



DCUSA Change Report

DCP 139 - Non-Application of FCP charge for
Category 0000 Customers

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 139 – Non-Application of FCP charge for Category 0000 Customers.
- 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 (Appendix B) and submit their votes using the form attached as Appendix D to dcusa@electralink.co.uk no later than **31 October 2012**.

2 BACKGROUND

- 2.1 The Forward Cost Pricing (FCP) EDCM methodology currently applies an FCP locational charge to customers connected directly to the GSP (Category 0000 Customers). The proposer of DCP 139 states that this is inconsistent with DCUSA Schedule 17 paragraph 13.10 which states that Category 0000 demand Connectee are deemed not to use any network assets other than sole use assets, as any FCP locational charge will relate to future reinforcement costs of shared assets on the network.
- 2.2 The intent of DCP 139 is to remove this perceived inconsistency by stipulating that Category 0000 customers should not be subject to the FCP locational charge. For the avoidance of doubt, Category 0000 customers will still be subject to any other applicable EDCM charges.

3 DCP 139 – WORKING GROUP CONSIDERATIONS

- 3.1 The DCUSA Panel established a Working Group to assess DCP 139. The group was comprised of Supplier, Distributor 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.

Inconsistency in the FCP EDCM methodology

- 3.2 The Working Group discussed the proposer of DCP 139's view that there is an inconsistency in the EDCM between the calculation and application of FCP locational charges and the calculation and application of other EDCM charges for Category 0000 customers.

- 3.3 The group agreed that there are two different approaches within the EDCM methodology (the FCP and the Network Use Factors (NUF) approaches). Further detail is provided in Appendix E. These approaches allocate different costs to EDCM customers on different principles. The basic principle for FCP is zonal charging whereas for NUF it is site specific charging. Some Working Group members view this as appropriate whilst others believe that this represents an inconsistency.

Impact of DCP 139 on Tariffs

- 3.4 The Working Group noted that three DNOs (Western Power Distribution, SSE Power Distribution and Scottish Power Distribution) use the FCP EDCM Methodology. The Working Group requested information from these DNOs to allow it to assess the impact of removing the FCP locational charge from Category 0000 customers.
- 3.5 Based on this analysis, the Working Group observed that a small number of customers would see a drop in their charges but for some the reduction would be substantial. This reduction in charge will be picked up by other EDCM customers through the scaling process. The Working Group notes that the EDCM revenue pot is calculated based in part on the NUF approach, therefore, Category 0000 customers do not attract any revenue to the pot in relation to shared assets. So if they were to be exempt from the FCP charge the amount recovered from other customers in aggregate will align more closely with the amount that these customers attract to the EDCM revenue pot. The table below provides a summary of the impact as determined by the Working Group.

Table 1 - Impact on all Categories of Customer of Removing the FCP Locational Charge from Category 0000 Customers

Number of customers with an increase in charge	514 customers
Number of customers with a decrease in charge	16 customers
Of the customers with an increase in charge, the maximum increase in £s	£60,160 (this represents a 4.9% increase for this customer)
Of the customers with an increase in charge, the maximum percentage increase	7.6% (this represents a £705 increase for this customer)
Of the customers with a decrease in charge, the maximum decrease in £s	£707,800 (this represents a 70.7% decrease for this customer)
Of the customers with an decrease in charge, the maximum percentage decrease	86.9% (this represents a £3,110 decrease for this customer)

The FCP Locational Charge and other Categories of Customer

- 3.6 At the first meeting of the Working Group it was suggested that if the 132kV network FCP locational charge (level 1 charge) is to be removed for customers directly connected to the GSP (Category 0000 customers) then to ensure consistency and fairness the EHV network FCP locational charge (part of level 2 charge) should also be removed for customers directly connected to the BSP (e.g. Category 1100 and Category 0100 customers).
- 3.7 The Working Group considered this point and noted that the FCP level 2 charge may include assets (EHV network assets) that the BSP customers are deemed not to be using, however, it is also likely to include some transformation costs which BSP customers should legitimately pick up.
- 3.8 For customers directly connected to the GSP, the transformation assets do not belong to the DNO so there will never be any transformation costs. Therefore, while there are similarities between these two categories of customer it is not the same situation.
- 3.9 Some members of the Working Group believe that the proposed solution would create an inconsistency for customers deemed not to use any EHV network assets (Categories 1100, 0100, 1101 and 0101 customers). These members of the Working Group believe that to avoid creating inconsistency Categories 0000 customers should be charged FCP locational charge, otherwise for these BSP customers the FCP methodology and the EDCM model would need to be changed significantly. However, the Working Group noted that other customer categories are not part of the intent of DCP 139.
- 3.10 The Working Group noted that if Category 0000 customers are exempted from paying the FCP locational charge, it may be appropriate for Categories 0001, 0002, 0101, 0110, 0111 and 0100 customers to also be exempted from paying the FCP level 1 locational charge. All of these categories of customer use minimal 132kV assets compared to typical 132kV customers.
- 3.11 It was noted that the intent of DCP 139 is to address specifically the methodology for Category 0000 customers only. The proposer believes it is appropriate for Category 0000 customers not to pay the FCP level 1 locational charge since they are deemed not to use any shared network assets under the NUF approach. The Working Group has agreed to raise the question of FCP charges and their applicability to different categories of

customer at the Distribution Charging Methodologies Forum (DCMF) Methodologies Issue Group (MIG) so that it can be further discussed.

4 DCP 139 – CONSULTATION

4.1 The Working Group issued a consultation seeking industry views on DCP 139. The group reviewed each of the six responses received to the consultation and concluded that all of the respondents understood the intent of DCP 139.

4.2 The remainder of this section summarises the responses to the consultation questions.

Are you supportive of the principles of the CP?

4.3 The three DNOs to respond to the consultation do not support the principles of the CP as they do not believe that there is an inconsistency, whilst the two suppliers are supportive of its principles. The other respondent, who is not representing any organisation, does not agree that there is an inconsistency but does support the intent to stipulate that category 0000 customers should not be subject to the FCP locational charge.

Do you consider that the proposal better facilitates the DCUSA Objectives? Please provide supporting reasons.

4.4 Three of the six consultation respondents agreed that the CP better facilitates the DCUSA General and Charging objectives, as outlined below:

DCUSA General Objective	Number of Respondents who indicated it was facilitated
Objective #1	0
Objective #2	0
Objective #3	3
Objective #4	0
Objective #5	0

DCUSA Charging Objective	Number of Respondents who indicated it was facilitated
Objective #1	1
Objective #2	0
Objective #3	2
Objective #4	2
Objective #5	0

- 4.5 It was noted that the three DNOs to respond to the consultation do not agree that the DCUSA General objectives are better facilitated by the CP as they do not believe that there is an inconsistency in the EDCM between the calculation and application of FCP locational charges and the calculation and application of other EDCM charges.
- 4.6 It was noted that one respondent felt that there was not enough data provided with the consultation document to form a definitive view as to whether the CP better facilitates the DCUSA objectives. This respondent had therefore based his view on theory rather than data. The Working Group discussed this comment and noted that the Working Group may not be qualified to complete the type of analysis sought by the respondent and that the test of whether charges for each customer are excessive or unjustified sit outside the scope of the Change Proposal.

Are you supportive of the proposed implementation date of 1 December 2012?

Note, the solution to implement this change would be to simply remove the network group from 0000 customers in sheet 953 of the FCP EDCM model.

- 4.7 It was noted that four respondents agree with the proposed implementation date of the CP. One respondent noted that they do not support the CP and made no comment on the implementation date.
- 4.8 The other respondent suggested that the proposed implementation date is unachievable as the CP will require an update to the algorithms in the EDCM model that calculates the FCP charge. The group sought additional information from this respondent on how the algorithms would be impacted, and the respondent explained their view that if category 0000 customers are to be exempt from the FCP charge then they would need to be excluded from the demand figure that is used to calculate the FCP charge as otherwise the total reinforcement costs would not be recovered.
- 4.9 The Working Group noted that the demand from which the FCP charge is calculated (network demand at time of peak) is already different to how the FCP charge is levied (on agreed capacity or super-red timeband consumption) and therefore the amount recovered from FCP charges will never match the total reinforcement costs and may over or under recover them. The Working Group agreed that these issues relating to the FCP methodology principles were outside the intent of DCP 139 and could be considered as part of the issue they intended to raise at the DCMF MIG.

4.10 The Working Group discussed the implementation date and agreed that for the charges to become effective for the next set of annual charges, the effective from date should be 1 April 2013.

If an Ofgem decision was received by 5 December 2012, would this permit use for the April 2013 indicatives?

4.11 Five of the respondents agreed that it would be possible to incorporate the solution into the April 2013 indicatives if a decision from Ofgem is received by 5 December 2012. The Working Group noted that the sixth respondent did not believe that this would be feasible as they believe that an update is required to the demand used in the FCP algorithms (as explained in 4.8 above).

The Working Group notes that there are other categories of customer that are deemed not to use any level 1 assets, should these customers also be exempt from the level 1 FCP charge? If so, should this be a separate Change Proposal? Note, the solution to implement this change would be to simply remove the parent network group of affected level 2 network groups in sheet 911 of the FCP EDCM model.

4.12 One respondent noted that they would be happy for other customers to be considered within the Change Proposal, as long as the implementation date was not affected. Two of the respondents noted that intent of DCP 139 is to look at the FCP locational charges associated with Category 0000 customers and therefore other categories of customer cannot be considered. The Working Group noted this point and agreed that other categories of customer sit outside of the scope of the DCP 139 Working Group.

4.13 The group noted that all three DNOs to respond to the consultation agree that other categories of customer should not be exempt from the level 1 FCP locational charge.

The Working Group notes that categories of customers connected directly to a BSP will still incur a level 2 FCP locational charge. Should these customers be exempt from the portion of the FCP level 2 charge that relates to the EHV network assets? If so, should this be a separate Change Proposal?

Note, if so, these customers will still pick up the portion of the level 2 charge that relates to BSP transformation assets. The solution to implement this change would need to be developed.

4.14 Similar to the question above, one respondent noted that they would be happy for other customers to be considered within the Change Proposal, as long as the implementation date was not affected and two noted that this sits outside of the scope of DCP 139. The three DNOs to respond to the consultation do not believe that these categories of customer should be exempt.

4.15 The Working Group agreed that the application of FCP charges to different categories of customer sits outside of the remit of the group and agreed that it should be raised at the DCMF MIG.

Do you have any comments on the proposed legal text?

4.16 It was noted by the Working Group that respondents to the consultation had no comments on the legal text.

Are there any alternative solutions or matters that should be considered by the Working Group?

4.17 The Working Group noted that one DNO respondent, who does not believe that there is an inconsistency within the FCP EDCM methodology, suggested that a new paragraph should be added Schedule 17 paragraph 13 stating that "defined customer categories are only used for the notional site specific shared network asset value calculation". This would remove any doubt as to whether an inconsistency exists.

4.18 The Working Group noted that the two other DNO respondents had made similar suggestions, in response to questions 11 and 3.

4.19 The Working Group agreed that this suggestion sits outside the scope of DCP 139 and therefore cannot be progressed under this CP.

Are you aware of any wider industry developments that may impact upon or be impacted by this CP? If so, please give details, and comment on whether the benefit of the change may outweigh the potential impact and whether the duration of the change is likely to be limited.

4.20 No wider industry impacts were identified by respondents.

Do you have any further comments?

- 4.21 One respondent to the consultation noted that he does not think that “the process of piecemeal modification of the charging methodologies on the basis of change proposals targeting specific problems is likely to lead to good charging methodologies.” The respondent noted that DCP 139 highlights the problem by introducing special rules in the FCP methodology to solve a defect for Category 0000 customers while there is no process to ensure the issues of consistency and fairness for other customers that have been identified by the Working Group are dealt with.
- 4.22 The Working Group discussed this comment and noted that it was a general comment on the DCUSA process for Charging Methodology changes. The group noted that there are other examples of changes that seek to amend the methodology for one set of customers but not others, introducing inconsistencies, such as DCP 130 (Removing the inconsistency between HH UMS and NHH UMS tariffs). It was the view of the Working Group that for such changes a balance needs to be arrived at between consistency and cost reflectivity for these customers.
- 4.23 Another respondent to the consultation provided an attachment; this is provided along with the consultation documents in Appendix C. The Working Group reviewed the attachment and noted that it demonstrates that there are two different approaches within the EDCM methodology (the FCP and the NUF approaches). These approaches allocate different costs to EDCM customers on different principles. The basic principle for FCP is zonal whereas for NUF it is site specific. It was noted that some Working Group members view this as appropriate whilst others believe that this represents an inconsistency.
- 4.24 A summary of the collated consultation responses and the Working Group’s comments to these responses is attached as Appendix C.

5 DCP 139 – WORKING GROUP CONCLUSIONS

- 5.1 The Working Group members have differing views as to whether there is an inconsistency within the DCUSA. Some members of the Working Group believe that the FCP methodology is one of two different approaches of the EDCM to calculate the costs of future reinforcements, whereas the other network costs and the setting of the revenue pot are determined using a different but common NUF approach under EDCM and it is therefore

appropriate for Category 0000 customers to be charged FCP locational charge. The proposer believes that it is important to have common cost allocation principles (FCP and NUF approaches) throughout the EDCM and since category 0000 customers are deemed not to use any shared network assets for the purposes of setting the EDCM revenue pot and allocating all other costs it is inconsistent to apply an FCP charge that will relate to shared network assets.

6 PROPOSED LEGAL TEXT

6.1 The draft legal text has been reviewed by Wragge & Co and is attached as Appendix B.

7 EVALUATION AGAINST THE DCUSA OBJECTIVES

7.1 Some Working Group members do not believe that the proposal better meets the DCUSA Objectives.

7.2 Other members consider that the following DCUSA Objectives are better facilitated by DCP 139 for the reasons given below:

- DCUSA General Objective 3 – ‘the efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences’. The proposal removes the FCP locational element of the EDCM charges from a specific group of customers (Category 0000). This improves costs reflectivity in respect of charges to Category 0000 customers. It also improves the cost reflectivity of other categories of customers taken in aggregate since the amount of revenue recovered from these other customers will align more closely with the amount of revenue that they attract to the EDCM revenue pot.
- DCUSA Charging Objective 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’. The proposal removes the FCP locational element of the EDCM charges from a specific group of customers (Category 0000). This improves costs reflectivity in respect of charges to Category 0000 customers. It also improves the cost reflectivity of other categories of customers taken in aggregate since the amount of revenue recovered from these other customers will align more closely with the

amount of revenue that they attract to the EDCM revenue pot.

8 IMPLEMENTATION

8.1 Subject to Authority consent, DCP 139 will be implemented on 1 April 2013.

9 PANEL RECOMMENDATION

9.1 The DCUSA Panel approved the DCP 139 Change Report at its meeting on 17 October 2012.

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

Activity	Date
Change Report issued for voting	17 October 2012
Voting closes	31 October 2012
Change Declaration	1 November 2012
Authority Consent	5 December 2012
CP Implemented	1 April 2013

10 APPENDICES:

- Appendix A – DCP 139 Change Proposal
- Appendix B - Proposed Legal Drafting
- Appendix C – DCP 139 Consultation Documents
- Appendix D - DCP 139 Voting Form
- Appendix E – Explanation of FCP and NUF Approaches