

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

6. 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	Do not allocate see paragraph 11A in this schedule XX		1

7. 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.
8. 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.

9. 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:
 - a. 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.
 - b. [“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.
10. 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)].
11. 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:

(a) Costs described in table 2.6 of the 2007/2008 RRP as “Ofgem licence fees” shall be 100% allocated directly to the LV services level.

(b) No other costs contained in “Non activity costs and reconciling amounts” shall be directly allocated.

(c) The remaining costs, which are not directly allocated to a network tier, shall not be allocated.