

Part A: Generic

DCUSA Change Proposal (DCP)		At what stage is this document in the process?
<h1>DCP 306:</h1> <h2>Treatment of Ofgem licence fees within the PCDM</h2> <p>Date Raised: 12th July 2017</p> <p>Proposer Name: Neil Brinkley</p> <p>Company Name: The Electricity Network Company Ltd.</p> <p>Company Category: IDNO</p>		<p>01 – Change Proposal</p> <p>02 – Consultation</p> <p>03 – Change Report</p> <p>04 – Change Declaration</p>
<p>Purpose of Change Proposal:</p> <p>The intent of this Change Proposal is to increase the cost reflectivity of the Price Control Disaggregation Model by directly allocating the Ofgem licence fee to an appropriate network tier for the calculation of the Opex allocation driver.</p>		
	<p>Governance:</p> <p>The Proposer recommends that this Change Proposal should be:</p> <ul style="list-style-type: none"> • Treated as a Part 1 Matter • Treated as a Standard Change • Proceed to a Working Group <p>The Panel will consider the proposer’s recommendation and determine the appropriate route.</p>	
	<p>Impacted Parties: DNOs/IDNOs</p>	
	<p>Impacted Clauses: Schedule 16, Clause 101</p>	

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Indicative Timeline			 01359 302451
The Secretariat recommends the following timetable:			
Initial Assessment Report		19 July 2017	
Consultation Issued to Industry Participants		TBC	
Change Report Approved by Panel		20 September 2017	
Change Report issued for Voting		22 September 2017	
Party Voting Closes		13 October 2017	
Change Declaration Issued to Authority		17 October 2017	
Authority Decision		21 November 2017	

1 Summary

What?

This change proposal seeks to improve the cost reflectivity of opex cost allocation within the Price Control Disaggregation Model (part of schedule 16) by allocating Ofgem licence fee costs directly to the LV services level.

Why?

Currently, Ofgem licence fees are calculated and paid by distributors on a £ per MPAN basis. The licence fee costs are not presently considered within the PCDM in calculating the opex cost allocation driver. The result of this is that the costs associated with Ofgem licence fees are not correctly allocated, leading to the LDNO tariffs being less cost reflective, particularly for LV connected end user LDNO tariffs (HV:LV, LV:LV etc.).

How?

The proposer believes that the most appropriate solution to this issue is to directly allocate the Ofgem licence fees (taken from the 2007/2008 Regulatory Reporting Pack table 2.6) to the LV services network level.

2 Governance

Justification for Part 1 and Part 2 Matter

The change should be treated as a Part 1 Matter as it might reasonably be expected to have a significant impact on the tariffs calculated under one or more of the methodologies.

Requested Next Steps

This Change Proposal should:

- Be treated as a Part 1 Matter
- Be treated as a Standard Change
- Proceed to Working Group for development

3 Why Change?

At present the costs associated with the Ofgem licence fee are payable by all LDNOs but the derivation of the LDNO tariffs does not fully include this cost. Consequently, it is believed that LDNOs are not able to fully recover the costs incurred, or reasonably expected to be incurred in operating their distribution businesses.

As the opex cost allocation driver does not take into account of the Ofgem licence fee, the costs associated with the Ofgem licence fee are effectively smeared across all network levels. The resultant LDNO tariffs are not, therefore, reflective of the costs incurred by the LDNO.

This change proposal seeks to ensure that the LDNO tariffs better reflect the costs that are avoided by the DNO when customers are connected to their network via another Licenced Distribution Network Operator. By allocating the Ofgem licence fee to the LV services network level, the LDNO tariffs produced by the CDCM will better reflect the mechanism by which these costs are incurred. This is consistent with the purpose of the PCDM and DCUSA Charging Objective 3.

Enabling LDNOs to fully recover the costs which they incur in respect of the Ofgem licence fee allows them to develop, operate and maintain efficient, co-ordinated, and economical Distribution Networks. This is consistent with DCUSA General Objective 1.

Part B: Code Specific Details

4 Solution and Legal Text

The proposer believes that the most appropriate solution to this issue is to directly allocate the Ofgem licence fees (taken from the 2007/2008 Regulatory Reporting Pack table 2.6) to the LV services network level.

This cost is incurred on a p/MPAN/year basis. It is the proposer’s view that allocating this cost to the LV services network level is the most appropriate method to improve cost reflectivity. Whilst it is understood that each DNO (in each GSP Group region) will have a blend of customer connected at EHV, HV and LV it is proposed that 100% of this cost should be allocated to the LV services level in the absence of customer numbers at each network tier. The Working Group may wish to consider deriving a cost driver to allocate these costs across EHV, HV and LV customers but such driver does not currently exist within the PCDM. It is the proposer’s belief that allocating 100% of the costs to the LV services Level increases the cost reflectivity of the opex allocation (as the vast majority of customers are connected to the network at LV), and therefore better facilitates DCUSA Charging Objective 3.

Legal Text

Schedule 16 – The Common Distribution Charging Methodology

Amend Table “Allocation Rules”

Non activity costs and reconciling amounts	<p>Do Not Allocate</p> <p>See paragraph 102C in this Schedule 16</p>		1
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Insert Clause 102C

102C RRP costs described in the table at 101 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.

Text Commentary

The legal text delivers the solution as it ensures that the costs associated with the Ofgem licence fee in the 2007/2008 RRP data are allocated to the LV services Level in order to calculate the opex cost allocation driver

5 Code Specific Matters

Reference Documents

None

6 Relevant Objectives

DCUSA Charging Objectives	Identified impact
<input type="checkbox"/> 1 that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	None
<input type="checkbox"/> 2 that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	None
<input checked="" type="checkbox"/> 3 that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	Positive
<input type="checkbox"/> 4 that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	None
<input type="checkbox"/> 5 that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
DCP 306 better facilitates DCUSA Charging Objective 3 as the Charging Methodologies would produce charges that better reflect the costs incurred by the DNO Party in its Distribution (CO3). The reasoning is contained in the text of this change proposal.	
DCUSA General Objectives	Identified impact
<input checked="" type="checkbox"/> 1 The development, maintenance and operation by the DNO Parties and LDNO Parties of efficient, co-ordinated, and economical Distribution Networks	Positive
<input type="checkbox"/> 2 The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity	None
<input type="checkbox"/> 3 The efficient discharge by the DNO Parties and LDNO Parties of obligations imposed upon them in their Distribution Licences	None
<input type="checkbox"/> 4 The promotion of efficiency in the implementation and administration of the DCUSA	None
<input type="checkbox"/> 5 Compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

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7 Impacts & Other Considerations

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

Does this Change Proposal Impact Other Codes?

- BSC
- CUSC
- Grid Code
- MRA
- SEC
- Other
- None

Consideration of Wider Industry Impacts

No

Confidentiality

There are no parts of this DCP that are confidential to any party.

8 Implementation

Proposed Implementation Date

1st April 2019

9 Recommendations

Part C: Guidance Notes for Completing the Form

Ref	Section	Guidance
1	Attachments	Append any proposed legal text or supporting documentation in order to better support / explain the CP.
2	Governance	A CP must be categorised as a Part 1 or Part 2 matter in accordance with Clause 10.4.7 of the DCUSA. All Part 1 matters require Authority Consent.

		<p>Part 1 Matter</p> <p>A change Proposal is considered a Part 1 Matter if it satisfies one or more of the following criteria:</p> <p>a) it is likely to have a significant impact on the interests of electricity consumers;</p> <p>b) it is likely to have a significant impact on competition in one or more of:</p> <ul style="list-style-type: none"> i. the generation of electricity; ii. the distribution of electricity; iii. the supply of electricity; and iv. any commercial activities connected with the generation, distribution or supply of electricity; <p>c) it is likely to discriminate in its effects between one Party (or class of Parties) and another Party (or class of Parties);</p> <ul style="list-style-type: none"> i. it is directly related to the safety or security of the Distribution Network; and ii. it concerns the governance or the change control arrangements applying to the DCUSA; and iii. it has been raised by the Authority or a DNO/LDNO Party pursuant to Clause 10.2.5, and/or the Authority has made one or more directions in relation to it in accordance with Clause 11.9A. <p>Part 2 Matter</p> <p>A CP is considered a Part 2 Matter if it is proposing to change any actual or potential provisions of the DCUSA which does not satisfy one or more of the criteria set out above.</p>
<p>3</p>	<p>Related Change Proposals</p>	<p>Indicate if the CP is related to or impacts any CP already in the DCUSA or other industry change process.</p>
<p>4</p>	<p>Proposed Solution and Draft Legal Text</p>	<p>Outline the proposed solution for addressing the stated intent of the CP. The Change Proposal Intent will take precedence in the event of any inconsistency. A DCUSA Working Group may develop alternative solutions.</p> <p>The plain English description of the proposed solution should include the changes or additions to existing DCUSA Clauses (including Clause numbers).</p> <p>Insert proposed legal drafting (change marked against any existing DCUSA drafting) which enacts the intent of the solution. The legal text will be reviewed by the Working Group (if convened) and is likely to be subject to legal review as part of its progress through the DCUSA change process.</p>

5	Proposed Implementation Date	<p>The Change can be implemented in February, June, and November of each year or as an extraordinary release. For Charging Methodology CPs, select an implementation date which takes into consideration the minimum notice periods for publishing tariffs. These are:</p> <ul style="list-style-type: none"> • 15 months, for DNOs acting within their Distribution Services Areas; or • 14 months, for LDNOs and DNOs acting outside their Distribution Services Area. <p>Please select an implementation date that provides sufficient time for the Change to be incorporated into the appropriate charging model and the DCUSA in order to be reflected in future tariffs.</p> <p>Contact the DCUSA helpdesk for any further information on the releases dcusa@electralink.co.uk.</p>
6	Impacts & Other Considerations	<p>Indicate whether this Change Proposal will be impacted by or have an impact upon wider industry developments. If an impact is identified, explain why the benefit of the Change Proposal may outweigh the potential impact and indicate the likely duration of the Change.</p>
7	Environmental Impact	<p>Indicate whether it is likely that there would be a material impact on greenhouse gas emissions as a result of the proposed variation being made. Please see Ofgem Guidance.</p>
8	Confidentiality	<p>Clearly indicate if any parts of this Change Proposal Form are to remain confidential to DCUSA Panel (and any subsequent DCUSA Working Group) and Ofgem</p>
9	DCUSA General Objectives	<p>Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.</p>
10	Detailed Rationale for DCUSA Objectives	<p>Provide detailed supporting reasons and information (including any initial analysis that supports your views) to demonstrate why the CP will better facilitate each of the DCUSA Objectives identified.</p>
11	DCUSA Charging Objectives	<p>Indicate which of the DCUSA Charging Objectives will be better facilitated by the Change Proposal. Please note that a CDCM or EDCM change may also facilitate the DCUSA General objectives.</p>
12	Defining ‘Material’ for Charging Methodology Changes	<p>In respect of proposals to vary one or more of the Charging Methodologies, such proposals shall be deemed to be “material” if they might reasonably be expected to have a significant impact on the tariffs calculated under one or more of the methodologies.</p>