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| Company | Confidential/  Anonymous | 1. Are Parties comfortable with the approach proposed by the Working Group to allocate the Ofgem licence fees to the LV Service Customers rather than allocating them across all voltage levels? If not, provide your rationale. |
| Electricity North West Limited | Non-confidential | We do not agree with this approach as it is inaccurate, does not reflect the true driver of Ofgem licence fee costs and could potentially distort the allocation of costs with the PCDM due to ‘cherry-picking’.  **1. Accuracy of the suggested approach**  The suggested approach is not consistent with the proposer’s justification for the change that suggests that Ofgem licence fees are driven by customer or MPAN numbers. As not all customers are LV Service level connected not all Ofgem licence fee costs should be allocated to that level. If it is decided that MPANs are a driver of licence fees then the costs should be allocated across the voltage levels in proportion to the customer’s connections.   1. Ofgem licence fee cost driver   Regardless of this concern, we do not believe that Ofgem licence fees are driven by customer or MPAN numbers. The consultation document suggests that Ofgem charge for licence fees on a £/MPAN basis. We believe this is a mischaracterisation of the approach Ofgem take to charging for licence fees.  Ofgem levy licence fees to recover an amount of income equal to the relevant costs. In doing this across a range of network companies of different scale and operating in different industries they require an allocation driver. The number of MPANs is a proxy allocation used by Ofgem in the allocation of their total costs to network operators which is intended to represent the relative overall scale and complexity of network companies in a comparable way across both the gas and electricity industries.  We do not believe that there is a direct relationship between the cost of providing network regulatory services and the number of end customers connected to licensed networks (after all, Transmission companies are charged significant licence fees by Ofgem despite having a relatively small numbers of customers connected to their networks), and can therefore see no justification for allocating Ofgem level fees entirely to LV Service customers within the PCDM.  The distribution of electricity is a regulated licensed activity in Great Britain. It is our view that this regime of licensing and regulation applies to the entirety of distribution networks and not just to the end point of connection to customers. The part of a DNO network that delivers energy from a GSP to an LDNO network is subject to regulation and licensing to just the same extent as the LDNO network delivering energy from the point of connection with the DNO to a household. We therefore believe that not allocating it or using MEAV would probably be a more cost reflective allocation driver than assuming 100% LV Service or MPANs, as not allocating it or using MEAV would better reflect the scale of regulated licensed activity undertaken across all network levels.  In this case, not specifically allocating these costs in the PCDM could be considered equivalent to taking a view that the costs support the full scope of the DNO’s activity, and therefore should not influence the overall allocation. We believe this is probably the appropriate treatment for licence fees (this is as per the current methodology).   1. Concerns about ‘cherry-picking’   We accept that the allocations in the PCDM are a high level approximation and are therefore imperfect. However, we believe that selecting individual cost elements for individual allocation is a potential distortion of the methodology unless all cost elements are subject to an equal level of scrutiny at the same time. While we believe MEAV, for example, works effectively as a overall cost driver for a wide range of costs in total, if individual cost elements are subject to separate allocations then we believe the effectiveness of MEAV for the remaining cost elements needs to be reviewed as well. |
| ESP Electricity (‘ESPE’) | Non-confidential | ESPE agrees with the approach to allocate Ofgem licence fees to the LV Service Customers. |
| Leep Electricity Networks Limited | Non-confidential | Yes |
| Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc | Non-confidential | Yes. |
| Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc | Non-confidential | Given the result of the customer number split analysis conducted by the Working Group, it seems that the difference to fee allocation between the two approaches is not material (99.8% vs 100% to LV Service Customers). In our view the simplicity of the proposed approach (to LV Service Customers only) outweighs any minimal further cost reflectivity which may be gained by allocating them across all voltage levels.  Based on this, we are comfortable with the proposed approach **for the time being**.  However, it would be sensible for the Working Group to also investigate whether the same customer number split analysis is likely to give a similar conclusion in the short and medium term future, including identifying potential causes and trends (if any) for it not to maintain this case to a material extent. |
| SP Distribution & SP Manweb | Non-confidential | Yes, given the outcome of the RFI confirming that 99.8% of customers are forecasted to be connected at LV, there is an immaterial impact of choosing to exclude higher voltage levels in the allocation of costs. |
| The Electricity Network Company Ltd | Non-confidential | We agree that there is a benefit in allocating licence fees at the LV Service Level. This is due to its simpler approach and the fact that the DNO data submission shows that 99.8% of customers are forecast to be connected at LV. |
| UK Power Networks | Non-confidential | Yes, as stated in the consultation the majority of customers (>99%) are connected at LV as a result we believe that this is a pragmatic solution. |

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| Company | Confidential/  Anonymous | 2. Do you have any comments on the proposed legal text? |
| Electricity North West Limited | Non-confidential | We do not believe the legal text as drafted is set out in the clearest possible manner.  The purpose and meaning of 11A b) seems unclear: what other costs are being referred to here? Should these costs then be indirectly allocated? What happens to the non-Ofgem licence fee costs? We believe the intention is that the non-Ofgem licence fee non activity costs and reconciling items should be treated as previously (do not allocate).  Also, the positioning of paragraph 11A makes it somewhat ambiguous whether the steps described in previous paragraphs apply to the Ofgem licence fee costs. For example, do they form part of the “Expensed proportions”? We believe the intention is that they should.  We believe it would be a clearer presentation in include the qualifying detail of the new paragraph 11A within the table of Allocation Rules included in paragraph 6. This might look as below:   |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | | **Ofgem Licence Fees (from table 2.6 of the 2007/2008 RRP, described as “Ofgem licence fees”)** | **LV Only** |  |  | | **Non activity costs and reconciling amounts (excluding “Ofgem Licence Fees”)** | **Do not allocate** |  | **1** |   The “LV only” allocation key would then need to be described in a paragraph as below.  **New para between 9 & 10: For the categories of expenditure for which the table reports “LV only” under “the column “Allocation key”, the DNO Party allocates 100% of the cost to the LV Services level.**  *Note: I have selected the term “LV Only” as this term is supported by the existing PCDM spreadsheet. I believe the effect of the “LV Only” allocation key in the spreadsheet is that the costs are allocated 100% to LV Services.* |
| ESP Electricity (‘ESPE’) | Non-confidential | ESPE agrees in principle with the proposed legal text. However, we would make the recommendation to amend “Ofgem Licence Fees” in the proposed legal text to “Ofgem Licence Fee”, as it appears in table 2.6 of the Regulatory Reporting Pack. |
| Leep Electricity Networks Limited | Non-confidential | No |
| Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc | Non-confidential | No. |
| Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc | Non-confidential | No further comment. |
| SP Distribution & SP Manweb | Non-confidential | No |
| The Electricity Network Company Ltd | Non-confidential | We believe that the legal text meets the intent of DCP 306. |
| UK Power Networks | Non-confidential | No, we are comfortable with the changes as drafted. |

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| Company | Confidential/  Anonymous | 1. Which of the DCUSA Charging Objectives are better facilitated by this change? Please provide your rationale. |
| Electricity North West Limited | Non-confidential | None as currently drafted. |
| ESP Electricity (‘ESPE’) | Non-confidential | ESPE agrees with the proposer that DCUSA Charging Objective 3 is better facilitated by this change proposal. Whilst allocating the licence fees at each voltage level would be most cost reflective, we do not believe the incremental benefit of allocating at each voltage level will outweigh the added complexity given 99.8% of customers were forecasted to be connected at the LV network. The proposed change will improve cost reflectivity, and positively facilitate Charging Objective 3. |
| Leep Electricity Networks Limited | Non-confidential | Charging Objectives |
| Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc | Non-confidential | Charging Objective 3, due to the increase in cost reflectivity specific to the recovery of licence fees. |
| Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc | Non-confidential | This change is to better facilitate Charging Objective 3 – so that IDNOs charges more closely reflect their cost incurred. |
| SP Distribution & SP Manweb | Non-confidential | Charging objective 3. |
| The Electricity Network Company Ltd | Non-confidential | We agree that DCUSA Objective Charging Objective 3 is better facilitated by DCP 306 as the solution provides a more cost reflective mechanism for the allocation of the Ofgem licence fee. |
| UK Power Networks | Non-confidential | We agree with the working group that charging objective three is better facilitated by this change, as the charges will better reflect the costs which are incurred. |

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| Company | Confidential/  Anonymous | **4. Do you agree that the change should continue to be assessed via the DCUSA Change Process and not the SCR, CFF or wider Task Forces?** |
| Electricity North West Limited | Non-confidential | The timing of implementing this change and the outcomes of the SCR, CFF and Taskforces overlap to a significant degree. We believe it would be better to let Ofgem led industry charging methodology review processes finish before reviewing the PCDM because of the high level of uncertainty about the changes that might result and the consequential impacts on the PCDM. Also, as we have previously expressed we believe a review of all cost allocations in the round would be more likely to result in a more balanced outcome. |
| ESP Electricity (‘ESPE’) | Non-confidential | As the Change Proposal is focusing specifically on changes to the PCDM, ESPE agrees that this change should continue under the DCUSA Change Process.  Whilst we appreciate there are issues with the age of the data used in the PCDM, and more fundamental changes could be made to improve the methodology, we believe this should not prevent parties seeking to make incremental changes to the charging methodologies so long as they better achieve the DCUSA charging objectives. Particularly as it is not clear whether or not the SCR or CFF work will impact or conflict with this change.  The change proposed will improve cost reflectivity in the current charging arrangements without fundamentally changing the PCDM model; as such, we do not believe it will conflict with the work undertaken by the Task Forces, CFF or SCR. |
| Leep Electricity Networks Limited | Non-confidential | Yes |
| Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc | Non-confidential | It is accepted that it is at the discretion of the proposer to withdraw this change, and it is understandable why they may not wish to do so. However, for the principle of this change to be better achieved we retain the view that there is a need for more fundamental reform which is not limited in scope to the PCDM. The Forward Looking Charges Task Force under Charging Futures would be the appropriate group to address these underlying issues of e.g. cost reflectivity. |
| Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc | Non-confidential | Yes, given that SCR, CFF or wider Task Forces are not specifically looking at PCDM at the moment. |
| SP Distribution & SP Manweb | Non-confidential | Yes, the intent of the proposal is to update the PDCM not the CDCM or EDCM. The proposal will improve cost reflectivity and as such should progress through the DCUSA Change Process to ensure the benefits are achieved timeously. |
| The Electricity Network Company Ltd | Non-confidential | Yes, we agree. DCP 306 is limited in scope and has no wider impact on any of the SCR, CFF or other Task Forces. |
| UK Power Networks | Non-confidential | Yes, as although the work of the SCR/TCR and CFF could bring about changes to the PCDM and the associated arrangements, the detail, as well as the timescale of any changes as a result of the SCR/TCR and CFF is currently unknown. As a result we believe that DCP306 should progress to change report. |

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| Company | Confidential/  Anonymous | 1. Do you have any other comments for the Working Group? |
| Electricity North West Limited | Non-confidential | None. |
| ESP Electricity (‘ESPE’) | Non-confidential | ESPE has no further comments to add. |
| Leep Electricity Networks Limited | Non-confidential | No |
| Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc | Non-confidential | No. |
| Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc | Non-confidential | None. |
| SP Distribution & SP Manweb | Non-confidential | No. |
| The Electricity Network Company Ltd | Non-confidential | We have no further comments. |
| UK Power Networks | Non-confidential | No. |