



## **DCUSA CONSULTATION**

### **DCP 138 - Implementation of alternative network use factor (NUF) calculation method in EDCM**

## 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 DNO, IDNO, Suppliers, any other interested Parties and the Authority in accordance with Clause 11.14 of the DCUSA seeking industry views on DCP 138 'Implementation of alternative network use factor (NUF) calculation method in EDCM'. Parties are invited to consider the questions set out below and submit comments using the form attached as Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **22 May 2015**.

## 2 BACKGROUND OF DCP 138

- 2.1 Network Use Factors (NUFs) are the notional value of assets at a given network level required to supply a unit of power to a specific EDCM demand customer relative to the average notional value of assets at the same network level required to supply a unit of power to CDCM customers.
- 2.2 In September 2011 Ofgem approved the DNO's proposals for the EDCM for import subject to three conditions<sup>1</sup>; Condition 3 was that the DNOs should review the methodology for determining NUFs, in terms of the appropriateness of socialising 'spare capacity' costs and impact on customer charges.
- 2.3 DNOs subsequently developed a revised methodology for the calculation of NUFs. This revised methodology takes account of asset usage under contingency conditions and remove allocation of costs relating to the amount of capacity that is unused or spare. In April 2012 a consultation was issued by the Energy Networks Association (ENA) seeking views on this revised methodology. The ENA consultation is provided as Attachment 2. There was a limited response to the consultation.

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<sup>1</sup> Ofgem (2011) Electricity distribution charging: decision on the methodology for higher voltage import charges, ref 116/11

- 2.4 In June 2012, following the close of the consultation, the ENA issued a report on Condition 3. This report is provided as Attachment 3 and sets out the DNOs proposals for the calculation of NUFs and details the consultation responses received.
- 2.5 Ofgem reviewed this report and on 4 November 2014 published its decision letter which is provided as Attachment 4
- 2.6 DCP 138 has subsequently been raised with the intent of incorporating the DNOs revised methodology for the calculation of NUFs, as set out in the Condition 3 report, into the DCUSA and is provided as Attachment 5.
- 2.7 In their decision letter Ofgem state *“The Report provides arguments suggesting that the NUFs should be calculated under ‘intact’ network conditions and that spare capacity should be defined as the difference between the security of supply capacity and the rating of the asset. The Report also provides a well-reasoned explanation as to why they believe the use of default NUFs in generator dominated sites is still appropriate.”*

### **3 WORKING GROUP ASSESSMENT OF DCP 138**

- 3.1 The DCUSA Panel established a Working Group to assess DCP 138. The group is 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](http://www.dcusa.co.uk).
- 3.2 The Working Group discussed the CP and noted that the solution was fully developed prior to the CP being raised. It was highlighted that during its development of the proposal, the ENA had carried out an impact assessment and issued an industry consultation. An updated impact analysis has been carried out to inform the debate using the 2015-16 charging models.
- 3.3 The Working Group believes that the details provided in the report to Ofgem support the intent of this change proposal.
- 3.4 The Working Group agreed to issue an additional consultation to give DCUSA Parties a further opportunity to comment on the proposals.

## 4 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

4.1 The Working Group has identified that the Change Proposal better meets the following DCUSA Objectives:

- **Charging Objective 1<sup>2</sup>** - The CP better meets Charging Objective 1 by allocating only the proportion of the asset annuitised modern equivalent asset value (MEAV) which is deemed to be used by customers, to that EDCM customer, in the calculation of NUFs.
- **Charging Objective 2<sup>3</sup>** - The CP better meets Charging Objective 2 by allocating the costs associated with unused capacity on the network to all demand users of the network (EDCM and CDCM) and preventing the over allocation of the MEAV of lightly utilised assets to EDCM customer.
- **Charging Objective 3<sup>4</sup>** - The CP better meets Charging Objective 3 by increasing the cost reflectivity and better representing actual management and design of the network which would drive reinforcement requirements by considering contingency scenarios.
- **Charging Objective 4<sup>5</sup>** - The CP better meets Charging Objective 4 by facilitating the industry requirement to be consistent with the principles of the network assessment.
- **General Objective 1<sup>6</sup>** - The CP better meets General Objective 1 by reflecting utilisation of assets more efficiently in the calculation of NUFs.
- **General Objective 2<sup>7</sup>** - The CP better meets General Objective 2 by not over allocating costs to customers and socialising the unused capacity costs and by reducing volatility by creating more stable inputs to the pricing model.

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<sup>2</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>3</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>4</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

<sup>5</sup> that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business.

<sup>6</sup> The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks.

<sup>7</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.

- **General Objective 3<sup>8</sup>** - The CP better meets General Objective 3 by satisfying the licence obligation on DNOs to review the charging methodology and bring about changes to improve the methodology.

## 5 IMPACT ASSESSMENT

5.1 An impact assessment has been undertaken by the Working Group on a site-specific basis and customers can view the impact on their site by searching via their LLFC or MPAN data this is detailed in Attachment 6. It should be noted that some customers will benefit where their utilisation is seen to reduce while some customers will not where their utilisation increases. While these changes might be unwelcome it is the belief of the working group that the allocation of cost is more appropriate and as such is an improvement on the current methodology.

5.2 The impact on the total EDCM revenue per DNO is given in the table below.

**TABLE 1:** Total EDCM Revenue (2015/16) - Import + Export

	Current Total Revenue	Total Revenue under DCP138	Variance	% Variance
Electricity North West	£14,220,878	£12,835,275	-£1,385,602	-9.7%
NPG - Northeast	£5,433,780	£5,657,117	£223,337	4.1%
NPG - Yorkshire	£9,167,828	£9,654,851	£487,023	5.3%
UKPN - EPN	£14,115,849	£13,954,556	-£161,293	-1.1%
UKPN - LPN	£7,298,763	£7,027,439	-£271,324	-3.7%
UKPN - SPN	£7,372,487	£6,908,355	-£464,132	-6.3%
SEPD	£17,415,104	£13,974,062	-£3,441,042	-19.8%
SHEPD	£4,979,509	£4,735,993	-£243,516	-4.9%
SPM	£29,039,409	£28,611,299	-£428,111	-1.5%
SPD	£7,148,068	£7,144,697	-£3,371	-0.0%
WPD - EM	£10,953,803	£10,564,119	-£389,683	-3.6%
WPD - WM	£5,070,696	£4,885,542	-£185,154	-3.7%
WPD - SWa	£11,645,912	£12,395,777	£749,864	6.4%
WPD - SWe	£5,152,028	£4,981,437	-£170,591	-3.3%

The resulting impact of changes to the CDCM will be significantly smaller than to the EDCM, due to the much higher total revenue.

<sup>8</sup> The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences.

## 6 STAKEHOLDER ENGAGEMENT

- 6.1 The Working Group would ask that DCUSA Contract Managers who receive this consultation document, consider circulating it to other interested parties, if they feel they will be materially impacted. The Working Group is keen to encourage parties to respond who will engage with the process and consider the principles that have been established, rather than the materiality of the change in charges.

## 7 DCP 138 – LEGAL DRAFTING

- 7.1 The proposed legal text is provided as Attachment 7.

## 8 DCP 138 – IMPLEMENTATION

- 8.1 The proposed implementation date for DCP 138 is 1 April 2016.

## 9 DCP 138 – CONSULTATION QUESTIONS

- 9.1 The Working Group is seeking industry views on the following consultation questions:

Question Number	Question
1	Do you understand the intent of the CP?
2	Are you supportive of the principles of the CP?
3	Do you consider that the proposal better facilitates the DCUSA Charging and General Objectives? Please give supporting reasons.
4	Are you supportive of the proposed implementation date of 1 April 2016?
5	Do you have any comments on the proposed legal text?
6	Are there any alternative solutions or matters that should be considered by the Working Group?
7	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.

8	Do you have any further comments?
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9.2 Responses should be submitted using Attachment 1 to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **22 May 2015**.

9.3 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.

## 10 NEXT STEPS

10.1 Responses to the Consultation will be reviewed by the DCP 138 Working Group. The Working Group will then determine the progression route for the CP.

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

### ATTACHMENTS

- Attachment 1 – Response Form
- Attachment 2 – ENA Consultation Document
- Attachment 3 – ENA Report on Condition 3
- Attachment 4 – Ofgem Decision Letter – 4 November 2014
- Attachment 5 – DCP 138
- Attachment 6 – DCP 138 Impact Analysis
- Attachment 7 – Proposed Legal Text