

DCUSA Model Specification Pack Cover Sheet

DCP 287 'Generation credits in the EDCM'

Model(s): EDCMs

Service Type:	Service 5
Date:	03 September 2018
Purpose of Document:	This cover sheet is a formal request for the appointed DCUSA consultant to attend a Working Group meeting relating to DCP 287 'Generation credits in the EDCM'.
Model Specification	None
List of Attachments:	Attachment A – DCP 287 CP Form Attachment B – DCP 287 Draft Legal Text Attachment C – DCP 287 Minutes of Working Group Meeting 14 Attachment D – DCP 287 Minutes of Working Group Meeting 15
Deliverables:	<ul style="list-style-type: none"> • Attendance at Working Group meeting to be held via Skype web-conference / teleconference on 17 September 2018 between 10:00 and 13:00. • The Working Group require further guidance on a specific element of the solution related to annuitisation within the FCP EDCM (Schedule 17).
Notes	<p>DCP 287 was proposed by MVV Environment Services Limited to amend the calculation of credits for embedded generation in the EDCM to take account of potential cost savings for DNOs that can be attributed to embedded generation in the areas of transmission exit charges, direct costs, indirect costs and network rates. The proposed solution is that the credits awarded to embedded generators should be increased to take into account cost savings in direct costs, indirect costs and network rates attributable to deferred reinforcement for embedded generation by using the contribution rates applicable to demand customers; and credits awarded to embedded generators for transmission exit charges calculated in the same way as the equivalent demand costs are derived, but applied as an addition to the super-red credit to eligible embedded generators.</p> <p>The Working Group has previously sought guidance on a number of issues raised by the previous modelling support consultant which resulted from an</p>

initial set of modelling undertaken by the previous consultant at the request of the Working Group.

The previous modelling consultant noted that the following:

“We have applied the direct, indirect and network rate contribution rates to annuitised figures even though this conflicts with common sense and is different from the way these items are charged to EDCM demand.”

The Working Group had previously discussed a suggestion that Charge 1 be reverted back to £/kVA rather than £/kVA/Year to ensure that generators with low or zero charge 1 are not unduly rewarded for offsetting costs.

During the Working Group meeting on 17 July 2018, which was attended by CEPA/TNEI, members of the Working Group together with CEPA/TNEI discussed possible ways to solve the issue of a calculation resulting in an expression of (/year/year). It was noted that this issue arises due to a calculation that converts demand charges from (p/Kwh/year) which are applied to an expression (%/year) from a charging base of (£/kVA/year).

It was noted that within the EDCM, for both the LRIC and FCP models, there is a step where you annuitise a percentage using values for revenues and assets and that a potential solution would be to apply these rates to assets and not a charge. It was further noted that to annuitise values to be applied in the EDCM, the rate of return of the asset life would need to be known.

The Working Group considered if there was another way to apply the direct, indirect and network rates contributions with CEPA/TNEI noting that one possible method would be to annuitise the denominator.

The Working Group alongside CEPA/TNEI drafted some new text, including a new calculation step. It was noted that the creation of this new calculation step involved the use of an ‘Annuity Rate’ and in the first instance, was drafted with the LRIC EDCM in mind. As this was the case, there was an action on members of the group to confirm whether what had been drafted is applicable to the FCP EDCM. It was noted that this confirmation should come from DNOs who use the FCP EDCM, however the relevant members of the Working Group have not been able to provide confirmation.

This specifically relates to the formula under paragraph 6.5 in Schedule 17, where the term discount rate is used and then needs to be further defined below. It was envisaged that what was drafted for the same calculation in Schedule 18 (paragraph 6.7) would be almost directly applicable to that needed in Schedule 17, however upon further review it is now understood that this is not the case. The question is, where, if at all, does the FCP methodology annuitise and how can this step be used within the legal text to align as closely as possible to that which has been drafted for the LRIC methodology.

Some follow up has been undertaken in which the following response has so far been provided:

	<p><i>“Charge 1 is calculated in in £/kVA/yr.</i></p> <p><i>To obtain an annual rate (£/kVA/yr) the marginal charge in £/kVA needs to be annuitised. There is no unique way of calculating the annuity factor in FCP as new payments are calculated each year. One solution is to assume NPV approach, that is, apply continuous discounting factor, and spread the incremental charge over the total time T between reinforcements, where T = 10 years.”</i></p> <p>The quoted text above is contained in Annex 2 ‘Derivation of FCP charging formulae’ of Schedule 17.</p>
Assumptions	None

Service	Service Level	Weighted Units
1	Within 20 Business Days after the Supplier receives a request from the Customer for an updated Model, impact assessment and/or Model documentation the Supplier will Deliver these items. For an item to be considered to have been Delivered, it must have been received by the Customer.	3 Units
2	Within 20 Business Days of Ofgem providing approval of a Change Proposal that impacts on the Models provide a baseline model(s) that incorporates all approved Change Proposals.	1 Unit
3	Within 15 Business Days after the Supplier receives a request from the Customer for additional impact assessment data it shall provide such data.	2 Units
4	Within 5 Business Days of receiving a request for technical advice, the Supplier shall provide such advice.	1 Unit
5	The Supplier will provide a suitable attendee for any Working Group meeting for which notice of the meeting was provided at least 10 Business Days before the meeting date.	1 Unit
6	Where training is requested, the Supplier shall liaise with the Customer to agree a suitable date and deliver such training.	1 Unit
7	Where requested to provide a new Model the Supplier shall provide a timetable for delivery of such Model for agreement by the Customer within 10 Business Days.	4 Units

Each Model update will count as a single service request. For example, if an updated CDCM and ARP are requested, with impact assessment and Model documentation, this will count as 6 weighted units.

For the purposes of the above table, the EDCM FCP and LRIC shall count as a single Model.

DCUSA