



## **DCUSA Consultation**

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DCP 231– Extended PCDM under the EDCM

## 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 231 'Extended PCDM Under the EDCM'.
- 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 **29 June 2015**.

## 2 DCP 231 'EXTENDED PCDM UNDER THE EDCM'

- 2.1 DCP 231 has been raised by the Electricity Network Company and seeks to align the changes brought about by DCP 117<sup>1</sup> in respect of the Price Control Disaggregation Model (PCDM) part of the CDCM with the extended PCDM under the EHV Distribution Charging Methodology (EDCM).
- 2.2 The Proposer explains that this CP replicates the methodology proposed under DCP 117 for the PCDM component of the EDCM.
- 2.3 DCP 117 was raised in December 2011 to address flaws identified with the way 'Load related new connections & reinforcement (net of contributions)' were used in the PCDM under the Common Distribution Charging Methodology (CDCM). At that time the EDCM did not fall within the scope of DCUSA and therefore was not included within the DCUSA governance arrangements.
- 2.4 The EDCM has since come under DCUSA governance. Feedback from the DCP 117 working group was that it would be out of scope for the work group to incorporate

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<sup>1</sup> Treatment of 'Load related new connections & reinforcement (net of contributions)' in the Price Control Disaggregation Model

changes required to the extended PCDM under the EDCM (to replicate the methodology changes proposed under DCP117 for the PCDM). It was therefore felt that this should be a standalone CP on its own merit.

- 2.5 Currently, DCP 117 has been issued for voting and the Proposer has noted that if DCP 117 is rejected by the Authority this CP will be withdrawn from the DCUSA Change Process.

### **3 WORKING GROUP ASSESSMENT**

- 3.1 The DCUSA Panel has established a DCP 231 Working Group which consists of DNO, IDNO and Ofgem representatives.

#### **MODELLING DOCUMENTATION**

- 3.2 The DCP 231 Working Group have already sent the modelling specification to the DCUSA modelling consultant for progression, and the updated model and associated documents are included as Attachment 4. To note, all cell references within this section refer to the new workbooks contained within that attachment.
- 3.3 The steps of the proposed solution for DCP 231 are indicated below and identify the areas where the EDCM Price Control Disaggregation Model needs to be changed so that the methodology better meets the DCUSA Charging Objectives.

#### **Calc – DNO Opex Allocation worksheet row 6**

1. Use data from the FBPQ LR1 worksheet to calculate “*Load related new connections & customer specific reinforcement*” for each network tier. (This excludes general reinforcement). Where customer contributions are greater than the direct costs (i.e. the value is negative) then treat the result as zero.
2. For each relevant network tier add the result from step 1 above to the general reinforcement value (derived from RRP table 2.4).
3. This gives a net cost for each network tier in respect of the costs described as “*Load related new connections & reinforcement (net of contributions)*”.

#### **Treatment of excess contributions**

4. Customer Contributions (reported in FBPQ table LR1) for each network tier that are in excess of the direct costs of “Load related new connections & customer specific reinforcement” (“excess contributions”) are not considered in steps 1 to 3 above. Additionally table LR1 includes customer contributions which are categorised as indirect costs and which are not allocated to a specific network tier.
5. For each network tier, Customer Contributions identified as excess contributions in step 4 above and customer contributions in respect of indirect costs (reported in FBPQ table LR1) are treated as “income” and added to the “Total revenue to share” reported in the “DNO - Final Allocation” worksheet.
6. Given that the bulk of these costs relate to indirect costs it is proposed that the additional revenue identified in step 5 above is allocated to each network tier using the opex cost driver in cells F47 to K47 in the “DNO - Final Allocation worksheet”.
7. It is proposed that the costs identified in I6 of the opex worksheet are treated as being zero. This is because all revenues/ costs are dealt with in steps 1 to 6 above.

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

- 3.4 The Working Group reviewed the CP against the DCUSA Objectives and agree that DCP 231 better facilitates DCUSA General Objectives 2<sup>2</sup> and 3<sup>3</sup>, and DCUSA Charging Objectives 1<sup>4</sup> and 2<sup>5</sup>.
- 3.5 The Working Group feel that in using the same approach as used in DCP 117, this CP addresses defects in the Extended PCDM used to calculate discount factors applied to upstream DNOs’ all the way tariffs in determining the tariffs that should apply to network operators who connect to their distribution system at LV.

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<sup>2</sup> The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity

<sup>3</sup> The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

<sup>4</sup> 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

<sup>5</sup> 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)

- 3.6 The Proposer explains that the DUoS margin available to a licensed distributor connecting to another distributor operating within its distribution services area is the difference between the upstream distributor's all the way DUoS charges to the end customer and the upstream distributor's DUoS charge to the downstream distributor. If the charge to the downstream distributor is not reflective of the total costs then a margin squeeze may result which could have the effect of restricting, distorting or preventing competition.
- 3.7 It is felt that consequently this CP better facilitates the following DCUSA General Objectives 2 and 3, and DCUSA Charging Objectives 1, 2 and 3 because it puts in place a more cost reflective mechanism in place for the treatment of customer connections and customer contributions. This means implementing the change will better promote competition in the distribution of electricity, lead to charges that better reflect the costs of the business and as a consequence better facilitates the discharge of the DNO party of the obligations placed on it under the Act and by its Distribution Licence.

#### **4 LEGAL DRAFTING**

- 4.1 The proposed legal drafting is included as Attachment 2.

#### **5 IMPLEMENTATION**

- 5.1 The proposed implementation date for DCP 231, subject to Authority consent, is 1 April 2016.

#### **6 CONSULTATION**

- 6.1 The Working Group is seeking views on the below questions:
1. Do you understand the intent of DCP 231?
  2. Are you supportive of the principles of DCP 231 and that the approach adopted for the extended PCDM should be consistent with the approach proposed under DCP 117?
  3. Do you have any comments on the proposed legal text?

4. Do you have any comments on the updated model or associated documentation? Please provide supporting comments.
  5. The Working Group feel that DCUSA General Objectives 2<sup>6</sup> and 3<sup>7</sup> would be better facilitated by the implementation of DCP 231; please provide your comments on this and any other DCUSA General Objective you feel will be impacted by DCP 231.
  6. The Working Group feel that DCUSA Charging Objectives 1<sup>8</sup> 2<sup>9</sup> and 3<sup>10</sup> would be better facilitated by the implementation of DCP 231; please provide your comments on this and any other DCUSA Charging Objective you feel will be impacted by DCP 231.
  7. Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
  8. Are there any alternative solutions or unintended consequences that should be considered by the Working Group?
- 6.2 Responses should be submitted using Attachment 1 to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) no later than **29 June 2015**.
- 6.3 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.

## 7 NEXT STEPS

- 7.1 Responses to the Consultation will be reviewed by the DCP 231 Working Group. The Working Group will then determine the progression route for the CP.

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<sup>7</sup> The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

<sup>8</sup> 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

<sup>9</sup> 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)

<sup>10</sup> 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

- 7.2 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 3014.

## **8 ATTACHMENTS**

Attachment 1 – DCP 231 Consultation Response Form

Attachment 2 – DCP 231 Proposed Legal Drafting

Attachment 3 – DCP 231 Change Proposal

Attachment 4 – DCP 231 Modelling Documentation