

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP128 – Bringing the EDCM Price Control Disaggregation Model (Extended Method M) Excel Workbook Under the DCUSA Open Governance Framework		
Decision:	The Authority ¹ directs that proposal DCP128 be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	25 April 2013	Implementation Date:	To be confirmed by Electralink

This decision means that the Distribution Network Operators (DNOs) will be required to use a common spreadsheet for calculating charges for Independent Network Operators (IDNOs) that are connected at upper network levels.

Background to the modification proposal

DNOs levy charges for use of their networks, i.e. connection charges and distribution use of system (DUoS) charges. The DCUSA contains methodologies that specify how these charges should be calculated. DNOs have spreadsheet models (Excel workbooks) that implement these methodologies and calculate the charges. The DCUSA specifies which version of each model to use for most of the methodologies.

One of the methodologies in the DCUSA is the Extra-high voltage (EHV) Distribution Charging Methodology (EDCM). Within this methodology is the EDCM Price Control Disaggregation methodology (called "Extended Method M"). The Extended Method M methodology specifies how to calculate the "discount factors" that determine tariffs to IDNOs where their networks connect to DNOs at EDCM network tiers³. As with the other charging methodologies, DNOs use an Excel workbook to implement Extended Method M and calculate the charges. However, the DCUSA does not specify which model version DNOs should use.

When Extended Method M was introduced, DNOs all started with the same version of the Excel workbook⁴. Currently, if a change to Extended Method M is approved through the open governance modifications process and requires a change to the Extended Method M Excel workbook, each DNO implements the change in its own Excel workbook. However, because the DCUSA does not specify the model version number of the model which DNOs are required to use, DNOs have no obligation to use the same Excel workbook as each other and to implement changes in the same way. This presents two risks.

Firstly, a DNO might not correctly implement the methodology (i.e. it might make an error in the Excel workbook calculations), resulting in incorrect charges being paid by customers to a DNO and an IDNO. The proposer (see below) stated that there has been such an occurrence, when one party incorrectly implemented an earlier change proposal in the Method M Excel workbook⁵. Secondly, there are likely to be different ways of conducting the calculations (e.g. breaking calculations down into steps versus combining them) and of presenting the work (e.g. formatting, explanatory notes, etc.). Therefore,

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ Discount factors are used to determine how the DUoS charges paid by a customer are split between the DNO and the IDNO in those cases where the customer uses some assets that are provided by each party.

⁴ The one exception was UK Power Networks (UKPN), whose Excel workbook has an extra table that was added in consultation with Ofgem. This was to account for the fact that UKPN treated data in a way that led to discount factors that were significantly different to what had been envisaged.

⁵ The Method M Excel workbook is the equivalent model for the Common Distribution Charging Methodology (CDCM).

there is a risk that DNOs could end up with slightly different versions of the Excel workbook, and this would make it harder to implement changes to the methodology.

The modification proposal

DCP128 was raised by the Gas Transportation Company (GTC) for and on behalf of the Electricity Network Company Limited (the 'Proposer'), on 12 April 2012. The purpose of the modification proposal is to bring the Extended Method M Excel workbook under the governance framework of the DCUSA. The proposer stated that this will improve the transparency of governance arrangements, improve the efficiency of managing changes to the model, and reduce the risk of errors occurring.

A DCUSA Workgroup was established with IDNO, DNO and Ofgem representatives. It issued Requests for Information (RFIs), to determine how many different versions of the Excel workbook were in existence, and whether a common version would replicate the results of each of the different versions. Through an iterative process, a common version that DNOs agreed replicated their previous results was produced.

The Workgroup, which was attended by an Ofgem representative, decided not to issue a consultation to DCUSA parties. The reason was that the Workgroup considered that the proposal was straight-forward, and considered that questions would be extremely limited. The main issue was the approach to creating a common version of the Excel workbook. We consider that sufficient consultation took place through the RFIs, and we note that it was discussed with a wider group of stakeholders during a meeting of the Distribution Charging Methodologies Forum (DCMF) on 6 December 2012.

The Workgroup's recommendation is that text be added to the DCUSA (in paragraph 1.3 of Schedule 17, and paragraph 1.3 of Schedule 18) such that a version of the Excel workbook could be specified for use by DNOs. This version reference could be updated in the future to direct DNOs to use an updated version of the Excel workbook (e.g. if a new version was required to implement a future change to the methodology).

The Workgroup submitted a change report to the DCUSA Panel in February 2013. Parties were invited to vote by 8 March 2013. We received the Change Declaration on 19 March 2013.

DCUSA Parties' recommendation

The Change Declaration for DCP128 indicates that DNO, IDNO/OTSO⁶, Supplier and DG⁷ parties were eligible to vote on DCP128. In the DNO and IDNO/OTSO party categories there was unanimous support for the proposal and for its proposed implementation date. In the supplier party category, two parties voted and the vote was split: 50% supported the proposal and 50% opposed it. No votes were cast in the DG party category. In accordance with the weighted vote procedure, the recommendation to us is that DCP128 is rejected. The outcome of the weighted vote is set out in the table below:

DCP128	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0	50	50	n/a	n/a
IMPLEMENTATION DATE	100	0	100	0	50	50	n/a	n/a

Our decision

⁶ Offshore Transmission System Operators

⁷ Distributed Generation

We have considered the issues raised by the proposal and the Change Declaration dated 12 March 2013. 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 change proposal DCP128 will better facilitate the achievement of the DCUSA General Objectives⁸; and
- directing that the change is approved is consistent with our principal objective and statutory duties.⁹

Reasons for the our decision

DNOs will continue to use Extended Method M, regardless of whether the DCUSA specifies which version of the Extended Method M Excel workbook should be used. In this sense, DCP128 does not affect charges and so, we have assessed it against the DCUSA General Objectives. In our view, DCP128 would better facilitate the DCUSA Objective below. We consider that DCP128 is neutral with respect to the other General Objectives.

However, DCP128 will address the issues of inconsistency between different versions of that Excel workbook (see above), and hence could avoid errors being made. Therefore, we note below that DCP128 could bring indirect benefits relating to some of the DCUSA Charging Objectives.

DCUSA General Objective 3.1.4 – the promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it

Specifying in the DCUSA which version of the Extended Method M Excel workbook should be used by DNOs will ensure consistency in the DNO's approaches. This will make it simpler to implement changes to the methodology, and will help to avoid errors that would take effort to identify and correct. As noted above, the proposer stated that there has been such an error, when one party incorrectly implemented an earlier change proposal in the Method M Excel workbook. In addition, during the course of the Workgroup's discussions, it was confirmed that DNOs had found, following the implementation of the methodology, minor issues in the Extended Method M Excel workbook (e.g. missing links to cells). They had addressed these issues to make the Model operate correctly, such that each of their models appears to have calculated the results in line with the methodology. However, because they addressed these issues independently of each other, they now have slightly different Excel workbooks. These examples illustrate the value of specifying which version of the Extended Method M Excel workbook should be used by the DNOs. We consider that DCP128 will better facilitate this objective.

Other potential benefits

⁸ The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

⁹ The Authority's statutory duties are wider than matters that the Panel must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

We note that DCP128 could play an indirect role in better facilitating certain of the DCUSA charging objectives.

It is important that IDNO discounts are calculated in line with the methodology, in order that DNOs and IDNOs receive charges that reflect the costs that they have incurred. DCP128 does not, in itself, improve the cost-reflectivity of IDNO discounts. However, it will make it easier for parties to scrutinise the Excel workbook, and for any errors to be avoided. This would help to reduce the likelihood of errors occurring, including when changes to the methodology are implemented. Therefore, DCP128 could indirectly play a role in better facilitating DCUSA Charging Objective 3.2.3 that refers to cost-reflectivity¹⁰.

IDNO discounts should give an indication of those projects for which an IDNO could compete effectively against a DNO. This partly depends upon the Excel workbooks calculating charges in line with the methodology. As discussed above, DCP128 could help to avoid errors in the Excel workbooks, including when changes are implemented. Therefore, DCP128 could indirectly play a role in better facilitating DCUSA Charging Objective 3.2.2 that refers to facilitating competition¹¹.

Further comments

The supplier party that voted to reject DCP128 said that the change report gave no reasoning why any of the DCUSA objectives are better facilitated. We note that the change report simply referred to certain objectives, and did not explain how they were relevant to the proposal. We encourage Workgroups to include sufficient explanations of how their particular proposals would better facilitate objectives. However in this case, we consider that the proposal can be justified against the objectives. This view is based on points made elsewhere in the change proposal, and also in discussions at Workgroup meetings and at a meeting of the DCMF.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP128: *'Bringing the EDCM Price Control Disaggregation Model (Extended Method M) Excel Workbook Under the DCUSA Open Governance Framework'* be made.

Andy Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose

¹⁰ 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

¹¹ 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)