



**DCUSA CONSULTATION**

**DCP 185 - LDNO Discount on 20% of Residual Revenue**

## **1 Purpose**

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors and 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 DCUSA Parties and the Authority in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 185 – ‘LDNO discount on 20% of residual revenue’. Respondents are invited to consider the questions set out below and submit comments using the form provided as Attachment 1. Responses should be submitted online or emailed to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) by **Monday, 14 April 2014**.

## **2 Background of DCP 185 - LDNO Discount on 20% of Residual Revenue**

- 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 2.

## **3 Working Group Assessment of DCP 185**

- 3.1 The DCUSA Panel established a Working Group to assess DCP 185. This Working Group consists of DNO and Ofgem representatives.
- 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 3, 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 3 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.

#### **4 Assessment against the DCUSA Objectives**

- 4.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better facilitates at least one of the DCUSA Objectives. There are five General DCUSA Objectives and five Charging Objectives. The full list of objectives is documented in the CP form provided as Attachment 2.
- 4.2 The Working Group has assessed the CP against the DCUSA objectives and the Working Group members agree 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
  - **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
- **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)
- **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

4.3 This change proposal ensures that the allocation of costs is more reflective of the costs incurred by the respective business (DNO and LDNO) as a result will ensure that parties comply with the obligations specified under their respective licences whilst also not restricting competition. Therefore, Charging Objective 1, 2 and 3 along with General Objective 1 and 3 will be better facilitated.

## **5 DCP 185 Legal Drafting**

5.1 The DCP 185 legal text is provided as Attachment 4. This 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 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 Implementation Date**

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

## 7 Consultation Questions

7.1 The Working Group is seeking responses to the following questions.

No.	Question
1	Do you understand the intent of the CP?
2	Are you supportive of the principles established by this proposal?
3	Are there any unintended consequences of this proposal?
4	Do you consider that the proposal better facilitates the DCUSA objectives?
5	Do you have any comments on the proposed legal text?
6	Are there any alternative solutions or matters that should be considered?
7	Are you supportive of the proposed implementation date of 1 April 2015?
8	Please state any other comments or views on the Change Proposal.

7.2 Responses should be submitted using Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **Monday, 14 April 2014**.

7.3 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.

## 8 Next Steps

8.1 Responses to the Consultation will be reviewed by the DCP 185 Working Group who will use the responses to aid them in the progression of the CP.

8.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA by email to [DCUSA@electralink.co.uk](mailto:DCUSA@electralink.co.uk) or telephone 020 7432 2842.

## **APPENDICES**

- Attachment 1 – Response Form
- Attachment 2 – DCP 185 CP Form
- Attachment 3 – DCP 185 EDCM Models and Illustrative Tariffs
- Attachment 4 – Proposed Legal Text