

**DCUSA DCP 117 CHANGE DECLARATION**

**VOTING END DATE: 15 JUNE 2015**

| DCP 117 -TREATMENT OF 'LOAD RELATED NEW CONNECTIONS & REINFORCEMENT (NET OF CONTRIBUTIONS)' IN THE PRICE CONTROL DISAGGREGATION MODEL (PCDM) | WEIGHTED VOTING   |        |          |                       |              |
|--|---|--------|----------|-----------------------|--------------|
|  | DNO   | IDNO   | SUPPLIER | DISTRIBUTED GENERATOR | GAS SUPPLIER |
| CHANGE SOLUTION  | Accept  | Accept | n/a      | n/a                   | n/a          |
| IMPLEMENTATION DATE  | Accept  | Accept | n/a      | n/a                   | n/a          |
| RECOMMENDATION   | <p><b>Change Solution – Accept.</b><br/>For the majority of the Party Categories that were eligible to vote, the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the change solution was more than 50%.</p> <p><b>Implementation Date – Accept.</b><br/>For the majority of the Party Categories that were eligible to vote, the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the implementation date was more than 50%.</p> |        |          |                       |              |
| PART ONE / PART TWO  | <b>Part One</b> – Authority Determination Required  |        |          |                       |              |

| PARTY              | SOLUTION (A / R) | IMPLEMENTATION DATE (A / R) | WHICH DCUSA OBJECTIVE(S) IS BETTER FACILITATED? | COMMENTS |
|--------------------|------------------|-----------------------------|---|----------|
| <b>DNO PARTIES</b> |                  |                             |   |          |

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|--|--------|--------|---|---|
| Scottish Power Manweb plc                            | Accept | Accept | n/a   | n/a   |
| Scottish Power Distribution plc                      | Accept | Accept |   |   |
| Northern Powergrid Northeast                         | Accept | Accept | We agree with the Working Group assessment that DCP 117 better facilitates DCUSA General Objective 1, 2 and 3, and DCUSA Charging Objectives 1,2 and 3.   | As we said in our response to the consultation, we believe that the FBPQ LR1 submissions data are now out of date, but in the absence of more accurate data could be used to allocate costs and customer contributions to network tiers. In the absence of any more accurate data we understand the approach being taken. |
| Northern Powergrid Yorkshire                         | Accept | Accept |   |   |
| UKPN - Eastern Power Networks                        | Accept | Accept | We believe that General Objectives 1, 2 and 3 and Charging Objectives 1, 2 and 3 are better facilitated as a result of this change by changing the source of the allocation of costs which we agree makes the methodology more cost reflective.     | n/a   |
| UKPN - London Power Networks                         | Accept | Accept |   |   |
| UKPN - South Eastern Power Networks                  | Accept | Accept |   |   |
| SSE - Southern Electric Power Distribution plc       | Accept | Accept | This Change Proposal better facilitates DCUSA General Objectives 1, 2 and 3 and DCUSA Charging Objectives 1, 2 and 3.<br><br>Allocating the excess customer contribution over costs seems more cost reflective and hence would enhance competition. | No.   |
| SSE - Scottish Hydro Electric Power Distribution plc | Accept | Accept |   |   |
| Electricity North West                               | Accept | Accept | We agree with the assessment by the   | n/a   |

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|  |        |        | Working Group, as set down in the change report, that this change proposal better meets general objectives 1, 2 and 3 and charging objectives 1, 2 and 3.   |     |
| Western Power Distribution (East Midlands) | Accept | Accept | n/a   | n/a |
| Western Power Distribution (West Midlands) | Accept | Accept |   |     |
| Western Power Distribution (South Wales)   | Accept | Accept |   |     |
| Western Power Distribution (South West)    | Accept | Accept |   |     |
| <b>IDNO PARTIES</b>                        |        |        |   |     |
| ESP Electricity                            | Accept | Accept | <p>General Objective 2<br/>DCP 117's solution will improve competition in distribution, as all parties will be able to recover the revenue through its Distribution Charges that better reflects each party's costs.</p> <p>Charging Objective 2<br/>Currently, the margin available to a downstream DNO is not reflective of the costs incurred by that party, thus restricting/distorting competition. This</p> | n/a |

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|                                    |        |        | <p>change will amend the methodology to ensure downstream DNO margins do not prohibit competition in distribution.</p> <p>Charging Objective 3<br/>The change proposal will lead to methodologies that better reflect the costs incurred by parties.</p>   |   |
| The Electricity Network Company    | Accept | Accept | <p><b>DCUSA General Objectives</b></p> <p><b>Objective 2:</b> The proposed change better promotes competition in the distribution of electricity. This is because it results in a more cost reflective allocation of connection contribution between DNOs and IDNOs;</p> <p><b>Objective 3:</b> the following obligations are placed on distributors through their distribution licence:</p> <p>Licence condition 4.6 states<br/><i>“In carrying on any of the activities of...setting Use of System Charges...the licensee must not restrict, distort, or prevent competition in the ... distribution... of electricity...”</i>.</p> <p>Licence condition 13.3 sets out the relevant objectives in relation the charging methodology; SLC13.3 (b)</p> | <p>The defect was first identified in 2010. It is disappointing that if the change proposal is approved, it will not be implemented until 2016. Therefore IDNOs will have been deprived of margins due to them during this six year period.</p> <p>During the change process it would appear that DNOs have taken a reactive rather than a proactive approach in reaching a solution. This is evidenced in the minutes of working groups.</p> |
| Independent Power Networks Limited | Accept | Accept |  |   |

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|  |  |  | <p>and (d) state the following:</p> <p><i>“that compliance with the methodology ... does not restrict, distort, or prevent competition in the ... distribution of electricity.</i></p> <p><i>that compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business”.</i></p> <p>The PCDM forms part of the CDCM and is allegedly a total cost allocation model. Currently the PCDM does not allocate all revenues described as customer contributions, where it does allocate them, it only does so at the LV level (irrespective of what network tier the contributions relate. This effect of this is to distort unduly allocation of costs. As a consequence the calculation of discount factors unduly squeezes the IDNO margin in favour of DNOs. The solution put forward in the Working Group addresses this issue by allocating all costs and customer contributions over all network levels thereby generating a more cost reflective outcome. We believe that both DNOs and Ofgem acknowledge</p> |  |
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|  |  |  | <p>the defect. In DCP094 it was the solution that was questioned. The solution proposed under DCP117 uses DNO data provided in regulatory submissions to allocate the costs to network tire. The proposed solution leads to a more cost reflective solution.</p> <p><b>DCUSA Charging Objectives</b></p> <p><b>Objective 1, 2 and 3:</b> the following obligations are placed on distributors through their distribution licence:</p> <p>Licence condition 4.6 states<br/> <i>“In carrying on any of the activities of...setting Use of System Charges...the licensee must not restrict, distort, or prevent competition in the ... distribution... of electricity...”</i>.</p> <p>Licence condition 13.3 sets out the relevant objectives in relation the charging methodology; SLC13.3 (b) and (d) state the following:<br/> <i>“that compliance with the methodology ... does not restrict, distort, or prevent competition in the ... distribution of electricity.</i><br/> <i>that compliance with the methodology results in charges</i></p> |  |
|--|--|--|--|--|

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|                        |        |        | <p><i>which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business”.</i></p> <p>The PCDM forms part of the CDCM and is allegedly a total cost allocation model. Currently the PCDM does not allocate all revenues described as customer contributions, where it does allocate them, it only does so at the LV level (irrespective of what network tier the contributions relate. This effect of this is to distort unduly allocation of costs. As a consequence the calculation of discount factors unduly squeezes the IDNO margin in favour of DNOs and. We believe that both DNOs and Ofgem acknowledge the defect. In DCP094 it was the solution that was questioned. The solution proposed under DCP117 uses DNO data provided in regulatory submissions to allocate the costs to network tire. The proposed solution leads to a more cost reflective solution.</p> |     |
| Energetics Electricity | Accept | Accept | <p>DCUSA General Objective 1,2,3</p> <p>DCUSA Charging Objectives 1,2,3,4,5</p> <p>They are better facilitated due to the</p>  | n/a |

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|--------------------------------------|--|--|---|--|
|                                      |  |  | correction of the defect in the methodology currently employed to calculate the % split between direct/indirect costs are how they are allocated to specific voltage tiers, when considering load related new connections & reinforcement (net of contributions). |  |
| <b>SUPPLIER PARTIES</b>              |  |  |   |  |
| n/a                                  |  |  |   |  |
| <b>DISTRIBUTED GENERATOR PARTIES</b> |  |  |   |  |
| n/a                                  |  |  |   |  |
| <b>GAS SUPPLIER PARTIES</b>          |  |  |   |  |
| n/a                                  |  |  |   |  |