



## **DCUSA Consultation**

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### DCP 232– GP and GL Solution

## PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors, 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.
- 1.2 This document is a consultation issued to all DCUSA Parties, interested third parties, and the Authority in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 232 '*GP and GL Solution*'.
- 1.3 Parties are invited to consider the proposed legal drafting set out in Attachment 2 to this document and submit comments using the response form provided as Attachment 1 to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) by **Tuesday, 19 May 2015**.

## 2 BACKGROUND

- 2.1 The GP and GL terminology contribute to part of the EDCM generation revenue.
- 2.2 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.
- 2.3 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.

## 3 DCP 232 'GP AND GL SOLUTION'

- 3.1 DCP 232 has been raised by Western Power Distribution to revise the legal text for the generation revenue within DCUSA in Schedules 17 and 18 to allow for the change from the DPCR5<sup>1</sup> license to RIIO-ED1<sup>2</sup> license. The ED1 Distribution licence will come in to effect

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<sup>1</sup> Electricity Distribution Price Control Review 5 covers all aspects of the way in which DNOs earn their revenue and are regulated and runs from 01 April 2010 to the 31 March 2015.

on the 01 April 2015 and it has been identified that the GP and GL terms that are aligned to the DCPR5 Distribution Licence no longer exist under the RII0-ED1 Distribution Licence.

- 3.2 The DCP 232 Change Proposal (CP) seeks to change the wording for the GP terms so that for the year 2014/15 the wording for the GP term points directly to the DCPR5 Distribution licence that is in existence during these years. For years 2015/16 onwards the GP term equals zero as the GP term will no longer exist as an incentive, although the value input to the EDCM for average GP will be non-zero for 2016/17 charges as this will be calculated based on 2014/15, 2015/16 and 2016/17 GP values. It is also proposed to amend the DCPR5 aligned GL term which does not exist under the RII0-ED1 Distribution licence.

#### 4 WORKING GROUP ASSESSMENT

- 4.1 The DCUSA Panel has established a DCP 232 Working Group which consists of DNO and Ofgem representatives.
- 4.2 The Working Group is supportive of the intent and the principles of this CP.
- 4.3 The Working Group considered the approaches proposed to amend the GP and GL terminology to reflect the fact that those definitions do not exist in the RII0-ED1 Distribution licence.
- 4.4 The Working Group is interested in parties views on the two proposed definitions for GL under DCUSA Schedule 17 Clause 12 and DCUSA Schedule 18 Clause 12:
- **Option A** proposes that GL 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 DCPR5 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**

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<sup>2</sup> The RII0 (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. RII0-ED1 will run from the 01 April 2015 to 31 March 2023.

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.

- **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.

## 5 IMPACT

- 5.1 The Working Group discussed the impact of the two options proposed by this change and the scenario where no change is made.

### **Impact of Option A**

Defining the GL term as per Option A will result in an increase in Export Capacity and Excess Export Capacity charges for some EDCM export customers. Details are included in Attachment 4, which contains 2015-16 prices using Option A, 2015-16 prices using Option B, and the differences between them. Note: Option B is the same as 2015/16 actual prices in the LC14s.

### **Impact of Option B**

Defining the GL term as zero will result in lower Export Capacity and Excess Export Capacity charges in comparison to Option A. Details can be found in Attachment 4.

### **Impact of No Change**

For 2015-16 tariff setting the GL term was set to zero. Therefore, the impact of strict no change would be the same as for Option B. However if the value or method of calculation of the GL term is not defined as per Option A or B respectively, there is a risk that a non-uniform approach could be adopted across different DNOs.

- 5.2 The Working Group noted that the impact of this CP not being approved, would lead to inconsistent treatment across the industry.

## **6 ASSESSMENT AGAINST THE DCUSA OBJECTIVES**

- 6.1 The Working Group reviewed the CP against the DCUSA Objectives and agree that DCP 232 better facilitates DCUSA General Objective 3 and DCUSA Charging Objective 1 by ensuring that the methodology and wording within DCUSA is consistent with the RIIO-ED1 Distribution Licence.

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

**DCUSA 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.

## **7 LEGAL DRAFTING**

- 7.1 It is proposed to update the GP and GL terms in DCUSA Schedule 17 and 18. Please refer to the proposed legal text in Attachment 2.

## **8 IMPLEMENTATION**

- 8.1 The proposed implementation date for DCP 232 is the next DCUSA release following Authority consent for use in charge setting from the 01 April 2016.

## **9 CONSULTATION**

- 9.1 The Working Group is seeking views on the below questions:
1. Do you understand the intent of the DCP 232?

2. Are you supportive of the principles of the DCP 232?
3. Do you have any comments on the GP term as set out in the proposed legal text?
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?
5. Do you have any other comments on the proposed legal text?
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.
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.
8. Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
  9. Do you have a preference on the date that DCP 232 is implemented into the DCUSA?
  10. Are there any alternative solutions or matters that should be considered by the Working Group?
- 9.2 Responses should be submitted using Attachment 1 to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) no later than **Tuesday, 19 May 2015**.

- 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.

## **10 NEXT STEPS**

- 10.1 Responses to the Consultation will be reviewed by the DCP 232 Working Group. The Working Group will then determine the progression route for the CP.
- 10.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) or telephone 020 7432 3017.

## **11 ATTACHMENTS**

- Attachment 1 – DCP 232 Response form
- Attachment 2 – DCP 232 Draft Legal Text
- Attachment 3 – DCP 232 Change Proposal
- Attachment 4 – Impact Assessment