



DCUSA Change Report

DCP 185 - LDNO Discount on 20% of Residual Revenue

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 185 'LDNO Discount on 20% of Residual Revenue'.
- 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 legal drafting amendments (Attachment 1) and submit their votes using the form attached as Attachment 2 to dcusa@electralink.co.uk no later than **1 August 2014**.

2 BACKGROUND

- 2.1 Following discussions at the Distribution Charging Methodologies Forum (DCMF) Methodologies Issues Group (MIG), DCP 185 has been raised by UK Power Networks. The CP seeks to make changes to Schedules 17 and 18 of DCUSA for the calculation of location specific charges for LDNOs which have EDCM equivalent end customers connected to their network, and apply any discount on an equal basis between the DNO and LDNO.
- 2.2 The proposal is to apply a percentage discount to the 20 per cent of residual revenue for demand customers, where those customers are LDNO EDCM equivalent end customers. Additional information on the proposed change can be found in the CP form provided as Attachment 3.

3 DCP 185 WORKING GROUP

- 3.1 The DCUSA Panel established a Working Group to assess DCP 185. This Working Group consists of DNO and Ofgem representatives. Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.
- 3.2 The Working Group noted that currently LDNOs may not be getting the full discount that they are potentially liable for in relation to the calculation of location specific charges for Licensed Distribution Network Operators (LDNOs) which have EDCM

equivalent end customers connected to their network. DCP 185 seeks to address this issue.

- 3.3 With the support of a consultant, the Working Group updated the EDCM model to implement the DCP 185 solution. The updated Long Run Incremental Cost (LRIC) and Forward Cost Pricing (FCP) EDCM models are provided as Attachment 4, along with a description of the changes made and a set of illustrative tariffs.
- 3.4 DNO members of the Working Group tested the updated FCP and LRIC EDCM models using data for their licence areas. However, due to customer confidentiality actual impact data cannot be published, therefore, the illustrative tariffs provided in Attachment 4 are based on example data only.
- 3.5 The Working Group observed that, as would be expected, the use of the DCP 185 EDCM models has no impact on total revenue. The impact on customers connected directly to DNO networks is largely minimal; however, there is a more noticeable reduction in the charges for some LDNO connected customers.
- 3.6 The Working Group developed a consultation document (Attachment 5) to gather information and feedback from market participants.

4 DCP 185 CONSULTATION

- 4.1 The DCP 185 consultation was issued on 28 March 2014 and there were five responses received.
- 4.2 A summary of the responses received, and the Working Group's conclusions are set out below. The full set of responses and the Working Group's comments are provided in Attachment 5.

Question 1 - Do you understand the intent of the CP?

- 4.3 The Working Group noted that all consultation respondents understood the intent of the CP.

Question 2 - Are you supportive of the principles established by this proposal?

- 4.4 The Working Group noted that all respondents were supportive of the principles established by the CP.

Question 3 - Are there any unintended consequences of this proposal?

- 4.5 The Working Group noted that no respondents had identified any unintended consequences of the proposal.

Question 4 - Do you consider that the proposal better facilitates the DCUSA objectives?

- 4.6 The Working Group noted that all consultation respondents agreed that the proposal better facilitates the DCUSA objectives. The following table outlines the respondents' views on which DCUSA Objectives are better facilitated by the CP:

DCUSA General Objectives	No. Of Respondents that agree it is better facilitated	DCUSA Charging Objectives	No. Of Respondents that agree it is better facilitated
Objective 1	5	Objective 1	5
Objective 2	0	Objective 2	5
Objective 3	5	Objective 3	5
Objective 4	0	Objective 4	0
Objective 5	0	Objective 5	0

Question 5 - Do you have any comments on the proposed legal text?

- 4.7 It was noted by the Working Group that no respondents had any comments on the DCP 185 legal text.

Question 6 - Are there any alternative solutions or matters that should be considered?

- 4.8 No consultation respondents suggested any alternative solutions or matters for the Working Group's consideration.

Question 7 - Are you supportive of the proposed implementation date of 1 April 2015?

- 4.9 The Working Group noted that all respondents were supportive of the proposed implementation date.

Question 8 - Please state any other comments or views on the Change Proposal

- 4.10 The Working Group noted that two respondents had no further comments on the CP.
- 4.11 One respondent highlighted that the CP only affects a small number of customer sites and is a minimum change. Another respondent stated that:

"We believe this issue was discussed in detail by the DCMF MIG and subsequently raised as a DCP. During those previous discussions it had been identified that there were practical difficulties in applying this discount in the case of negative scaling, i.e. where the residual revenue is negative and customers' charges are scaled down and this would result in a negative discount to the LDNO, meaning the charge would be increased rather than discounted. This has now been addressed."

- 4.12 The Working Group reviewed this response and noted that the respondent feels that the practical issues that have been had in the past with the EDCM have now been addressed.
- 4.13 The fifth respondent highlighted that a number of EDCM change proposals and MIG EDCM discussions are currently being progressed, and this proposal may have to be reviewed in the future in light of the outcome of those discussions. The Working Group noted that the other DCUSA CPs currently in progress do not interact with DCP 185. The MIG EDCM review will be looking at a number of EDCM issues and from this there may be future changes that arise but these should not prevent the progress of DCP 185.

5 PROPOSED LEGAL TEXT

- 5.1 The proposed legal drafting of DCP 185 has been considered by the Working Group, and reviewed by Wragge & Co, and is provided as Attachment 1.
- 5.2 The text amends DCUSA Schedule 17 paragraph 26.11 and Schedule 18 paragraph 26.11 as follows:
- “26.11 For EDCM Connectees connected to the IDNO Party’s network, the capacity-based charge for the DNO Party’s indirect costs and the 20% share of residual revenue that is applied as a fixed adder, would be scaled down by a factor of 50 per cent, however, the scaling down will not apply where the residual revenue is negative.”*

6 EVALUATION AGAINST THE DCUSA OBJECTIVES

- 6.1 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 185.

General Objective One - The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Network

- 6.2 The Working Group agrees that General Objective One is better facilitated as the CP should ensure that the allocation of costs is more reflective of the costs incurred by the respective business (DNO and IDNO).

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

- 6.3 The Working Group agrees that General Objective Three is better facilitated as the CP should ensure that the allocation of costs is more reflective of the costs incurred by

the respective business (DNO and IDNO).

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

- 6.4 The Working Group agrees that Charging Objective One is better facilitated as the CP should ensure that the allocation of costs is more reflective of the costs incurred by the respective business (DNO and IDNO).

Charging Objective Two - 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)

- 6.5 The Working Group agrees that Charging Objective Two is better facilitated as the appropriate allocation of costs should ensure that competition is not restricted.

Charging Objective Three - 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

- 6.6 The Working Group agrees that Charging Objective Three is better facilitated as the CP should ensure that the allocation of costs is more reflective of the costs incurred by the respective business (DNO and IDNO).

7 IMPLEMENTATION

- 7.1 The proposed implementation date for DCP 185 is 1 April 2015.

- 7.2 DCP 185 is classified as a Part 1 matter and therefore will go to the Authority for determination after the voting process has completed.

8 WORKING GROUP CONCLUSIONS

- 8.1 The DCP 185 Working Group has discussed the proposed amendment to DCUSA. The group unanimously agrees that the legal text developed better facilitates the DCUSA Objectives. The Working Group agrees that the CP should be issued for industry voting.

9 ENGAGEMENT WITH THE AUTHORITY

- 9.1 Ofgem has been fully engaged throughout the development of DCP 185 as a member

of the Working Group.

10 ENVIRONMENTAL IMPACT

10.1 In accordance with DCUSA clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if DCP185 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of this Change Proposal.

11 PANEL RECOMMENDATION

11.1 The Panel approved this Change Report on 16 July 2014. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on DCP 185.

11.2 The timetable for the progression of the Change Proposals is set out below:

Activity	Date
Change Report approved by DCUSA Panel	16 July 2014
Change Report issued for voting	18 July 2014
Voting closes	1 August 2014
Change Declaration	5 August 2014
Authority Decision	9 September 2014
DCP 185 Implemented	1 April 2015

12 NEXT STEPS

12.1 Parties are invited to consider the proposed amendment (Attachment 1) and submit their votes using the Voting form (Attachment 2) to DCUSA@electralink.co.uk by **1 August 2014**.

12.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email DCUSA@electralink.co.uk to or telephone 020 7432 2842.

ATTACHMENTS:

- Attachment 1 - DCP 185 Legal Text
- Attachment 2 – DCP 185 Voting Form
- Attachment 3 – DCP 185 CP Form
- Attachment 4 – DCP 185 Updated EDCM Models (un-populated) and Illustrative Tariffs
- Attachment 5 – Consultation Documents