

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.	Working Group Comments
Electricity North West Limited	Non-confidential	<p>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'.</p> <p>1. Accuracy of the suggested approach</p> <p>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.</p> <p>2. Ofgem licence fee cost driver</p> <p>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.</p> <p>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</p>	<p>The Working Group recognise this response and highlight that this has already been discussed thoroughly in the first consultation document and previous Working Group meetings and therefore, will still want to continue with allocating to LV service customers only.</p> <p>The Working Group highlighted that the point was discussed as part of the first consultation. It was noted that the change is looking at allocating on a £/MPAN basis which would be moving from a fixed cost to a unit cost method which provides slightly better cost reflectivity than it does currently.</p>

		<p>companies in a comparable way across both the gas and electricity industries.</p> <p>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.</p> <p>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.</p> <p>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).</p> <p>3. Concerns about 'cherry-picking'</p> <p>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</p>	<p>The Working Group stated that using MEAV to smear customer driven costs is the wrong thing to do hence why this change</p>
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		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.	proposal has been raised. Moving one cost away is still facilitating better cost reflectivity. To consider any other aspects at this late stage would be considered as out of scope for the change.
ESP Electricity ('ESPE')	Non-confidential	ESPE agrees with the approach to allocate Ofgem licence fees to the LV Service Customers.	Noted
Leep Electricity Networks Limited	Non-confidential	Yes	Noted
Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc	Non-confidential	Yes.	Noted
Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc	Non-confidential	<p>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.</p> <p>Based on this, we are comfortable with the proposed approach <u>for the time being</u>.</p>	The Working Group noted SSENs response and it was discussed that one DNO Working Group had considered the future trend. It was highlighted that there is a potential risk but the issue is extremely minimal.

		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.	Noted
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.	Noted
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.	Noted
WPD	Non-confidential	Yes	Noted
Working Group Conclusions: The Working Group noted all responses to this question and highlighted that they still wished to continue with the proposed solution of allocating the Ofgem Licence Fees to the LV Service Customers only.			

Company	Confidential/ Anonymous	2. Do you have any comments on the proposed legal text?	Working Group Comments
Electricity North West Limited	Non-confidential	We do not believe the legal text as drafted is set out in the clearest possible manner.	The Working Group discussed the suggested changes and decided that they could not see any

	<p>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).</p> <p>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.</p> <p>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:</p> <table><tr><td></td><td></td><td></td></tr><tr><td>Ofgem Licence Fees (from table 2.6 of the 2007/2008 RRP, described as "Ofgem licence fees")</td><td>LV Only</td><td></td></tr><tr><td>Non activity costs and reconciling amounts (excluding "Ofgem Licence Fees")</td><td>Do not allocate</td><td></td></tr></table>				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		<p>impacts of changing the legal text. However, they are also happy with the current drafting, therefore, they are going to obtain the opinion of the Working Group members who were unable to attend the meeting to determine their views.</p> <p>The Working Group also noted that the legal text suggested by ENWL will be amended slightly to reflect the change recommended in the ESPE's consultation response below.</p>
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										

		<p>The "LV only" allocation key would then need to be described in a paragraph as below.</p> <p>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.</p> <p><i>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.</i></p>	
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.	The Working Group agreed that they will update the legal text to reflect this change.
Leep Electricity Networks Limited	Non-confidential	No	Noted
Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc	Non-confidential	No.	Noted
Scottish Hydro Electric Power Distribution plc and	Non-confidential	No further comment.	Noted

Southern Electric Power Distribution plc			
SP Distribution & SP Manweb	Non-confidential	No	Noted
The Electricity Network Company Ltd	Non-confidential	We believe that the legal text meets the intent of DCP 306.	Noted
UK Power Networks	Non-confidential	No, we are comfortable with the changes as drafted.	Noted
WPD	Non-confidential	No	Noted
Working Group Conclusions: The Working Group concluded that they were comfortable with the current drafting of the legal text once the amendment has been made from "Ofgem Licence Fees" to "Ofgem Licence Fee" so that it is consistent with the RRP.			

Company	Confidential/ Anonymous	3. Which of the DCUSA Charging Objectives are better facilitated by this change? Please provide your rationale.	Working Group Comments
Electricity North West Limited	Non-confidential	None as currently drafted.	Noted
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	Noted

		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	Noted
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.	Noted
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.	Noted
SP Distribution & SP Manweb	Non-confidential	Charging objective 3.	Noted
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.	Noted

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.	Noted
WPD	Non-confidential	It better facilitates charging objective 3 it better reflects the costs incurred.	Noted
Working Group Conclusions: The Working Group noted all responses to this question and highlighted that the majority of responses believe that DCUSA Charging Objective 3 would be better facilitated by this change. The Working Group will reflect their view when drafting the Change Report.			

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?	Working Group Comments
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.	Noted
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	Noted

		<p>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.</p> <p>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.</p>	
Leep Electricity Networks Limited	Non-confidential	Yes	Noted
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.	Noted
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.	Noted

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.	Noted
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.	Noted
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.	Noted
WPD	Non-confidential	Yes	Noted
Working Group Conclusions: The Working Group concluded that they are going to be continuing to progress DCP 306 via the DCUSA Change Process. The Working Group are aware that there could be a potential overlap with the work being conducted by Ofgem's Charging Task Forces, however, the areas of work for the task forces is still being discussed and IDNO discounts have not yet been discussed. It is the Working Groups' view that there are too many unknowns to stop DCP 306 progressing.			

Company	Confidential/ Anonymous	5. Do you have any other comments for the Working Group?	Working Group Comments
Electricity North West Limited	Non-confidential	None.	Noted
ESP Electricity ('ESPE')	Non-confidential	ESPE has no further comments to add.	Noted

Leep Electricity Networks Limited	Non-confidential	No	Noted
Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc	Non-confidential	No.	Noted
Scottish Hydro Electric Power Distribution plc and Southern Electric Power Distribution plc	Non-confidential	None.	Noted
SP Distribution & SP Manweb	Non-confidential	No.	Noted
The Electricity Network Company Ltd	Non-confidential	We have no further comments.	Noted
UK Power Networks	Non-confidential	No.	Noted
WPD	Non-confidential	No	Noted
Working Group Conclusions: The Working Group concluded that they had no further comments.			

