



DCUSA Change Report

DCP 231– Extended PCDM under the EDCM

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 231 'Extended PCDM under the EDCM'.
- 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 no later than **7 September 2015**.

2 BACKGROUND AND INTENT OF DCP 231 CHANGE PROPOSAL

- 2.1 DCP 231 has been raised by the Electricity Network Company and seeks to align the changes brought about by DCP 117¹ 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 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.

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

- 2.5 DCP 117 was approved by the Authority on 23 July 2015, and will be implemented on 1 April 2016.

3 DCP 231 – WORKING GROUP CONSIDERATIONS

- 3.1 The DCUSA Panel established a Working Group to assess DCP 231. The Working Group met on three occasions and was comprised of DNOs, IDNO and Ofgem representatives; it is noted that all DCUSA Parties were invited to join the Working Group.
- 3.2 Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

4 MODELLING DOCUMENTATION

- 4.1 The DCP 231 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.
- 4.2 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 FB PQ 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.

5 DCP 231 CONSULTATION

5.1 The Working Group carried out a consultation to give DCUSA Parties and other interested organisations an opportunity to review and comment on DCP 231. There were seven responses received to this consultation. The Working Group discussed each response and its comments are summarised alongside the collated Consultation responses in Attachment 5.

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

Question 1: Do you understand the intent of DCP 231? Please provide supporting comments.

5.3 The Working Group noted that all respondents understood the intent of DCP 231.

Question 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?

5.4 The Working Group noted that all respondents were supportive of the principles and approach that is adopted for the progression of DCP 231.

Question 3: Do you have any comments on the proposed legal text?

5.5 The Working Group noted that the overall majority of respondents did not have any comments on the legal drafting.

- 5.6 One respondent did highlight that there was a formatting issue in regard to the numbering within the legal drafting. The Working Group agreed to amend this before issuing it to the DCUSA legal advisors.

Question 4: Do you have any comments on the updated model or associated documentation?

Please provide supporting comments.

- 5.7 The Working Group note that the DCUSA modelling consultant identified an issue with the model and associated documentation; this was corrected and circulated to the Working Group.
- 5.8 It was agreed by the Working Group for all the DNOs to re-test the models in order to guarantee that they were providing the expected results. All DNOs have completed this testing and are happy with the results.

Question 5: The Working Group feel that DCUSA General Objectives 2² and 3³ 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.

- 5.9 The Working Group notes that all respondents agree that the DCUSA General Objectives 2 and 3 are better facilitated by DCP 231.
- 5.10 A DNO respondent explains that they believe that in line with the discussions in the working group that General objectives 2 and 3 are better facilitated as a result of this change by changing the source of the allocation of costs which we agree makes the methodology more cost reflective and therefore less likely to distort competition
- 5.11 A different DNO respondent notes that they agree with the Working Group that DCP 231 better facilitates DCUSA General Objectives 2 and 3 by ensuring that the same approach as used as in DCP 117, to calculate discount factors applied to upstream DNOs' all the way tariffs.

Question 6: The Working Group feel that DCUSA Charging Objectives 1⁴, 2⁵ and 3⁶ 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.

2 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

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

5.12 The Working Group notes that all respondents agree that DCUSA Charging Objectives 1, 2 and 3 will be better facilitated by DCP 231.

5.13 A DNO respondent explains that in their view this DCP better facilitates DCUSA General Objectives 2 and 3 and Charging Objectives 1, 2, and 3 because it proposes a more cost reflective approach and solution for the treatment of customer connections and customer contributions. It leads to charges that better reflect the costs of business. This DCP aligns the changes brought about by DCP 117.

Question 7: Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

5.14 The Working Group notes that the only industry development that was mentioned was whether or not DCP 117 would be approved by the Authority. Following this consultation, DCP 117 has been approved by the Authority for implementation on 1 April 2016.

5.15 There were no other developments highlighted within the responses.

Question 8: Are there any alternative solutions or unintended consequences that should be considered by the Working Group?

5.16 There were no alternative solutions or unintended consequences identified by the respondents to this consultation.

6 EVALUATION AGAINST THE DCUSA OBJECTIVES

6.1 The Working Group reviewed the CP against the DCUSA Objectives and agree that DCP 231 better facilitates DCUSA General Objectives 2⁷ and 3⁸, and DCUSA Charging Objectives 1⁹ and 2¹⁰.

4 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

5 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)

6 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 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

⁸ The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

⁹ 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

- 6.2 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.
- 6.3 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.
- 6.4 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.

7 IMPLEMENTATION

- 7.1 DCP 231 is classified as a Part 1 matter in accordance with Clause 9.4.2 (B) of the Agreement, and therefore will go to the Authority for determination after the voting process has completed.
- 7.2 The implementation date, subject to Authority approval, is 1 April 2016.

8 PROPOSED LEGAL TEXT

- 8.1 The draft legal text has been reviewed by the DCUSA Legal Advisor and is included as Attachment 2.

9 FINAL CONCLUSIONS ON DCP 231

¹⁰ 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)

- 9.1 The Working Group's conclusion, reflecting Party opinion as presented in the Consultation responses, is that the proposed legal drafting meets the intent of DCP 231.

10 ENGAGEMENT WITH THE AUTHORITY

- 10.1 Ofgem has been engaged throughout the progression of DCP 231 as an Observer of the Working Group.

11 IMPACT ON GREENHOUSE GAS OMISSIONS

- 11.1 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 231 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this CP.

12 PANEL RECOMMENDATION

- 12.1 The DCUSA Panel approved the DCP 231 Change Report on 14 August 2015. The timetable for the progression of the CPs is set out below:

Activity	Date
Change Report approved by DCUSA Panel	14 August 2015
Change Report Issued for Voting	14 August 2015
Party Voting Closes	7 September 2015
Change Declaration Issued	9 September 2015
Authority Decision	14 October 2015
Implementation	1 April 2016

13 ATTACHMENTS:

- Attachment 1 – DCP 231 Voting Form
- Attachment 2 – DCP 231 Proposed Legal Text
- Attachment 3 - DCP 231 Change Proposal
- Attachment 4 – DCP 231 Modelling Documentation
- Attachment 5 – DCP 231 Consultation Documents