

# BACKGROUND TO DCP 266 – DCMF MIG MEETING DISCUSSIONS

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<b>Meeting Name</b>	DCMF Methodologies Issues Group	<b>Meeting No.</b>	xx
<b>Meeting Date</b>	23 November 2012	<b>Meeting Time</b>	10:00
<b>Venue</b>	xx		

## 3. THE CALCULATION AND APPLICATION OF IDNO DISCOUNTS

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- 3.1 MH noted that there are concerns about this paper, and its assumptions to use a p/kWh instead of the discount percentage.
- 3.2 MH explained that their concerns are that it will fundamentally alter the way things are calculated.
- 3.3 It was noted that it is based on 2007/08 figures, and GM explained that it was not written in the paper, but it would need to be updated with more current data.
- 3.4 MH noted that as DNO revenues go up, the IDNO revenue should also go up and this is engrained in competition law, and if these are fixed to a 2007/08 basis, this goes wholly against the competition law and the revenues IDNOs are entitled to collect.
- 3.5 MH also highlighted that the approach set out in the paper would be something that would not be supported by their organisation.
- 3.6 GM explained how the paper was constructed and the assumptions contained within the document. GM noted that if the methodology comes out with a p/kWh and it reflects the charging year revenue and units, then isn't a better way of applying this to get the discount on all the way tariffs is to divide this by the p/kWh for that tariff.
- 3.7 MH noted that although the assumptions seem valid, it does not seem sustainable in terms of competition law. MH reiterated that if DNOs revenues go up, then so should IDNOs. A potential risk is if you change the methodology, there is a chance that this could change the way the allocation is completed and hence the percentage of margin for IDNO.
- 3.8 AP raised a query in regard to margins, it was explained that if DNOs revenues go up it is generally due to reinforcement and is not sure how this translates into the IDNOs receiving more margin. MH noted that it is assumed in competition law that if DNOs need this investment, notionally the IDNOs should have the same requirements. It was also explained that this margin is not always about profit, but rather the gross revenue.
- 3.9 MH noted that he could send around the slides which detail this in further detail.

### Action: MH

- 3.10 There was discussion about the many aspects of the way the Model 100 works, how the Method M was developed and how these relate to the IDNO margins.
- 3.11 PW noted that there is a MIG Issue log item about combining and looking at the Method Ms, and a complete review seems that it is needed. It was explained that this issue will be progressed once DCP 128 'Bringing the EDCM Price Control Disaggregation (Extended Method M) under the DCUSA Open Governance Framework' and DCP 129 'Bringing the CDCM Price Control Disaggregation (Method M) under the DCUSA Open Governance Framework' are approved and implemented into the DCUSA.

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- 3.12 MH noted that any review will need to be undertaken on a thorough basis, and should be more than a sub-group of the MIG and should also include Ofgem. It was explained that these discounts to the IDNOs are very important to the success of the businesses.
- 3.13 OD questioned where this paper/proposal sits at the moment, and GM noted that it is just a discussion paper for the MIG. It was explained that the next stage would be to move this to a MIG Issue form.
- 3.14 GM noted that he is happy to coordinate with MH before this is completed. AP queried whether this would be able to be discussed within the MIG, or whether another group would need to be established which would include stakeholder representation and Ofgem.
- 3.15 MH highlighted that it would have to be reviewed carefully, it would need to be discussed in an environment where all the options are fully considered.
- 3.16 GM took an action to submit an issue form to the MIG.

<b>Meeting Name</b>	DCMF Methodologies Issues Group	<b>Meeting No.</b>	025
<b>Meeting Date</b>	18 April 2013	<b>Meeting Time</b>	10:00
<b>Venue</b>	Energy Networks Association (ENA), Dean Bradley House, 52 Horseferry Road, London SW1P 2AF		

### 4. IDNO ISSUES

- 4.1 PW noted that there were still a few issues remaining on the MIG log which will need to be discussed that relate more specifically to IDNOs.
- 4.2 PW highlighted that there is still the MIG issue related to the mapping of the data that feeds into the Method M and Extended Method M, but the Industry is waiting for the outcome of Ofgem's decision regarding DCP 128 and DCP 129.
- 4.3 MH explained that there are a few issues of concern. He noted that there are many changes that can be made to the Method M workbooks as they currently stand, but it is his opinion that a wider review of their principles and structure are in order.
- 4.4 It was also highlighted that the new price control, RIIO-ED1, will affect the Method M and this is also a concern. He felt that it will need to be discussed whether Method M is still fit for purpose going forward.
- 4.5 MH also highlighted an area to examine is whether the CDCM includes replacement costs for all the way tariffs, or whether it is used just for IDNOs. MH explained that there are differences in the approaches in the models (500MW and CDCM) in terms of being a bottom up approach, or a top down approach to the modelling.
- 4.6 MS noted that the Method M currently uses 2007-08 costs (bar one DNO) and that RIIO-ED1 could also change the entire structure of what the Method M needs to be, and he noted that in his opinion that this would involve a lot of work to review these workbooks in their entirety.
- 4.7 MS queried if MH wanted the MIG to oversee the development work, and MH thought that the MIG was the appropriate place to raise these issues and it could be done by the MIG, or

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by a subgroup. MS thought that this should be added as a MIG Issue in order to not only review the new mapping, but also about the future of the Method Ms.

- 4.8 MH also noted that in his opinion, that the industry knowledge of Method M is not sufficient, and is an area that training should be considered.
- 4.9 MH noted that SCM had mentioned training for Method M, and SCM queried whether it would be helpful if we had an annual training session to sit down and ensure that new starters and existing members all understand the models.
- 4.10 It was noted that it had been discussed in the past by both DCUSA and DCMF as to whether there should be training sessions held. MS noted that any company can arrange training themselves, but in a more general sense it would come down to who will fund the training days and who would be responsible for arranging it.
- 4.11 PW thought that this could potentially be done as part of the Annual Review. MH suggested that it should be done before the review takes place as this will allow people who may not have a complete understanding of the models to be able to have a better understanding and possibly bring issues to the Annual Review for consideration.
- 4.12 There was discussion about who should fund this type of training, and MH noted that there are different options available. SCM noted that there are experts available within the group and questioned whether someone or a few people in the MIG could do training. In response JH explained that this would require a big commitment.
- 4.13 There were also discussions about what level the training should be, and how much detail should be provided at the sessions. It was highlighted that different users will want different things. MH also noted that the training should provide Parties with the ability to be able understand and participate within the open governance process, with a greater level of understanding.
- 4.14 GS highlighted that Parties have all acquired their respective Licenses and as part of that, they should also be familiar with the Industry Codes which they are obligated to adhere to as part of that License.
- 4.15 MS noted that the issue of training has been raised at the DCUSA Panel meetings, and MH asked whether this should be presented to the DCMF in June.
- 4.16 PW felt that this should be added to the DCMF agenda as a discussion item. AP thought that there could be an email sent to the DCMF Distribution List, and MW took the action to forward the DCUSA Consultation about training to the MIG group.

### **Action: MW**

- 4.17 MH noted that there is one issue about charging methodologies for IDNOs who connect EHV, and queried where this type of issue should be discussed. OD noted it should be in open forum. It was noted that there may be value to have a debate about having a consistent way of doing this.
- 4.18 MS noted that SSE's out of area business submitted a methodology to cover these types of connections. MS explained that there is no obligation on IDNOs or anyone else to implement the methodology that SSE developed in order to address this type of issue.

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- 4.19 PW asked whether it would be good to have an entire MIG meeting, or whether this should be discussed within a sub-group. MH thought this should be a dedicated group to discuss this, and he is happy to work with DNOs or whomever else to develop the framework for the workshop/meeting.
- 4.20 MH will draft a document detailing all the issues and welcomes any input from others.

<b>Meeting Name</b>	DCMF Methodologies Issues Group	<b>Meeting No.</b>	027
<b>Meeting Date</b>	20 June 2013	<b>Meeting Time</b>	10:00
<b>Venue</b>	Institute of Physics, 76 Portland Place, London W1B 1NT		

### 5. EDCM Development Issue 4 – Capping of LDNO discounts at 100 per cent

- 11.1 WM noted that a draft DCP had been prepared and circulated to MIG members for review. MIG members were asked to provide comments by 1 July 2013; the CP will then be submitted to the July 2013 meeting of the DCUSA Panel.
- 11.2 It was flagged that Ofgem had asked DNOs to review the capping of LDNO discounts at 100%, not necessarily progress a change. The group discussed this comment and agreed to proceed with submitting the DCP to the DCUSA Panel.

<b>Meeting Name</b>	DCMF Methodologies Issues Group	<b>Meeting No.</b>	030
<b>Meeting Date</b>	19 September 2013	<b>Meeting Time</b>	10:00
<b>Venue</b>	Institute of Physics, 76 Portland Place, London W1B 1NT		

### 5. ISSUE 66 – CALCULATION AND APPLICATION OF IDNO DISCOUNTS

- 5.1 GM explained that the CDCM is an incremental cost model and the Method M is a total cost model, so when you calculate a percentage in one of them and apply it to the other you are likely to end up with discrepancies; Issue 66 has been raised to address this.
- 5.2 It was noted that IDNO discounts are calculated by taking the total costs of the DNO and allocating them across the network tiers to calculate a pence per kWh. Using this a percentage discount is calculated that represents the avoided cost of the IDNO providing the last part of the network.
- 5.3 GM walked attendees through the current IDNO discount calculations and his proposed new calculation, as set out in the Issue form. It was observed that the calculation would need to be carried out within the CDCM due to the various types of fixed and variable CDCM charges.
- 5.4 In response to a query on the impact of the proposal, GM advised that his initial calculations suggest that the impact is not substantial.
- 5.5 MH raised three areas of concern with regards to the proposal. Firstly, under the proposal the discount that the IDNO receives would be fixed even though the amount that the DNO receives could be variable. This would be counter to competition law. It may be fair on day one, when it is put in place but over time that may change.

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- 5.6 The second area of concern was that if the DNO margins were to change, then Suppliers would get different charges from DNOs and IDNOs.
- 5.7 The third area of concern was that when you look at the CDCM model and say that it is not a total cost model, pence per kWh charges only relate to the higher network charges, the lower voltage charges are fixed pence per MPAN charges. This would need to be accommodated in the proposal in some way.
- 5.8 MH summarised that for these reasons he is not comfortable with the proposal. Attendees discussed MH's points and considered whether it was the case that under the proposal IDNO margin could be squeezed relative to the DNOs.
- 5.9 It was suggested that additional modelling was needed to fully understand the impact of the proposal. In response to this suggestion, it was queried how this analysis would aid the group in assessing the proposal. For example, if new IDNO discounts were calculated how would you know whether they were better than the current discount values?
- 5.10 MH cautioned that it can be difficult to bring about changes to the Method M as it has to be demonstrated that the change is better than the status quo, which at present is nebulous.
- 5.11 It was highlighted that the benefit of this change would be to stabilise the revenue of IDNOs. The implications on IDNO margin squeeze is the only area of concern.
- 5.12 AP suggested that determining the impact on competition law should be determined before this issue is progressed.
- 5.13 GM suggested that Changes in the CDCM methodology should not affect the IDNO avoided cost. Counter to this, MH suggested that changing the CDCM methodology will change the costs and thus should impact the IDNO avoided cost, as the CDCM is intended to be cost reflective.
- 5.14 Attendees agreed that this issue should be picked up as part of the IDNO focused session which the MIG is planning to organise. GM took an action to prepare some analysis for consideration at this session.

**Action: GM**

<b>Meeting Name</b>	DCMF Methodologies Issues Group	<b>Meeting No.</b>	054
<b>Meeting Date</b>	12 November 2015	<b>Meeting Time</b>	10:00
<b>Venue</b>	ElectraLink, 2-3 Golden Square, London, W1F 9HR		

#### 4. CONCERNS ON HOW DUOS CHARGING METHODOLOGIES IMPACT ON IDNOS

- 4.1 MH provided the group with an overview on a number of issues / concerns of how DUoS charging methodologies can impact on IDNOs.
- 4.2 A summary of the concerns raised related to:

##### **Charging Distribution Common Methodology (CDCM)**

- The costs within the 500MW model need to include:

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- Full excavation and reinstatement
- Asset replacement and reinforcement – particularly now that reinforcement costs for NHH are to be socialised.
- Service models need to be appropriate to allocate asset replacement and indirect costs.
- Indirect costs need to be fully allocated:
  - If negative scaling is required then shouldn't it be to hypothetical capex rather than real Opex?
  - Appropriate cost driver is required to allocate Opex – 500MW model in current form is not fit for purpose.

## **Price Control disaggregation model (PCDM)**

- Scaler to accommodate different consumptions.
- Allocation of costs such as DCC/ MPRS so that they are fully recovered by IDNO.
- Full allocation of PCDM indirect costs.

4.3 The full presentation is set out in Attachment 1.

4.4 A specific observation was made about the 2007/2008 Regulatory Reporting Pack (RRP) data being used as source data within the CDCM and PCDM, and whether or not it would be appropriate to use more up to date source data. DNOs took an action to confirm the source of the data.

## **Action 054/01: DNOs**

4.5 Some members also questioned the statement that iDNOs were currently only forming a small part of system demand on the basis of there being no evidence to support this. MH took an action to liaise with Elexon to determine whether concrete evidence to support this argument could be produced.

## **Action 054/02: MH**

4.6 In response to the 500MW model no longer being fit for purpose in its current form, members argued that if a full review were to be carried out, consideration would need to be given to the consequential impact this may have on the EDCM review.

4.7 Rather than applying a 'multiple CP approach', members questioned whether or not it would be more opportune to address the concerns raised through a full review of both models, similar to EDCM review. Members took an action to seek an internal view on this and feed back to the group. An action was further suggested to incorporate each of the proposed changes into a paper, and share it with Ofgem to seek its views and understanding in this.

## **Action 054/03: DNOs**

## **Action 054/04: DNOs**

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## Calculation and application of IDNO discounts (MIG Issue 66)

- 4.8 An alternative approach to calculate iDNO discounts was presented to group by GM through the form of an example. The presented example and is set out in Attachment 2.
- 4.9 The alternative approach proposes the IDNO percentage discount compares the avoided cost (p/kWh) with the ATW CDCM cost (p/kWh) as opposed to calculating an IDNO percentage discount by comparing the avoided cost (p/kWh) with the total cost (p/kWh) in Method M. This will ensure that for any given level of DNO totals cost (allowed revenue), the absolute discounts available to IDNOs will remain stable regardless of any changes to the CDCM methodology.
- 4.10 Members expressed a preference for this issue to be progressed separately rather than incorporating it within a potential wider review of CDCM, as discussed above. GM took an action to draft the CP, and liaise to that effect with MH, before submitting it to the January 2016 DCUSA Panel.

**Action 054/05: GM/MH**

<b>Meeting Name</b>	DCMF Methodologies Issues Group	<b>Meeting No.</b>	056
<b>Meeting Date</b>	14 January 2016	<b>Meeting Time</b>	13:00
<b>Venue</b>	Teleconference		

## 6. CALCULATION AND APPLICATION OF IDNO DISCOUNTS

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- 6.1 The group recommended the ‘calculation and Application of iDNO discounts’ (MIG Issue 66) is taken forward by both George Moran (British Gas) and Mike Harding (Brookfield Utilities) and brought back to the MIG in the event that issues arise.