

DCP 266 - 'The calculation and application of IDNO discounts' - Collated Consultation Responses

Company	Confidential/ Anonymous	1. Do you understand the intent of DCP 266?	Working Group Comments
British Gas	Non-confidential	Yes	Noted
Electricity North West	Non-confidential	<p>The nature of the change is clear, but the justification for it is not. We do not understand why the proposed alternative is thought to be better than the existing methodology. It is not clear to us that ensuring the LDNO margin in p/kWh matches the PCDM-calculated 'last mile' cost is an approach that has more merit than the current methodology which apportions the margin equally between both parties based on the relative share of total cost as per the PCDM.</p> <p>Cost signals should be reflective of forward looking costs, as is the case of the all-the-way tariffs. In the specific case of LDNO tariffs, consideration must be given to competition in the distribution of electricity. DNOs and LDNOs compete to deliver the 'last mile' of distribution and we do not think the proposed change recognises the potential impact on competition in the distribution of electricity.</p>	<p>The Working Group believe that the following comment "<i>we do not think the proposed change recognises the potential impact on competition in the distribution of electricity</i>" could be seen as either a positive or negative impact. This will be developed further during the review of other responses</p>
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Yes.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	Yes.	Noted

UK Power Networks	Non-confidential	Yes.	Noted
Western Power Distribution	Non-confidential	Yes	Noted
Anonymous	Anonymous	<p>DCP 266 is based on a false premise. The proposal intends to rectify a “defect” or “distortion” in the CDCM; however, that “defect” has never been identified or explained. The Working Group agreed to develop the change proposal, but on condition that <i>“going forward there should be a clear demonstration to show what the CP is proposing”</i>.¹</p> <p>That demonstration was never provided. In July 2016, at least one member of the Working Group explicitly <i>“questioned whether the logical defect exists”</i>.² Three months later, minute 4.1 of the Working Group’s 31 October 2016 meeting records the Working Group’s decision to refer to the purported issue as a “perceived defect” in light of the fact that no evidence had been provided. The Working Group also noted that <i>“the proposer’s views should be clarified throughout the consultation ... most of the background information is the view of the proposer not the Working Group.”</i></p> <p>The fact that <i>“Some Working Group members are not convinced that a logical defect exists”</i> is reflected in paragraph 4.21 of the Consultation. We note that the proposer’s action to <i>“identify the current flaws to the current calculation method and highlight why currently it is considered a flaw”</i>³ remained open until the Working Group’s eighth meeting on 25 September 2017, when it was closed apparently without any demonstration having been provided.</p> <p>The proposer’s assertion (which is unsupported by evidence) is that the current approach <i>“results in IDNO charges not reflecting a reasonable allocation of total costs”</i>.⁴ Not only has this not been demonstrated, but it is directly at odds with Ofgem’s decision that <i>“the two separate [cost] allocation methods [in the CDCM] are consistent with the view held by Ofgem that ... the charges should be based on a reasonable allocation of total costs to</i></p>	<p>It was noted that currently The revenue that an IDNO and DNO achieves in respect of an end customer will be affected proportionally, by a CDCM change. If for example there was a methodology change that caused a large percentage change in the ATW tariff, both the IDNO and DNO revenue would change proportionally. DCP 266 changes this so that the absolute margin obtained by the IDNO would be maintained.</p> <p>ACTION: The Working Group believe that there is a need to explore the Ofgem document in relation to the discussion around the intent of the CDCM and the interactions between DNOs and IDNOs.</p>

¹Working Group, 11 February 2016, minute 3.3.

²Working Group, 5 July 2016, minute 3.2.

³Working Group, 11 February 2016, minute 3.6

⁴Working Group, 5 July 2016, minute 3.1.

		<p><i>the elements of the DNOs business that are being undertaken by the IDNO</i>” (emphasis supplied).⁵</p> <p>We note the view that “<i>paragraph 2.70 of the Ofgem CDCM Consultation issued in 2009 might be interpreted as supporting the existing methodology</i>” (para 4.21 of the Consultation - emphasis added). At best, we consider this statement to be misguided. Paragraph 2.70 of the CDCM Consultation is self-evidently an unequivocal statement of support for the current methodology: it is explicitly set out as part of Ofgem’s “minded to” decision (which was ultimately confirmed), and clearly states that the current methodology <u>does</u> result in a reasonable allocation of costs. To suggest otherwise is to ignore both the words on the page and the context in which they appear.</p> <p>The suggestion that the current approach does not result in a reasonable allocation of costs is also at odds with the DNOs’ conclusion that: “<i>The methodology sets charges on the basis of costs incurred, or reasonably expected to be incurred, by the licensee in its Distribution Business</i>”.⁶</p> <p>DCP 266 deviates from an approach developed by DNOs, and approved by Ofgem, explicitly on the basis that it fulfils the requirement that the proposer says is unsatisfied. We therefore consider that the proposer must provide strong justification in support of its argument that DCP 266 remedies a “defect”. We consider this to be particularly the case given that the proposer is a supplier and will be unaffected by the change.</p> <p>The analysis provided in support of the Consultation⁷ shows that, in the scenario most likely to affect IDNOs, margins decrease by an average of 13.9% (LV:LV) and 12.9% (HV:LV), with reductions ranging between 4.36-23.93% (LV:HV) and 3.37-23.27% (HV:LV). There is no area in which there is a positive change. Given that one of the aims of the CDCM was to increase LDNO margins to economic levels, and to “<i>improve the overall investment opportunity for IDNOs</i>”,⁸ it is unclear how such a substantial, and unjustified, reduction in LDNO margins can be regarded as better facilitating (ie. improving) competition in electricity distribution (as is required for DCP 266 to progress per Standard Licence Condition (“SLC”) 13.3 of the distribution licence).</p>	<p>ACTION:</p> <p>The Working Group believe that there is a need to explore the starting point of DCP 266 which is noted as being during discussions held at MIG meetings.</p> <p>The Working Group note, with regard to the following excerpt “<i>We therefore consider that the proposer must provide strong justification in support of its argument that DCP 266 remedies a “defect”.</i>” that this it is for the Working Group as a whole to discuss and provide justification for this Change Proposal and not just a task for the Proposer.</p> <p>Comments regarding DCUSA Objectives and/or Standard Licence Conditions will be picked up by the Working Group during the review of the responses to the question around the DCUSA Objectives.</p> <p>Regarding the following excerpt, “<i>Given that one of the aims of the CDCM was to increase LDNO margins to economic levels, and to ‘improve the overall investment opportunity for IDNOs’</i>” the Working Group highlight that this “was” one of the drivers in establishing the CDCM. It was noted that increasing IDNO margins is not an objective of the charging methodology contained in</p>
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⁵ Para 2.70, Electricity distribution structure of charges project: DNOs’ proposals for a common methodology at lower voltages – Ofgem, 28 September 2009 (“**CDCM Consultation**”).

⁶ Para 217, Report on the Draft Common Distribution Charging Methodology - Energy Network Association, August 2009.

⁷ Paragraphs 6.12 and 6.13.

⁸ Para 1.48, Electricity distribution structure of charges: the common distribution charging methodology at lower voltages Decision document (Ofgem, 20 November 2009).

		<p>This is particularly the case given that the net effect is a margin squeeze. IDNOs would need to carry out further analysis to understand whether the squeeze is sufficient to constitute an abuse of DNOs' dominant positions as incumbent network operators (contrary to section 18 of the Competition Act 1998). But the possibility is something that DNOs should be alive to given their "special responsibility" in competition law⁹ to proactively avoid distortions of competition that arise from charges they make into downstream markets (ie. to downstream users of their network – IDNOs).¹⁰</p> <p>This is especially important given that the change would have a retrospective effect. Whereas IGT boundary charges are crystallised (for price control purposes) at the time of connection, IDNOs have a less sophisticated price control – effectively a relative cap. The result is that changes to LDNO boundary charges potentially affect the LDNO margin across the LDNO portfolio, including historic connections. This does not appear to have been taken into account in DCP 266.</p> <p>As a result, the proposal undermines – retroactively – the business case for IDNOs' existing, sunk investments (from which they cannot exit). The proposal will therefore have a direct effect on LDNO's ability operate existing their distribution businesses (harming competition in distribution) in addition to reducing IDNOs' ability to bid for new connections in the adoption market. The effect would be to reduce the overall investment opportunity for LDNOs (contrary to the aims of CDCM), reduce choice for ICPs and developers, and introduce regulatory uncertainty into a previously stable market.</p>	<p>DCUSA but the Working Group discussed this in relation to competition law and the requirements for comparable margins for business undertaking similar activities.</p> <p>The Working Group note that with regard to the comments around "special responsibility" in competition law, that this comment should be captured within the Change Report, and that DNOs have to comply with the competition act.</p> <p>The Working Group would like to highlight that not all tariffs see a reduction</p> <p><u>It is noted that the retrospective aspect is based on the following:</u></p> <p>IDNOs make business decisions based on expected margins and thus where investments have already been made then this will impact upon those previous decisions. It was also noted that this is the situation for all changes of the methodology.</p>
Energy Assets Networks Ltd	Non-confidential	<p>No, we do not understand the intent of DCP 266.</p> <p>The basis for DCP266 is to purportedly correct an error in the methodology used in the PCDM to calculate IDNO charges. However, we do not believe this error exists and the proposer has provided little evidence to support the existence of such an error. Accordingly we do not understand the intent of DCP 266.</p>	<p>Noted, see the Working Groups comments and associated actions to the Anonymous response above.</p>

⁹ C-322 Michelin v Commission ECR 3461 (1983).

¹⁰ Although we note the Consultation statement that "*Ofgem has been fully engaged throughout the development of DCP 255*", Ofgem has emphasised (on several occasions) that it is for DNOs to ensure their own compliance with competition law – including while developing the CDCM (for example, para 2.11, Delivering the electricity distribution structure of charges project: Decision document; Ofgem 1 October 2008 – "**2008 Decision Document**").

ESP Electricity ('ESPE')	Non-confidential	Whilst ESPE understands that the intent of the DCP is to address a perceived defect in the calculation of the IDNO discounts within the PCDM, we do not agree that the defect exists and do not believe the change proposed provides any improvement upon the current method of calculation.	Noted, see the Working Groups comments and associated actions to the Anonymous response above.
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. No, 2. According to the consultation document, the proposer has clarified that the intent and scope of DCP 266 is limited to the correction of a perceived defect. However the consultation document does not provide any evidence to back up the proposition that this is a defect in the current methodology. For that reason, we struggle to understand the intent of DCP 266. 	Noted, see the Working Groups comments and associated actions to the Anonymous response above.
Leep Electricity Networks Limited	Non-confidential	<p>We are not sure that we do.</p> <p>According to the consultation document, the proposer has clarified that the intent and scope of DCP 266 is limited to the correction of a perceived defect. But the consultation document does not provide any evidence to back up the proposition that this is a defect in the current methodology. For that reason, we struggle to understand the intent of DCP 266.</p>	Noted, see the Working Groups comments and associated actions to the Anonymous response above.
The Electricity Network Company Ltd and Independent Power Networks Ltd	Non-confidential	<ol style="list-style-type: none"> 1. The intent of the DCP is to correct a defect that we do not believe exists or has been demonstrated to exist. The proposer has clarified that the intent and scope of DCP 266 is limited to the correction of the suggested defect. The proposers' solution to the suggested defect is that the PCDM be used as a standalone model to determine the IDNO margins and that the calculation of IDNO margins be divorced from the main body of the CDCM. 2. The method used to develop IDNO charges allocates cost across the network tiers (for the purposes of this model the network tiers are: EHV, HV, HV/LV and LV) to establish an estimate of the percentage of total costs that can be attributed to each tier. IDNO charges are then based on a discount from the charges that they levy on suppliers and end users. 3. The consultation document does not provide any robust evidence to back up: <ul style="list-style-type: none"> • The proposition that the defect in the current methodology exists at all. 	Noted, see the Working Groups comments and associated actions to the Anonymous response above.

		<ul style="list-style-type: none"> The proposition that the proposed solution better meets the objectives. <p>4. Given that we do not believe the perceived defect exists we struggle to understand the intent of DCP 266.</p>	
UK Power Distribution Limited	Non-confidential	UK Power Distribution are not completely sure we understand the intent of this DCP. We feel that the intent is to correct a defect that we do not believe exists. The proposer has clarified that the intent and scope of DCP 266 is limited to the correction of a perceived defect, however the consultation document does not provide any robust evidence to confirm their perception is valid and that there is indeed a defect in the current methodology.	Noted, see the Working Groups comments and associated actions to the Anonymous response above.

Company	Confidential/ Anonymous	2. Do you agree that the proposed solution requires the use of current charging year data for allowed revenues and units distributed in place of 2007/08 data?	Working Group Comments
British Gas	Non-confidential	Yes, to do otherwise would not be applying the derived p/kWh discounts to the average ATW p/kWh tariffs on the same basis.	Noted
Electricity North West	Non-confidential	Yes, we agree with this approach.	Noted
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Yes. To not do so would result in the two elements used to calculate the percentage discount (the avoided p/kWh calculated in the PCDM; and the average p/kWh calculated in the CDCM) being in different price bases.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric	Non-confidential	Yes.	Noted

Power Distribution plc			
UK Power Networks	Non-confidential	Yes.	Noted
Western Power Distribution	Non-confidential	WPD believe that the proposed solution requires the need to update the revenue and units from the charging year so that the calculation of discount %s is created using data on a similar basis.	Noted
Anonymous	Anonymous	<p>Introducing an annual update to input costs has the potential to create an undesirable level of volatility in LDNO input costs. Ofgem has specifically noted the “<i>sensitivity of [LDNO] tariffs to the input data</i>”,¹¹ and that volatility in network charges can deter investment by network users.¹² As a result, Ofgem explicitly linked “<i>transparency and predictability of modelling inputs</i>” with the “<i>beneficial impact on competition</i>” of the CDCM.¹³</p> <p>We consider that annual changes are likely to undermine the beneficial effect of the CDCM on competition. This was echoed in the Energy Networks Association’s recommendation that, in order to provide certainty for network users, “<i>more of the input data to the cost allocation methodology ... <u>should be fixed for a period of more than one year</u>. This could help reduce the volatility of tariffs</i>” (emphasis added).¹⁴</p>	The Working Group notes this response and highlight that they have covered the areas raised by the respondent during the review and comments on the next responses.
Energy Assets Networks Ltd	Non-confidential	<p>No, we do not agree.</p> <p>As we do not agree that the error identified exists we cannot agree with a proposed solution to utilise the use of current charging year data.</p> <p>While we consider that utilising newer data is likely to lead to better outcomes it should be performed across the entire model and applied for every variable, rather than cherry</p>	One member of the Working Group suggested that, in order to resolve the issue of cost data relating to DPCR4/5 being used in conjunction with revenue and volumes data relating to the charging year, the input data used to calculate an initial p/kWh be left as is to preserve the consistency of all data

¹¹ Para 2.87, CDCM Consultation.

¹² Para 1.23, 2008 Decision Document.

¹³ Para 2.88, 2008 Decision Document.

¹⁴ Paras 235 and 236, ENA Report. Although the statement was made in the context of other shipper users, there is no reason to consider that the LDNO experience would be any different.

		picking specific parameters. Employing data from different years is inconsistent and cannot improve this or any other methodology.	relating to DPCR4/5, with a 'revenue scaler' and 'unit scaler' applied as a separate step to uplift the avoided p/kWh calculated relative to 2007/08 revenue and units data to be relative to charging year revenue and units data.
ESP Electricity ('ESPE')	Non-confidential	ESPE agrees that any proposal which involves the calculation of a fixed p/kWh linked to a current CDCM model would need to use current charging year data, as comparing outdated or historical values alongside the continuously updated values of the CDCM would lead to distorted and inaccurate charges. However, this DCP provides a lack of evidence that the perceived defect exists and, as the change proposed seems unfounded, we cannot be confident that the solution would require the use of current charging year data.	Noted
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. No, 2. Given the lack of evidence that there is a defect in the current methodology, we cannot be confident that a solution would require the use of charging year data for allowed revenues and units distributed. 	Noted
Leep Electricity Networks Limited	Non-confidential	<p>No.</p> <p>Given the lack of evidence that there is a defect in the current methodology, we cannot be confident that a solution would require the use of charging year data for allowed revenues and units distributed</p>	Noted
The Electricity Network Company Ltd and Independent Power Networks Ltd	Non-confidential	<ol style="list-style-type: none"> 1. No. The consultation does not provide evidence to substantiate why the current approach is a defect of the existing methodology. Since we do not agree with the proposer that the defect exists, we cannot give support to a solution that aims to fix an aspect of the methodology which we do not believe is broken. Therefore, we cannot be confident that a solution would require the use of charging year data for allowed revenues and units distributed. 2. Additionally, we find it difficult to understand how using a mish mash of different data from different years can be realistically demonstrated to improve the methodology and better facilitate the Relevant Objectives than the status quo. 	Noted

		We believe this mix and match approach to data completely undermines the credibility of the proposal.	
UK Power Distribution Limited	Non-confidential	<ol style="list-style-type: none"> No. The consultation document lacks evidence to validate that there is a defect in the current methodology, and therefore as we believe it is fit for purpose we cannot support a solution to correct a perceived defect in it and we also cannot be confident that a solution would require the use of charging year data for allowed revenues and units distributed. We also struggle to comprehend how using a collection of allowed revenues and units distributed for different years can be shown to improve the current methodology and better facilitate the Relevant Objectives, than that which already exists. 	Noted

Company	Confidential/Anonymous	3. Do you believe it is appropriate under DCP 266 to update only the allowed revenue and units distributed in the PCDM whilst leaving the other price control inputs unchanged i.e. the inputs used in steps (a) to (c) noted in the table below paragraph 4.9?	Working Group Comments
British Gas	Non-confidential	<p>This is consistent with the stated intent and scope of DCP 266 to correct the defect identified in the current method of deriving LDNO tariffs.</p> <p>The other inputs in the PCDM are overdue a review, however this is outside the scope of DCP266.</p>	The Working Group note that changes to other inputs are out of scope of this change.
Electricity North West	Non-confidential	Yes. We accept that this is not ideal as the revenues do not directly relate to the costs but this is a pragmatic solution given the availability of data that could be published. In any event, the same costs are used in the current methodology to generate a percentage that is ultimately applied to a contemporary tariff calculated using the latest cost and revenue data so we do not see this as a weakness in comparison to the current methodology.	Noted
Northern Powergrid	Non-confidential	Yes.	

(Northeast) Ltd and Northern Powergrid (Yorkshire) plc		<p>In general, where a distinct defect can be resolved, we believe it should be dealt with in isolation. We believe this is the case for the defect identified by DCP 266, and updating only allowed revenue and units distributed in the PCDM represents a clean short-term solution to resolving the identified defect in isolation.</p> <p>That said, we are very aware of wider industry reviews of Use of System charging (including distributor-to-distributor charging) that are currently ongoing, most notably by the Task Forces operating under the Charging Futures Forum. It is important that the Working Group (and subsequently Ofgem) considers the interactions with these wider reviews and the general ‘direction of travel’ before implementing discrete changes such as this.</p>	<p>The Working Group note that currently DCP 266 does not impact on the SCR as there is no element of residual charges in scope of DCP 266.</p> <p>The Working Group note the comments around the CFF Task Forces and will remain aware of what is being discussed and any potential to impact on DCP 266.</p>
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	We agree that the update of other price control inputs are outside the scope of the DCP.	Noted
UK Power Networks	Non-confidential	Yes.	Noted
Western Power Distribution	Non-confidential	It would be more cost reflective to update all the data.	The Working Group note that changes to other inputs are out of scope of this change.
Anonymous	Anonymous	<p>The proposer states that DCP 266 is intended to cure a logical defect in the method of calculating LDNO discounts. The nature of that defect has not been demonstrated. At the same time, the proposer considers it might be appropriate to update some – but not other – inputs to the model. This is a much more obvious logical error than the one DCP 266 purports to correct.</p> <p>Analysis commissioned by the Competitive Networks Association (“CNA”) suggests that the DCP 266 approach to data sources would (overall) exclude 4.3% of total DNO revenue from the Method M allocation, without justification. It would also result in material reductions in the LDNO discount <u>even if the current calculation remained in place</u> – in one DSA, the percentage HV:LV discount is reduced by 4.1% purely as a result of the</p>	<p>The Working Group note that this is similar to an alternative approach to DCP 266 that has already been suggested by a member of the Working Group but will sense check both suggested approaches to ensure that they align.</p>

		<p>proposed change in data sources. The Working Group's minutes suggest DCP 266 was developed "backwards". A number of additional methodological changes were identified as "mechanically necessary" to achieve the proposed change in the LDNO calculation. But the broader implications of those changes <i>per se</i> do not appear to have been considered, even though they were readily identified by the CNA's analysis.</p> <p>We consider it clear that DCP 266 requires significant further development. Not only does the current proposal actually introduce errors to the methodology, but it has not taken into account the broader interactions that would result from its implementation.</p>	<p>ACTION:</p> <p>Working Group to sense check both suggested approaches to ensure that they align.</p>
Energy Assets Networks Ltd	Non-confidential	<p>No, it is fundamentally wrong and inappropriate to update specific price control inputs determined by the identification of an error which does not exist, whilst leaving other inputs untouched as it will at best have unintended consequences and worse have negative impacts on the PCDM.</p> <p>One example is the significant changes in the reported allocation of units distributed, specifically the proportion of units said to be distributed at EHV rising to 9.2 per cent in the DCP 266 impact assessment. The net impact of this shift in network usage on the PCDM is to shift the p/kWh cost allocations from LV and EHV to HV. It is inconsistent to apply such large shifts in power flows through network levels without updating the allocation of costs or assets between network levels, as this implies that the costs and assets are entirely independent of the power flowing through them.</p> <p>It is likely that the overall financial impact of DCP 266 arises from input data effects and not from the change in discount calculation formula (which tends to move margins between tariffs with a modest impact on total margins).</p>	<p>ACTION:</p> <p>the definition of designated EHV Boundaries for charging have changed between 07/08 and current year data. DNOs to confirm what data was used in the impact assessment (did it include HV Sub)? Check what is currently within the PCDM and what was included in the DCP 266 impact assessment. If there is a volume difference, then it should be looked at so a reason can be found as to why it has occurred.</p>
ESP Electricity ('ESPE')	Non-confidential	<p>ESPE does not believe it is appropriate or accurate to update only the allowed revenue and units distributed fields whilst the other price control inputs remain extremely outdated.</p> <p>The implementation of this DCP would cause a significant increase in the proportions of DNO revenues that are allocated to transmission exit charges and incentive schemes within the PCDM. Updating those fields alone would be inappropriate due to the fact that the outdated parameters that drive the other aspects of cost and revenue allocation within the method M model remain unchanged.</p>	<p>The Working Group note that they have covered off these points during previous discussion on above responses and will review again once another Impact Assessment has been completed.</p>

		<p>In order to derive a fixed value from the PCDM which is comparable to the current CDCM, it is not rational or cost reflective to apply proportions that exist within a new data set to outdated values.</p> <p>For example, if transmission exit charges represent a significantly higher proportion of distribution costs, then presumably the additional GSP infrastructure procured by DNOs through these transmission exit charges will be reducing the other costs that DNOs incur at higher levels of their networks. By adjusting transmission exit charges and keeping the EHV/HV/LV allocation unchanged, the effect would be, wrongly, to allocate the savings to GSPs across all voltage levels instead of the EHV level where they are most likely to occur.</p> <p>The above shift has a significant effect upon the PCDM. By comparing the most noteworthy changes, it is possible to determine why this DCP has such a significant and unintended effect on the PCDM:</p> <ul style="list-style-type: none"> - Total revenues increase from £3.7 billion to £5.9 billion, a compound average growth rate of 4.0% a year. - Net incentive revenues increase from £46 million (in the original method M models) to £236 million (in 2019/2020), a compound average growth rate of 14.5% a year. As a proportion of total revenue, net incentive revenue has trebled from 1.3% in 2007/2008 to 4.0% in 2019/2020. - Transmission exit charges increase from £112 million in 2007/2008 to £273 million in 2019/2020, a compound average growth rate of 7.7%. As a proportion of total revenue, transmission exit has risen from 3.1% in 2007/2008 to 4.6% in 2019/2020. <p>Overall, the DCP 266 proposal would have the effect of excluding an additional 4.3% of total revenue from the method M allocation.</p> <p>In addition to the above, updating the 'units distributed' fields causes changes due to a number of shifts within the proportion of units allocated across network tiers. The proportion of units stated to be distributed at EHV rises from 6.8% in 2007/2008 to 9.2% in the DCP 266 impact assessment. This shift in network usage causes increased p/kWh</p>	
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		<p>costs at HV and reduced p/kWh costs at EHV, with a net impact of shifting the allocation from LV and EHV to HV.</p> <p>Providing new data for power flows without updating the allocation of costs or assets between network levels is inherently inaccurate and flawed, as this can cause large shifts between network levels that are beyond the scope or intent of this DCP.</p> <p>The unintended effects of this change seem to outweigh the intended effect, which should be a cause for concern.</p>	
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. No. 2. It is inappropriate to implement the proposed increase in the proportions of DNO revenues that are allocated to transmission exit charges and incentive schemes, or to implement the proposed increase in the proportion of units said to be distributed at EHV, without updating the decade-old parameters that drive the other aspects of cost or revenue allocation within the method M model. 3. Cherry-picking data sources would lead to an inequitable allocation of costs. For example, if transmission exit charges represent a significantly higher proportion of distribution costs, then presumably the additional GSP infrastructure procured by DNOs through these transmission exit charges will be reducing the other costs that DNOs need to incur at the higher levels of their networks. By adjusting transmission exit charges and keeping the EHV/HV/LV allocation unchanged, the effect would be, wrongly, to allocate the savings realised from better GSPs across all voltage levels instead of concentrating them on the EHV level where they are most likely to occur. 4. This is a real issue, not just a theoretical point. The structural shifts for these items are very significant. Over the 12 year period from 2007/2008 to 2019/2020 (the most recent data published by DNOs), on aggregate across the 14 DNOs: <ol style="list-style-type: none"> (a) Total revenues increase from £3.7 billion to £5.9 billion, a compound average growth rate of 4.0 per cent a year. (b) Net incentive revenues increase from £46 million (in the original method M models) to £236 million (in 2019/2020), a compound average growth rate of 14.5 per cent a year. As a proportion of total revenue, net incentive revenue has trebled from 1.3 per cent in 2007/2008 to 4.0 per cent in 2019/2020. 	<p>The Working Group note that they have covered off these points during previous discussion on above responses and will review again once another Impact Assessment has been completed.</p>

		<p>(c) Transmission exit charges increase from £112 million in 2007/2008 to £273 in 2019/2020, a compound average growth rate of 7.7 per cent a year. As a proportion of total revenue, transmission exit has risen by a half from 3.1 per cent in 2007/2008 to 4.6 per cent in 2019/2020.</p> <p>5. Overall, the DCP 266 proposal would have the effect of excluding an additional 4.3 per cent of total revenue from the method M allocation.</p> <p>6. There are also large changes in the reported allocation of units distributed, with the proportion of units reported as distributed at EHV rising from 6.8 per cent in 2007/2008 to 9.2 per cent in the DCP 266 impact assessment. The effect of this shift in network usage on method M is to increase p/kWh costs at HV and reduce p/kWh costs at EHV, with a net impact of shifting the allocation from LV and EHV to HV.</p> <p>7. It would be inconsistent to apply such large shifts in power flows through network levels without updating the allocation of costs or assets between network levels, yet this is what DCP 266 proposes.</p> <p>8. These changes in input data have a significant impact on discounts, which does not appear to be related to the intent of DCP 266. The apparently unintended effect of the proposal is bigger than its intended effect. For example, in the SPEN SPM area, for an HV boundary and an LV end user, without changing the discount formula, the DCP 266 input data changes would reduce the percentage discount from 60.0 per cent to 55.9 per cent.</p> <p>9. Given the significance of this issue, it is concerning that the consultation document has failed to identify or document these major changes in input data or their impact. Whilst the sentence “DCP266 does not propose to change these percentage allocations” might be technically accurate in the context where it appears, it is misleading as part of a table which makes no mention of the treatment of, and the proposed changes to, incentive revenue and transmission exit charges.</p>	
Leep Electricity Networks Limited	Non-confidential	<p>No.</p> <p>It is inappropriate to implement the proposed increase in the proportions of DNO revenues that are allocated to transmission exit charges and incentive schemes, or to implement the proposed increase in the proportion of units said to be distributed at EHV, without updating</p>	The Working Group note that they have covered off these points during previous discussion on above responses and will review again once another Impact Assessment has been completed.

		<p>the decade-old parameters that drive the other aspects of cost or revenue allocation within the method M model.</p> <p>Cherry-picking data sources would lead to an inequitable allocation of costs. For example, if transmission exit charges represent a significantly higher proportion of distribution costs, then presumably the additional GSP infrastructure procured by DNOs through these transmission exit charges will be reducing the other costs that DNOs need to incur at the higher levels of their networks. By adjusting transmission exit charges and keeping the EHV/HV/LV allocation unchanged, the effect would be, wrongly, to allocate the savings realised from better GSPs across all voltage levels instead of concentrating them on the EHV level where they are most likely to occur.</p> <p>This is a real issue, not just a theoretical point. The structural shifts for these items are very significant. Over the 12-year period from 2007/2008 to 2019/2020 (the most recent data published by DNOs), on aggregate across the 14 DNOs:</p> <ul style="list-style-type: none"> a) Total revenues increase from £3.7 billion to £5.9 billion, a compound average growth rate of 4.0 per cent a year; b) Net incentive revenues increase from £46 million (in the original method M models) to £236 million (in 2019/2020), a compound average growth rate of 14.5 per cent a year. As a proportion of total revenue, net incentive revenue has trebled from 1.3 per cent in 2007/2008 to 4.0 per cent in 2019/2020; and c) Transmission exit charges increase from £112 million in 2007/2008 to £273 in 2019/2020, a compound average growth rate of 7.7 per cent a year. As a proportion of total revenue, transmission exit has risen by a half from 3.1 per cent in 2007/2008 to 4.6 per cent in 2019/2020. <p>Overall, the DCP 266 proposal would have the effect of excluding an additional 4.3 per cent of total revenue from the method M allocation.</p> <p>There are also large changes in the reported allocation of units distributed, with the proportion of units reported as distributed at EHV rising from 6.8 per cent in 2007/2008 to 9.2 per cent in the DCP 266 impact assessment. The effect of this shift in network usage</p>	
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		<p>on method M is to increase p/kWh costs at HV and reduce p/kWh costs at EHV, with a net impact of shifting the allocation from LV and EHV to HV.</p> <p>It would be inconsistent to apply such large shifts in power flows through network levels without updating the allocation of costs or assets between network levels, yet this is what DCP 266 proposes.</p> <p>These changes in input data have a significant impact on discounts, which does not appear to be related to the intent of DCP 266. The apparently unintended effect of the proposal is bigger than its intended effect. For example, in the SPEN SPM area, for an HV boundary and an LV end user, without changing the discount formula, the DCP 266 input data changes would reduce the percentage discount from 60.0 per cent to 55.9 per cent.</p> <p>Given the significance of this issue, it is concerning that the consultation document has failed to identify or document these major changes in input data or their impact. Whilst the sentence “DCP266 does not propose to change these percentage allocations” might be technically accurate in the context where it appears, it is misleading as part of a table which makes no mention of the treatment of, and the proposed changes to, incentive revenue and transmission exit charges.</p>	
The Electricity Network Company Ltd and Independent Power Networks Ltd	Non-confidential	<ol style="list-style-type: none"> No. It is inappropriate to implement the proposed increase in the proportions of DNO revenues that are allocated to transmission exit charges and incentive schemes, or the proposed increase in the proportion of units said to be distributed at EHV, without updating the decade-old parameters that drive the other aspects of cost or revenue allocation within the PCDM. Cherry-picking data sources would lead to an inequitable allocation of costs. For example, if transmission exit charges represent a significantly higher proportion of distribution costs, then presumably the additional GSP infrastructure procured by DNOs through these transmission exit charges will be reducing the other costs that DNOs need to incur at the higher levels of their networks. By adjusting transmission exit charges and keeping the EHV/HV/LV allocation unchanged, the effect would be, wrongly, to allocate the savings realised from better GSPs across all voltage levels instead of concentrating them on the EHV level where they are most likely to occur. This is not just a theoretical point. The structural shifts for these items are very significant. Over the 12-year period from 2007/2008 to 2019/2020 (the most 	The Working Group note that they have covered off these points during previous discussion on above responses and will review again once another Impact Assessment has been completed.

		<p>recent data published by DNOs, which the consultation document fails to use), on aggregate across the 14 DNOs:</p> <ul style="list-style-type: none"> a) Total revenues increase from £3.7 billion to £5.9 billion, a compound average growth rate of 4.0 per cent a year. b) Net incentive revenues increase from £46 million (in the original PCDM models) to £236 million (in 2019/2020), a compound average growth rate of 14.5 per cent a year. As a proportion of total revenue, net incentive revenue has trebled from 1.3 per cent in 2007/2008 to 4.0 per cent in 2019/2020. c) Transmission exit charges increase from £112 million in 2007/2008 to £273 million in 2019/2020, a compound average growth rate of 7.7 per cent a year. As a proportion of total revenue, transmission exit charges have risen by a half from 3.1 per cent in 2007/2008 to 4.6 per cent in 2019/2020. <p>4. Overall, the DCP 266 proposal would have the effect of excluding 4.3 per cent of total revenue from the PCDM.</p> <p>5. There are also large changes in the reported allocation of units distributed, with the proportion of units said to be distributed at EHV rising from 6.8 per cent in 2007/2008 to 9.2 per cent in the DCP 266 impact assessment. The effect of this shift in network usage on the PCDM is to increase p/kWh costs at HV and reduce p/kWh costs at EHV, with a net impact of shifting the allocation from LV and EHV to HV.</p> <p>6. It would be inconsistent to apply such large shifts in power flows through network levels without updating the allocation of costs or assets between network levels.</p> <p>7. These changes in input data have a significant impact on discounts which is not related to the intent of DCP 266. For example, in the SPEN SPM area, for an HV boundary and an LV end user, without changing the discount formula, the DCP 266 input data changes would reduce the percentage discount from 60.0 per cent to 55.9 per cent.</p> <p>8. Given the significance of this issue, it is concerning that the consultation document has failed to identify or document the impact of these changes on the discounts calculated by the PCDM. Whilst the sentence “DCP266 does not propose to change these percentage allocations” might be technically accurate in the context where it appears, it is misleading as part of a table which makes no mention of the treatment of, and changes to, incentive revenue and transmission exit charges.</p>	
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UK Power Distribution Limited	Non-confidential	<ol style="list-style-type: none"> 1. No. It is inappropriate to implement the proposed increase in the proportions of DNO revenues that are allocated to transmission exit charges and incentive schemes, or to implement the proposed increase in the proportion of units said to be distributed at EHV, without updating the decade-old parameters that drive the other aspects of cost or revenue allocation within the PCDM. 2. Cherry-picking data sources would lead to an inequitable allocation of costs. For example, if transmission exit charges represent a significantly higher proportion of distribution costs, then presumably the additional GSP infrastructure procured by DNOs through these transmission exit charges will be reducing the other costs that DNOs need to incur at the higher levels of their networks. By adjusting transmission exit charges and keeping the EHV/HV/LV allocation unchanged, the effect would be, wrongly, to allocate the savings realised from better GSPs across all voltage levels instead of concentrating them on the EHV level where they are most likely to occur. 3. This is reality and not just a theoretical point. The structural shifts for these items are extremely significant. Over the 12-year period from 2007/2008 to 2019/2020 (the most recent data published by DNOs, which the consultation document fails to use), on aggregate across the 14 DNOs: <ol style="list-style-type: none"> a) Total revenues increase from £3.7 billion to £5.9 billion, a compound average growth rate of 4.0 per cent a year. b) Net incentive revenues increase from £46 million (in the original PCDM models) to £236 million (in 2019/2020), a compound average growth rate of 14.5 per cent a year. As a proportion of total revenue, net incentive revenue has trebled from 1.3 per cent in 2007/2008 to 4.0 per cent in 2019/2020. c) Transmission exit charges increase from £112 million in 2007/2008 to £273 million in 2019/2020, a compound average growth rate of 7.7 per cent a year. As a proportion of total revenue, transmission exit has risen by a half from 3.1 per cent in 2007/2008 to 4.6 per cent in 2019/2020. 4. Overall, the DCP 266 proposal would have the effect of excluding 4.3 per cent of total revenue from the PCDM. 5. There are also large changes in the reported allocation of units distributed, with the proportion of units said to be distributed at EHV rising from 6.8 per cent in 2007/2008 to 9.2 per cent in the DCP 266 impact assessment. The effect of this shift in network usage on method M is to increase p/kWh costs at HV and reduce 	<p>The Working Group note that they have covered off these points during previous discussion on above responses and will review again once another Impact Assessment has been completed.</p>
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		<p>p/kWh costs at EHV, with a net impact of shifting the allocation from LV and EHV to HV.</p> <p>6. It would be inconsistent to apply such large shifts in power flows through network levels without updating the allocation of costs or assets between network levels.</p> <p>7. These changes in input data have a significant impact on discounts which is not related to the intent of DCP 266. For example, in the SPEN SPM area, for an HV boundary and an LV end user, without changing the discount formula, the DCP 266 input data changes would reduce the percentage discount from 60.0 per cent to 55.9 per cent.</p> <p>8. Given the significance of this issue, it is concerning that the consultation document has failed to identify or document the impact of these significant data changes and the associated discounts calculated by the PCDM. Whilst the sentence “DCP266 does not propose to change these percentage allocations” might be technically accurate in the context where it appears, it is undoubtedly misleading as part of a table which makes no mention of the treatment of, and changes to, incentive revenue and transmission exit charges.</p>	

Company	Confidential/ Anonymous	<p>4. Do you agree with the proposer’s view that there is a defect in the logic in the way that discounts are calculated and applied to determine LDNO tariffs? If so:</p> <ul style="list-style-type: none"> Do you believe the DCP 266 solution correctly addresses this defect? Please provide your rationale Are there any alternative solutions for addressing the perceived defect? 	Working Group Comments
British Gas	Non-confidential	<p>Yes. As has been captured in the consultation, our view is that a discount percentage derived using total costs in the PCDM and applied to an incremental cost tariff calculated in the CDCM will not, and cannot, produce LDNO tariffs which reflect “<i>a reasonable allocation of total costs to the elements of the DNOs business that are being undertaken by the IDNO</i>” unless the total cost and incremental cost happen to be identical.</p> <p>The DCP266 solution removes the logical defect we have identified and creates an approach to IDNO charging that we believe will better facilitate getting to the ‘right answer’ for IDNO tariffs. This is because further changes to the methodology that</p>	<p>Some members believe that the purpose of this Change Proposal may have been to push parties into progressing other changes to amend the other data inputs. However, the Proposer clarified that this was absolutely not the intent of this Change Proposal. One Working Group member believes that the PCDM data inputs</p>

		<p>improve the allocation of total costs to network levels will feed directly through to the tariffs IDNOs face.</p> <p>We acknowledge that the solution may also highlight concerns with the data currently being used to allocate total costs to DNO network levels under the current methodology. This is an existing feature of the methodology and we are not well placed to update this element of the methodology. We do consider however that DCP266 would improve the incentive on DNOs and IDNOs to sort this data out.</p>	<p>need a more holistic review and notes it is not within the intent of DCP 266. Other members believe that DCP 266 can still continue as a standalone change prior to any further review of other data inputs.</p>
Electricity North West	Non-confidential	<p>No, we do not agree that there is a logical defect. The current methodology is consistent with the following logic:</p> <ul style="list-style-type: none"> a) The same margin % should be available to both the DNO and IDNO. b) $\text{Margin \%} = (\text{revenue} - \text{cost}) / \text{revenue}$. c) The cost apportionment between DNO and IDNO is obtained from the PCDM (this is a reasonable allocation of total costs, which also serves as a proxy for the overall share of the total activity undertaken by the DNO and LDNO). d) Revenue (the tariff) is apportioned using the same split as cost (or activity) which ensures the same margin % is available to both parties. <p>Of course, the principles that give rise to this logic can be challenged or alternative objectives for the methodology can be prioritised over others, but we cannot identify any actual defect in the logic of the current methodology.</p> <p>We do not believe the aim of the methodology is to ensure the margin of LDNOs is equal to the 'last mile' cost avoided by DNOs. We believe the aim of LDNO tariffs is to ensure that the same margin is available to both businesses to ensure the methodology does not restrict, distort, or prevent competition in the distribution of electricity, while the end customer tariff reflects the overall costs incurred by both of the distribution businesses.</p> <p>We believe the current methodology is logically consistent with the stated aim of "a reasonable allocation of total costs to the elements of the DNOs business that are being undertaken by the IDNO". We view the word allocation as being of key importance and view this to relate to the allocation of the total cost between the DNO and IDNO, rather than to refer to the direct ascription of LDNO costs (or avoided DNO costs) to the final tariff.</p>	<p>With regard to this response the Working Group discussed the following:</p> <p>Actual revenues are derived from end user tariffs for use of the whole network. The PCDM is the mechanism to allocate the costs to different network tiers and thereby allocating revenues between the upstream business of a DNO and the downstream businesses of an IDNO.</p> <p>As was noted previously, currently the revenue that an IDNO and DNO achieves in respect of an end customer will be affected proportionally, by a CDCM change. If for example there was a methodology change that caused a large percentage change in the ATW tariff, both the IDNO and DNO revenue would change proportionally. DCP 266 changes this so that the absolute margin obtained by the IDNO would be maintained.</p> <p>*There was significant discussion about the definition and differences between the meanings of "actual" and "notional" businesses.</p>

			ACTION: Working Group members to review the document provided by MH which was circulated to the group during the meeting (04/04/18)
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Yes, we agree that there is a defect in the logic applied when determining LDNO tariffs. The solution proposed does address the defect.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	We are unconvinced that there is a defect in the logic that is currently applied to calculate the LDNO discounts.	Noted
UK Power Networks	Non-confidential	Yes we believe there is scope for improvement with the current approach and we believe this change could address the perceived defect.	Noted
Western Power Distribution	Non-confidential	WPD believe that this change will create a defect and introduce volatility into the charging methodologies which may impact IDNOs revenues. The discount % vary by a considerable amount.	It was noted that this response is in relation to the variable percentage discounts as a result of this Change Proposal.

			The proposer notes that this Change Proposal addresses volatility by maintaining the absolute discounts.
Anonymous	Anonymous	We do not consider the proposer has demonstrated the existence of a defect.	The Working Group note that they have already commented against a similar response above.
Energy Assets Networks Ltd	Non-confidential	No, we do not agree with the proposer's view that there is a defect in the logic in the calculation of LDNO discounts, used to determine LDNO tariffs. As there is no defect DCP 266 fails at a fundamental level. Alternative solutions are inappropriate given the defect does not exist.	The Working Group note that they have already commented against a similar response above.
ESP Electricity ('ESPE')	Non-confidential	No, ESPE does not agree that there is a defect in the logic regarding how the discounts are calculated and applied or that there is any evidence to support this. The current method of allocating a percentage of total allowed revenue based on which parts of the network are run by the IDNO is a consistent and fair approach, but only as long as the data used to populate the PCDM is on a comparable basis. We believe DCP266 would introduce a large inconsistency into the methodology instead of solving the defect perceived by the proposer.	Noted
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. No. 2. There is no evidence that the current approved methodology suffers from the defect alleged, or that there is a defect in the principle of allocating the total revenues associated with distributing electricity between the parts of the service provided by the DNO and the parts of the service provided by an IDNO. 3. The argument made at paragraphs 4.14 and following of the consultation document is invalidated by at least two errors: <ol style="list-style-type: none"> (a) It is not true that the proposition that "end user charges should, as far as is possible, provide end users with incremental cost signals" would imply that the all-the-way charge in the example given would be 1.5 p/kWh. All-the-way charges might "reflect" cost signals but they are also designed to 	<p>Some Working Group members agree with the respondents' views set out in (a) whilst other members disagreed with (a) due to paragraph 14.4 in the consultation being a consideration for a customer and not to be taken in aggregate.</p> <p>ACTION: Working Group to review the example as set out in the consultation document and referenced in point 3(a) and update the example to remove the ambiguity.</p>

		<p>recover allowed revenue. To recover allowed revenue in full, the DNO would apply an all-the-way charge of 2.5 p/kWh in the example given.</p> <p>(b) It is not accurate to describe the illustrative figure of 0.5 p/kWh as an “avoided cost”. The Method M model is based on allocating monies between DNOs and IDNOs based on what parts of the service they each provide: it does not undertake any of the counterfactual cost analysis that would be needed to determine an avoided cost concept.</p>	
Leep Electricity Networks Limited	Non-confidential	<p>No.</p> <p>There is no evidence that the current approved methodology suffers from the defect alleged, or that there is a defect in the principle of allocating the total revenues associated with distributing electricity between the parts of the service provided by the DNO and the parts of the service provided by an IDNO.</p> <p>The argument made at paragraphs 4.14 and following of the consultation document is invalidated by at least two errors:</p> <p>(a) It is not true that the proposition that “end user charges should, as far as is possible, provide end users with incremental cost signals” would imply that the all-the-way charge in the example given would be 1.5 p/kWh. All-the-way charges might “reflect” cost signals but they are also designed to recover allowed revenue. To recover allowed revenue in full, the DNO would apply an all-the-way charge of 2.5 p/kWh in the example given.</p> <p>(b) It is not accurate to describe the illustrative figure of 0.5 p/kWh as an “avoided cost”. The Method M model is based on allocating monies between DNOs and IDNOs based on what parts of the service they each provide: it does not undertake any of the counterfactual cost analysis that would be needed to determine an avoided cost concept.</p>	<p>Some Working Group members agree with the respondents’ views set out in (a) whilst other members disagreed with (a) due to paragraph 14.4 in the consultation being a consideration for a customer and not to be taken in aggregate. The Working Group took an action to review the example set out in the consultation document and referenced in point (a) of this response and update the example for any future documentation to remove the ambiguity.</p>
The Electricity Network Company Ltd and Independent	Non-confidential	<ol style="list-style-type: none"> No. We do not agree with the proposer’s view that there is a defect in the logic. There is no evidence that the current approved methodology suffers from the defect alleged, or that there is a defect in the principle of allocating the total 	<p>Some Working Group members agree with the respondents’ views set out in (a) whilst other members disagreed</p>

Power Networks Ltd		<p>revenues associated with distributing electricity between the parts of the service provided by the DNO and the parts of the service provided by an IDNO.</p> <p>3. The argument made at paragraphs 4.14 and following of the consultation document is invalidated by at least two errors:</p> <p>(a) It is not true that the proposition that “<i>end user charges should, as far as is possible, provide end users with incremental cost signals</i>” would imply that the all-the-way charge in the example given would be 1.5 p/kWh. All-the-way charges might “reflect” cost signals but they are also designed to recover allowed revenue. To recover allowed revenue in full, the DNO would apply an all-the way charge of 2.5 p/kWh in the example given.</p> <p>(b) It is not accurate to describe the illustrative figure of 0.5 p/kWh as an “avoided cost”. The PCDM is based on allocating monies between DNOs and IDNOs based on what parts of the service they each provide: it does not undertake any of the counterfactual cost analysis that would be needed to determine an avoided cost concept.</p> <p>4. Whilst the consultation makes reference to paragraph 2.70 of Ofgem’s October 2009 consultation, paragraph 2.67 of the same consultation states “<i>The method used to develop IDNO charges allocates cost across network tiers...to establish an estimate of the percentage of total costs that can be attributed to each tier</i>”. Our view is that the purpose of the PCDM is to determine how the ATW charge determined in the broader CDCM should be allocated to different network tiers on a percentage basis so that the revenue an IDNO gets for operating a last mile of network is broadly equivalent to that which the DNO would receive for operating a notionally equivalent network.</p> <p>Alternative solutions</p> <p>5. Given that we do not believe there is a defect, it doesn’t make sense to propose an alternative solution to a problem that doesn’t exist.</p>	<p>with (a) due to paragraph 14.4 in the consultation being a consideration for a customer and not to be taken in aggregate. The Working Group took an action to review the example set out in the consultation document and referenced in point 3(a) of this response and update the example for any future documentation to remove the ambiguity.</p> <p>One member disagrees with the proposition set out in point (4). The Working Group member is of the view that the Ofgem quote and the view of the respondent underneath are in direct contradiction with each other.</p> <p>The respondent noted that their interpretation is in line with competition law.</p> <p>ACTION: ELECTRALINK</p> <p>Highlight the above two points in next consultation document</p>
UK Power Distribution Limited	Non-confidential	<p>1. No. We do not agree with the proposer’s view that there is a defect in the logic.</p> <p>2. There is no evidence that the current approved methodology suffers from the defect alleged, or that there is a defect in the principle of allocating the total revenues associated with distributing electricity between the parts of the service provided by the DNO and the parts of the service provided by an IDNO.</p> <p>3. The argument made at paragraphs 4.14 and following of the consultation document is invalidated by at least two errors:</p>	<p>Some Working Group members agree with the respondents’ views set out in (a) whilst other members disagreed with (a) due to paragraph 14.4 in the consultation being a consideration for a customer and not to be taken in aggregate. The Working Group took an action to review the example set out in</p>

		<p>(a) It is not true that the proposition that “<i>end user charges should, as far as is possible, provide end users with incremental cost signals</i>” would imply that the all-the-way charge in the example given would be 1.5 p/kWh. All-the-way charges might “reflect” cost signals but they are also designed to recover allowed revenue. To recover allowed revenue in full, the DNO would apply an all-the way charge of 2.5 p/kWh in the example given.</p> <p>(b) It is not accurate to describe the illustrative figure of 0.5 p/kWh as an “avoided cost”. The PCDM is based on allocating monies between DNOs and IDNOs based on what parts of the service they each provide: it does not undertake any of the counterfactual cost analysis that would be needed to determine an avoided cost concept.</p> <p>4. Whilst the consultation makes reference to paragraph 2.70 of Ofgem’s October 2009 consultation, paragraph 2.67 of the same consultation states “<i>The method used to develop IDNO charges allocates cost across network tiers...to establish an estimate of the percentage of total costs that can be attributed to each tier</i>”. Our view is that the purpose of the PCDM is to determine how the ATW charge determined in the broader CDCM should be allocated to different network tiers on a percentage basis so that the revenue that an IDNO gets for operating a last mile of network is broadly equivalent to that which the DNO would receive for operating a notionally equivalent network.</p> <p>Alternative solutions</p> <p>5. As we believe there isn’t a defect in the current methodology, we cannot support a solution to correct a non-existent issue.</p>	the consultation document and referenced in point 3(a) of this response and update the example for any future documentation to remove the ambiguity.

Company	Confidential/ Anonymous	5. Do you agree with the principle that revenue relating to incentives/penalties should not be shared? Do you believe that the Working Group has correctly identified the items that are to be excluded from the ‘revenue to share’?	Working Group Comments
British Gas	Non-confidential	DCP 266 does not seek to change the existing principle that revenue relating to incentives/penalties should not be shared, and in that respect the first question is somewhat redundant. Any change to the existing principle is outside the scope of the CP.	The Working Group noted that the basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much

		<p>Our general view on the existing principle is that if incentives represent a reward/penalty for the performance of the DNO then it seems appropriate that LDNOs should not gain, or be penalised, for the host DNO's performance. However, if they represent cost recovery for the delivery of an agreed level of basic service, then it may not be appropriate to exclude them (although this would be out of scope of this CP).</p> <p>With respect to the second question, the Working Group do seem to have identified the elements that would logically be included in 'incentive revenue'.</p>	<p>more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p>
Electricity North West	Non-confidential	<p>We understand the working groups thinking regarding the sharing of incentives or penalties as it is drawn from the experience of working with the current methodology. However, we are concerned that the proposed approach could be problematic.</p> <p>Under the current methodology these items are excluded as they relate to financial incentives or penalties resulting from the outputs of the DNO, rather than directly relating to its activities and network, and so would not be of use in trying to understand the allocation of cost or activity between the DNO (GSP to LDNO) and LDNO (last mile).</p> <p>The proposed new approach will effectively directly use the cost output of the PCDM (rather than using the PCDM to derive a % allocation between to the two distribution businesses) and so excluding these items would then have a different effect than it does under the current methodology.</p> <p>DNOs are subject to a price control including an element of incentives. In general, overall, the incentives are positive for the current price control given the current level of DNO performance (i.e. DNOs revenue is increased, not reduced by penalties). For domestic customers, LDNO are subject to the same price control. By excluding this generally positive incentive revenue from the discount to the LDNO tariff the proposed methodology is essentially assuming that IDNOs earn zero incentives (so, below the level DNOs typically perform at), and is therefore excluding them from making the same margin on the incentive element of revenue as a DNO providing the same service.</p> <p>This serves to illustrate our view that the proposers solution is too narrowly focused on the calculation of LDNO tariffs that reflect cost savings to DNOs, without having due regard to the impact of such tariffs arrangements on competition in the distribution of electricity. We cannot agree with the Working Group's view as it would result in a</p>	<p>Noted, and as above:</p> <p>The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p> <p>The respondent explained the rationale behind the last paragraph and noted that the previous discussions have already covered this area off. The Proposer notes that this Change Proposal does not intend to generate a cost reflective signal but seeks to ensure that the revenue received by an IDNO operating the last mile of network is equivalent to the revenue a notional DNO would receive. It is the Proposers view that a notional DNOs revenue is better</p>

		<p>situation where DNO's are systematically able to earn a greater margin on the last mile of distribution than LDNO businesses subject to the same price control.</p> <p>Nor do we believe that including all revenue relating to incentives/penalties would result in a better outcome. We believe that the proposed approach is fundamentally flawed as it tries to generate a cost reflective signal by deducting a total cost model output from a forward looking cost model output. This is logically inconsistent (a logical defect).</p>	represented by the allocations in the PCDM and not the CDCM.
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Yes.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	We agree with the principle that incentives/penalties should not be shared and agree that items identified in the table are correctly identified as incentives/penalties.	<p>Noted, and as above:</p> <p>The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p>
UK Power Networks	Non-confidential	<p>Yes as these (incentives / penalties) are over and above the costs of operating the network. In addition any penalties would result in a lower discount being calculated, this approach ensures that the calculation is taken from a consistent starting point.</p> <p>We believe that the working group should have identified Network Innovation Allowance (C6) and low Carbon Networks Fund (C7) as revenue excluded from revenue to share as</p>	<p>Noted, and as above:</p> <p>The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a</p>

		both these items are specific to DNO project spending which is above the cost of running the network.	<p>“reward/benefit” to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p> <p>The respondent notes that there are circumstances in which IDNOs wouldn’t see the incentives that a DNO would even if they were providing the same level of service.</p>
Western Power Distribution	Non-confidential	Yes WPD agree incentive revenue/ penalties should not be shared. Yes the working group have correctly identified items to be excluded from the revenue to share.	<p>Noted, and as above:</p> <p>The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a “reward/benefit” to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p>
Anonymous	Anonymous	We consider that the Working Group erred in excluding items according to whether or not a revenue or cost line is “ <i>clearly labelled as an ‘incentive / penalty’</i> ” (para 4.25, Consultation). In any accounting or economic analysis the issue is the substantive nature of the revenue/cost, not what it is called. We consider that this overly simplistic approach is likely to result in material, erroneous allocations of cost and that (as with much of DCP 266) proper analysis still needs to be undertaken before the proposal is advanced.	<p>The Working Group have clarified that they did consider each incentive element individually and that the wording in the consultation document is a simplification of this work. The Working Group note that this was carried out via email during the development of the proposal (January 2017) which can be made available on request.</p> <p>ACTION:</p>

			<p>ElectraLink to collate emails and issue to Working Group.</p> <p>Also, as above:</p> <p>The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a “reward/benefit” to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p>
Energy Assets Networks Ltd	Non-confidential	<p>No, we do not agree with the principle that revenue should be allocated depending on how it is named. The analysis should evaluate the inherent nature of the costs/revenues so they are reflective.</p> <p>The working group has proposed to exclude a number of key elements of revenue from the PCDM. The following details these elements and their implications:</p> <ul style="list-style-type: none"> • Time to connect Incentive – This incentive is based largely on the production of designs and offers for new connections within certain timeframes. Applying this incentive to DNOs but not IDNOs implies IDNOs do not expend significant resources when designing new networks to meet new customers’ needs. • Quality of Service incentive – This incentive is based largely on the prevention and management of network faults (planned and unplanned). Applying this incentive to DNOs but not IDNOs implies IDNOs do not expend significant resources in providing a safe and reliable distribution system. • Broad Measure of Customer Service incentive - This incentive is based largely on the customer experience of contact with the DNO. Applying this incentive to DNOs but not IDNOs implies IDNOs do not expend resources to provide a suitable customer experience. 	<p>The Working Group have clarified that they did consider each incentive element individually and that the wording in the consultation document is a simplification of this work. The Working Group note that this was carried out via email during the development of the proposal (January 2017) which can be made available on request.</p> <p>Also, as above:</p> <p>The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a “reward/benefit” to shareholders against those that are cost related. The Working Group is further considering potential</p>

		<p>These elements identified by the working group and their implications are evidently incorrect and should in fact not be excluded from the measure of DNO revenue to be shared with IDNOs.</p>	<p>solutions due to the changes between the DPCR and RIIO frameworks.</p> <p>Some members disagree with the points made by this respondent to the extent that it may imply no reward equals no expenditure on a service.</p> <p>Some Working Group members were of the view that the IDNO business should be entitled to the same revenues as an equivalent DNO business, albeit there are difficulties in defining what constitutes equivalence.</p> <p>It is noted that:</p> <ul style="list-style-type: none"> • the current methodology allocates the (2007/08) incentive/penalty revenues fully to the DNO. • DCP 266, in its intent does not change this principle • The question around whether incentives revenues should be shared arose during the development of the specification of the impact assessment • There is a lack of information regarding how RIIO incentives/penalties relate to rewards and the expenditure of the DNO respectively. <p>It is noted that the Working Group are considering alternative approaches and will develop these further.</p>
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<p>ESP Electricity ('ESPE')</p>	<p>Non-confidential</p>	<p>No. The proposition that revenue allocation should be based on how each item has been previously named has no merit. In order to determine which items should be included or excluded, we strongly believe that detailed analysis should be undertaken to determine the substantial nature of the costs or revenue allowances.</p> <p>There are several elements of revenue that the Working Group has proposed to exclude from the Method M allocation which could also be attributed to LDNOs and relate to the distribution of electricity across the LDNOs portion of the network.</p> <p>Some examples of this include the 'Quality of Service Incentive', the 'Broad Measure of Customer Service Incentive' and the 'Time to Connect Incentive'. These incentive allocations are awarded to the DNO for preventing and managing customer interruptions, improving customer service and contact, and timely designs and offers for new connections respectively. These services are also expected of IDNOs, who incur both direct and indirect costs relating to labour, investment and management skill in order to provide a level of service to the customers as listed above enabling IDNOs to design and provide new networks to an acceptably high standard.</p> <p>To be clear, ESPE is not advocating that IDNOs should receive all incentive revenue allocations by default, but that excluding a percentage of total revenue solely based on whether the field has "incentive" or "penalty" within the name is not an accurate depiction of the level of service than IDNOs provide, or a fair allocation of costs within the PCDM.</p>	<p>The Working Group have clarified that they did consider each incentive element individually and that the wording in the consultation document is a simplification of this work. The Working Group note that this was carried out via email during the development of the proposal (January 2017) which can be made available on request.</p> <p>Also, as above:</p> <p>The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p> <p>Some members disagree with the points made by this respondent to the extent that it may imply no reward equals no expenditure on a service.</p> <p>Some Working Group members were of the view that the IDNO business should be entitled to the same revenues as an equivalent DNO business, albeit there are difficulties in defining what constitutes equivalence.</p> <p>It is noted that:</p> <ul style="list-style-type: none"> the current methodology allocates the (2007/08)
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			<p>incentive/penalty revenues fully to the DNO.</p> <ul style="list-style-type: none"> • DCP 266, in its intent does not change this principle • The question around whether incentives revenues should be shared arose during the development of the specification of the impact assessment • There is a lack of information regarding how RIIO incentives/penalties relate to rewards and the expenditure of the DNO respectively. <p>It is noted that the Working Group are considering alternative approaches and will develop these further.</p>
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. No. 2. The working group's proposition that revenue allocation should be based on whether an item has the word "incentive" or "penalty" in its name has no merit. The analysis should be driven by the substantial nature of the costs or revenue allowances and not by their name. 3. Of the elements of revenue that the working group proposes to exclude from the Method M allocation are, the most material ones in 2019/2020 are: <ul style="list-style-type: none"> (a) Quality of Service incentive (2.9 per cent of revenue in 2019/2020). (b) Broad Measure of Customer Service incentive (0.84 per cent of revenue in 2019/2020). (c) Time to Connect incentive (0.21 per cent of revenue in 2019/2020). 4. We provide our analysis of the nature of these allowances as an example. If the working group wanted to exclude other material amounts which from the method M allocation, their nature would need to be analysed too. 	<p>The Working Group have clarified that they did consider each incentive element individually and that the wording in the consultation document is a simplification of this work. The Working Group note that this was carried out via email during the development of the proposal (January 2017) which can be made available on request.</p> <p>Also, the basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working</p>

		<p>5. These amounts are related to the core business of distributing electricity, and are allowed in DNO price control revenue as remuneration for labour, investment and management skill. We do not believe that the price control would allow DNOs to make pure profits with nothing in return.</p> <p>6. The DNOs' quality of service incentive is driven in large part by the prevention and management of customer interruptions. As part of their core business of distributing electricity, IDNOs also expend significant labour, investment and management skill in providing a reliable distribution system and a quality service to their customers.</p> <p>7. The DNOs' broad measure of customer service incentive is driven in large part by the customer experience of contact with the DNO. As part of their core business of distributing electricity, IDNOs also expend labour, investment and management skill in provide an appropriate experience to customers who need to contact them.</p> <p>8. The DNOs' time to connect incentive is driven in large part by the provision of timely designs and offers for new connections. As part of their core business of distributing electricity, IDNOs also expend labour, investment and management skill in designing new networks to meet the needs of new customers, whether through network adoptions or new connections.</p> <p>9. In conclusion, these specific items should not be excluded from the measure of DNO revenue to be shared with IDNOs. We disagree with the approach put forward by the working group, and we find that it would lead to a materially erroneous cost allocation.</p>	<p>Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p> <p>Some members disagree with the points made by this respondent to the extent that it may imply no reward equals no expenditure on a service.</p> <p>Some Working Group members were of the view that the IDNO business should be entitled to the same revenues as an equivalent DNO business, albeit there are difficulties in defining what constitutes equivalence.</p> <p>It is noted that:</p> <ul style="list-style-type: none"> the current methodology allocates the (2007/08) incentive/penalty revenues fully to the DNO. DCP 266, in its intent does not change this principle The question around whether incentives revnues should be shared arose during the development of the specification of the impact assessment There is a lack of information regarding how RIIO incentives/penalties relate to rewards and the expenditure of the DNO respectively. <p>It is noted that the Working Group are considering alternative approaches and will develop these further.</p>
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<p>Leep Electricity Networks Limited</p>	<p>Non-confidential</p>	<p>No.</p> <p>The working group's proposition that revenue allocation should be based on whether an item has the word "incentive" or "penalty" in its name has no merit. The analysis should be driven by the substantial nature of the costs or revenue allowances and not by their name.</p> <p>Of the elements of revenue that the working group proposes to exclude from the Method M allocation are, the most material ones in 2019/2020 are:</p> <ul style="list-style-type: none"> a) Quality of Service incentive (2.9 per cent of revenue in 2019/2020). b) Broad Measure of Customer Service incentive (0.84 per cent of revenue in 2019/2020). c) Time to Connect incentive (0.21 per cent of revenue in 2019/2020). <p>We provide our analysis of the nature of these allowances as an example. If the working group wanted to exclude other material amounts which from the method M allocation, their nature would need to be analysed too.</p> <p>These amounts are related to the core business of distributing electricity, and are allowed in DNO price control revenue as remuneration for labour, investment and management skill. We do not believe that the price control would allow DNOs to make pure profits with nothing in return.</p> <p>The DNOs' quality of service incentive is driven in large part by the prevention and management of customer interruptions. As part of their core business of distributing electricity, IDNOs also expend significant labour, investment and management skill in providing a reliable distribution system and a quality service to their customers.</p> <p>The DNOs' broad measure of customer service incentive is driven in large part by the customer experience of contact with the DNO. As part of their core business of distributing electricity, IDNOs also expend labour, investment and management skill in provide an appropriate experience to customers who need to contact them.</p> <p>The DNOs' time to connect incentive is driven in large part by the provision of timely designs and offers for new connections. As part of their core business of distributing electricity, IDNOs also expend labour, investment and management skill in designing new</p>	<p>The Working Group have clarified that they did consider each incentive element individually and that the wording in the consultation document is a simplification of this work. The Working Group note that this was carried out via email during the development of the proposal (January 2017) which can be made available on request.</p> <p>Also, the basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p> <p>Some members disagree with the points made by this respondent to the extent that it may imply no reward equals no expenditure on a service.</p> <p>Some Working Group members were of the view that the IDNO business should be entitled to the same revenues as an equivalent DNO business, albeit there are difficulties in defining what constitutes equivalence.</p> <p>It is noted that:</p> <ul style="list-style-type: none"> • the current methodology allocates the (2007/08) incentive/penalty revenues fully to the DNO.
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		<p>networks to meet the needs of new customers, whether through network adoptions or new connections.</p> <p>In conclusion, these specific items should not be excluded from the measure of DNO revenue to be shared with IDNOs. We disagree with the approach put forward by the working group, and we find that it would lead to a materially erroneous cost allocation.</p>	<ul style="list-style-type: none"> • DCP 266, in its intent does not change this principle • The question around whether incentives revenues should be shared arose during the development of the specification of the impact assessment • There is a lack of information regarding how RIIO incentives/penalties relate to rewards and the expenditure of the DNO respectively. <p>It is noted that the Working Group are considering alternative approaches and will develop these further.</p>
<p>The Electricity Network Company Ltd and Independent Power Networks Ltd</p>	<p>Non-confidential</p>	<ol style="list-style-type: none"> 1. We do not agree with the principle that revenue relating to incentives or penalties should not be shared. The working group's proposition that revenue allocation should be based on whether an item has the word "incentive" or "penalty" is incorrect. The analysis should be driven by the substantial nature of the costs or revenue allowances and not by their name. 2. Of the elements of revenue that the working group proposes to exclude from the PCDM allocation, the most material ones in 2019/2020 are: <ul style="list-style-type: none"> (a) Quality of Service incentive - (2.9 per cent of revenue in 2019/2020); (b) Broad Measure of Customer Service incentive - (0.84 per cent of revenue in 2019/2020); and (c) Time to Connect incentive – (0.21 per cent of revenue in 2019/2020). 3. We provide our analysis of the nature of these allowances as an example. If the working group wanted to exclude other material amounts which form the PCDM allocation, their nature would need to be analysed too. 	<p>The Working Group have clarified that they did consider each incentive element individually and that the wording in the consultation document is a simplification of this work. The Working Group note that this was carried out via email during the development of the proposal (January 2017) which can be made available on request.</p> <p>Also, the basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential</p>

		<p>4. These amounts are related to the core business of distributing electricity and, are allowed in DNO price control revenue as remuneration for labour, investment and management skill. We do not believe that the price control would allow DNOs to make pure profits with nothing in return.</p> <p>5. The DNOs' quality of service incentive is driven in large part by the prevention and management of customer interruptions. As part of their core business of distributing electricity, IDNOs also expend significant labour, investment and management skill in providing a reliable distribution system, and a quality service to their customers.</p> <p>6. The DNOs' broad measure of customer service incentive is driven in large part by the customer experience of contact with the DNO. As part of their core business of distributing electricity, IDNOs also expend labour, investment and management skill in providing an appropriate experience to customers who need to contact them.</p> <p>7. The DNOs' time to connect incentive is driven in large part by the provision of timely designs and offers for new connections. As part of their core business of distributing electricity, IDNOs also expend labour, investment and management skill in designing new networks to meet the needs of new customers, whether through network adoptions or new connections.</p> <p>8. In conclusion, these specific items should not be excluded from the measure of DNO revenue to be shared with IDNOs. We disagree with the approach put forward by the working group, and we find that it would lead to a materially erroneous cost allocation.</p>	<p>solutions due to the changes between the DPCR and RIIO frameworks.</p> <p>Some members disagree with the points made by this respondent to the extent that it may imply no reward equals no expenditure on a service.</p> <p>Some Working Group members were of the view that the IDNO business should be entitled to the same revenues as an equivalent DNO business, albeit there are difficulties in defining what constitutes equivalence.</p> <p>It is noted that:</p> <ul style="list-style-type: none"> the current methodology allocates the (2007/08) incentive/penalty revenues fully to the DNO. DCP 266, in its intent does not change this principle The question around whether incentives revenues should be shared arose during the development of the specification of the impact assessment There is a lack of information regarding how RIIO incentives/penalties relate to rewards and the expenditure of the DNO respectively. <p>It is noted that the Working Group are considering alternative approaches and will develop these further.</p>
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UK Power Distribution Limited	Non-confidential	<ol style="list-style-type: none"> 1. We do not agree with the principle that revenue relating to incentives or penalties should not be shared. The working group's proposition that revenue allocation should be based on whether an item has the word "incentive" or "penalty" is incorrect. The analysis should be driven by the substantial nature of the costs or revenue allowances and not by their name. 2. Of the elements of revenue that the working group proposes to exclude from the PCDM allocation are, the most material ones in 2019/2020 are: <ol style="list-style-type: none"> (a) Quality of Service incentive - (2.9 per cent of revenue in 2019/2020); (b) Broad Measure of Customer Service incentive - (0.84 per cent of revenue in 2019/2020); and (c) Time to Connect incentive – (0.21 per cent of revenue in 2019/2020). 3. We provide our analysis of the nature of these allowances as an example. If the working group wanted to exclude other material amounts which from the method M allocation, their nature would need to be analysed too. 4. These amounts are related to the core business of distributing electricity and, are allowed in DNO price control revenue as remuneration for labour, investment and management skill. We do not believe that the price control would allow DNOs to make pure profits with nothing in return. 5. The DNOs' Quality of Service incentive is driven in large part by the prevention and management of customer interruptions. As part of their core business of distributing electricity, IDNOs also expend significant labour, investment and management skill in providing a reliable electricity distribution system and a quality service to their customers. 6. The DNOs' broad measure of customer service incentive is driven in large part by the customer experience of contact with the DNO. As part of their core business of distributing electricity, IDNOs also expend labour, investment and management skill in provide an appropriate experience to customers who need to contact them. 7. The DNOs' time to connect incentive is driven in large part by the provision of timely designs and offers for new connections. As part of their core business of distributing electricity, IDNOs also expend labour, investment and management skill in designing 	<p>The Working Group have clarified that they did consider each incentive element individually and that the wording in the consultation document is a simplification of this work. The Working Group note that this was carried out via email during the development of the proposal (January 2017) which can be made available on request.</p> <p>Also, the basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p> <p>Some members disagree with the points made by this respondent to the extent that it may imply no reward equals no expenditure on a service.</p> <p>Some Working Group members were of the view that the IDNO business should be entitled to the same revenues as an equivalent DNO business, albeit there are difficulties in defining what constitutes equivalence.</p> <p>It is noted that:</p> <ul style="list-style-type: none"> • the current methodology allocates the (2007/08) incentive/penalty revenues fully to the DNO.
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		<p>new networks to meet the needs of new customers, whether through network adoptions or new connections.</p> <p>8. In conclusion, these specific items should not be excluded from the measure of DNO revenue to be shared with IDNOs. We disagree with the approach put forward by the working group, and we find that it would lead to a materially erroneous cost allocation.</p>	<ul style="list-style-type: none"> • DCP 266, in its intent does not change this principle • The question around whether incentives revenues should be shared arose during the development of the specification of the impact assessment • There is a lack of information regarding how RIIO incentives/penalties relate to rewards and the expenditure of the DNO respectively. <p>It is noted that the Working Group are considering alternative approaches and will develop these further.</p>

Company	Confidential/ Anonymous	6. Do you agree with the approach that the Working Group has used to resolve the issue of '0 volumes' out of the options noted in the bullet points under paragraph 4.31? If not, then please provide your rationale for the other option or set out any other options that you believe should be considered.	Working Group Comments
British Gas	Non-confidential	This seems sensible, and the revision to the methodology will also be beneficial for all tariffs. Prohibiting zero volume inputs for the derivation of ATW tariffs will prevent tariffs being produced which are not cost reflective.	Noted
Electricity North West	Non-confidential	Yes, we are in agreement with the working group. In practice DNOs will need to forecast volumes as well as a customer (MPAN), and the legal text should perhaps make this clearer.	The Working Group picked up this response during their review of the responses to Question 12.

Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	<p>No.</p> <p>We do not believe it is necessary to force DNOs to use a minimum of one customer. As these are intended to be notional volumes, we would suggest that the proposed legal text amendment is updated to:</p> <p><i>‘In doing so, the DNO Party will assume a <u>non-zero number</u> of customer will exist in the charging year for each tariff’.</i></p> <p>We have continued to use notional volumes for Profile Class 5-8 customers (namely the LV Medium, LV Sub Medium and HV Medium) tariffs in our latest CDCM models, but in order to minimise the impact we have used a total of 1kWh for each tariff (appropriately split across the two unit rates) with the corresponding proportion of a customer included based on our expectation of average usage per customer for each of these groups.</p>	The Working Group picked up this response during their review of the responses to Question 12.
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	We agree with the approach.	Noted
UK Power Networks	Non-confidential	Yes we agree with this approach.	Noted
Western Power Distribution	Non-confidential	This is a defect in the proposed methodology and model that proxy values will need to be entered where zero volumes are forecast. The proxy values have a direct impact of the percentage which will impact customers if they connect during the year. This needs to be fixed within the model itself. Another solution is to keep the original discount for these tariffs.	It is noted that this is an existing issue in the CDCM whereby if 0 volumes are entered the resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff. The solution for DCP 266 requires volume forecast data for kWh for the p/kwh calculation. The Working Group highlight their approach was to use a pragmatic solution of using a minimum of one customer.

Anonymous	Anonymous	<p><i>"The issue of '0 volumes'"</i> is a consequence of the DCP 266 proposal. We understand that this error does not occur in the current model. This means that DCP 266 actually introduces an error into the methodology, which it is then necessary to correct for artificially. Ironically, this suggests that the DCP 266 methodology contains a material defect (in addition to that identified in question 3).</p>	<p>It is noted that this is an existing issue in the CDCM whereby if 0 volumes are entered the resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff.</p>
Energy Assets Networks Ltd	Non-confidential	<p>No, we do not agree as whilst in principle the treatment of zero volumes should not matter, under the proposed methodology DNO charges to LDNOs would be significantly affected by the DNOs volume forecasts and for any new or bespoke tariffs the user is unable to verify the DNOs forecasts.</p>	<p>As it stands the current methodology will produce non cost reflective tariffs where no customers exist and this Change Proposal if left alone would do the same. However, the inclusion of the non zero volumes means that the tariffs will be cost reflective should a customer use the tariff. The Working Group considers that the proposed solution to the known issue is the most cost effective and pragmatic</p>
ESP Electricity ('ESPE')	Non-confidential	<p>The issue of '0 volumes' causing problems within the methodology is an indication that the proposed change introduces unnecessary complexity and additional complications to the methodology.</p> <p>Under the proposed methodology, LDNO charges would be significantly affected by the details of the DNO's volume forecasts. This would mean that any new tariffs would be significantly impacted by DNO forecasting; this is particularly concerning as other industry parties will be unable to validate the inputs due to lack of transparency.</p>	<p>At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs.</p> <p>The Working Group questioned whether the IDNO tariff will be more/less volatile as a result of DCP 266 changes, specifically the significance of DNO's volume forecasts for their ATW on IDNO tariffs. Further consideration will be given to this area once further modelling is undertaken.</p> <p>ACTION: The Working Group to test sensitivity of IDNO tariffs to confirm whether they will be more/less volatile as a result of DCP 266 changes, specifically the significance of DNO's volume forecasts for their ATW on IDNO tariffs.</p>

			The Working Group notes that this Change Proposal doesn't impact upon transparency.
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. This issue is symptomatic of a defect in the proposed methodology, which does not exist in the current approved methodology. 2. Under the proposed methodology, the DNOs' charges to LDNOs would be significantly affected by the details of the DNO's volume forecasts, including in respect of new or specialist tariffs where the DNO has no good basis to construct volume forecasts, and users have no way of validating the reasonableness of the details of the DNO's forecasts. 	<p>At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs.</p> <p>The Working Group questioned whether the IDNO tariff will be more/less volatile as a result of DCP 266 changes, specifically the significance of DNO's volume forecasts for their ATW on IDNO tariffs. Further consideration will be given to this area once further modelling is undertaken.</p> <p>The Working Group have taken an action to test sensitivity of IDNO tariffs as above.</p> <p>The Working Group notes that this Change Proposal doesn't impact upon transparency.</p>
Leep Electricity Networks Limited	Non-confidential	<p>This issue is symptomatic of a defect in the proposed methodology, which does not exist in the current approved methodology.</p> <p>Under the proposed methodology, the DNOs' charges to LDNOs would be significantly affected by the details of the DNO's volume forecasts, including in respect of new or specialist tariffs where the DNO has no good basis to construct volume forecasts, and users have no way of validating the reasonableness of the details of the DNO's forecasts.</p>	<p>At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs.</p> <p>The Working Group questioned whether the IDNO tariff will be more/less volatile as a result of DCP 266 changes, specifically the significance of DNO's volume forecasts for their ATW on IDNO tariffs. Further consideration will be given to this area once further modelling is undertaken.</p>

			<p>The Working Group have taken an action to test sensitivity of IDNO tariffs as above.</p> <p>The Working Group notes that this Change Proposal doesn't impact upon transparency.</p>
The Electricity Network Company Ltd and Independent Power Networks Ltd	Non-confidential	<ol style="list-style-type: none"> 1. This issue is symptomatic of a defect in the proposed methodology, which does not exist in the current approved methodology. 2. Under the proposed methodology, the DNOs' charges to LDNOs would be significantly affected by the details of the DNO's volume forecasts, including in respect of new or specialist tariffs where the DNO has no good basis to construct volume forecasts, and users have no way of validating the reasonableness of the details of the DNO's forecasts. 	<p>At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs.</p> <p>The Working Group questioned whether the IDNO tariff will be more/less volatile as a result of DCP 266 changes, specifically the significance of DNO's volume forecasts for their ATW on IDNO tariffs. Further consideration will be given to this area once further modelling is undertaken.</p> <p>The Working Group have taken an action to test sensitivity of IDNO tariffs as above.</p> <p>The Working Group notes that this Change Proposal doesn't impact upon transparency.</p>
UK Power Distribution Limited	Non-confidential	<ol style="list-style-type: none"> 1. This issue is symptomatic of a defect in the proposed methodology, which does not exist in the current approved methodology. 3. Under the proposed methodology, the DNOs' charges to LDNOs would be significantly affected by the details of the DNO's volume forecasts, including in respect of new or specialist tariffs where the DNO has no good basis to construct volume forecasts, and users have no way of validating the reasonableness of the details of the DNO's forecasts. 	<p>At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs.</p> <p>The Working Group questioned whether the IDNO tariff will be more/less volatile as a result of DCP 266 changes, specifically the significance of DNO's volume forecasts for their ATW on IDNO tariffs. Further consideration will be</p>

			<p>given to this area once further modelling is undertaken.</p> <p>The Working Group have taken an action to test sensitivity of IDNO tariffs as above.</p> <p>The Working Group notes that this Change Proposal doesn't impact upon transparency.</p>

Company	Confidential/ Anonymous	7. Do you agree that all discounts should be capped to a maximum of 100 percent? Please provide your rationale.	Working Group Comments
British Gas	Non-confidential	As a practical step, this seems sensible.	Noted
Electricity North West	Non-confidential	<p>Even a discount capped at 100% would result in an LDNO tariff of zero. This would result in a situation where the DNO received no revenue for the services it provides between the GSP and the start of the 'last mile'. It is hard to see how such a situation could ever be justified unless the total cost of providing these services was also zero.</p> <p>We believe that the fact that the proposed methodology requires such arbitrary caps illustrates that it would result in distortion to competition in the distribution of electricity and also does not result in cost reflective tariffs.</p> <p>100% discounts could lead to the perverse situation where LDNOs do not earn extra revenue if they provided extra services by extending their network to higher voltages.</p> <p>We do not believe either discounts of 100% or greater, or caps on the discount are acceptable.</p>	<p>It is noted that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). The Working Group notes the comments regarding the provision of services by IDNOs in a future with dynamic networks with relation to discounts existing over 100%. The Working Group agree that this will be picked up when discussing the new approach as it may not exist.</p> <p>ACTION: The Working Group to review the 800 instances of discounts being capped at 100% to confirm which tariffs have been impacted.</p>

Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Yes.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	Yes we agree that no discounts over 100% should be applied.	Noted
UK Power Networks	Non-confidential	Yes, discounts should be capped at a maximum of 100%, which would avoid issues caused as a result of negative scaling.	Noted
Western Power Distribution	Non-confidential	Yes the discounts should be capped at 100% although if they are higher than 100% then there is probably a defect in the methodology. DNOs shouldn't be paying IDNOs for use of the DNO network from an average charging methodology.	Noted
Anonymous	Anonymous	The fact that the DCP 266 requires discount to be <i>"capped to a maximum of 100 percent"</i> is a consequence of the DCP 266 proposal. We understand that this error does not occur in the current model. This means that, in addition to the errors addressed under questions 3 and 6, DCP 266 introduces a further error that must be corrected for artificially.	<p>It is noted that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). The Working Group notes the comments regarding the provision of services by IDNOs in a future with dynamic networks with relation to discounts existing over 100%. The Working Group agree that this will be picked up when discussing the new approach as it may not exist.</p> <p>The Working Group have taken an action to review the 800 instances of discounts being capped at 100% to confirm which tariffs have been impacted.</p>

Energy Assets Networks Ltd	Non-confidential	<p>No, we do not foresee any circumstances in which a DNO would provide a distribution service to a LDNO and then pay that LDNO. Through the proposed methodology the number of cases where an artificial 100 per cent cap has to be applied will increase (in comparison to the current methodology) from 52 cases to approx. 800 – this is clearly a serious abnormality in the proposed charging structures. No methodology should create that number of cases where the methodology simply does not work.</p>	<p>It is noted that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). The Working Group notes the comments regarding the provision of services by IDNOs in a future with dynamic networks with relation to discounts existing over 100%. The Working Group agree that this will be picked up when discussing the new approach as it may not exist.</p> <p>The Working Group have taken an action to review the 800 instances of discounts being capped at 100% to confirm which tariffs have been impacted.</p>
ESP Electricity ('ESPE')	Non-confidential	<p>ESPE agrees that it is not practical for a DNO to provide a distribution service to an LDNO whilst also having to pay the LDNO due to a discount percentage that was calculated to be larger than 100% within a flawed methodology.</p> <p>This change proposal was initially raised to give a new method of calculation to the PCDM, which is perceived by the proposer to provide a more logical approach to the calculation of LDNO discount percentages. Yet ESPE does not see how the suggested methodology can provide a more logical approach if it dramatically increases the number of instances where LDNO discounts need to be capped at 100%.</p> <p>Modelling suggests that under the current methodology there are 54 instances where the cap applies, and these 54 only apply on 0000 tariffs in SPEN areas. Under the proposed methodology the amount of instances rises to 843 cases, which would affect all network levels of connection across multiple regions.</p> <p>With the change causing many other tariffs to be capped at 100%, the LDNO will not pay the DNO for any upstream distribution in these instances. One noteworthy example of this is the "LDNO HV:LV Network Non-Domestic Non-CT" tariff in the UKPN:LDN GSP. On this capped tariff, the DNO would receive nothing in exchange for distributing electricity through the GSP to the HV boundary point (for an LV customer's use).</p>	<p>It is noted that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). The Working Group notes the comments regarding the provision of services by IDNOs in a future with dynamic networks with relation to discounts existing over 100%. The Working Group agree that this will be picked up when discussing the new approach as it may not exist.</p> <p>The Working Group have taken an action to review the 800 instances of discounts being capped at 100% to confirm which tariffs have been impacted.</p>

		<p>Whilst ESPE agrees that capping percentages at 100% is the logical way to address this flaw, we would also argue that it is a telling sign that the proposed methodology is less cost-reflective, and that the new tariffs would not be representative of services provided.</p>	
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. We agree that it would be absurd for a DNO to provide a distribution service to an IDNO and at the same time to pay that IDNO. The proposed methodology dramatically increases the number of cases in which an artificial 100 per cent cap has to be applied to prevent such an absurdity. This is indicative of a defect in the proposed methodology. 2. According to the discount percentage comparison table in the working group's impact assessment, out of 2,384 valid combinations of a DNO area and an IDNO tariff (excluding 132kV tariffs in Scotland): <ol style="list-style-type: none"> (a) There are 54 cases (2 per cent) in which the 100 per cent cap applies under the current methodology. This only occurs in the SPEN areas in respect of IDNO connections at GSPs (0000 tariffs), so the impact is limited to such IDNOs not paying for the use of an item of DNO switchgear at the GSP. (b) There would be 843 cases (35 per cent) in which the 100 per cent cap would apply under the proposed methodology. Under the proposed methodology, capping would affect all DNO areas and all network levels of connection (LV, HV, HVplus, EHV, 132kV/EHV, 132kV and 0000). 3. Under the proposed methodology, the cap would lead to IDNOs not paying for use of the DNO systems in cases where such use is on a much more significant scale than an item of DNO switchgear at the GSP. For example, according to the working group's impact assessment, in the London area, the tariff "LDNO HV: LV Network Non-Domestic Non-CT" would be zero. This tariff is for the provision by UKPN of all the infrastructure needed to distribute electricity from a GSP through to an HV boundary point for the use of an ordinary LV business customer: this is clearly a valuable service which should be paid for. 4. It seems that in the process of trying to fix an alleged defect that only exists in their mind, the DCP 266 proposer is actually proposing to create serious defects in charging structures that have a real impact in reality. 	<p>It is noted that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). The Working Group notes the comments regarding the provision of services by IDNOs in a future with dynamic networks with relation to discounts existing over 100%. The Working Group agree that this will be picked up when discussing the new approach as it may not exist.</p> <p>The Working Group have taken an action to review the 800 instances of discounts being capped at 100% to confirm which tariffs have been impacted.</p>

<p>Leep Electricity Networks Limited</p>	<p>Non-confidential</p>	<p>We agree that it would be absurd for a DNO to provide a distribution service to an IDNO and at the same time to pay that IDNO. The proposed methodology dramatically increases the number of cases in which an artificial 100 per cent cap has to be applied to prevent such an absurdity. This is indicative of a defect in the proposed methodology.</p> <p>According to the discount percentage comparison table in the working group's impact assessment, out of 2,384 valid combinations of a DNO area and an IDNO tariff (excluding 132kV tariffs in Scotland):</p> <ul style="list-style-type: none"> a) There are 54 cases (2 per cent) in which the 100 per cent cap applies under the current methodology. This only occurs in the SPEN areas in respect of IDNO connections at GSPs (0000 tariffs), so the impact is limited to such IDNOs not paying for the use of an item of DNO switchgear at the GSP. b) There would be 843 cases (35 per cent) in which the 100 per cent cap would apply under the proposed methodology. Under the proposed methodology, capping would affect all DNO areas and all network levels of connection (LV, HV, HVplus, EHV, 132kV/EHV, 132kV and 0000). <p>Under the proposed methodology, the cap would lead to IDNOs not paying for use of the DNO systems in cases where such use is on a much more significant scale than an item of DNO switchgear at the GSP. For example, according to the working group's impact assessment, in the London area, the tariff "LDNO HV: LV Network Non-Domestic Non-CT" would be zero. This tariff is for the provision by UKPN of all the infrastructure needed to distribute electricity from a GSP through to an HV boundary point for the use of an ordinary LV business customer: this is clearly a valuable service which should be paid for.</p> <p>It seems that in the process of trying to fix an alleged defect that only exists in their mind, the DCP 266 proposer is actually proposing to create serious defects in charging structures that have a real impact in reality.</p>	<p>It is noted that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). The Working Group notes the comments regarding the provision of services by IDNOs in a future with dynamic networks with relation to discounts existing over 100%. The Working Group agree that this will be picked up when discussing the new approach as it may not exist.</p> <p>The Working Group have taken an action to review the 800 instances of discounts being capped at 100% to confirm which tariffs have been impacted.</p>
<p>The Electricity Network Company Ltd and Independent Power Networks Ltd</p>	<p>Non-confidential</p>	<ol style="list-style-type: none"> 1. We are somewhat surprised at the question. It is difficult to imagine any circumstances where it would be sensible for a DNO to be required to provide a distribution service to an IDNO and at the same time to pay that IDNO. The proposed methodology dramatically increases the number of cases in which an artificial 100 per cent cap has 	<p>It is noted that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). The Working Group notes the comments regarding the provision of services by IDNOs in a future with dynamic networks with relation to discounts existing over</p>

		<p>to be applied to prevent such an absurdity. This is indicative of a defect in the proposed methodology.</p> <p>2. According to the discount percentage comparison table in the working group's impact assessment, out of 2,384 valid combinations of a DNO area and an IDNO tariff (excluding 132kV tariffs in Scotland):</p> <p>a) There are 54 cases (2 per cent) in which the 100 per cent cap applies under the current methodology. This only occurs in the SPEN areas in respect of IDNO connections at GSPs (0000 tariffs), so the impact is limited to such IDNOs not paying for the use of an item of DNO switchgear at the GSP.</p> <p>b) There would be 843 cases (35 per cent) in which the 100 per cent cap would apply under the proposed methodology. Under the proposed methodology, capping would affect all DNO areas and all network levels of connection (LV, HV, HVplus, EHV, 132kV/EHV, 132kV and 0000).</p> <p>3. Under the proposed methodology, the cap would lead to IDNOs not paying for use of the DNO systems in cases where such use is on a much more significant scale than an item of DNO switchgear at the GSP. For example, according to the working group's impact assessment, in the London area, the tariff "LDNO HV: LV Network Non-Domestic Non-CT" would be zero. This tariff is for the provision by UKPN of all the infrastructure needed to distribute electricity from a GSP through to an HV boundary point for the use of an ordinary LV business customer: this is clearly a valuable service which should be paid for.</p> <p>4. It seems that in the process of trying to fix an alleged defect (which to us only exists in the mind of the proposer), the DCP 266 proposer is actually proposing to create serious defects in charging structures that have a real impact.</p>	<p>100%. The Working Group agree that this will be picked up when discussing the new approach as it may not exist.</p> <p>The Working Group have taken an action to review the 800 instances of discounts being capped at 100% to confirm which tariffs have been impacted.</p>
UK Power Distribution Limited	Non-confidential	<p>1. We are perplexed by this question. It is difficult to imagine any circumstances where it would be fitting for a DNO to be required to provide a distribution service to an IDNO and at the same time to pay that IDNO. The proposed methodology dramatically increases the number of cases in which an artificial 100 per cent cap has to be applied to prevent such an absurdity. This is indicative of a defect in the proposed methodology.</p>	<p>It is noted that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). The Working Group notes the comments regarding the provision of services by IDNOs in a future with dynamic networks with relation to discounts existing over 100%. The Working Group agree that</p>

		<p>2. According to the discount percentage comparison table in the working group's impact assessment, out of 2,384 valid combinations of a DNO area and an IDNO tariff (excluding 132kV tariffs in Scotland):</p> <p>c) There are 54 cases (2 per cent) in which the 100 per cent cap applies under the current methodology. This only occurs in the SPEN areas in respect of IDNO connections at GSPs (0000 tariffs), so the impact is limited to such IDNOs not paying for the use of an item of DNO switchgear at the GSP.</p> <p>d) There would be 843 cases (35 per cent) in which the 100 per cent cap would apply under the proposed methodology. Under the proposed methodology, capping would affect all DNO areas and all network levels of connection (LV, HV, HVplus, EHV, 132kV/EHV, 132kV and 0000).</p> <p>3. Under the proposed methodology, the cap would lead to IDNOs not paying for use of the DNO systems in cases where such use is on a much more significant scale than an item of DNO switchgear at the GSP. For example, according to the working group's impact assessment, in the London area, the tariff "LDNO HV: LV Network Non-Domestic Non-CT" would be zero. This tariff is for the provision by UKPN of all the infrastructure needed to distribute electricity from a GSP through to an HV boundary point for the use of an ordinary LV business customer: this is clearly a valuable service which should be paid for.</p> <p>4. It seems that in the process of trying to fix an alleged defect (which to us only exists in the mind of the proposer), the DCP 266 proposer is actually proposing to create serious defects in charging structures that have a real impact.</p>	<p>this will be picked up when discussing the new approach as it may not exist.</p> <p>The Working Group have taken an action to review the 800 instances of discounts being capped at 100% to confirm which tariffs have been impacted.</p>

Company	Confidential/ Anonymous	8. Do you agree with the approach used by the Working Group to address 'LDNO EHV generation discounts' which is to apply the calculated discounts in p/kWh as negative discounts, so that any CDCM generation credits would be reduced by the discount percentages? Please provide any rationale with your response.	Working Group Comments
British Gas	Non-confidential	This simply ensures that the change resulting from DCP266 is limited to the defect identified and does not extend beyond the scope of the DCP.	Noted

Electricity North West	Non-confidential	Yes, we agree with this aspect of the proposed approach.	Noted
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Yes, although we believe the issue of tariffs to IDNOs in respect of generation customers embedded within IDNO networks should be considered further. We expect this to be progressed by the Task Forces under the Charging Futures Forum.	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	Yes we agree that this approach would align with the intent of the proposal.	Noted
UK Power Networks	Non-confidential	It is important that all customers are treated consistently, as a result we agree that the approach set out in the proposed solution is correct.	Noted
Western Power Distribution	Non-confidential	This may act as a disincentive for IDNOs to connect generation to their networks.	The Working Group note that the charging arrangements currently in place for IDNOs may disincentivise the connection of generation. The proposed changes do not seek to change the status quo. Amendments to how generation at EHV is treated in respect of IDNO discounts is out of scope of this Change Proposal (as is the treatment of generation within the CDCM).
Anonymous	Anonymous	We have no comment on this question but reserve our position.	Noted
Energy Assets Networks Ltd	Non-confidential	No, we do not agree with the Working Group's approach to address LDNO EHV generation discounts.	The Working Group agree that the issues related to generation credits are out of scope of this Change Proposal. The

		Current industry work streams are investigating generation credit issues and it would be entirely inappropriate for DCP 266 to go above that work. Additionally, it is nonsensical to use average costs associated with the distribution of electricity to demand to determine generation credits, as this does not correctly reflect the actual units generated in order to reduce overall load on the network.	intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).
ESP Electricity ('ESPE')	Non-confidential	As the Working Group has failed to come up with a rational solution to this issue; we believe this highlights the fundamental defects in the proposed methodology. As current Ofgem and industry work streams will be examining the issues associated with generation credits, it would not be appropriate for DCP 266 to pre-empt this work.	<p>Note the first comment relates to the general intent of this Change Proposal, and that the Working Group will review the overall solution after the review of consultation responses.</p> <p>The Working Group agree that they are not intending to pre-empt the work being currently undertaken by Ofgem and other industry workstreams.</p>
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. No. 2. It does not make any sense to use a measure of the average cost per unit of distributing electricity to demand as the basis for a generation credit. Insofar as there might be a link between demand charges and generation credits, it is at the level of a detailed analysis of network cost at each level. Most obviously, the use of demand-based average p/kWh figures in setting generation credits implies that the fixed and capacity costs of serving demand are wrongly being included in a calculation of export credits (which should only reflect actual units generated to reduce net load on the network). 3. The fact that the issue has arisen and that the working group has failed to come up with a rational solution is symptomatic of the fundamental defects in the proposed methodology. Furthermore, current Ofgem and industry work streams will be examining the issues associated with generation credits and it would not be appropriate for DCP 266 to pre-empt that work. 	<p>The Working Group believe that this comment relates to the treatment of generation charging under the CDCM and PCDM.</p> <p>The Working Group note that the issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <p>The Working Group agree that they are not intending to pre-empt the work</p>

			currently being undertaken by Ofgem and other industry workstreams.
Leep Electricity Networks Limited	Non-confidential	<p>No.</p> <p>It does not make any sense to use a measure of the average cost per unit of distributing electricity to demand as the basis for a generation credit. Insofar as there might be a link between demand charges and generation credits, it is at the level of a detailed analysis of network cost at each level. Most obviously, the use of demand-based average p/kWh figures in setting generation credits implies that the fixed and capacity costs of serving demand are wrongly being included in a calculation of export credits (which should only reflect actual units generated to reduce net load on the network).</p> <p>The fact that the issue has arisen and that the working group has failed to come up with a rational solution is symptomatic of the fundamental defects in the proposed methodology. Furthermore, current Ofgem and industry work streams will be examining the issues associated with generation credits and it would not be appropriate for DCP 266 to pre-empt that work.</p>	<p>The Working Group believe that this comment relates to the treatment of generation charging under the CDCM and PCDM.</p> <p>The Working Group note that that issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <p>The Working Group agree that they are not intending to pre-empt the work currently being undertaken by Ofgem and other industry workstreams.</p>
The Electricity Network Company Ltd and Independent Power Networks Ltd	Non-confidential	<ol style="list-style-type: none"> 1. No. We do not agree with the working group approach for addressing the LDNO EHV generation discount issue. It does not make any sense to use a measure of the average cost per unit of distributing electricity to demand as the basis for a generation credit. Insofar as there might be a link between demand charges and generation credits, it is at the level of a detailed analysis of network cost at each level. Most obviously, the use of demand-based average p/kWh figures in setting generation credits implies that the fixed and capacity costs of serving demand are wrongly being included in a calculation of export credits (which should only reflect actual units generated to reduce net load on the network). 2. The fact that the issue has arisen and that the working group has failed to come up with a rational solution is symptomatic of the fundamental defects in the proposed methodology. Furthermore, current Ofgem and industry work streams will be 	<p>The Working Group believe that this comment relates to the treatment of generation charging under the CDCM and PCDM.</p> <p>The Working Group note that that issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach,</p>

		<p>examining the issues associated with generation credits and it would not be appropriate for DCP 266 to pre-empt that work.</p>	<p>consistent with the DCPs intent for demand charges).</p> <p>The Working Group agree that they are not intending to pre-empt the work currently being undertaken by Ofgem and other industry workstreams.</p>
UK Power Distribution Limited	Non-confidential	<ol style="list-style-type: none"> 1. No. We do not agree with the working group approach for addressing the LDNO EHV generation discount issue. It does not make any sense to use a measure of the average cost per unit of distributing electricity to demand as the basis for a generation credit. Insofar as there might be a link between demand charges and generation credits, it is at the level of a detailed analysis of network cost at each level. Most obviously, the use of demand-based average p/kWh figures in setting generation credits implies that the fixed and capacity costs of serving demand are wrongly being included in a calculation of export credits (which should only reflect actual units generated to reduce net load on the network). 2. The fact that the issue has arisen and that the working group has failed to come up with a rational solution is symptomatic of the fundamental defects in the proposed methodology. Furthermore, current Ofgem and industry work streams will be examining the issues associated with generation credits and it would not be appropriate for DCP 266 to pre-empt that work. 	<p>The Working Group believe that this comment relates to the treatment of generation charging under the CDCM and PCDM.</p> <p>The Working Group note that that issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <p>The Working Group agree that they are not intending to pre-empt the work currently being undertaken by Ofgem and other industry workstreams.</p>

Company	Confidential/ Anonymous	<p>9. Do you consider that the proposal better facilitates the DCUSA Charging Objectives? If so, please detail which Charging Objectives are better facilitated by DCP 266 and provide your rationale. If not, please detail which Charging Objectives are not better facilitated by DCP 266 and provide your rationale.</p>	Working Group Comments
British Gas	Non-confidential	<p>The proposal better facilitates charging objective 2 by reducing or removing the current distortion in the absolute level of avoided total cost discount received by IDNOs. It does this by ensuring that the absolute total cost discount calculated in the PCDM is not affected by the CDCM methodology for ATW tariffs or changes to it. By ensuring that the p/kWh discounts received by IDNOs remains aligned with the absolute level of avoided costs calculated in the PCDM, this change will promote competition in the distribution of electricity. The absolute level of discount (p/kWh) received by IDNOs is also likely to be more stable and predictable since it will be protected from the impact of any changes to the methodology for ATW CDCM tariffs, which will also promote competition in the distribution of electricity.</p>	<p>The Working Group note that they have already taken an action to define the distortion/defect in a clearer way (See ACTION: 11/01).</p>
Electricity North West	Non-confidential	<p>We believe the main impact of the proposed change would be a negative impact on Charging Objective Two. We are concerned the proposed change could result in margin squeeze of IDNO businesses and hence restrict competition in the distribution of electricity.</p> <p>In relation to Charging Objective Three, which we believe that the change is intended to improve, we note that the impact on the LDNO tariff would be to provide a cost signal to the LDNO based both on the forward looking cost and the total cost as per the PCDM. We do not believe that this necessarily presents a more cost reflective signal than the current methodology that allocates the forward looking cost between the DNO and LDNO based on the total cost.</p> <p>We do not believe there is any significant impact on other charging objectives.</p>	<p>The Working Group note that they have already taken an action to define the distortion/defect in a clearer way (See ACTION: 11/01).</p> <p>With regard to the following comment:</p> <p><i>“we note that the impact on the LDNO tariff would be to provide a cost signal to the LDNO”</i></p> <p>The status quo does give a forward looking cost signal to the IDNO by calculating IDNO tariffs based on a percentage of the ATW cost signal: the proposed approach wouldn’t give a forward looking cost signal to the IDNO as the IDNO tariff would be based entirely on the avoided cost as calculated in the PCDM. Under the current Relative Price Control (RPC)</p>

			<p>arrangements the end user cost signal would be maintained because the IDNOs end-user tariff replicates the incumbents' end-user tariff.</p> <p>The Working Group believe that the comment:</p> <p><i>"based both on the forward looking cost and the total cost as per the PCDM"</i></p> <p>is factually incorrect. The IDNO discount will be based solely on the total cost as per the PCDM under the proposed approach.</p>
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	<p>Yes, we consider that charging objectives two and three are better facilitated by this change.</p> <p>The change will ensure that the margin available to an IDNO more accurately reflects the avoided cost for the DNO by the presence of that IDNO. In so doing, we consider that competition in the distribution of electricity will be improved (charging objective two), and that the DNO charges to IDNOs will more accurately reflect the costs incurred by the DNO in its distribution business (charging objective three).</p>	<p>The Working Group agreed that this comment is based on the assumption that the PCDM accurately allocates costs.</p> <p>Some members were of the view that this is currently not the case, i.e. data sets are out of date and the use of MEAV to allocate all costs is questionable.</p>
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	As per answer to question 4, we do not believe the Charging Objectives would be better facilitated.	The Working Group note that they have already taken an action to define the distortion/defect in a clearer way (See ACTION: 11/01).
UK Power Networks	Non-confidential	Charging objective 2 would be better facilitated by this change, as it will remove an unintended distortion in the way in which the ATW and LDNO tariffs are currently calculated, which would better promote competition in the distribution of electricity.	As indicated in previous responses and comments there are conflicting views as to whether a defect exists. The Working Group note that they have already taken

			an action to define the distortion/defect in a clearer way (See ACTION: 11/01).
Western Power Distribution	Non-confidential	<p>The following charging objectives are made worse by this change.</p> <p>Charging objective 1. As this complicates the charging methodologies and makes them more difficult to implement.</p> <p>Charging objective 2. This increases volatility in the DNO to IDNO charges making it more difficult for IDNOs to compete.</p> <p>The following charging objectives may be made better by this change.</p> <p>Charging objective 3. As it may be more cost reflective.</p>	<p>In respect of the response on Charging Objective one, the Working Group questioned the relevance of the comments but that the comment may be more relevant to Charging Objective six. In General, the Working Group believe that the proposed solution may further complicate the modelling but not the methodology.</p> <p>In respect of the response on Charging Objective two, the view of the Working Group is that in isolation this Change Proposal would see a decrease in the volatility of IDNO margins other than potentially at the point of implementation.</p> <p>In respect of the response on Charging Objective three, the Working Group noted the response.</p>
Anonymous	Anonymous	<p>We do not consider that the proposal better facilitates the DCUSA Charging Objectives, being the “Relevant Objectives” within the meaning of SLC 13.3 of the distribution licence. In order to “better” facilitate those objectives, the proposal must improve upon the status quo. We consider that it does not “better” facilitate the following objectives:</p> <ul style="list-style-type: none"> • SLC 13.3 (a) - compliance with the methodology facilitates the discharge by the licensee of the obligations imposed on it under the Act and by this licence; and <p>SLC 4.6 of the DNO licence requires the licensee not to prevent, restrict or distort competition in the distribution of electricity when setting use of system charges. SLC 4.1 requires the DNO to conduct its business to ensure that no such distortion occurs (a reflection of the dominant undertaking’s “special responsibility” to pro-</p>	<p>The Working Group note that they have already taken an action to define the distortion/defect in a clearer way (See ACTION: 11/01). In completing this action, the Working Group will provide economic justification for any reduction in the margin, if such a reduction exists.</p> <p>The view of the Working Group is that in isolation this CP would see a decrease in the volatility of IDNO margins other than potentially at the point of implementation.</p>

		<p>actively avoid distortions). We do not consider that a DNO can pro-actively avoid distortions of competition by implementing a methodology that:</p> <ul style="list-style-type: none"> ○ squeezes the margin of its downstream competitors, with no economic justification for doing so and no visibility of whether the consequences would make the margin uneconomic for those competitors; ○ introduces errors that do not exist in the current methodology, which must then be corrected for on an artificial basis. This suggests that the proposed model is flawed and, ironically, does not result in a reasonable allocation of costs; ○ has a number of easily demonstrated knock-on effects, which have been created by mechanical changes introduced to facilitate the new methodology, but without consideration of their broader interactions and consequences <p>Compliance with the new methodology would therefore have a deleterious effect on DNOs' compliance with their licences, and so cannot be regarded as "better facilitating" SLC 13.3 (b) (ie. it does not improve upon the status quo). For the same reasons, the proposal cannot be regarded as "better facilitating" competition, or the prevention of distortions</p> <ul style="list-style-type: none"> • SLC 13.3 (b) - that compliance with the methodology facilitates competition in the generation and supply of electricity, and does not restrict, distort, or prevent competition in the transmission or distribution of electricity <p>We consider that SLC 13.3 (b) is not "better" facilitated by DCP 266 for the same reasons as SLC 13.3 (a).</p> <ul style="list-style-type: none"> • SLC 13.3 (c) - that compliance with the methodology results in charges which reflect, as far as is reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business <p>The proposer's view is that DCP 266 corrects a defect in the CDCM, but this defect has never been shown to exist. Unless the existence and nature of the defect is identified, it is not possible to conclude that DCP 266 produces charges that "better" facilitate (or "improve upon") the cost reflectivity of the current model. By contrast, both the DNOs</p>	<p>In respect of the comment:</p> <p><i>"...a number of easily demonstrated knock-on effects, which have been created by mechanical changes introduced to facilitate the new methodology.."</i></p> <p>the Working Group noted that they covered off these areas previously but will highlight below for reference:</p> <ul style="list-style-type: none"> • that IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). Comments regarding the provision of services by IDNOs in a future with dynamic networks will be picked up when considering a newly proposed approach as it may not exist. • that the issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges). • the issue around 0 volumes is noted as being an existing issue in the CDCM whereby if 0 volumes are entered the resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff. The solution for DCP 266 requires kwh volume forecast data for the p/kwh
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		(in developing the CDCM) and Ofgem (in approving it) considered that the current model appropriately reflects the allocation of cost between the DNO and the LDNO.	calculation. The Working Group highlight their approach was to use a pragmatic solution of using a minimum of one customer.
Energy Assets Networks Ltd	Non-confidential	<p>We do not believe DCP 266 better facilitates 4 of the DCUSA Charging Objectives.</p> <p>22A.6 The first Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider of the obligations imposed on it under the Act and by this licence.</p> <p>DCP 266 does not better facilitate DCUSA Charging Objective 1 in comparison to the current approved methodology.</p> <p>The current methodology provides a more balanced allocation of costs amongst the various distributors contributing to a supply</p> <p>22A.7 The second Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology 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 the participation in the operation of an Interconnector.</p> <p>DCP 266 does not better facilitate DCUSA Charging Objective 2 in comparison to the current approved methodology.</p> <p>By excluding significant incentive revenues from the PCDM DCP 266 would distort competition in the electricity distribution market. These revenues, which are allowed by Ofgem to cover the costs of operating the core business of distributing electricity, must be treated equally between DNO's and IDNO's.</p>	<p>The Working Group notes that they are considering further refinement of the solution. This will take into account the areas highlighted by respondents during the review of the responses to the previous questions. (See ACTION 11/06).</p> <p>The Working Group noted that they covered off these areas previously but will highlight below for reference:</p> <ul style="list-style-type: none"> • The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks. • That IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). Comments regarding the provision of services by IDNOs in a future with dynamic networks will be picked up when considering a newly proposed approach as it may not exist.

		<p>22A.8 The third Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology results in charges that, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by a Distribution Services Provider in its Distribution Business.</p> <p>DCP 266 does not better facilitate DCUSA Charging Objective 3 in comparison to the current approved methodology.</p> <p>We fail to see how DCP 266 better facilitates this objective when it is using differing data sets, changes to some inputs and not others and results in less accurate reflection of costs</p> <p>22A.9 The fourth Applicable Charging Methodology Objective is that, so far as is consistent with the first three Applicable Charging Methodology Objectives, the Relevant Charging Methodology, so far as is reasonably practicable, properly takes account of developments in a Distribution Services Provider's Distribution Business.</p> <p>DCP 266 does not better facilitate DCUSA Charging Objective 4 in comparison to the current approved methodology.</p> <p>DCP 266 would make the PCDM highly dependent on end user volume forecasts for newer tariffs and hence would make it harder to take account of charges in access and charging arrangements, such as those resulting from whole-market half hourly settlement or innovative developments arising from the access and charging review.</p> <p>22A.10 The fifth Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators</p> <p>We do not see DCP 266 having any impact on this objective.</p> <p>22A.10A The sixth Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology promotes efficiency in its own implementation and administration.</p> <p>DCP 266 does not better facilitate DCUSA Charging Objective 6 in comparison to the current approved methodology.</p>	<ul style="list-style-type: none"> • The updating of the data set is out of scope of this Change Proposal, but this doesn't preclude any other Party raising a Change Proposal. • At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs. The Working Group note that an action has been taken to test the sensitivity of IDNO discounts to changes in volume forecasts under the status quo and proposed solution. See Action (12/04). <p>Noted</p>
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ESP Electricity ('ESPE')	Non-confidential	<p>ESPE believes that DCP266 does not facilitate any of the DCUSA Charging Objectives better than the current methodology. Due to the flaws in the proposed methodology detailed in the above answers, ESPE believes that several of the DCUSA Charging Objectives would actually be negatively impacted by the implementation of this change proposal.</p> <p><u>DCUSA Charging Objective 2 – Negatively Impacted</u></p> <p>DCP266 would negatively impact the facilitation of competition in the distribution of electricity because of several key points:</p> <ul style="list-style-type: none"> - The implementation of the change would exclude significant amounts of incentive revenues from the PCDM. This is distortionary because these revenues are allowed by Ofgem to cover the costs of, and provide a return on, the DNOs' core business of distributing electricity; - The impact of the change would cause volatility in the market and create an unjustified shock to charging arrangements, thereby unduly raising the financing costs of LDNOs who compete in the distribution of electricity. Effective competition in the distribution of electricity requires a stable and predictable regulatory and charging regime, as new entrants need to establish business models and undertake sunk investments in distribution systems and IT and management systems. DCP 266 would create undue uncertainty and make the financing of competing distribution businesses harder; - The change to the methodology would allow for substantially excessive LDNO discounts to some scenarios (e.g. for LV Network Non-Domestic Non-CT end users on LDNO distribution systems within London), which would lead to DNOs being unable to compete fairly for such connections; - Implementing the change would enable offering DNO use of system credits to DNO-connected generators that an LDNO with an EHV boundary would be unable to match. 	<p>The Working Group notes that they are considering further refinement of the solution. This will take into account the areas highlighted by respondents during the review of the responses to the previous questions. (See ACTION 11/06).</p> <p>The view of the Working Group is that in isolation this Change Proposal would see a decrease in the volatility of IDNO margins other than potentially at the point of implementation.</p> <p>The Working Group noted that they covered off these areas previously but will highlight below for reference:</p> <ul style="list-style-type: none"> • The updating of the data set is out of scope of this Change Proposal, but this doesn't preclude any other Party raising a Change Proposal. • The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The

		<p><u>DCUSA Charging Objective 3 – Negatively Impacted</u></p> <p>The current approved methodology is a cost-based allocation of revenues between distributors who are working together to provide the all-the-way service. It is based on a coherent (albeit outdated) dataset and was approved by Ofgem on that basis.</p> <p>DCP 266 would cause cost reflectivity within the charging methodology to be negatively impacted because of several key points:</p> <ul style="list-style-type: none"> - By cherry-picking data sources the change would allow for recent data to be used for some items such as transmission exit charges, whilst retaining the dated dataset for other items; - The implementation of this change would wrongly exclude certain incentive revenue amounts, that were chosen without appropriate analysis, from the Method M allocation; - DCP266 would significantly increase the range of circumstances in which the non-cost-reflective 100% cap on discount percentages needs to be applied (from 2% of tariffs to 35%of tariffs); - By applying zero charges to LDNOs in circumstances it is not cost reflective for the DNO to not receive a percentage of the charges where the DNO clearly provides a substantial, costly and valuable service (e.g. LDNO HV: LV Network Non-Domestic Non-CT in London). <p><u>DCUSA Charging Objective 4 – Negatively Impacted</u></p> <p>DCP 266 would make the charging methodology for LDNOs highly sensitive to the details of end user volume forecasts for newer tariffs as well as tariffs where forecasting volumes is difficult; due to the level of uncertainty and sensitivity introduced, we believe it's likely that this objective will be negatively impacted. This problem does not affect the current approved methodology in respect of LDNO discounts.</p> <p><u>DCUSA Charging Objective 6 – Negatively Impacted</u></p> <p>The DCP 266 consultation document, impact assessment and models are complex. ESPE has found it difficult to analyse the data and understand the behaviour of the new models, and cannot be sure we fully understand all impacts of the proposed methodology. There might be other inefficiencies, unintended effects, or undesirable</p>	<p>Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.</p> <ul style="list-style-type: none"> • That IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). Comments regarding the provision of services by IDNOs in a future with dynamic networks will be picked up when considering a newly proposed approach as it may not exist. • That the issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges). • The issue around 0 volumes is noted as being an existing issue in the CDCM whereby if 0 volumes are entered the resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff. The solution for DCP 266 requires kwh volume forecast data for the p/kwh calculation. The Working Group highlight their approach was to use a pragmatic solution of using a minimum of one customer. • At present LDNO charges are significantly affected by the details of
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		impacts, which we have not yet identified. This complexity has a disproportionate impact on new entrant businesses.	<p>the DNO's volume forecasts for their ATW tariffs. The Working Group note that an action has been taken to test the sensitivity of IDNO discounts to changes in volume forecasts under the status quo and proposed solution. See Action (12/04).</p> <ul style="list-style-type: none"> • The Working Group acknowledge the resource issues that are felt across the industry with the ongoing multiple workstreams. The Working Group are considering options to better explain the complexities of DCP 266.
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. No. 2. DCP 266 would not facilitate any of the relevant charging objectives. It would actually have a detrimental impact on five of the relevant charging objectives. <p>22A.6 The first Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider of the obligations imposed on it under the Act and by this licence.</p> <ol style="list-style-type: none"> 3. DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266. 4. This is because the current approved methodology provides a more reasonable allocation of costs between distributors, and because implementing DCP 266 could impair the discharge of the DNOs' competition law obligations by creating an unjustified shock to charging arrangements applied to competing distributors, thereby unduly raising the financing costs of these competitors. 	<p>The Working Group notes that they are considering further refinement of the solution. This will take into account the areas highlighted by respondents during the review of the responses to the previous questions. (See ACTION 11/06).</p> <p>The view of the Working Group is that in isolation this Change Proposal would see a decrease in the volatility of IDNO margins other than potentially at the point of implementation.</p>

		<p>22A.7 The second Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology 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 the participation in the operation of an Interconnector.</p> <ol style="list-style-type: none"> 1. DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266. 2. DCP 266 would create distortions to competition in the distribution of electricity by excluding significant amounts of incentive revenues from the price control disaggregation model. This is distortionary because these revenues are allowed by Ofgem to cover the costs of, and provide a return on, the DNOs' core business of distributing electricity. 3. DCP 266 would create distortions to competition in the distribution of electricity by creating volatility and an unjustified shock to charging arrangements, thereby unduly raising the financing costs of IDNOs who compete in the distribution of electricity. Effective competition in the distribution of electricity requires a stable and predictable regulatory and charging regime, as new entrants need to establish business models and undertake sunk investments in distribution systems and IT and management systems. DCP 266 would create undue uncertainty and make the financing of competing distribution businesses harder. 4. DCP 266 would create distortions to competition in the distribution of electricity by applying manifestly excessive IDNO discounts to some scenarios (e.g. for LV Network Non-Domestic Non-CT end users on IDNO distribution systems within London), which would lead to DNOs being impaired from competing fairly for such connections. 5. DCP 266 would create distortions to competition in the distribution of electricity by offering DNO use of system credits to DNO-connected generators that an IDNO with an EHV boundary would be unable to match due to the use of an unjustifiable basis for the relevant discount percentages under DCP 266. <p>22A.8 The third Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology results in charges that, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by a Distribution Services Provider in its Distribution Business.</p>	<p>The Working Group noted that they covered off these areas previously but will highlight below for reference:</p> <ul style="list-style-type: none"> • The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks. • That IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). Comments regarding the provision of services by IDNOs in a future with dynamic networks will be picked up when considering a newly proposed approach as it may not exist. • That the issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges). • The issue around 0 volumes is noted as being an existing issue in the CDCM whereby if 0 volumes are entered the
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	<ol style="list-style-type: none"> 1. DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266. 2. The current approved methodology is a cost-based allocation of revenues between distributors who are working together to provide the all-the-way service. It is based on a coherent (albeit dated) dataset and was approved by Ofgem on that basis. 3. DCP 266 would move away from cost reflectivity by cherry-picking data sources, using recent data for some items such as transmission exit charges whilst retaining the dated dataset for other items. 4. DCP 266 would move away from cost reflectivity by including within the amount of revenue which is excluded from the method M allocation incentive amounts which are in fact part of the DNOs' allowed remuneration for the delivery of their core business of distributing electricity. 5. DCP 266 would move away from cost reflectivity by significantly increasing the range of circumstances in which the non-cost-reflective 100 per cent cap on discount percentages needs to be applied (from 2 per cent of tariffs to 35 per cent of tariffs). 6. DCP 266 would move away from cost reflectivity by applying zero charges to IDNOs in circumstances where the DNO clearly provides a substantial, costly and valuable service (e.g. LDNO HV: LV Network Non-Domestic Non-CT in London). <p>22A.9 The fourth Applicable Charging Methodology Objective is that, so far as is consistent with the first three Applicable Charging Methodology Objectives, the Relevant Charging Methodology, so far as is reasonably practicable, properly takes account of developments in a Distribution Services Provider's Distribution Business.</p> <ol style="list-style-type: none"> 1. DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266. 2. DCP 266 would make the charging methodology for IDNOs highly sensitive to the details of end user volume forecasts for newer tariffs or tariffs where forecasting volumes is difficult; this problem does not affect the current approved methodology in respect of IDNO discounts. Thus, DCP 266 would make it more difficult to take account of charges in access and charging arrangements, for example as a result of whole-market half hourly settlement or innovative developments which might result from the access and charging review or the future of supply market arrangements. 	<p>resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff. The solution for DCP 266 requires kwh volume forecast data for the p/kwh calculation. The Working Group highlight their approach was to use a pragmatic solution of using a minimum of one customer.</p> <ul style="list-style-type: none"> • The updating of the data set is out of scope of this Change Proposal, but this doesn't preclude any other Party raising a Change Proposal. • At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs. The Working Group note that an action has been taken to test the sensitivity of IDNO discounts to changes in volume forecasts under the status quo and proposed solution. See Action (12/04). <p>Noted</p>
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Leep Electricity Networks Limited	Non-confidential	<p>No.</p> <p>DCP 266 would not facilitate any of the relevant charging objectives. It would actually have a detrimental impact on five of the relevant charging objectives.</p> <p>1) 22A.6 The first Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider of the obligations imposed on it under the Act and by this licence.</p> <p>DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>This is because the current approved methodology provides a more reasonable allocation of costs between distributors, and because implementing DCP 266 could impair the discharge of the DNOs' competition law obligations by creating an unjustified shock to charging arrangements applied to competing distributors, thereby unduly raising the financing costs of these competitors.</p>	<p>The Working Group notes that they are considering further refinement of the solution. This will take into account the areas highlighted by respondents during the review of the responses to the previous questions. (See ACTION 11/06).</p> <p>The view of the Working Group is that in isolation this Change Proposal would see</p>

		<p>2) 22A.7 The second Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology 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 the participation in the operation of an Interconnector.</p> <p>DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>DCP 266 would create distortions to competition in the distribution of electricity by excluding significant amounts of incentive revenues from the price control disaggregation model. This is distortionary because these revenues are allowed by Ofgem to cover the costs of, and provide a return on, the DNOs' core business of distributing electricity.</p> <p>DCP 266 would create distortions to competition in the distribution of electricity by creating volatility and an unjustified shock to charging arrangements, thereby unduly raising the financing costs of IDNOs who compete in the distribution of electricity. Effective competition in the distribution of electricity requires a stable and predictable regulatory and charging regime, as new entrants need to establish business models and undertake sunk investments in distribution systems and IT and management systems. DCP 266 would create undue uncertainty and make the financing of competing distribution businesses harder.</p> <p>DCP 266 would create distortions to competition in the distribution of electricity by applying manifestly excessive IDNO discounts to some scenarios (e.g. for LV Network Non-Domestic Non-CT end users on IDNO distribution systems within London), which would lead to DNOs being impaired from competing fairly for such connections.</p> <p>DCP 266 would create distortions to competition in the distribution of electricity by offering DNO use of system credits to DNO-connected generators that an IDNO with an EHV boundary would be unable to match due to the use of an unjustifiable basis for the relevant discount percentages under DCP 266.</p> <p>3) 22A.8 The third Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology results in charges that, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by a Distribution Services Provider in its Distribution Business.</p>	<p>a decrease in the volatility of IDNO margins other than potentially at the point of implementation.</p> <p>The Working Group noted that they covered off these areas previously but will highlight below for reference:</p> <ul style="list-style-type: none"> • The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks. • That IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). Comments regarding the provision of services by IDNOs in a future with dynamic networks will be picked up when considering a newly proposed approach as it may not exist. • That the issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a
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		<p>DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>The current approved methodology is a cost-based allocation of revenues between distributors who are working together to provide the all-the-way service. It is based on a coherent (albeit dated) dataset and was approved by Ofgem on that basis.</p> <p>DCP 266 would move away from cost reflectivity by cherry-picking data sources, using recent data for some items such as transmission exit charges whilst retaining the dated dataset for other items.</p> <p>DCP 266 would move away from cost reflectivity by including within the amount of revenue which is excluded from the method M allocation incentive amounts which are in fact part of the DNOs' allowed remuneration for the delivery of their core business of distributing electricity.</p> <p>DCP 266 would move away from cost reflectivity by significantly increasing the range of circumstances in which the non-cost-reflective 100 per cent cap on discount percentages needs to be applied (from 2 per cent of tariffs to 35 per cent of tariffs).</p> <p>DCP 266 would move away from cost reflectivity by applying zero charges to IDNOs in circumstances where the DNO clearly provides a substantial, costly and valuable service (e.g. LDNO HV: LV Network Non-Domestic Non-CT in London).</p> <p>4) 22A.9 The fourth Applicable Charging Methodology Objective is that, so far as is consistent with the first three Applicable Charging Methodology Objectives, the Relevant Charging Methodology, so far as is reasonably practicable, properly takes account of developments in a Distribution Services Provider's Distribution Business.</p> <p>DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>DCP 266 would make the charging methodology for IDNOs highly sensitive to the details of end user volume forecasts for newer tariffs or tariffs where forecasting volumes is difficult; this problem does not affect the current approved methodology in respect of IDNO discounts. Thus, DCP 266 would make it more difficult to take account of charges in access and charging arrangements, for example as a result of whole-market half hourly settlement or innovative developments which might result from the access and charging review or the future of supply market arrangements.</p>	<p>percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <ul style="list-style-type: none"> • The issue around 0 volumes is noted as being an existing issue in the CDCM whereby if 0 volumes are entered the resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff. The solution for DCP 266 requires kwh volume forecast data for the p/kwh calculation. The Working Group highlight their approach was to use a pragmatic solution of using a minimum of one customer. • The updating of the data set is out of scope of this Change Proposal, but this doesn't preclude any other Party raising a Change Proposal. • At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs. The Working Group note that an action has been taken to test the sensitivity of IDNO discounts to changes in volume forecasts under the status quo and proposed solution. See Action (12/04).
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		<p>5) 22A.10 The fifth Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.</p> <p>We do not see any impact on this objective.</p> <p>6) 22A.10A The sixth Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology promotes efficiency in its own implementation and administration.</p> <p>DCP 266 would not facilitate this objective. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>The DCP 266 consultation document, impact assessment and models are complex. We have found it difficult and time-consuming to try to analyse the data and to understand the behaviour of the new models, and we doubt that we have been able to get to the bottom of it. There might be other inefficiencies, unintended effects, or undesirable impacts, which we have not been able to notice. This complexity has a disproportionate impact on new entrant businesses.</p>	<p>Noted</p> <p>The Working Group acknowledge the resource issues that are felt across the industry with the ongoing multiple workstreams. The Working Group are considering options to better explain the complexities of DCP 266.</p>
<p>The Electricity Network Company Ltd and Independent Power Networks Ltd</p>	<p>Non-confidential</p>	<p>1. Our opinion is that DCP 266 does not better facilitate any of the DCUSA Charging Objectives. We think it would actually have a detrimental impact on five of the relevant charging objectives</p> <p>The first Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider of the obligations imposed on it under the Act and by this licence.</p> <p>2. DCUSA Charging Objective 1 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>3. This is because the current approved methodology provides a more reasonable allocation of costs between distributors, and because implementing DCP 266 could impair the discharge of the DNOs' competition law obligations by creating an unjustified shock to charging arrangements applied to competing distributors, thereby unduly raising the financing costs of these competitors.</p>	<p>The Working Group notes that they are considering further refinement of the solution. This will take into account the areas highlighted by respondents during the review of the responses to the previous questions. (See ACTION 11/06).</p> <p>The view of the Working Group is that in isolation this Change Proposal would see</p>

	<p>The second Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology 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 the participation in the operation of an Interconnector.</p> <ol style="list-style-type: none"> 4. DCUSA Charging Objective 2 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266. 5. DCP 266 would create distortions to competition in the distribution of electricity by excluding significant amounts of incentive revenues from the price control disaggregation model. This is distortionary because these revenues are allowed by Ofgem to cover the costs of, and provide a return on, the DNOs' core business of distributing electricity. Therefore, IDNOs would not be treated on an equivalent basis to the incumbent DNO. 6. DCP 266 would create distortions to competition in the distribution of electricity by creating volatility and an unjustified shock to charging arrangements, thereby unduly raising the financing costs of IDNOs who compete in the distribution of electricity. Effective competition in the distribution of electricity requires a stable and predictable regulatory and charging regime, as new entrants need to establish business models and undertake sunk investments in distribution systems, and IT and management systems. DCP 266 would create undue uncertainty and make the financing of competing distribution businesses harder. 7. DCP 266 would create distortions to competition in the distribution of electricity by applying manifestly excessive IDNO discounts to some scenarios (e.g. for LV Network Non-Domestic Non-CT end users on IDNO distribution systems within London), which would lead to DNOs being impaired from competing fairly for such connections. 8. DCP 266 would create distortions to competition in the distribution of electricity by offering DNO use of system credits to DNO-connected generators that an IDNO with an EHV boundary would be unable to match due to the use of an unjustifiable basis for the relevant discount percentages under DCP 266. <p>The third Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology results in charges that, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by a Distribution Services Provider in its Distribution Business.</p>	<p>a decrease in the volatility of IDNO margins other than potentially at the point of implementation.</p> <p>The Working Group noted that they covered off these areas previously but will highlight below for reference:</p> <ul style="list-style-type: none"> • The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks. • That IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). Comments regarding the provision of services by IDNOs in a future with dynamic networks will be picked up when considering a newly proposed approach as it may not exist. • That the issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh
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	<p>9. DCUSA Charging Objective 3 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>10. The current approved methodology is a cost-based allocation of revenues between distributors who are working together to provide the all-the-way service. It is based on a coherent (albeit dated) dataset and was approved by Ofgem on that basis.</p> <p>11. DCP 266 would move away from cost reflectivity by cherry-picking data sources, using recent data for some items such as transmission exit charges whilst retaining the dated dataset for other items.</p> <p>12. DCP 266 would move away from cost reflectivity by including within the amount of revenue which is excluded from the PCDM allocation, incentive amounts which are in fact part of the DNOs' allowed remuneration for the delivery of their core business of distributing electricity.</p> <p>13. DCP 266 would move away from cost reflectivity by significantly increasing the range of circumstances in which the non-cost-reflective 100 per cent cap on discount percentages needs to be applied (from 2 per cent of tariffs to 35 per cent of tariffs).</p> <p>14. DCP 266 would move away from cost reflectivity by applying zero charges to IDNOs in circumstances where the DNO clearly provides a substantial, costly and valuable service (e.g. LDNO HV: LV Network Non-Domestic Non-CT in London).</p> <p>The fourth Applicable Charging Methodology Objective is that, so far as is consistent with the first three Applicable Charging Methodology Objectives, the Relevant Charging Methodology, so far as is reasonably practicable, properly takes account of developments in a Distribution Services Provider's Distribution Business.</p> <p>15. DCUSA Charging Objective 4 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>16. DCP 266 would make the charging methodology for IDNOs highly sensitive to the details of end user volume forecasts for newer tariffs or tariffs where forecasting volumes is difficult; this problem does not affect the current approved methodology in respect of IDNO discounts. Thus, DCP 266 would make it more difficult to take account of charges in access and charging arrangements, for example as a result of whole-market half hourly settlement, or innovative developments which might result from the access and charging review, or the future of supply market arrangements.</p>	<p>approach, consistent with the DCPs intent for demand charges).</p> <ul style="list-style-type: none"> • The issue around 0 volumes is noted as being an existing issue in the CDCM whereby if 0 volumes are entered the resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff. The solution for DCP 266 requires kwh volume forecast data for the p/kwh calculation. The Working Group highlight their approach was to use a pragmatic solution of using a minimum of one customer. • The updating of the data set is out of scope of this Change Proposal, but this doesn't preclude any other Party raising a Change Proposal. • At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs. The Working Group note that an action has been taken to test the sensitivity of IDNO discounts to changes in volume forecasts under the status quo and proposed solution. See Action (12/04).
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		<p>The fifth Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators</p> <p>17. We do not see any impact on this objective.</p> <p>The sixth Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology promotes efficiency in its own implementation and administration.</p> <p>18. DCUSA Charging Objective 6 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>19. The DCP 266 consultation document, impact assessment and models are complex. We have found it difficult and time-consuming to try to analyse the data and to understand the behaviour of the new models, and we doubt that we have been able to get to the bottom of it. There might be other inefficiencies, unintended effects, or undesirable impacts, which we have not been able to notice. This complexity has a disproportionate impact on new entrant businesses.</p>	<p>Noted</p> <p>The Working Group acknowledge the resource issues that are felt across the industry with the ongoing multiple workstreams. The Working Group are considering options to better explain the complexities of DCP 266.</p>
UK Power Distribution Limited	Non-confidential	<p>1. Our opinion is that DCP 266 does not better facilitate any of the DCUSA Charging Objectives. We think it would actually have a detrimental impact on five of the relevant charging objectives.</p> <p>22A.6 The first Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates the discharge by a Distribution Services Provider of the obligations imposed on it under the Act and by this licence.</p> <p>2. DCUSA Charging Objective 1 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>3. This is because the current approved methodology provides a more reasonable allocation of costs between distributors, and because implementing DCP 266 could impair the discharge of the DNOs' competition law obligations by creating an unjustified shock to charging arrangements applied to competing distributors, thereby unduly raising the financing costs of these competitors.</p>	<p>The Working Group notes that they are considering further refinement of the solution. This will take into account the areas highlighted by respondents during the review of the responses to the previous questions. (See ACTION 11/06).</p> <p>The view of the Working Group is that in isolation this Change Proposal would see</p>

	<p>22A.7 The second Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology 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 the participation in the operation of an Interconnector.</p> <ol style="list-style-type: none"> 4. DCUSA Charging Objective 2 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266. 5. DCP 266 would create distortions to competition in the distribution of electricity by excluding significant amounts of incentive revenues from the price control disaggregation model. This is distortionary because these revenues are allowed by Ofgem to cover the costs of, and provide a return on, the DNOs' core business of distributing electricity. Therefore, IDNOs would not be treated on an equivalent basis to the incumbent DNO. 6. DCP 266 would create distortions to competition in the distribution of electricity by creating volatility and an unjustified shock to charging arrangements, thereby unduly raising the financing costs of IDNOs who compete in the distribution of electricity. Effective competition in the distribution of electricity requires a stable and predictable regulatory and charging regime, as new entrants need to establish business models and undertake sunk investments in distribution systems and IT and management systems. DCP 266 would create undue uncertainty and make the financing of competing distribution businesses harder. 7. DCP 266 would create distortions to competition in the distribution of electricity by applying manifestly excessive IDNO discounts to some scenarios (e.g. for LV Network Non-Domestic Non-CT end users on IDNO distribution systems within London), which would lead to DNOs being impaired from competing fairly for such connections. 8. DCP 266 would create distortions to competition in the distribution of electricity by offering DNO use of system credits to DNO-connected generators that an IDNO with an EHV boundary would be unable to match due to the use of an unjustifiable basis for the relevant discount percentages under DCP 266. <p>22A.8 The third Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology results in charges that, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by a Distribution Services Provider in its Distribution Business.</p>	<p>a decrease in the volatility of IDNO margins other than potentially at the point of implementation.</p> <p>The Working Group noted that they covered off these areas previously but will highlight below for reference:</p> <ul style="list-style-type: none"> • The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks. • That IDNO's shouldn't be paid to use the DNOs network (i.e. shouldn't receive discounts that exceed 100%). Comments regarding the provision of services by IDNOs in a future with dynamic networks will be picked up when considering a newly proposed approach as it may not exist. • That the issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a
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	<p>9. DCUSA Charging Objective 3 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>10. The current approved methodology is a cost-based allocation of revenues between distributors who are working together to provide the all-the-way service. It is based on a coherent (albeit dated) dataset and was approved by Ofgem on that basis.</p> <p>11. DCP 266 would move away from cost reflectivity by cherry-picking data sources, using recent data for some items such as transmission exit charges whilst retaining the dated dataset for other items.</p> <p>12. DCP 266 would move away from cost reflectivity by including within the amount of revenue which is excluded from the method M allocation incentive amounts which are in fact part of the DNOs' allowed remuneration for the delivery of their core business of distributing electricity.</p> <p>13. DCP 266 would move away from cost reflectivity by significantly increasing the range of circumstances in which the non-cost-reflective 100 per cent cap on discount percentages needs to be applied (from 2 per cent of tariffs to 35 per cent of tariffs).</p> <p>14. DCP 266 would move away from cost reflectivity by applying zero charges to IDNOs in circumstances where the DNO clearly provides a substantial, costly and valuable service (e.g. LDNO HV: LV Network Non-Domestic Non-CT in London).</p> <p>22A.9 The fourth Applicable Charging Methodology Objective is that, so far as is consistent with the first three Applicable Charging Methodology Objectives, the Relevant Charging Methodology, so far as is reasonably practicable, properly takes account of developments in a Distribution Services Provider's Distribution Business.</p> <p>15. DCUSA Charging Objective 4 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>16. DCP 266 would make the charging methodology for IDNOs highly sensitive to the details of end user volume forecasts for newer tariffs or tariffs where forecasting volumes is difficult; this problem does not affect the current approved methodology in respect of IDNO discounts. Thus, DCP 266 would make it more difficult to take account of charges in access and charging arrangements, for example as a result of whole-market half hourly settlement or innovative developments which might result from the access and charging review or the future of supply market arrangements.</p>	<p>percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <ul style="list-style-type: none"> • The issue around 0 volumes is noted as being an existing issue in the CDCM whereby if 0 volumes are entered the resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff. The solution for DCP 266 requires kwh volume forecast data for the p/kwh calculation. The Working Group highlight their approach was to use a pragmatic solution of using a minimum of one customer. • The updating of the data set is out of scope of this Change Proposal, but this doesn't preclude any other Party raising a Change Proposal. • At present LDNO charges are significantly affected by the details of the DNO's volume forecasts for their ATW tariffs. The Working Group note that an action has been taken to test the sensitivity of IDNO discounts to changes in volume forecasts under the status quo and proposed solution. See Action (12/04).
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		<p>22A.10 The fifth Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology facilitates compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators</p> <p>17. We do not see any impact on this objective.</p> <p>22A.10A The sixth Applicable Charging Methodology Objective is that compliance with the Relevant Charging Methodology promotes efficiency in its own implementation and administration.</p> <p>18. DCUSA Charging Objective 6 is not better facilitated by DCP 266. Keeping the current approved methodology would better facilitate this objective than implementing DCP 266.</p> <p>19. The DCP 266 consultation document, impact assessment and models are complex. We have found it difficult and time-consuming to try to analyse the data and to understand the behaviour of the new models, and we doubt that we have been able to get to the bottom of it. There might be other inefficiencies, unintended effects, or undesirable impacts, which we have not been able to notice. This complexity has a disproportionate impact on new entrant businesses.</p>	<p>Noted</p> <p>The Working Group acknowledge the resource issues that are felt across the industry with the ongoing multiple workstreams. The Working Group are considering options to better explain the complexities of DCP 266.</p>

Company	Confidential/ Anonymous	10. Do you anticipate any associated impacts on the TCR or the CFF Task Forces by continuing to progress DCP 266? If so, what is the impact?	Working Group Comments
British Gas	Non-confidential	<p>We don't see any direct impacts on the TCR and CFF by continuing to progress DCP266.</p> <p>If anything, we believe there is likely to be a second order benefit to the progression of the TCR and the CFF task force from progressing DCP 266. This is because the DCP 266 solution will largely break the link between the ATW tariff and the IDNO discount, protecting IDNOs from the potentially significant impact of both on the ATW tariff, whilst also removing or reducing the extent to which the 'right answer' for ATW tariffs for each (TCR or CFF task force) is constrained by the need to ensure IDNO discounts remain appropriate.</p>	Noted

Electricity North West	Non-confidential	There could possibly be some impact in the future, but we are not aware of any TCR or CFF Task Force work that has explored this particular issue in any detail as yet.	Noted
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	<p>We do not anticipate any impact on the TCR as a result of DCP 266.</p> <p>Whilst we also do not anticipate there to be any 'impact on' the Task Forces under the Charging Futures Forum by continuing to progress DCP 266, it is important that the Working Group (and subsequently Ofgem) considers the interactions with these wider reviews and the general 'direction of travel' before implementing discrete changes such as this.</p> <p>There is a risk that the changes introduced by DCP 266 will be in place for a short period of time before being overwritten by more fundamental changes to distributor-to-distributor charging introduced by code modifications resulting from the work of the Task Forces.</p>	Noted
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	Not aware of any at this moment in time.	Noted
UK Power Networks	Non-confidential	The work of the TCR and CFF task forces could introduce a new approach to calculating charges for use of system, however the detailed way forward has yet to be determined and as a result nothing is confirmed. However if it is determined that the proposed solution is better at the current time then it is likely that this would be a suitable approach for the future and would / could be incorporated into any solution.	Noted
Western Power Distribution	Non-confidential	It is not clear on how the TCR and CFF task forces will treat IDNOs and so this is not known.	Noted
Anonymous	Anonymous	For the reasons noted above, we consider that the potential impacts and interactions with other industry / regulatory work have not been fully considered or properly identified.	Noted

		<p>We also note that the Working Group agrees it is “<i>too early to say</i>” whether DCP 266 impacts, or is impacted by, the Charging Futures Forum Task Force (para 6.3, Consultation), which may also mean that there is an unidentified impact for a Significant Code Review.</p> <p>The recent publication of the RIIO-2 framework consultation raises additional issues, which will not have been taken into account in the development of DCP 266 or the Consultation.</p> <p>We therefore consider that it is too early for any party to confidently identify the various interactions.</p> <p>We also consider that the limitations of the DCUSA process mean that, if DCP 266 were to progress, it would be unable to address broader questions (for example, around data sources, which are acknowledged to be out of scope)¹⁵ in the way necessary to mitigate some of the unintended consequences of the proposal. A proposal as far-reaching as DCP 266 should be dealt with as part of the more holistic context of price control and revenue-driver discussions in RIIO-2.</p>	<p>The Working Group note that Ofgem have not yet indicated if there will be a Significant Code Review associated with the CFF Task Forces.</p>
Energy Assets Networks Ltd	Non-confidential	<p>Yes, we believe there would be a significant adverse impact on these work streams from the continuation of DCP 266 e.g DCP 266 proposals for generation credits are in parallel to the Charging Futures Forum task force(s) work, yet do not/have not taken into account the work that has taken place, and the ongoing work in these task forces.</p>	<p>The Working Group note that that issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <p>The Working Group note that they are not intending to pre-empt the work being currently undertaken by Ofgem and other industry workstreams.</p>

¹⁵ Para 3.9-3.12, Consultation.

ESP Electricity ('ESPE')	Non-confidential	<p>We believe the treatment of generation credits (Question 8) may crossover with the CFF Taskforce work.</p> <p>Further to this, the proposal to change the treatment of incentive revenues requires further, additional in-depth analysis; it is unclear whether this may be impacted by the TCR or CFF work at this stage.</p>	<p>As noted in response to question eight, the Working Group agree that they are not intending to pre-empt the work being currently undertaken by Ofgem and other industry workstreams.</p>
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. There would be an adverse impact on these work streams from continuing to progress DCP 266. For example, the DCP 266 proposals for generation credits cut across the work of the CFF task forces on this topic. 2. Furthermore, the proposals for the treatment of incentive revenue cut across Ofgem's work on future DNO price controls, and the proposals for the treatment of transmission exit charges could cut across work on distribution/transmission interfaces. 3. We have limited resources to engage in industry change procedures and we have found it very difficult and time-consuming to keep up with the complexity of DCP 266. Continuing to progress DCP 266 would have an adverse impact on our ability to engage with other industry work streams. 	<ol style="list-style-type: none"> 1. The Working Group note that that issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges). 2. The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks 3. The WG acknowledge the resource issues that are felt across the industry with the ongoing multiple workstreams. The WG are

			considering options to better explain the complexities of DCP 266.
Leep Electricity Networks Limited	Non-confidential	<p>There would be an adverse impact on these work streams from continuing to progress DCP 266. For example, the DCP 266 proposals for generation credits cut across the work of the CFF task forces on this topic.</p> <p>Furthermore, the proposals for the treatment of incentive revenue cut across Ofgem's work on future DNO price controls, and the proposals for the treatment of transmission exit charges could cut across work on distribution/transmission interfaces.</p> <p>We have limited resources to engage in industry change procedures and we have found it very difficult and time-consuming to keep up with the complexity of DCP 266. Continuing to progress DCP 266 would have an adverse impact on our ability to engage with other industry work streams.</p>	<p>The Working Group note that that issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <p>The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks</p> <p>The Working Group acknowledge the resource issues that are felt across the industry with the ongoing multiple workstreams. The Working Group are considering options to better explain the complexities of DCP 266.</p>
The Electricity Network Company Ltd and	Non-confidential	<ol style="list-style-type: none"> 1. There would be an adverse impact on these work streams from continuing to progress DCP 266. For example, the DCP 266 proposals for generation credits cut across the work of the CFF task forces on this topic. 	<ol style="list-style-type: none"> 1. The Working Group note that that issues related to generation credits are out of scope of this Change Proposal. The intent of this change is

Independent Power Networks Ltd		<ol style="list-style-type: none"> Furthermore, the proposals for the treatment of incentive revenue cut across Ofgem's work on future DNO price controls, and the proposals for the treatment of transmission exit charges could cut across work on distribution/transmission interfaces. We have limited resources to engage in industry change procedures and we have found it very difficult and time-consuming to keep up with the complexity of DCP 266. Continuing to progress DCP 266 would have an adverse impact on our ability to engage with other industry work streams. 	<p>not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <ol style="list-style-type: none"> The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a "reward/benefit" to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks The Working Group acknowledge the resource issues that are felt across the industry with the ongoing multiple workstreams. The Working Group note that they are considering options to better explain the complexities of DCP 266.
UK Power Distribution Limited	Non-confidential	<ol style="list-style-type: none"> There would be an adverse impact on these work streams from continuing to progress DCP 266. For example, the DCP 266 proposals for generation credits cut across the work of the CFF task forces on this topic. Furthermore, the proposals for the treatment of incentive revenue cut across Ofgem's work on future DNO price controls, and the proposals for the treatment of transmission exit charges could cut across work on distribution/transmission interfaces. 	<ol style="list-style-type: none"> The Working Group note that that issues related to generation credits are out of scope of this Change Proposal. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from

		<p>3. We have limited resources to engage in industry change procedures and we have found it very difficult and time-consuming to keep up with the complexity of DCP 266. Continuing to progress DCP 266 would have an adverse impact on our ability to engage with other industry work streams.</p>	<p>a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).</p> <p>2. The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a “reward/benefit” to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks</p> <p>3. The Working Group acknowledge the resource issues that are felt across the industry with the ongoing multiple workstreams. The Working Group note that they are considering options to better explain the complexities of DCP 266.</p>

Company	Confidential/ Anonymous	11. If DCP 266 were to be approved are you supportive of the proposed implementation date of 01 April 2020?	Working Group Comments
British Gas	Non-confidential	Yes	The Working Group note the 01 April 2020 is not achievable due to the recent implementation of DCP 293 ‘Charging Methodology Cut-off Date’. DCP 293 introduced a cut off date for any Change

			<p>Proposal impacting upon the charging methodologies that is three months prior to the 15 months notification of DUoS charges for the following 01 April. This means that if an Authority decision on any Change Proposal has not been provided by 01 October in any year then the implementation date of that CP will be treated as being the following 01 April from that which had been originally applicable. To ensure that a Change Proposal falls within the cut-off date it needs to follow a rough timeline of events leading up to the Change Report phase. It is noted that DCP 266 is outside the timeline needed to reach the cut-off date of 01 October 2018 for implementation by 01 April 2020 and the Working Group will determine the implementation date with consideration to the work streams under the CFF.</p>
Electricity North West	Non-confidential	No, if approved this change could have a significant commercial impact on a number of IDNO businesses and so we believe a longer implementation period would be appropriate.	See Working Group comments above regarding current implementation date.
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Yes.	See Working Group comments above regarding current implementation date.

Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	Yes.	See Working Group comments above regarding current implementation date.
UK Power Networks	Non-confidential	Yes we believe that this implementation date is appropriate for this change.	See Working Group comments above regarding current implementation date.
Western Power Distribution	Non-confidential	Yes	See Working Group comments above regarding current implementation date.
Anonymous	Anonymous	No. The size and significance of the change warrants a longer implementation period than two years. We consider that any change should be developed alongside, and aligned with, RIIO-2. In particular, consideration should be given to whether DCP 266 should apply only to postimplementation connections (which may require re-opening of the LDNO regulatory settlement given the current price control structure).	<p>See Working Group comments above regarding current implementation date.</p> <p>The Working Group note that the re-opening of the LDNO regulatory settlement is outside the scope of DCP 266.</p> <p>The Working Group will review the implementation approach upon completing the updated impact assessment, however the Working Group has some concerns about the suggestion to apply grandfather rights to sites connected pre-implementation.</p> <p>The Working Group have concerns over the complexity and practicality of the suggested approach.</p>
Energy Assets Networks Ltd	Non-confidential	No, the earliest implementation date we reasonably foresee would be 1 st April 2023, which coincides with new DNO price controls.	Noted, however the Working Group do not understand the significance of 01 April 2023 in the context of this change beyond providing a longer lead time.

			The Working Group will review the implementation approach upon completing the updated impact assessment.
ESP Electricity ('ESPE')	Non-confidential	ESPE is not supportive of the proposed implementation date. As this change proposal has such a significant effect on methodology and is highly complex, we believe the earliest date plausible would be 1 st April 2023.	Noted, however the Working Group do not understand the significance of 01 April 2023 in the context of this change beyond providing a longer lead time. The Working Group will review the implementation approach upon completing the updated impact assessment.
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. If the DCP 266 solution were modified so as to address the defects with the current solution, then the earliest plausible implementation date for a corrected change would be 1 April 2023 so as to align with the new DNO price controls. 2. It would be inappropriate to introduce a change to the price control disaggregation model in 2020, towards the end of the current price control period, without having taken account of the changes in the structure of the price controls that will apply from 2023. 	Noted, however the Working Group do not understand the significance of 01 April 2023 in the context of this change beyond providing a longer lead time. The Working Group will review the implementation approach upon completing the updated impact assessment.
Leep Electricity Networks Limited	Non-confidential	<p>If the DCP 266 solution were modified so as to address the defects with the current solution, then the earliest plausible implementation date for a corrected change would be 1 April 2023 so as to align with the new DNO price controls.</p> <p>It would be inappropriate to introduce a change to the price control disaggregation model in 2020, towards the end of the current price control period, without having taken account of the changes in the structure of the price controls that will apply from 2023.</p>	Noted, however the Working Group do not understand the significance of 01 April 2023 in the context of this change beyond providing a longer lead time. The Working Group will review the implementation approach upon completing the updated impact assessment.
The Electricity Network Company Ltd and Independent	Non-confidential	<ol style="list-style-type: none"> 1. If the DCP 266 solution were modified to address the defects with the current solution, then the earliest plausible implementation date for a corrected change would be 1 April 2023, so as to align with the new DNO price controls. 	Noted, however the Working Group do not understand the significance of 01 April 2023 in the context of this change beyond providing a longer lead time.

Power Networks Ltd		2. It would be inappropriate to introduce a change to the price control disaggregation model in 2020, towards the end of the current price control period, without having taken account of the changes in the structure of the price controls that will apply from 2023.	The Working Group will review the implementation approach upon completing the updated impact assessment.
UK Power Distribution Limited	Non-confidential	<p>1. If the DCP 266 solution were modified so as to address the perceived defects with the current solution, then the earliest plausible implementation date for a corrected change would be 1 April 2023 so as to align with the new DNO price controls.</p> <p>2. It would be inappropriate to introduce a change to the price control disaggregation model in 2020, towards the end of the current price control period, without having taken account of the changes in the structure of the price controls that will apply from 2023.</p>	<p>Noted, however the Working Group do not understand the significance of 01 April 2023 in the context of this change beyond providing a longer lead time.</p> <p>The Working Group will review the implementation approach upon completing the updated impact assessment.</p>

Company	Confidential/ Anonymous	12. Do you have any comments on the proposed legal text?	Working Group Comments
British Gas	Non-confidential	No	Noted
Electricity North West	Non-confidential	<p>Suggested amendment for 52:</p> <p>In doing so, the DNO Party will assume a minimum of one Customer with associated chargeable volumes will exist in the charging year for each tariff.</p> <p>The aim of this change is to make clear that volumes are required as well as an MPAN.</p>	The Working Group agreed to the suggested amendment
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	<p>As mentioned in response to question six, we believe the amendment to clause 52 should read:</p> <p><i>“In doing so, the DNO Party will assume a <u>non-zero number</u> of customer will exist in the charging year for each tariff”</i></p>	The Working Group agreed to the suggested amendment

		We have no other comments on the proposed legal text.	
Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	No.	Noted
UK Power Networks	Non-confidential	No, we believe that the proposed legal text is appropriate for this change.	Noted
Western Power Distribution	Non-confidential	No	Noted
Anonymous	Anonymous	We consider the proposal fundamentally flawed for the reasons set out above. We object to the legal text on the same basis	Noted, however the Working Group are considering an alternative solution, and this will result in changes to the legal text. This will be done together with the action to provide clear wording of the defect.
Energy Assets Networks Ltd	Non-confidential	No, other than to observe incorporating by reference a spreadsheet model does not seem a good solution for any legal text and further supports the view that it is unnecessarily complex	The Working Group note that the spreadsheet model and legal text co-exist, both under the status quo and the proposed solution.
ESP Electricity ('ESPE')	Non-confidential	No comments.	Noted
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. We will wait until then substantial defects in the current DCP 266 solution have been remedied before undertaking a detailed review of the legal text. 2. We note that the proposed legal text would have the effect of incorporating by reference into the methodology what seems to be exceptionally complicated spreadsheet model. 	Noted, however the Working Group are considering an alternative solution, and this will result in changes to the legal text. This will be done together with the action to provide clear wording of the defect.

Leep Electricity Networks Limited	Non-confidential	<p>We will wait until then substantial defects in the current DCP 266 solution have been remedied before undertaking a detailed review of the legal text.</p> <p>We note that the proposed legal text would have the effect of incorporating by reference into the methodology what seems to be exceptionally complicated spreadsheet model.</p>	Noted, however the Working Group are considering an alternative solution, and this will result in changes to the legal text. This will be done together with the action to provide clear wording of the defect.
The Electricity Network Company Ltd and Independent Power Networks Ltd	Non-confidential	<ol style="list-style-type: none"> 1. We will wait until the substantial defects in the current DCP 266 solution have been remedied before undertaking a detailed review of the legal text. 2. We note that the proposed legal text would have the effect of incorporating by reference into the methodology what seems to be an exceptionally complicated spreadsheet model. 	Noted, however the Working Group are considering an alternative solution, and this will result in changes to the legal text. This will be done together with the action to provide clear wording of the defect.
UK Power Distribution Limited	Non-confidential	<ol style="list-style-type: none"> 1. We will wait until the substantial defects in the current DCP 266 solution have been remedied before undertaking a detailed review of the legal text. 2. We note that the proposed legal text would have the effect of incorporating by reference into the methodology what seems to be an exceptionally complicated spreadsheet model. 	Noted, however the Working Group are considering an alternative solution, and this will result in changes to the legal text. This will be done together with the action to provide clear wording of the defect.

Company	Confidential/Anonymous	13. Are there any alternative solutions or unintended consequences that should be considered by the Working Group?	Working Group Comments
British Gas	Non-confidential	DCP 266 is limited in scope to the correction of the logical defect. Clearly, updating the data used to allocate DNO costs/revenues to network levels is overdue and would further improve the methodology, but it is outside of the scope of this change.	<p>The Working Group note that they have already taken an action to define the distortion/defect in a clearer way (See ACTION: 11/01).</p> <p>The Working Group notes that they are considering further refinement of the solution. This will take into account the</p>

			<p>areas highlighted by respondents during the review of the responses to the previous questions. (See ACTION: 11/06</p> <p>The Working Group note that the updating of the data set is out of scope of this Change Proposal, but this doesn't preclude any other Party raising a Change Proposal.</p>
Electricity North West	Non-confidential	We would highlight the concern raised in earlier responses relating to the impact on competition in the distribution of electricity.	<p>The Working Group have previously noted that actual revenues are derived from end user tariffs for use of the whole network. The PCDM is the mechanism to allocate the costs to different network tiers and thereby allocating revenues between the upstream business of a DNO and the downstream businesses of an IDNO.</p> <p>Currently the revenue that an IDNO and DNO achieves in respect of an end customer will be affected proportionally, by a CDCM change. If for example there was a methodology change that caused a large percentage change in the ATW tariff, both the IDNO and DNO revenue would change proportionally. DCP 266 changes this so that the absolute margin obtained by the IDNO would be maintained.</p>
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Not that we are currently aware of.	Noted

Southern Electric Power Distribution plc and Scottish Hydro Electric Power Distribution plc	Non-confidential	Not aware of any.	Noted
UK Power Networks	Non-confidential	Not that we are aware of.	Noted
Western Power Distribution	Non-confidential	None	Noted
Anonymous	Anonymous	The need for DCP 266 has not been demonstrated. But implementing it introduces a number errors, distortions and unintended consequences described above. Accordingly, it cannot be said to “better” facilitate the relevant objectives – ie. it does not improve upon the status quo – and so “no change” should be considered the most viable current alternative compliant with the DCUSA and the DNOs’ licences.	<p>The Working Group note that they have already taken an action to define the distortion/defect in a clearer way (See ACTION: 11/01). And that they are considering further refinement of the solution. This will take into account the areas highlighted by respondents during the review of the responses to the previous questions. (See ACTION: 11/06)</p> <p>With regard to the following comment:</p> <p><i>“But implementing it introduces a number errors, distortions and unintended consequences described above”</i></p> <p>The Working Group highlight their previous responses below:</p> <ul style="list-style-type: none"> • That IDNO’s shouldn’t be paid to use the DNOs network (i.e. shouldn’t receive discounts that exceed 100%). The Working Group previously noted comments regarding the provision of services by IDNOs in a future with

			<p>dynamic networks with relation to discounts existing over 100% and agreed that this will be picked up when considering a newly proposed approach as it may not exist.</p> <ul style="list-style-type: none">• The basis of which the incentives/penalties were applied have changed under the RIIO framework, and therefore it is much more difficult to separate out the incentives between those elements that are purely a “reward/benefit” to shareholders against those that are cost related. The Working Group is further considering potential solutions due to the changes between the DPCR and RIIO frameworks.• That that issues related to generation credits are out of scope of this CP. The intent of this change is not to amend the way the generation credits are determined but to change the way they are applied within the IDNO charging methodology (i.e from a percentage discount to a p/kwh approach, consistent with the DCPs intent for demand charges).• The issue around 0 volumes is noted as being an existing issue in the CDCM whereby if 0 volumes are entered the resulting tariffs will not be cost reflective for any customer subsequently utilising that tariff. The solution for DCP 266 requires kwh volume forecast data for the p/kwh
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			<p>calculation. The Working Group highlight their approach was to use a pragmatic solution of using a minimum of one customer.</p> <ul style="list-style-type: none"> • That the updating of the data set is out of scope of this Change Proposal, but this doesn't preclude any other Party raising a CP. • The view of the Working Group is that in isolation this Change Proposal would see a decrease in the volatility of IDNO margins other than potentially at the point of implementation. <p>The Working Group notes that it is for Parties to vote whether to accept or reject a proposal which is issued as a recommendation to the Authority for their decision. So, if Parties want a no change outcome they would need to reject the proposal and convince Ofgem to do likewise.</p>
Energy Assets Networks Ltd	Non-confidential	The proposed changes to the PCDM input data for incentive revenues and units distributed at EHV appear to have a substantial impact on discounts, which is unrelated to the intent of DCP 266.	Noted, see the Working Groups comments and associated actions to the Anonymous response above.
ESP Electricity ('ESPE')	Non-confidential	As mentioned in Question 3, the changes to the proportion of net incentive revenues, transmission exit charges and units distributed seems to have had a severe and unintended impact upon the LDNO discounts.	Noted, see the Working Groups comments and associated actions to the Anonymous response above.
Fulcrum Electricity Assets Limited	Non-confidential	1. The proposed changes to method M input data for net incentive revenues, transmission exit charges, and the proportion of units distributed at EHV, seem to have a very significant impact on discounts, which does not appear to be related to the intent of DCP 266. This apparently unintended effect of the proposal is bigger	Noted, see the Working Groups comments and associated actions to the Anonymous response above.

		<p>than its intended effect, and the financial volatility that implementation of DCP 266 would introduce would have serious unintended effects on IDNO financing costs and on competition for the distribution of electricity.</p> <p>2. Another likely unintended consequence would be the zeroing of charges for many tariffs that relate to the supply of substantial distribution services by DNOs to IDNOs (for example LDNO HV: LV Network Non-Domestic Non-CT in London)</p>	
Leep Electricity Networks Limited	Non-confidential	<p>The need for DCP 266 has not been demonstrated. But implementing it introduces a number errors, distortions and unintended consequences described above. Accordingly, it cannot be said to “better” facilitate the relevant objectives – ie. it does not improve upon the status quo – and so “no change” should be considered the most viable current alternative compliant with the DCUSA and the DNOs’ licences.</p>	Noted, see the Working Groups comments and associated actions to the Anonymous response above.
The Electricity Network Company Ltd and Independent Power Networks Ltd	Non-confidential	<p>1. The proposed changes to PCDM input data for net incentive revenues, transmission exit charges, and the proportion of units distributed at EHV, seem to have a very significant impact on discounts, which does not appear to be related to the intent of DCP 266. This apparently unintended effect of the proposal is bigger than its intended effect, and the financial volatility that implementation of DCP 266 would introduce would have serious unintended effects on IDNO financing costs and on competition for the distribution of electricity.</p> <p>2. Another likely unintended consequence would be the zeroing of charges for many tariffs that relate to the supply of substantial distribution services by DNOs to IDNOs (for example LDNO HV: LV Network Non-Domestic Non-CT in London).</p>	Noted, see the Working Groups comments and associated actions to the Anonymous response above.
UK Power Distribution Limited	Non-confidential	<p>1. The proposed changes to method M input data for net incentive revenues, transmission exit charges, and the proportion of units distributed at EHV, seem to have a very significant impact on discounts, which does not appear to be related to the intent of DCP 266. This apparently unintended effect of the proposal is bigger than its intended effect, and the financial volatility that the implementation of DCP 266 would introduce would have serious unintended effects on IDNO financing costs and on competition for the distribution of electricity.</p> <p>2. Another likely unintended consequence would be the zeroing of charges for many tariffs that relate to the supply of substantial distribution services by DNOs to IDNOs (for example LDNO HV: LV Network Non-Domestic Non-CT in London).</p>	Noted, see the Working Groups comments and associated actions to the Anonymous response above.

Company	Confidential/ Anonymous	14. Do you have any other comments on DCP 266?	Working Group Comments
British Gas	Non-confidential	<p>The table at paragraph 6.12 of the consultation shows the impact on only the domestic unrestricted tariffs at different boundary levels. The data shows that in all areas, at both boundary levels, the IDNO discounts reduce by between 3.4% and 23.9% (with an average reduction of 13.4%) for the unrestricted tariff.</p> <p>Paragraph 6.13, referring to the table, states that <i>“the impact that the DCP will have on unrestricted tariffs is highly likely to be illustrative of the impact on LDNOs”</i>.</p> <p>We do not believe that this statement is a fair reflection of the impact of DCP 266. Our own analysis shows that IDNO discounts will increase for most boundary/tariff combinations. Whilst the impact on the domestic unrestricted tariff does undoubtedly have a significant influence on the impact on LDNOs, the overall weighted costs to IDNOs (based on CDCM IDNO volumes) would increase by less than 3% under DCP266. We recognise this cost increase will have an impact, but it is important that the workgroup do not unintentionally overstate the impact of the change, or give a misleading impression of the impact to Parties.</p>	The Working Group takes this feedback onboard and consideration will be given to how best reflect any impact assessment in the second consultation.
Electricity North West	Non-confidential	We have no further comments.	Noted
Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Not at this time.	Noted
Southern Electric Power Distribution plc and Scottish	Non-confidential	No.	Noted

Hydro Electric Power Distribution plc			
UK Power Networks	Non-confidential	No.	Noted
Western Power Distribution	Non-confidential	No	Noted
Anonymous	Anonymous	<p>We also note the statement that “<i>All DCUSA Parties were invited to attend</i>” the Working Group;¹⁶ however, the resource challenges facing “independent” organisations (when compared to formerly state-owned organisations such as the proposer, and the DNOs) are well known. There is an important distinction between being able to attend and choosing not to attend.</p> <p>That an invitation was sent does not mitigate against the fact that DCP 266 was developed principally by individuals whose organisations are either unaffected by the change, or may potentially benefit by relocating some of their costs downstream – notwithstanding the nominal independence of Working Group members. We consider that any further progression of DCP 266 should be conditional on a level of input from an LDNO perspective that corresponds to the level of impact on IDNOs. Accommodations should be made to facilitate this input (in terms of meeting timings and other arrangements) as required.</p>	The Working Group highlights that there is a need to follow the DCUSA Change Control Process and that they will consider how to engage more widely with IDNOs as part of the second consultation.
Energy Assets Networks Ltd	Non-confidential	<p>DCP 266 highlights that the current methodologies are inherently complex, as even industry parties involved on a day-to-day basis have different views as to whether a defect even exists in the current methodology.</p> <p>Without a clearer explanation and evidence as to why the current methodology is flawed and why the proposer considers there is a defect it hard to justify spending more time on DCP 266 in its current format given that it impacts on other industry work streams and initiatives.</p>	Noted

¹⁶ Paragraph 4.1, Consultation.

ESP Electricity ('ESPE')	Non-confidential	No comments.	Noted
Fulcrum Electricity Assets Limited	Non-confidential	<ol style="list-style-type: none"> 1. This proposal has an immaterial financial impact on suppliers and a very large financial impact on IDNOs. If it were taken forward to a Change Report, we wonder whether the Supplier Parties should be eligible to vote on it. 2. In our view, the DCUSA process is appropriate for incremental refinements of the methodology, but not fundamental changes with significant impacts like the one currently being proposed. The 2008-2010 Ofgem documentation on development of the governance arrangements support this. 	<p>Noted but the Working Group highlight that it is for the DCUSA Panel to decide which Parties are eligible to vote on a given Change Proposal.</p> <p>Whilst there is some sympathy with the comment raised it is the only mechanism available to facilitate a change to the DCUSA.</p>
Leep Electricity Networks Limited	Non-confidential	This proposal has an immaterial financial impact on suppliers and a very large financial impact on IDNOs. If it were taken forward to a Change Report, we wonder whether the Supplier Parties should be eligible to vote on it.	Noted but the Working Group highlight that it is for the DCUSA Panel to decide which Parties are eligible to vote on a given Change Proposal.
The Electricity Network Company Ltd and Independent Power Networks Ltd	Non-confidential	<ol style="list-style-type: none"> 1. This proposal has an immaterial financial impact on suppliers and a very large financial impact on IDNOs. If it were taken forward to a Change Report, we question whether the Supplier Parties should be eligible to vote on it. 2. We note that prior to the raising of DCP 266, the proposer had submitted an 'issue form' to the DCMF MIG in April 2013. The DCMF MIG failed to consider the change proposal. Therefore, we can understand why the proposer may have felt that there was little option other than to pursue the issue through a formal DCP submission. 	<p>Noted but the Working Group highlight that it is for the DCUSA Panel to decide which Parties are eligible to vote on a given Change Proposal.</p> <p>Noted</p>
UK Power Distribution Limited	Non-confidential	This proposal has an immaterial financial impact on Suppliers and a very large financial impact on IDNOs. If it were taken forward to a Change Report, we wonder whether the Supplier Parties should be eligible to vote on it.	Noted but the Working Group highlight that it is for the DCUSA Panel to decide which Parties are eligible to vote on a given Change Proposal.