SCHEDULE 16 – COMMON DISTRIBUTION CHARGING METHODOLOGY

Allocation of operating expenditure to network levels

1. The DNO Party allocates operating expenditure in the 2007/2008 RRP and the Forecast Business Plan Questionnaire LR1 submission by network level. The RRP already allocates some operating expenditure by network level. For categories of expenditure for which the table below reports “MEAV” in the column headed “Allocation key”, the DNO Party allocates, on the basis of modern equivalent asset values, the difference between total operating expenditure and the operating expenditure that is allocated to network levels.

Table: Allocation rules

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Allocation key** | **Percentage capitalised** | **Direct cost indicator** |
| Load related new connections & reinforcement (net of contributions) | See paragraph 102A of this Schedule 16 | 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 102C in this Schedule 16 |  | 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 headed “Mapping of assets to network levels”, and calculates the share of MEAV allocated to each of the network levels. The estimated gross modern equivalent asset value at the EHV and 132 kV network level is adjusted by multiplying it by the EHV Reduction Ratio (see Glossary).

102A RRP costs described as “Load related new connections & reinforcement (net of contributions)” are allocated as follows:

1. Reinforcement costs are allocated to network tiers using data from table 2.4 of the 2007/2008 RRP.
2. Load related connections’ direct costs (net of customer contributions) are allocated to network tiers using data from the FBPQ LR1 table. This table identifies customer contributions in respect of direct costs (by network tier) and indirect costs. For the purpose of this allocation it is the customer contributions that relate to direct costs that are netted off against those costs. Where this allocation results in a negative value for a network tier (i.e. where customer contributions for direct costs are greater than the direct costs) they are replaced with zero. Customer contributions in excess of direct costs are added to the customer contributions relating to indirect costs.
3. For each network tier, costs reported as “Load related new connections & reinforcement (net of contributions)” are the sum of costs for general reinforcement and the net direct costs for load based connections.
4. Total activity costs reported under 2007/2008 RRP table 1.3 are not used in the allocation of these costs. Therefore, unallocated costs relating to “Load related new connections & reinforcement (net of contributions)” are set to zero.
5. Customer contributions (reported in FBPQ LR1) relating to indirect costs (including surpluses in customer contributions for direct costs) are treated as allowed revenue in the "DNO final allocation" worksheet in the price control disaggregation model). They are allocated to network tiers using the opex cost driver (determined using the "Calc DNO opex allocation" worksheet in the price control disaggregation model).

102B. 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 paragraph - by multiplying, for each operating cost category, the allocated cost by one minus the capitalisation percentage specified in the table headed “Allocation rules”. 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].

102C. RRP costs described in the table at 101 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 fees” shall be 100% allocatied directly to the LV services level.
2. No other costs contained in “Non activity costs and reconciling amounts” shall be directly allocated.
3. The remaining costs, which are not directly allocated to a network tier, shall not be allocated.