**DCP 306 Draft Legal Text**

# **Schedule [X] - Calculation of Discount Percentages for the Purpose of Determining Certain LDNO Use of System Charges under Schedules 16, 17 and 18**

## **Allocation of operating expenditure to network levels**

1. The DNO Party allocates operating expenditure in the 2007/2008 RRP by network level. The RRP already allocates some operating expenditure by network level.

Table: Allocation rules

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Allocation key** | **Percentage capitalised** | **Direct cost indicator** |
| Load related new connections & reinforcement (net of contributions) | As described in this Schedule | 100.0% | 1 |
| Non-load new & replacement assets (net of contributions) | MEAV | 100.0% | 1 |
| Non-operational capex | MEAV | 23.5% | 1 |
| Faults | MEAV | 23.5% | 1 |
| Inspections, & Maintenance | MEAV | 23.5% | 1 |
| Tree Cutting | MEAV | 23.5% | 1 |
| Network Policy | MEAV | 52.57% |  |
| Network Design & Engineering | MEAV | 52.57% |  |
| Project Management | MEAV | 52.57% |  |
| Engineering Mgt & Clerical Support | MEAV | 52.57% |  |
| Control Centre | MEAV | 52.57% |  |
| System Mapping – Cartographical | MEAV | 52.57% |  |
| Customer Call Centre | MEAV | 52.57% |  |
| Stores | MEAV | 52.57% |  |
| Vehicles & Transport | MEAV | 52.57% |  |
| IT & Telecoms | Do not allocate | 52.57% |  |
| Property Mgt | Do not allocate | 52.57% |  |
| HR & Non-operational Training | MEAV | 52.57% |  |
| Health & Safety & Operational Training | MEAV | 52.57% |  |
| Finance & Regulation | MEAV | 52.57% |  |
| CEO etc | MEAV | 52.57% |  |
| Atypical cash costs | Do not allocate |  | 1 |
| Pension deficit payments | Do not allocate | 57.7% | 1 |
| Metering | Do not allocate |  | 1 |
| Excluded services & de minimis | Do not allocate |  | 1 |
| Relevant distributed generation (less contributions) | Do not allocate |  | 1 |
| IFI | Do not allocate |  | 1 |
| Disallowed Related Party Margins | Do not allocate |  | 1 |
| Statutory Depreciation | Do not allocate |  | 1 |
| Network Rates | Do not allocate |  | 1 |
| Transmission Exit Charges | Deduct from revenue |  | 1 |
| Pension deficit repair payments by related parties | Do not allocate |  | 1 |
| Non activity costs and reconciling amounts | see paragraph 11A in this schedule XX |  | 1 |

1. For the categories of expenditure for which the table reports “MEAV” under “the column “Allocation key”, the DNO Party allocates the difference between total and allocated operating expenditure on the basis of an estimate of modern equivalent asset value by network level. Estimated gross modern equivalent asset values used for this purpose are derived from asset counts and gross modern equivalent asset values (replacement costs) for various asset types. The DNO Party maps assets to network levels using the mapping shown in the table in paragraph 12 (Mapping of assets to network levels), and calculates the share of MEAV allocated to each of the network levels.
2. For the calculation of discount percentages used in Schedule 16 only, the estimated gross modern equivalent asset value at the EHV and 132kV network level is adjusted by multiplying it by the EHV Reduction Ratio. The EHV Reduction Ratio is a factor applied to the EHV network drivers that reduces the allocation of costs to the EHV network level to account for revenues recovered from EDCM Connectees. The "**EHV Reduction Ratio**" is calculated as follows:

***[EHV Reduction Rate] = [EHV and 132kV assets in the CDCM model] / ([EHV and 132kV assets in the CDCM model] + [All notional assets in the EDCM model])***

**Where:**

***EHV and 132kV assets in the CDCM model* = the sum of the notional values in £ of the EHV assets in the CDCM model, namely 132kV, 132kV/EHV, EHV, EHV/HV, and 132kV/HV assets; and**

***all notional assets in the EDCM model* = the total notional value in £ of the assets as described in paragraph 4(e) above.**

1. For each network level, the DNO Party calculates a category of operating costs called “***Load related new connections & reinforcement (net of contributions)***” as the sum of the following elements:
   1. General reinforcement costs reported in table 2.4 of the 2007/2008 RRP. These are reported by network level. The amount related to the HV system is allocated entirely to the HV network level. No allocation is made for the HV/LV network level.
   2. [“New connections & customer specific reinforcement” less “Customer contributions (directs) for connections” for connections at each network level aggregated over the period 2005/2006 to 2014/2015], and divided by 10. Both sets of numbers are reported for each network level in the FBPQ (worksheet LR1). No allocation is made for the HV/LV network level. If this element is negative for any network level, it is replaced by zero for that network level.
2. The DNO Party adjusts the operating costs allocated to each network level - equal to the sum of the operating costs already allocated to network levels in the 2007/2008 RRP and the operating costs allocated in line with the previous paragraphs - by multiplying, for each operating cost category, the allocated cost by [one minus the relevant capitalisation percentage specified in the table in paragraph 6 (Allocation rules)].
3. On the basis of summing this adjusted allocation of operating costs across cost categories for each network level, the DNO Party calculates the share of operating costs of each network level. These are denoted as "**Expensed proportions**".

11A RRP costs described in the table at 6 above as “Non activity costs and reconciling amounts” shall be allocated as follows:

1. Costs described in table 2.6 of the 2007/2008 RRP as “Ofgem licence fee” shall be 100% allocated directly to the LV services level.
2. No other costs shall be directly allocated