

DCP 243 Consultation Three Collated Responses

Company	Confidential/ Anonymous	1. Please provide your thoughts on all options Option A, B and C in order of preference?
British Gas	Non-confidential	<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>
Electricity North West	Non-confidential	<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>
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd	Non-confidential	<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 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>

and Northern Powergrid (Yorkshire) plc		<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>																									
npower	Non-confidential	<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
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SP Distribution / SP Manweb	Non-confidential	<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> <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.</p> <p>and then</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.
UK Power Networks	Non-confidential	<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 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	Non-confidential	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.

Company	Confidential/ Anonymous	2. Option C proposes to remove Customer Contributions entirely. Do you have any concerns with this approach?
British Gas	Non-confidential	<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>
Electricity North West	Non-confidential	<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>
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	<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 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.</p>
npower	Non-confidential	<p>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.</p>

SP Distribution / SP Manweb	Non-confidential	<p>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.</p> <p>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.</p>
UK Power Networks	Non-confidential	<p>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.</p>
Western Power Distribution	Non-confidential	<p>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 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.</p>

Company	Confidential/ Anonymous	3. For each Option A, B and C which DCUSA Charging Objectives does the CP better facilitate? Please provide supporting comments.
British Gas	Non-confidential	<p>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.</p>
Electricity North West	Non-confidential	<p>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.</p> <p>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.</p>

		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 (Yorkshire) plc	Non-confidential	The below table summaries our view on whether each option has a positive (✓), negative (✗) or neutral (-) effect on each objective.																														
		<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><tr><td>Objective 3</td><td>Results in charges which are cost reflective</td><td>✓</td><td>-</td><td>-</td></tr><tr><td>Objective 4</td><td>Takes account of developments in DNO businesses</td><td>✓</td><td>✗</td><td>-</td></tr><tr><td>Objective 5</td><td>Facilitates compliance with the Regulation on Cross Border Exchange</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 3	Results in charges which are cost reflective	✓	-	-	Objective 4	Takes account of developments in DNO businesses	✓	✗	-	Objective 5	Facilitates compliance with the Regulation on Cross Border Exchange	-	-	-
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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.																																
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.																																
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.																																

npower	Non-confidential	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 Distribution / SP Manweb	Non-confidential	Option A: Charging Objective 3 Option B: Neutral 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	Non-confidential	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 Distribution	Non-confidential	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	Confidential/ Anonymous	4. Are you supportive of the proposed implementation date of 1 April 2019?
British Gas	Non-confidential	n/a
Electricity North West	Non-confidential	In recognising the restrictions placed on the DNO not to change tariffs without fifteen months notice the proposed implementation date seems appropriate.
Northern Powergrid on behalf of	Non-confidential	Yes, as this is the first feasible implementation date.

Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc		
npower	Non-confidential	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.
SP Distribution / SP Manweb	Non-confidential	Yes we are supportive of the proposed implementation date of 1 April 2019.
UK Power Networks	Non-confidential	Yes we believe that this date is appropriate and is also the next which is available.
Western Power Distribution	Non-confidential	Yes, but please note the answer to question 7. It may be more appropriate to consider this type of change under that broader approach.

Company	Confidential/ Anonymous	5. Are there any alternative solutions or unintended consequences that should be considered by the Working Group?
British Gas	Non-confidential	An impact assessment has not been conducted. As such, consequences, whether intended or not, cannot be evaluated.
Electricity North West	Non-confidential	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.
Northern Powergrid on	Non-confidential	None that we are aware of at this time.

behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc		
npower	Non-confidential	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)
SP Distribution / SP Manweb	Non-confidential	The source table could change in the future and impact final charges.
UK Power Networks	Non-confidential	<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 calculated these values would not change year on year, and could be included as part of schedule 16 of DCUSA.</p>
Western Power Distribution	Non-confidential	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.

Company	Confidential/ Anonymous	6. Do you have any further comments?
British Gas	Non-confidential	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.
Electricity North West	Non-confidential	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.
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	Only those in response to question 7.
npower	Non-confidential	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.
SP Distribution / SP Manweb	Non-confidential	No further comments.
UK Power Networks	Non-confidential	No.
Western Power Distribution	Non-confidential	None

Company	Confidential/ Anonymous	7. Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
British Gas	Non-confidential	n/a
Electricity North West	Non-confidential	We are not aware of any wider industry developments that may have an impact.
Northern Powergrid on behalf of Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc	Non-confidential	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 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.
npower	Non-confidential	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.
SP Distribution / SP Manweb	Non-confidential	SPEN are not aware of any wider industry developments that may impact upon or be impacted by this CP.
UK Power Networks	Non-confidential	No, not at this time.
Western Power Distribution	Non-confidential	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.