objective 1 would be better facilitated as a result of this change.	The Working Group has noted the concerns raised and will review the legal text accordingly.

Company	Confidential/Anonymous	6. Do you agree with the approach taken by the Working Group in the Impact Assessment, including the formula used to calculate the results?	Working Group Comments
			The Working Group notes that the majority of respondents agree with the approach taken in the impact assessment.
Supplier 1	Anonymous	No comment	

Northern Powergrid	Non-confidential	Yes, we agree with the approach taken including the formula used.	
SP Distribution / SP Manweb	Non-confidential	<ul style="list-style-type: none"> a. We agree with the formula b. We note the rate of return calculation in the accompanying spreadsheet is unrounded c. It may be informative to undertake a sensitivity analysis of future interest rates and consider the impact of the resulting range of discount rates 	
SSEPD	Non-confidential	Yes	
UK Power Networks	Non-confidential	<p>We agree with the work undertaken by the working group, in relation to the formula used in the impact assessment. However we believe that further work is required to fully understand how the annual iteration process would work whilst the DNO is required to set charges fifteen months in advance.</p> <p>This change has an impact on the underlying costs and a subsequent balancing impact upon the charges due to scaling to match allowed revenue. It needs to be considered that changing the Rate of Return on an annual basis will significantly increase volatility which will be predominately seen in the red / unit 1 rates. It can be seen that some unit rates increase by over 50% under this proposal as a result of revenue matching. it is questionable whether this results in charges that are more cost reflective than the current approach.</p>	

Company	Confidential/Anonymous	7. Do you agree that the approach taken by the Working Group will align with the RIIO-ED1 License?	Working Group Comments
			The Working Group note that the majority of respondents agree that DCP 230's approach will align with the RIIO-ED1 License.
Supplier 1	Anonymous	No comment	
Northern Powergrid	Non-confidential	Yes, we agree that the CP will bring the CDCM and EDCM into alignment with the RIIO-ED1 Licence.	
SP Distribution / SP Manweb	Non-confidential	<p>a. We consider that this proposal is consistent with the relevant Licence Condition(s)</p> <p>b. It should also be consistent with the Price Control Financial Model (PCFM), apart from the pre-tax adjustment.</p>	
SSEPD	Non-confidential	Yes	
UK Power Networks	Non-confidential	As mentioned above in relation to Q6 we believe that the timing difference between charge setting and the annual iteration process will cause some disturbance to alignment with the License.	
Company	Confidential/	8. Do you agree with the Working Group's conclusion that this CP will have a minimal effect on the EDCM?	Working Group Comments

	Anonym ous		
			The Working Group note that all respondents felt that there would be minimal impact on the EDCM. However, it was brought to the attention before these responses were received that there would be an impact on the EDCM. The Working Group agreed to produce an impact analysis and issue a second consultation in order to illustrate the impacts to the Industry.
Supplier 1	Anonymo us	No comment	
Northern Powergrid	Non- confidenti al	Yes, we agree with the Working Group's conclusion.	
SP Distributi on / SP Manweb	Non- confidenti al	Yes we agree that this CP will have minimal effect on the EDCM.	
SSEPD	Non- confidenti al	Yes – we agree that there will be minimal impact on the EDCM for the reasons specified in the consultation document	
UK Power Network s	Non- confidenti al	We agree that from our perspective the impact on EDCM customers will be minimal.	
Compa ny	Confide ntial/ Anonym ous	9. Are you aware of any wider industry developments that	Working Group Comments

	Anonym ous	may impact upon or be impacted by this CP?	
			The Working Group note that there are no other industry developments that could impact upon this CP.
Supplier 1	Anonymo us	No	
Northern Powergri d	Non- confidenti al	The implementation of DCP 178 will impact this CP. If implementation of DCP 230 is not achieved this year (i.e. implementation date 01/04/2016), then DNOs will be forced to use 5.6% as per the current legal text for both 2016/17 and 2017/18 Charges, taking us to almost halfway through the ED1 period using values for the cost of capital which are not aligned with the Licence. Hence it is important that implementation is achieved in time for Charge Setting this year.	
SP Distributi on / SP Manweb	Non- confidenti al	Potential outcome of BGT's appeal to the CMA may result in further changes as regards debt indexation	
SSEPD	Non- confidenti al	Not at this time	
UK Power Network s	Non- confidenti al	None that we are aware of at this time.	

Company	Confidential/ Anonymous	10. Are there any alternative solutions or unintended consequences that should be considered by the Working Group?	Working Group Comments
			The Working Group noted all the comments within these responses and felt that they had taken them into consideration in previous questions.
Supplier 1	Anonymous	It could be interpreted from the revised text that the rate of return could be re-evaluated and applied to the charging methodology as often as the DNO sets charges which might be more often than the review of charge restriction conditions that happened under the previous price control licence. This greater potential frequency of re-evaluation could lead to more charge volatility within this price control.	
Northern Powergrid	Non-confidential	No.	
SP Distribution / SP Manweb	Non-confidential	Annual changes to the discount rate will potentially increase the volatility of charges, although this effect may be very small	
SSEPD	Non-confidential	Not at this time	
UK Power Network	Non-confidential	As mentioned in our responses to Q6 and Q7 we believe that the impact of setting final charges fifteen months in advance will require the consideration of how the annual iteration	

s		process is best managed.	
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