







DCUSA DCP 243 Consultation Three		At what stage is this document in the process?
<h1>DCP 243</h1> <h2>DCP Title - Treatment of Customer Contributions in the CDCM</h2> <p>Date Raised: 5 June 2015</p> <p>CP Status: Standard Change</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p><b>Purpose of Change Proposal:</b></p> <p>DCP 243 seeks to revise DCUSA Schedule 16 to utilise current source data to determine a common industry set of modelling inputs in order to improve clarity in the approach to be used in calculating 'Customer contribution under the current connection charging policy' for use in CDCM table 1060.</p> <p>This document is the Third Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 243.</p>		
	<p>The Workgroup recommends that this Change Proposal (CP) should:</p> <ul style="list-style-type: none"> <li>• proceed to a Consultation Three</li> </ul>	
	<p>Parties are invited to consider the questions set in section 9 and submit comments using the form attached as Attachment 1 to <a href="mailto:dcusa@electralink.co.uk">dcusa@electralink.co.uk</a> by <b>30 November 2016</b>.</p>	
	<p>The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the CP.</p>	
	<p>Impacted Parties: DNOs, IDNOs, Suppliers</p>	
	<p>Impacted Clauses: Schedule 16 paragraphs 29-31, paragraph 3</p>	

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Timetable		
The timetable for the progression of the CP is as follows:		
<b>Change Proposal timetable</b>		
<b>Change Proposal timetable:</b>		
Activity	Date	
Initial Assessment Report Approved by Panel	17 June 2015	
Third Consultation issued to Parties	09 November 2016	
Change Report issued to Panel	TBC	
Change Report issued for Voting	TBC	
Party Voting Ends	TBC	
Change Declaration Issued to Parties	TBC	
[Change Declaration issued to Authority]	TBC	
[Authority Decision]	TBC	

## 1. Summary

### What

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and electricity Suppliers and large Generators. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.

### Why

- 1.2 UK Power Networks raised DCP 243 to revise DCUSA Schedule 16 to utilise current source data to determine a common industry set of modelling inputs in order to improve clarity in the approach to be used in calculating 'Customer contribution under the current connection charging policy' for use in the Common Distribution Charging Methodology (CDCM) model input table 1060

### How

- 1.3 The CP solution will need to be consulted upon by the Working Group with industry parties.
- 1.4 The legal text will be developed by the Working Group once the final solution is agreed upon.

## 2 Governance

### Justification for Part 1 Or Part 2 Matter

- 2.1 DCP 243 is classified as a Part 1 matter as it will impact charges and therefore will go to the Authority for determination.

### Requested Next Steps

- 2.2 Following a review of the Consultation responses, the Working Group will work to agree the detail of the solution for DCP 243.

## 3 Why Change?

### Background of DCP 243

- 3.1 DCP 243 has been raised by UK Power Networks and seeks to revise DCUSA Schedule 16 to utilise current source data to determine a common industry set of modelling inputs in order to improve clarity in the approach to be used in calculating 'Customer contribution under the current

connection charging policy' for use in the Common Distribution Charging Methodology (CDCM) model input table 1060 (See Attachment 5).

- 3.2 Currently the existing data sources for this model input are extracted via DNO specific samples from FPBQ submission data from between 2005/06 and 2008/09. Over time these data sources have been superseded and therefore require updating.
- 3.3 Improved cost and revenue reporting data is available and this could be used as the source of data to populate CDCM model input 1060. A template (Attachment 2) was constructed as part of the Distribution Charging Methodology Forum (DCMF) Methodologies Issues Group (MIG) in 2015 to utilise data which was available at that point in time.
- 3.4 Following extensive discussion amongst industry parties within both the Distribution Charging Methodologies Forum (DCMF) and DCMF Methodologies Issues Group (MIG), it was felt that in order to mitigate against unnecessary volatility it would now be appropriate to utilise the latest DNO specific data and calculate a set of values which would be utilised on a common basis by all DNOs. Once determined the model input values would not be revised for a period of years, which the proposer suggested could be either three or five years. However, all of this has been considered and debated as part of the working group meetings.
- 3.5 The Working Group would need to consider whether the template developed by the MIG (Attachment 2) or an alternative, should be part of DCUSA or remain outside of the governance arrangements.
- 3.6 A 'common' approach would likely need a central party to collate and undertake the calculation to determine the inputs which all DNOs would use, which the proposer suggests could be undertaken alongside the work already carried out by the Nominated Calculation Agent (NCA) for the HV and LV Split values for use in the Price Control Disaggregation Model (PCDM), or from further changes to the template in order to calculate some average values, if deemed to be appropriate.

## 4 DCP 243 Working Group Assessment

- 4.1 The DCUSA Panel established a Working Group to assess DCP 243. The group is comprised of Distributor, Supplier and Ofgem representatives. It is noted that all DCUSA Parties were invited to attend. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – [www.dcusa.co.uk](http://www.dcusa.co.uk).

- 4.2 The group reviewed the updated Customer Contributions template as developed under the MIG using the CDCM user guidance on Customer Contributions and made some amendments to the original template. As a result of this review, the Working Group is now consulting on three distinct options for the progression of the change, which are explained in further detail from paragraph 4.7 of this consultation.
- 4.3 The Customer Contributions CDCM input values are used to reflect the amount of money paid to the DNO in relation to work instigated at the request of the Customer (known as 'Customer Contributions').

## **DCP 243 – Previous Consultations**

### **DCP 243 Consultation One**

- 4.4 The first DCP 243 consultation was issued on 03 September 2015 seeking industry opinion on the CP and whether the updated template is appropriate for the collection of the reported data for Customer Contributions. Responses to the consultation and Working Group comments are given as Attachment 3.

### **DCP 243 Consultation Two**

- 4.5 The second DCP 243 consultation was issued on 14 June 2016 seeking industry views on the preferred options for updating the Customer Contribution template. The Working Group consulted on a number of separate areas, the responses to the consultation and Working Group comments are given as Attachment 4.

### **Changes as a result of the first two consultations**

- 4.6 Following the two consultations, the working group have now considered three alternative approaches which are as follows:
- Option A which uses reported data updated annually;
  - Option B which uses historically reported data to calculate a set of fixed input values; and
  - Option C which proposes to set all Customer Contributions to zero.

### **Option A**

- 4.7 Option A proposes to carry out a calculation on reported data which would be updated annually. This would make use of tables in the Connections Reporting Pack which forms part of the DNO Regulatory Reporting Pack (RRP) submissions to Ofgem, which are submitted annually by July 31<sup>st</sup>. Data would be used for a rolling five years leading up to the latest available. For example, 2019/20 charges to be published in December 2017 would use the RRP submission for each

regulatory year from 2012/13 to 2016/17, with the 2016/17 RRP being submitted by 31<sup>st</sup> July 2017.

4.8 The calculations would be carried out on data in the CN2 tables from the DPCR5 RRP or the CR5 table from the RIIO-ED1 RRP (note the table names have changed from the DPCR5 RRP to the RIIO-ED1 RRP but the structure remains largely unchanged). This table contains the following information for each connection scheme financially completed within the regulatory year:

- Voltage level of the connection and voltage level of other work carried out in relation to that connection.
- Whether an ICP has carried out any work in relation to the scheme (note that no detail on ICP involvement is included in the data, with only a 'true/false' type field for ICP involvement included).
- The margin included in the quote.
- The number of exit points provided at each voltage level.
- Whether the quote is unmetered, relates to a diversion, or includes generation.
- Details of the quote and details of the actual income broken down by:
  - Sole use funded / subject to apportionment rules and customer funded / subject to the apportionment rules and DNO funded.
  - Contestable / non-contestable.
  - Direct / indirect cost.

4.9 The breakdown of the quote can be used to determine the proportion of work which has been customer funded, and so the 'customer contribution' percentage. As a result, the DNO would take the data for all required years, split the data into voltage levels and calculate the total cost at each network level which is customer funded, and the total cost which is DNO funded. The customer contribution percentage is then calculated as the customer funded element as a percentage of the total cost.

### **Option B**

4.10 Option B proposes to carry out the same calculation as in Option A, but applied to all five years of DPCR5 (2010/11 to 2014/15). A simple average of the final customer contribution values for all 14 DNO areas would then be calculated, and the resulting values hard coded into the methodology to remain fixed unless a further DCP is raised.

4.11 The Working Group noted that although Option B may not be as accurate a reflection of what customers have contributed to as Option A, it does have many advantages in reduced complexity, and move this input from requiring an annual data collection exercise being undertaken. It would

also be that the values which would be proposed to be used by all DNOs would not change year on year, which would mitigate against un-necessary volatility.

### **Option C**

4.12 The Working Group discussed a further option, which is to effectively remove customer contributions from the CDCM (i.e. to set the input percentages to zero in the methodology). The working group noted that this option might appear an extreme solution, but felt that it was worthy of consideration, which was especially relevant as the very existence of Customer Contributions had been questioned during discussions on this change. The working group removed the inputs from live CDCM models to understand the impact this option would have, the result was typically the fixed cost increased and the unit cost(s) reduced, however for the 'average' customer their annual charge did not materially change.

### **Operational Solutions for Options A and B**

4.13 The Working Group have considered a number of separate areas which impact both Option A and B as currently drafted, these are:

4.14 **Splits** – The approach defined in both Options A and B uses the voltage code in the CN2/CR5 data to determine the appropriate voltage. Some work has voltage code 'LVHV' indicating that the work relates to an LV connection but has involved some HV work. It is not possible to determine from CN2/CR5 data which elements of the cost of the work relate to LV and which to HV. Some DNOs are able to determine this split percentage from data held internally whilst others are not. However, all DNOs publish a Common Connection Charging Methodology (CCCM) Statement which includes examples of certain types of connection. These examples can be used to determine a representative percentage of work on a job with voltage code 'LVHV' which relates to work on the HV network. As part of the CCCM within section 5, there are worked examples (with £ values) illustrating the application of the methodology, example 2b covers new connections on a domestic housing development with interconnection requiring a new distribution substation, using this type of approach it would be possible to derive a % split across voltage levels.

4.15 **Independent Connection Provider (ICP) data** – The data in CN2/CR5 includes data relating to jobs where some work has been carried out by an ICP and some work by the DNO. The Working Group agreed that such data will be excluded from the calculation as there is a risk of understating the customer contribution that is being reported. This is because jobs which have been partially carried out by an ICP will appear in the DNO's reporting with only the cost to the DNO, hence the customer contribution made direct to the ICP will not be reported by the DNO, and so the customer contribution will be understated. ICPs do not provide information to Ofgem as they are not licenced by Ofgem, so there is no equivalent reporting available for ICP work.

**4.16 Distributed Generation (DG) and Unmetered Supplies (UMS) data –** The Working group

considered whether DG and UMS connections should be included. It was observed that costs for these connections in DPCR5 were reported in CN3 (DG) and CN4-6 (UMS). It was agreed that the data should be included for UMS as these are connections to the network; they have (at least in part) been contributed to by the customer and are included in the 500MW model, which is used as the initial cost base within the CDCM. It was however agreed that DG should be excluded, mainly as DG is not included as part of the current 500MW model.

**4.17 Contribution to General Reinforcement -** The Working Group discussed whether the customer contribution percentages should reflect that customers have not contributed to general reinforcement upstream. For example, a group of housing estate connection schemes being completed may drive reinforcement being required at a higher voltage level which would not have been contributed to by connections customers and would not be included in CN2/CR5 data as it does not relate to individual schemes. The group noted that Customer Contributions is about individual customers and what they pay for their connection, so felt that including general reinforcement was not applicable. It was also noted that the continued inclusion of a term for general reinforcement added significant complexity to the calculation. As a result it was agreed that the calculation of Customer Contributions would not include any element of General Reinforcement costs going forward.

**Pros and Cons of Each Option**

**4.18** The table below shows the pros and cons for the proposed solutions:



Proposed Solutions	Advantages	Disadvantages
<b>Option A</b>	<ul style="list-style-type: none"> <li>i. Using the latest available data would ensure that the inputs would be cost reflective.</li> <li>ii. Input values would be updated annually without the need for a DCP and so would keep pace with changes to DNO connection policy.</li> </ul>	<ul style="list-style-type: none"> <li>i. Would see potentially significant movement year on year and so could be a source of volatility</li> <li>ii. Would require a data sourcing exercise each year.</li> <li>iii. Even though the latest data would be utilised, due to the fifteen months' notice and the time lag of reporting, the oldest data would be approx. seven years old.</li> </ul>
<b>Option B</b>	<ul style="list-style-type: none"> <li>i. Following implementation (which would likely cause some tariff disturbance initially) using five years of fixed data (from DCPR5) would not see charges impacted by Customer Contributions going forward.</li> </ul>	<ul style="list-style-type: none"> <li>i. The data would become increasingly out of date, from implementation the most up to date would be four years old (and the oldest nine), and this would become older with each charging year.</li> <li>ii. In order to update the values, a further DCP would be required, which given the length and complexity of discussions both by the Working Group for this CP and the MIG prior to the CP being raised, is unlikely to be an efficient process.</li> </ul>
<b>Option C</b>	<ul style="list-style-type: none"> <li>i. Customer Contributions are considered by some to not be relevant for the calculation of Use of System charges, removing them would address this issue.</li> </ul>	<ul style="list-style-type: none"> <li>i. The calculation of Excess Capacity (introduced by DCP161) excludes Customer Contributions to calculate the charge, by removing it from the CDCM would require this to be considered.</li> <li>ii. Expected to have a significant impact upon how the revenue is charged for (higher fixed and lower unit costs), although total average cost largely unaffected.</li> </ul>

## 5 Relevant Objectives

### Assessment against the DCUSA Charging Objectives

- 5.1 The Working Group is also seeking Parties views on whether the three options explained above for DCP 243 better facilitates any of the DCUSA Charging Objectives as set out in the table below.

Impact of the Change Proposal on the Relevant Objectives:	
Relevant Objective	
<b>Charging Objective One</b> - that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence	
<b>Charging Objective Two</b> - that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)	
<b>Charging Objective Three</b> - that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business	
<b>Charging Objective Four</b> - that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business	
<b>Charging Objective Five</b> - that compliance by each DNO Party with the Charging Methodologies facilitates compliance with the Regulation on Cross-Border Exchange in Electricity and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	

## 6 Impacts & Other Considerations

### Engagement with the Authority

- 6.1 Ofgem has been fully engaged throughout the development of DCP 243 as a member of the Working Group.

## 7 Implementation

- 7.1 The implementation date for DCP 243 is proposed as being 1 April 2019.

## 8 Legal Text

- 8.1 The Working Group will develop the legal text based on the preferred option and the outcome of this consultation.

## 9 Consultation Questions

- 9.1 The Working Group is seeking industry views on the following consultation questions:

Question Number	Question
1	Please provide your thoughts on all options Option A, B and C in order of preference?
2	Option C proposes to remove Customer Contributions entirely. Do you have any concerns with this approach?
3	For each Option A, B and C which DCUSA Charging Objectives does the CP better facilitate? Please provide supporting comments.
4	Are you supportive of the proposed implementation date of 1 April 2019?
5	Are there any alternative solutions or unintended consequences that should be considered by the Working Group?
6	Do you have any further comments?
7	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

- 9.2 Responses should be submitted using Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **30 November 2016**.

- 9.3 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

### Next Steps

- 9.4 Responses to the Consultation will be reviewed by the DCP 243 Working Group. The Working Group will then determine the progression route for the CP.
- 9.5 If you have any questions about this paper or the DCUSA Change Process, please contact the DCUSA helpdesk by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3008.

## Attachments

- Attachment 1 –Consultation Response Form
- Attachment 2 – Revised Customer Contributions Templates
- Attachment 3 – Consultation One with Collated Responses
- Attachment 4 – Consultation Two with Collated Responses
- Attachment 5 – DCP 243 Change Proposal Form