



## **DCUSA Change Report**

### **DCP 232 - 'GP and GL Solution'**

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 232 'GP and GL Solution'.
- 1.2 The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.3 Parties are invited to consider the proposed amendments (Attachment 2) and submit their votes using the form attached as Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **31 July 2015**.

## 2 EXECUTIVE SUMMARY

- 2.1 DCP 232 was raised by Western Power Distribution on the 11 February 2015 to revise the legal text for the generation revenue within DCUSA in Schedules 17 and 18 to allow for the change from the DPCR5 Licence to ED1 Licence.
- 2.2 Over a period of four months the DCP 232 Working Group met three times and issued one consultation. The consultation requested for Parties to provide their view on the approaches proposed to amend the GP and GL terminology to reflect the fact that those definitions do not exist in the RIIO-ED1 Distribution licence in DCUSA Schedule 17 and Schedule 18 Clause 12. The Working Group concluded that the majority of consultation respondents preferred Option B as the approach for amending the GL term. The Working Group unanimously supports the principles of this change and the legal text.

## 3 BACKGROUND TO THE DCP 232 CHANGE PROPOSAL

- 3.1 Electricity Distribution Price Control Review 5 (DPCR5) covers all aspects of the way in which DNOs earn their revenue and are regulated and ran from 01 April 2010 to the 31 March 2015. From the 01 April 2015 to 31 March 2023 the RIIO (Revenue = Incentives +- Innovation + Outputs) - ED1 price control sets incentives for providing a sustainable energy sector, deliver key outputs and innovate for the benefit of consumers and how the DNOs earn their associated revenue. It has been identified that the GP and GL terms that are aligned to the DPCR5 Distribution Licence no longer exist under the RIIO-ED1 Distribution

Licence.

#### **4 INTENT OF DCP 232 CHANGE PROPOSAL**

- 4.1 DCP 232 has been raised by Western Power Distribution as a Part 1 matter<sup>1</sup>, to revise the legal text for the generation revenue within DCUSA in Schedules 17 and 18 to allow for the change from the DPCR5 licence to ED1 licence.
- 4.2 The GP and GL terminology contribute to part of the EDCM generation revenue. The GP term relates to DPCR5 generation pass-through revenue, which is based on the amount of use of system capex for generation that was subject to the pass-through arrangement under the DPCR5 price control.
- 4.3 The GL term relates to DPCR4 generation revenue, which represents revenue in respect of the generation that was connected to the distribution system prior to 31 March 2010, reflecting the generation incentive scheme that was in effect at that date.
- 4.4 The CP's legal text proposes that the GP term states that it applies to the DPCR5 Distribution licence from 01 April 2010 to the 31 March 2015. Whilst the CP proposes two solutions for the GL term.

#### **5 DCP 232 – WORKING GROUP CONSIDERATIONS**

- 5.1 The DCUSA Panel established a Working Group to assess DCP 232. The Working Group met on two occasions and was comprised of Supplier, DNOs, and Ofgem representatives.
- 5.2 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).
- 5.3 All Working Group members were supportive of the general principle of DCP 232.
- 5.4 The Working Group agreed to consult upon the two proposed definitions for GL under DCUSA Schedule 17 Clause 12 and DCUSA Schedule 18 Clause 12 and provided an impact assessment in the consultation on the impact of the two options proposed by this change for the GL term and the scenario where no change is made.

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<sup>1</sup> DCP 232 has been classified as a Part 1 matter in accordance with Clause 9.5.5 as it is likely to amend the EHV Distribution Charging Methodologies. Once progressed, the CP will require Authority consent.

5.5 **Option A** proposed that the GL term is defined in the legal text of Schedule 17 and 18 as “the incentive revenue in the charging year in respect of generators connected between 2005 and 2010 calculated for the charging year **by using the DG Close out value from the DG4 sheet of the DPCR5 Closeout Workbooks for the charging year and multiplying by the forecast value of RPIft for the charging year**”; and

AGPa is the average of the values of GPa for the charging year and each of the two years immediately preceding the charging year. **For regulatory year 2014/2015** GPa is calculated using a modified version of the formula in paragraph 11.6 of the Electricity Distribution Licence (CRC11) from DPCR5. To calculate GPa, the term GPX is replaced by the term GPS in the formula in paragraph 11.6. Both GPX and GPS are defined in paragraph 11.7 of the same document.

**For regulatory years 2015/16 onwards GPa is equal to zero.**

5.6 **Option B** proposes that GL is defined in the legal text for Schedule 17 and 18 as:

*GL is equal to zero.*

AGPa is the average of the values of GPa for the charging year and each of the two years immediately preceding the charging year. **For regulatory year 2014/2015** GPa is calculated using a modified version of the formula in paragraph 11.6 of the Electricity Distribution Licence (CRC11) from DPCR5. To calculate GPa, the term GPX is replaced by the term GPS in the formula in paragraph 11.6. Both GPX and GPS are defined in paragraph 11.7 of the same document.

**For regulatory years 2015/16 onwards GPa is equal to zero.**

## 6 DCP 232 CONSULTATION ONE

6.1 The Working Group carried out a Consultation to give DCUSA Parties and other interested organisations (Attachment 4) an opportunity to review and comment on DCP 232. There were six responses received to the consultation. Five respondents were Distributors and one respondent was a Supplier. The Working Group discussed each response and its comments are summarised alongside the collated Consultation responses in Attachment 4.

6.2 A summary of the responses received, and the Working Group’s conclusions are set out below:

**Question 1: Do you understand the intent of the DCP 232 change?**

Respondent Party Type	Yes	No	Undecided
DNOs	5	0	0
Suppliers	1	0	0

6.3 All respondents understood the intent of the CP.

**Question 2: Are you supportive of the principles of the DCP 232 change?**

Respondent Party Type	Yes	No	Partially
DNOs	5	0	0
Suppliers	1	0	0

6.4 All respondents were supportive of the principles of the CP.

**Question 3: Do you have any comments on the GP term as set out in the proposed legal text?**

6.5 The Working Group noted that there were no comments provided on the proposed amendments to the GP term in the draft legal text.

**Question 4: This change proposes to amend the references to the GL term in Schedule 17 and Schedule 18 by utilising the approach set out in either Option A or Option B of the proposed legal text. Do you have a clear preference for Option A or Option B??**

Respondent Party Type	Option A	Option B
DNOs	1	4
Suppliers	0	1

6.6 The Working Group noted that the majority of respondents preferred Option B.

6.7 The respondent who preferred Option A advised that they considered that Option A was more closely aligned with the licence than Option B. This respondent considered that “Option B assumes that there is no incentive revenue in the charging year, which, as the DPCR5 values are trued up, may well not be the case”.

6.8 The respondents who preferred Option B advised that:

- “it is “the more logical choice as the term no longer exists in the Licence post 31st March 2015”;
- “we do not believe that there is any material benefit in taking forward option A”; and

- One Distributor noted that the majority of generators in their networks are post 2010 with a large proportion connecting in the last couple of years. If the GL was not equal to zero then the majority of generators would be paying for an incentive generated by a minority which is unfair.

6.9 The Working Group discussed the parties preference for Option A, however although it is thought possible that values may continue to exist it was agreed by all that these were not material. As a result it was agreed that, on balance, all Working Group members were happy to proceed with Option B.

**Question 5: Do you have any other comments on the proposed legal text?**

6.10 Five of the six respondents did not have any further comments on the legal text. One respondent suggested that the Working Group could make a change *“to the EDCM model to remove the relevant cells once a clear way forward on this change is agreed, it minimises the risk of retaining input cells which will not be used beyond a defined date”*.

6.11 The Working Group agreed that following the revision of the legal text, it is clear that there is a cell in the EDCM model that is no longer required. The Working Group considered that due to the urgency of implementing this change for charge setting that a separate housekeeping change to the model would need to be raised at a later date.

**Question 6: Which DCUSA General Objectives does the CP better facilitate? Please provide supporting comments.**

1. The development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System.
2. The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity.
3. The efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.
4. The promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it.
5. 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.

Respondent Party Type	Objective 1	Objective 2	Objective 3	Objective 4	Objective 5	None	Undecided
<b>DNOs</b>	0	0	5	0	0	0	0
<b>Supplier</b>	0	0	1	0	0	0	0

6.12 All respondents considered that DCUSA General Objective three was better facilitated by this change for the following reasons:

- “By ensuring that DNO parties are aligned with the methodology and wording of the RII0 ED1 licence”;
- “by ensuring consistency between the licence and DCUSA”; and
- “brings the EDCM into line with the RII0-ED1 Distribution licence”.

6.13 The Working Group noted the responses. Please refer to section 7 of the report for the Working Groups rationale on which objectives are best facilitated by this CP.

**Question 7: Which DCUSA Charging Objectives does the CP better facilitate? Please provide supporting comments.**

1. 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.
2. 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).
3. 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.
4. 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.

5. 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.

Respondent Party Type	Objective 1	Objective 2	Objective 3	Objective 4	Objective 5	None	Undecided
DNOs	5	0	0	0	0	0	0
Supplier	1	0	0	0	0	0	0

6.14 All respondents considered that DCUSA Charging Objective one was better facilitated by this change for the same rationale as provided for DCUSA General Objective three:

- “By ensuring that DNO parties are aligned with the methodology and wording of the RIIO ED1 licence”;
- “by ensuring consistency between the licence and DCUSA”; and
- “brings the EDCM into line with the RIIO-ED1 Distribution licence”.

6.15 The Working Group noted the responses. Please refer to section 7 of the report for the Working Groups rationale on which objectives are best facilitated by this CP.

**Question 8: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?**

6.16 All respondents were not aware of any wider industry developments that would impact upon this CP. One respondent suggested that there may be future changes proposed that would impact this CP but this would be subject to the outcome of the EDCM review.

6.17 The Working Group noted the responses.

**Question 9: Do you have a preference on the date that DCP 232 is implemented into the DCUSA?**

6.18 The majority of respondents requested for this change to be implemented on the 01 April 2016. One Supplier respondent did not have a preference on the date that the CP was implemented. One respondent advised that DCP 178 ‘Notification period for change to use

*of system charges’ “comes into effect on 5th November 2015, whereby DNOs will set final charges for 2016/17 and 2017/18”.* This respondent requested that DCP 232 be implemented in time for setting these charges.

- 6.19 The Working Group noted the responses and agreed to retain the implementation date for this CP as the 01 April 2016 so that it may be used in charge setting.

**Question 10: Are there any alternative solutions or matters that should be considered by the Working Group?**

- 6.20 The Working Group noted that all of the respondents did not have any alternative solutions or matters to be considered by the Working Group.

**7 DCP 232 – WORKING GROUP CONCLUSIONS**

- 7.1 The Working Group reviewed each of the responses received to consultation one and concluded that all of the respondents understood the intent of DCP 232.
- 7.2 The Working Group agreed that all respondents were supportive of the principle of the CP.
- 7.3 The Working Group noted that all respondents felt that specifically DCUSA General Objectives 3 and DCUSA Charging Objective 1 were better facilitated by this change.
- 7.4 The Working Group concluded that the primary benefit of this CP is that it ensures that the wording within EHV Distribution Charging Methodologies is consistent with the RIIO-ED1 Distribution Licence.

**8 EVALUATION AGAINST THE DCUSA OBJECTIVES**

- 8.1 The Working Group considers that DCUSA General Objective 3 and DCUSA Charging Objective 1 are better facilitated by DCP 232. The reasoning against the objectives is set out below:

**General Objective Three** –*The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences.*

**Charging Objective One** - *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.*

**Working Group view on DCP 232:** The Working Group agreed that DCUSA General Objective 3 and DCUSA Charging Objective 1 are better facilitated by this change by ensuring that the methodology and wording within DCUSA is consistent with the RIIO-ED1 Distribution Licence.

## 9 IMPACT ON GREENHOUSE GAS OMISSIONS

9.1 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP 232 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

## 10 IMPLEMENTATION

10.1 Subject to Party approval and Authority consent, DCP 232 will be implemented on the 01 April 2016.

## 11 PANEL RECOMMENDATION

11.1 The DCUSA Panel approved the DCP 232 Change Report on 15 July 2015. The timetable for the progression of the CP is set out below:

Activity	Target Date
Change Report Approved By DCUSA Panel	15 July 2015
Change Report Issued For Voting	17 July 2015
Party Voting Ends	31 July 2015
Change Declaration Issued	04 August 2015
Authority Decision <sup>2</sup>	08 September 2015
Implementation	01 April 2016

<sup>2</sup> Indicative decision date based on the 25 Working Day KPI

**12 ATTACHMENTS:**

- Attachment 1 – DCP 232 Voting Form
- Attachment 2 – DCP 232 Proposed Legal Text
- Attachment 3 - DCP 232 Change Proposal
- Attachment 4 – DCP 232 Consultation Documents