

DCP 243 Consultation Three Collated Responses

Company	1. Please provide your thoughts on all options Option A, B and C in order of preference?	Working Group Comments
British Gas	<p>Option A may be more cost-reflective because it involves the derivation of licensee-specific values. Further, the use of five-year rolling can mitigate against volatility. However, insufficient detail has been provided in the consultation to allow a fully informed view on the merits of options A and B to be provided. Particularly, it has not been fully explained how customer contributions relating to multiple voltage levels will be treated. The omission of 'General Reinforcement Uplift Factor', the rationale for which was discussed in the previous consultation, has also not been explained.</p> <p>In the response to question 2, we explain why option C should not be pursued.</p>	<p>The Working Group agreed that this is a fair comment. An action was taken for the group to further consider how multiple voltage levels will be treated.</p> <p style="text-align: right;">ACTION</p>
Electricity North West	<p>Option A: This is the most credible approach in that it proposes the use of DNO specific data from a standard annual report issued to Ofgem by each DNO. It seems preferable to use a rolling average to smooth year to year variances. However, we have concerns on the appropriateness of this data for application in the use of system charging methodology. A key limitation is the proposal to exclude work that has been carried out by third parties ie ICPs and IDNOs. This has the potential to skew the data and give inconsistent results and we would be concerned about the potential to distort competition in distribution.</p> <p>Option B: We are concerned that having a fixed industry value is not reflective of the situation in each DNO area. Fixing the customer contributions percentage to an industry average has the potential to distort competition in distribution in a DNO area.</p> <p>Option C: It would be fundamentally incorrect to remove customer contributions from the use of system charging methodology without a corresponding change to the connection charging methodology – see below our reasons set out in the answer to question 2. As such we oppose option C.</p>	<p>Working Group agree this is a fair comment on option A, all data for all connections would be best option. However, the group noted that this would not be feasible due to lack of reporting in competitive environment, as customer sensitive data cannot be published.</p> <p>The group's Ofgem representative agreed to confirm if additional ICP data can be provided.</p> <p style="text-align: right;">ACTION</p> <p>Option B – The Working Group noted UKPN has provided an alternative approach to option B.</p>
Northern Powergrid on behalf of Northern	<p>Our order of preference is option A, B then C.</p> <p>We feel that option A offers the most cost reflective solution, as well as being more closely aligned with the intent of the change. Disadvantages raised in earlier consultations with regards to option A</p>	<p>Noted</p>

Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	<p>being data intensive are no longer relevant as a result of changes made to the approach, meaning that only straightforward manipulation of one RRP table is now required.</p> <p>With regards to Option B, we feel that this is a less robust version of option A, as it will fix values in the methodology which will soon become out of date. This option is not an enduring one and would require revisiting in order to update these data sources, potentially requiring another Working Group to go through the lengthy process this change has endured.</p> <p>Option C as it stands is not a viable option because of the impact on the calculation of excess capacity charges. This is due to the implementation of DCP 161 – ‘Excess Capacity Charges’, which creates a differential between agreed and excess capacity charges by not applying customer contributions to the excess capacity charge. If this issue can be addressed and a differential retained between agreed and excess capacity charges, then we would give further consideration to this option.</p>	The Working Group noted that it is a good point around excess capacity charges in option C.																									
npower	<p>The Customer contributions calculations in the CDCM reduce tariff rates but as they do not impact on the level of the DNOs allowed revenue, the revenue shortfall created by the customer contribution calculation is then allocated without any consideration of cost reflectivity through the scaling process.</p> <table><tr><th>Option</th><th>Cost Reflectivity</th><th>Ongoing Tariff Volatility</th><th>Excess Capacity Change undone</th><th>Step Change at Implementation</th></tr><tr><td>New D <small>see Q5 for details</small></td><td>Maintained</td><td>No, value fixed</td><td>No</td><td>None</td></tr><tr><td>C</td><td>Improved</td><td>No, value fixed</td><td>Yes</td><td>Large Step Change</td></tr><tr><td>A</td><td>No improvement</td><td>Will be year on year change</td><td>No</td><td>Small step change</td></tr><tr><td>B</td><td>No improvement</td><td>No, value fixed</td><td>No</td><td>Step Change</td></tr></table>	Option	Cost Reflectivity	Ongoing Tariff Volatility	Excess Capacity Change undone	Step Change at Implementation	New D <small>see Q5 for details</small>	Maintained	No, value fixed	No	None	C	Improved	No, value fixed	Yes	Large Step Change	A	No improvement	Will be year on year change	No	Small step change	B	No improvement	No, value fixed	No	Step Change	<p>The Working Group noted option C would reduce the amount of scaling which Npower believe would lead to increased cost reflectivity. The working group questioned whether reduced scaling would improve reflectivity.</p> <p>It was noted that option D is to lock the inputs to their current values. The working group observed that these values have been unchanged for many years.</p> <p>Option D would be enshrining the current approach that is followed in practice within the methodology. A difficulty with this approach is that the current values would require justification.</p>
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SP Distribution / SP Manweb	<p>Our preference is</p> <p>Option A: is the most cost reflective, however the complexity and reliance on an external table is a concern.</p>	The Working Group noted that external data would need to be sourced to enable the calculations be carried out. It was observed that the RRP data is not published. Thus is not																									

	<p>Option C: would reduce the complexity and any concern on source data, however may not be cost reflective. Reference is made in the change report to the relevance of customer contributions within the CDCM. The Working Group should establish if this is valid and, if so, our preference would be C. and then</p> <p>Option B: whilst limits the price disturbance as a consequence of changes to this input, using aging data and not reflecting individual DNOs potentially reduces the cost reflectivity.</p>	<p>transparent, however, transparent data is not available. It was noted that input data could not be published as it contains customer specific information.</p> <p>It is noted that the data is not external to but rather internal to DNOs.</p> <p>In relation to Option B the Working Group noted that the alternative proposal put forward by UKPN, being Option E, would partially address the concern raised by the respondent.</p>
UK Power Networks	<p>We believe that there are at least two additional options which should be considered before any final preference is made. As a result we have not listed the three options below in any order of preference, We have laid out options 'D' and 'E' in our response to Q5.</p> <p>Option A</p> <p>We have concerns with option A and whether this is appropriate. This option would require an annual process to be undertaken and even five years may not be the appropriate period of time to 'smooth' this data and feel that consideration should be given for a longer period of time if this option is progressed further.</p> <p>Option B</p> <p>Option B proposes to use a defined five years' worth of data which relates to the previous price control period (DPCR5). This data is not current data, although it will be more up to date when compared with what is currently being used. However, we believe that this solution has the potential to provide an appropriate pragmatic remedy based on a standard percentage gathered from aggregating DNO's current data to form a national average.</p> <p>Option C</p> <p>Option C has sufficient merit to be considered further. We feel that trying to account for the level of customer contributions is fraught with problems; not least due to the level of customer contributions</p>	<p>The Working Group noted that Option B has been selected as second preference. Working Group discussed and agreed that the time period of 5 years is the maximum.</p> <p>Regarding Option C, Ofgem flagged that with what is happening in Transmission it is likely that interest in customer contributions and generation credits is likely to be increased. It was questioned whether customer contributions impact generation credits to which it was confirmed that they do.</p>

	<p>changing over the years due to changes in connection policy and also for the minimal impact that they have on the overall charges. Furthermore, we remain unconvinced that using a sample set of data for what customers paid for when connecting to the network is appropriate when considering ongoing use of system charges.</p>	
Western Power Distribution	<p>All 3 options have their merits and it is therefore quite difficult to rank. However, in general terms the more simplistic approach taken in options B and C would seem more preferable. Further to this I am still not sure if customer contributions should be applied within the CDCM – please see question 2 response.</p>	<p>The respondent highlighted a concern that another non-transparent input would be introduced to the CDCM which previously concerns have been raised about by non-DNOs.</p> <p>It was observed that in a future world where electric vehicles are coming in to play the customer would not expect to pay to re-inforce the street. This cost has been explicitly socialised under RIIO-ED1. It was suggested that this a further argument against the inclusion of customer contributions.</p> <p>Even if the customer built their entire network to the LV station and paid for say 50%, then when the DNO comes along several years later to reinforce the network (say for electric vehicles) then they would still be getting 50% off the full cost of the network even though they didn't contribute to 50% of the exiting network. It was noted that including the GRUF would mitigate against this by taking into account wider network re-inforecement.</p> <p>It was noted that Option C would essentially be saying that the customer has not contributed at all, however, for the average customer removing the Customer Contribution would change the average customer's charges by around a £1. Given the low impact of customer contributions it was noted that</p>

		<p>it does bring into question whether there is value in the work that is being done on customer contributions. In response, it was flagged that this impact assessment was pre-DCP 228 and thus the £1 average customer impact may be different if re-calculated now.</p> <p>.</p>
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Company	2. Option C proposes to remove Customer Contributions entirely. Do you have any concerns with this approach?	Working Group Comments
British Gas	<p>Option C should not be pursued. The incremental cost signals are derived from a hypothetical extension of the electricity distribution network. In reality, individual customers fund specific assets and this should be taken account of in the incremental cost signals. The exclusion of customer contributions will distort the relative cost signals across voltage levels and between fixed and unit charges and, therefore, dilutes the cost reflectivity of the resultant tariffs.</p>	<p>The Working Group noted the respondent's comments; however, it could be that there is significant distortion at present in that customer contributions are leading to a significant discount in instances where customers have paid very little towards the full network. The Working Group noted if this could be quantified it would be useful but that it is difficult to do.</p>
Electricity North West	<p>The use of system charging methodology and the connection charging methodology are fundamentally linked through the use of customer contributions in the use of system model. This ensures that customers are not double charged ie the funding of sole use and reinforcement assets for connection charges are removed from the use of system methodology. The removal of customer contributions from the use of system charging model is fundamentally incorrect without amending the connection charging methodology.</p>	<p>Working Group noted the response.</p>
Northern Powergrid on	<p>We feel that as it stands, Option C is not a feasible solution. As mentioned in our response to question one, we would prefer to see the differential between agreed and excess capacity charges introduced by</p>	<p>Working Group noted the response.</p>

behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	DCP161 retained. However, if this issue can be overcome, we do see merit in this option, as there are flaws with both options A and B. For example where an LV job with elements of HV work is fully contributed by the customer, under options A and B the job would be deemed to be fully contributed at both network levels, and so would drive a 100% discount at both LV and HV network levels. However, the customer will not have contributed to the entire HV network they use, and so should not receive a 100% discount at HV. As such, if more investigation were to be carried out in relation to Option C, we would be open to this being taken forward.	Respondent highlighted that their response ties into the CDCM review which could take a wider view on the purpose of customer contributions.
npower	This is potentially the most cost reflective option as Customer Contributions simply increase the amount of revenue recovered through scaling. A consequence of this option would be to undo DCP161(excess capacity at a higher rate), which although not a specific concern does need to be duly considered.	Working Group noted they do not necessarily agree that this is the most cost reflective option.
SP Distribution / SP Manweb	This would depend on the justifying the concerns raised on the relevance of customer contributions. The working group should address this as part of the change. Complexity would be reduced within the charging model, plus linking the inputs to an external table which could change in the future will have an unintended impact on charges. However, cost reflectivity may be reduced.	Working Group noted the response and agreed that this point had previously discussed.
UK Power Networks	Option C would have an impact on the calculation of exceeded capacity charges, which from April 2018 will be calculated by removing the 'customer contribution' from the calculation of capacity charges. If progressed without further consideration this would undermine the solution of a separate proposal, and if left unchanged would result in both the capacity and exceeded capacity charges equalling the same charge.	Working Group noted the response.
Western Power Distribution	The concern that has been expressed is whether there would be a loss in cost reflectivity and possibly a loss of consistency with the application of the common connection charging methodology. However, the customer contributions reduce 500MW model costs to allow for amounts paid by the average consumer. The 500MW model is designed to produce long run price signals, which would typically not	Working Group noted the response.

	include the replacement of assets but would be attempting to assess the reinforcement cost of 500MW. Therefore, from that perspective it would seem inappropriate to dilute 500MW model costs by a customer contribution.	
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Company	3. For each Option A, B and C which DCUSA Charging Objectives does the CP better facilitate? Please provide supporting comments.	Working Group Comments															
British Gas	Insufficient detail has been provided in the consultation to allow a robust assessment of options A and B against the DCUSA Charging Objectives. Option C does not better facilitate the Objectives because of the dilution of the cost reflectivity in the resultant tariffs.	The working group noted that as previous comments had flagged that not enough information has been provided there would be limited value in reviewing the responses to this question at this point in time.															
Electricity North West	Option A – as data would be more up to date, improving cost reflectivity, we believe this option would better facilitate Charging Objectives 3 and 4. Option B – as data would become increasingly out of date each year we believe the effect of this option on the Charging Objectives would be neutral. Option C – as data would be removed we believe this to be a backward step, consequently resulting in a negative effect on the Charging Objectives.																
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid	<p>The below table summaries our view on whether each option has a positive (✓), negative (✗) or neutral (-) effect on each objective.</p> <table><tr><th colspan="2">Objective</th><th>Option A</th><th>Option B</th><th>Option C</th></tr><tr><td>Objective 1</td><td>Facilitates the discharge of obligations under the Act and the Licence</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Objective 2</td><td>Facilitates competition in the generation and supply of electricity</td><td>-</td><td>-</td><td>-</td></tr></table>	Objective		Option A	Option B	Option C	Objective 1	Facilitates the discharge of obligations under the Act and the Licence	-	-	-	Objective 2	Facilitates competition in the generation and supply of electricity	-	-	-	
Objective		Option A	Option B	Option C													
Objective 1	Facilitates the discharge of obligations under the Act and the Licence	-	-	-													
Objective 2	Facilitates competition in the generation and supply of electricity	-	-	-													

(Yorkshire) plc	Objective 3	Results in charges which are cost reflective	✓	-	-
	Objective 4	Takes account of developments in DNO businesses	✓	x	-
	Objective 5	Facilitates compliance with the Regulation on Cross Border Exchange	-	-	-
	<p>We feel option A better facilitates DCUSA objectives three and four. By updating data annually to appropriate source data, this approach offers improved cost reflectivity, better facilitating objective three, as well as taking into account developments in each DNO’s connections policies, thus better facilitating objective four.</p> <p>We do not feel option B better supports any of the DCUSA objectives. The main flaw with this option against option A is the cost reflectivity element, as the data to be used is static and already out of date.</p> <p>At present, we are not supportive of option C, and until more work is carried out to explore this, we cannot confirm whether it would better facilitate the DCUSA objectives. That said, we feel that if worked were progressed on this Option, it has the potential to have a positive impact against objectives three and four.</p>				
npower	Options A and B would not better facilitate any of the Charging Objectives				
	Option C could be considered more cost reflective as it reduces the revenue recovered through scaling				
SP Distributio	Option A: Charging Objective 3				
	Option B: Neutral				

n / SP Manweb	Option C: Does not better facilitate the charging objectives, unless it is justified that this input is not relevant in which case Charging Objective 3 would be better facilitated.	
UK Power Networks	We believe that all three options could be argued to better facilitate charging objectives 3 and 4, although this applies to varying degrees for each option.	
Western Power Distributio n	If we take the view that customer contributions are not necessary within the CDCM, then option C would better facilitate the charging objective three. The answer to the question is highly dependent upon whether the CDCM should include customer contributions or not.	

Company	4. Are you supportive of the proposed implementation date of 1 April 2019?	Working Group Comments
British Gas	n/a	The Working Group noted the response.
Electricity North West	In recognising the restrictions placed on the DNO not to change tariffs without fifteen months notice the proposed implementation date seems appropriate.	The Working Group noted the response.
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Yes, as this is the first feasible implementation date.	The Working Group noted the response.

npower	April 2019 is the earliest date that this change could take effect due to 15 months' notice of DUoS tariffs. If a timely decision on this modification was forthcoming from the authority that would provide sufficient notice of the change, noting that depending upon the option progressed the impact on customer tariffs could be significant.	The Working Group noted the response.
SP Distribution / SP Manweb	Yes we are supportive of the proposed implementation date of 1 April 2019.	The Working Group noted the response.
UK Power Networks	Yes we believe that this date is appropriate and is also the next which is available.	The Working Group noted the response.
Western Power Distribution	Yes, but please note the answer to question 7. It may be more appropriate to consider this type of change under that broader approach.	<p>The Working Group noted the response and observed that the CDCM review intend to apply changes from 2020, which means DCP 243 may be in place for one year only.</p> <p>It was questioned whether the DCP 243 solution could feed into review. The group observed that that applying customer contributions is fundamentally dependant on the costing model taken forward by the CDCM review Group.</p>

Company	5. Are there any alternative solutions or unintended consequences that should be considered by the Working Group?	Working Group Comments
British Gas	An impact assessment has not been conducted. As such, consequences, whether intended or not, cannot be evaluated.	The Working Group noted the response.
Electricity North West	We are concerned that the Working Group do not appear aware of the potential competitive impacts of these options, as no reference is made in the consultation document.	The Working Group seeks to know what competitive impacts are being described.

Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	None that we are aware of at this time.	The Working Group noted the response.
npower	Another option that could be considered (New D in Q1 response) would be to lock table 1060 inputs to their current values, which have remained unchanged since at least 2013 this resolves the stated defect by improving clarity on method of calculation and minimising tariff disturbance, it is also the simplest to implement (this would be no better or worse than options A or B being considered in terms of cost reflectivity as customer contributions calculation simply shifts revenue recovery to scaling)	The Working Group noted this proposal is inconsistent with the intent of this CP
SP Distribution / SP Manweb	The source table could change in the future and impact final charges.	The Working Group noted the potential for this and discussed that the legal text needs to be flexible to permit new tables to be included where necessary.
UK Power Networks	<p>As mentioned above, the impact of option C on the calculation of excess capacity needs to be considered carefully, if this option is progressed further.</p> <p>We also believe that there are two further options which fall within the intent of the DCP and which therefore should be fully considered further by the working group;</p> <p>Option D which would formally lock down the existing values used by DNOs, and include those values as part of schedule 16 of DCUSA, these would not change year on year.</p> <p>Option E which would take the approach laid out under option B, taking the data from the five years of DPCR5, but not calculating an industry average, instead each DNO would utilise their own data. Once</p>	<p>The Working Group noted that what is proposed as Option D is inconsistent with the intent of this CP.</p> <p>The Working Group noted that Option E is effectively Option B but removes the industry average.</p> <p>The Working Group questioned the impacts on pricing.</p>

	calculated these values would not change year on year, and could be included as part of schedule 16 of DCUSA.	
Western Power Distribution	Excess capacity charges (DCP161) is very dependent upon customer contributions and so if they were removed this would cause an issue in the calculation of excess capacity charges.	The Working Group noted the response.

Company	6. Do you have any further comments?	Working Group Comments
British Gas	We recommend an impact assessment which details the movements in charges under each option is carried out. A further consultation should then be carried out, in which explanations for the movements and whether such movements can be justified are provided.	The Working Group noted the response.
Electricity North West	We don't believe that the examples mentioned under Section 4.14 of the consultation document are valid as these are for illustrative purposes. Additionally, to not include any elements of General Reinforcement costs as suggested in Section 4.17 does not seem appropriate as it could lead to data being distorted.	The Working Group observed that these examples are illustrative and not based on actual instances. The Working Group also noted that additional justification would be required for any enduring solution regarding general reinforcement.
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Only those in response to question 7.	The Working Group noted the response.

npower	As the current data source has been superseded it is not clear if customer contribution values could/would change in the future if there were no change to DCUSA, as such New Option D may actually be the status quo.	The Working Group noted that this option is inconsistent with the intent of the CP. The Working Group also noted that the legal text does not prevent the customer contributions changing, thus option D would not be the status quo.
SP Distribution / SP Manweb	No further comments.	The Working Group noted the response.
UK Power Networks	No.	The Working Group noted the response.
Western Power Distribution	None	The Working Group noted the response.

Company	7. Are you aware of any wider industry developments that may impact upon or be impacted by this CP?	Working Group Comments
British Gas	n/a	The Working Group noted the response.
Electricity North West	We are not aware of any wider industry developments that may have an impact.	The Working Group noted the response.
Northern Powergrid on behalf of Northern	With the CDCM review ongoing, we expect that the most appropriate solution to the issue of customer contributions could become clearer as a result of fundamental changes to the costing model underpinning the CDCM. Alternatively, the CDCM review could highlight that the whole premise of customer contributions is actually obsolete. With the CDCM review potentially implementing changes	Working Group noted the potential interaction with the CDCM review. The proposer explained that there would be merit in waiting for the costing model developed under the CDCM

Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	as early as April 2020, DCP243 may only be implemented for a single year, causing unnecessary tariff disturbance for minimal benefit. As a result of this, consideration should be given by the proposer to withdraw this change from the DCUSA process.	review group to be further progressed before deciding whether withdrawing this CP is a desired way forward.
npower	A consequence of option C would be to undo DCP161(excess capacity at a higher rate), which although not a concern it does require due consideration.	The Working Group noted the response.
SP Distribution / SP Manweb	SPEN are not aware of any wider industry developments that may impact upon or be impacted by this CP.	The Working Group noted the response.
UK Power Networks	No, not at this time.	The Working Group noted the response.
Western Power Distribution	The CDCM review under the DCMF MIG, has been put on hold until early 2017. The holistic approach that might undertake, will be impacted on by this change.	The Working Group noted the response.