DCUSA CHANGE REPORT

DCP 138 - Implementation of Alternative Network Use Factor (NUF) Calculation Method in EDCM

1 PURPOSE

1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 138 'Implementation of alternative network use factor (NUF) calculation method in 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 legal drafting amendments for DCP 138 (Attachment 1) and submit their votes using the form attached as Attachment 2 to dcusa@electralink.co.uk no later than **7 September 2015.**

2 BACKGROUND

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 DCP 138 was raised by SSE Power Distribution on 6 July 2012 with the intention of amending the method of calculating NUFs for EDCM demand customers, as defined within DCUSA, to address the concerns raised by Ofgem in Condition 3 of the Ofgem decision document on EDCM import charges published in September 2011.

2.3 In this document published in September 2011, Ofgem approved the DNO's proposals for the EDCM for import subject to three conditions[1]; Condition 3 was that the DNOs should review the methodology for determining NUFs. This condition required DNOs to review the method for calculating network use factors, including:

- Appropriateness of socialising spare capacity costs; and
- Assess the materiality of the impact of customers' charges and whether these can be justified.

2.4 DNOs subsequently developed a revised methodology for the calculation of NUFs. In April 2012 a consultation was issued by the Energy Networks Association (ENA)

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

seeking views on this revised methodology. The ENA consultation is provided as Attachment 3. Two responses to the consultation were received.

2.5 In June 2012, following the close of the consultation, the ENA issued a report on Condition 3. This report is provided as Attachment 4 and sets out the DNOs proposals for the calculation of NUFs and details the consultation responses received.

2.6 Ofgem reviewed this report and on 4 November 2014 published its decision letter notifying DNOs that Condition 3 had been fulfilled. This decision letter is provided as Attachment 5.

2.7 DCP 138 was subsequently raised by SSE Power Distribution 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.

2.8 The proposer believes that the proposed change is more cost reflective, socialises the spare capacity costs to all network demand users, is consistent with the principles of the network assessment and prevents the over allocation of the costs of lightly utilised assets to EDCM customers.

3 WORKING GROUP

3.1 The DCUSA Panel established a Working Group to assess DCP 138. The group comprised of Supplier and Distributor Parties, independent consultants 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 discussed the CP and developed consultation documents (Attachment 7) and (Attachment 8) to gather information and feedback from market participants.

4 IMPACT ASSESSMENT

4.1 The Working Group noted that the first impact assessment carried out when the CP was raised in June 2012 was three years out of date and suggested for another impact assessment on NUF Analysis to be undertaken using the latest tariffs.

4.2 It was agreed that DNOs should calculate the impact of the Condition 3 NUF Factor

proposal. A template for the Condition 3 NUF Factors for DNOs to populate, and a 'Cap and Collar' spreadsheet to be populated by DNOs was produced.

4.3 In their review of the Impact assessment the Working Group noted that the impact on EDCM recoverable revenue varied across the DNO areas, with some areas seeing an increase in EDCM revenue whilst others were seeing a reduction. Within these areas there is further variation in customer charges – some falling and some rising. Some of the changes appeared significant both in terms of percentage change and £s change.

4.4 A summary table was produced to indicate the overall change in the different area's EDCM recoverable revenue. This table shows the £s change and % change from the current position and is provided as Attachment 6.

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

TABLE: 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%

DCP 138 CDCM Impact Analysis

4.6 The Working Group carried out a CDCM analysis to show the consequential impact on CDCM tariffs. The CDCM Impact analysis is provided as Attachment 10.

4.7 The maximum movement in the domestic unrestricted tariff unit rate is 0.8%, the minimum is -0.4%. The maximum movement in the HV HHM unit rate 1 tariff is 1.5%,

the minimum is -0.6%. Overall the movement in CDCM tariffs as a result of the EDCM changes are minimal.

5 DCP 138 – FIRST CONSULTATION

5.1 Two consultations were issued in relation to DCP 138. The first consultation was issued to DCUSA Parties on 1 May 2015. There were six responses received to the consultation.

5.2 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 7.

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

5.3 The Working Group noted that the majority of the respondents understood the intent of the CP. It was noted that one of the respondents may have misunderstood the intent of the Change Proposal as they highlighted in their response that Distribution Networks are seeking to allocate spare capacity more appropriately to those that may need it from security of supply and contingency perspective. The Working Group agreed to address the comments made in this response by drafting an email clarifying the intent of the Change Proposal to the respondent.

Question 2 - Are you supportive of the principles of DCP 138?

5.4 Five respondents to this question supported the principles of the CP. One of these respondent explained that they were supportive of the principles and that it is fair that NUFs are allocated based upon actual utilisation of assets. The revised methodology takes account of asset usage under contingency conditions and removes the allocation of costs relating to the amount of capacity that is unused or spare.

5.5 One respondent raised concerns that sites which have historic legacy connection arrangements may find themselves with an unfair amount of charging associated with spare capacity. In addition, the respondent highlighted that allocating all 'spare capacity' on the network to individual users on the basis of who is connected may not be appropriate in all cases.

5.6 The Working Group noted the respondent's comments. It was observed that the

respondent may have thought that this referred to actual capacity rather the cost of the capacity on the GSP area.

5.7 The respondent also raised concerns regarding charges associated with spare capacity. In their response, the respondent mentioned that the Change Proposal suggests that those closest to the spare capacity should pay, when that capacity is not reserved for those users and may be allocated to any new connectee to the affected branches.

5.8 A member of the Working Group pointed out that the ENA Report (Attachment 4) published on 1 June 2012 mentions that if a customer has a property under the EDCM new customers could connect at any time between the publication of EDCM charges for the new charging year and the end of that charging year.

Question 3 - Do you consider that the proposal better facilitates the DCUSA Charging and General Objectives? Please give supporting reasons.

5.9 All respondents agreed that the DCUSA Objectives would be better facilitated by the CP. One respondent noted that the revised approach has taken into account the real life network design and operation philosophies such as contingency situations. It consequently enables DNOs to allocate the asset costs, which are associated with spare asset capacities, to all demand customers.

5.10 The table lists the DCUSA Objectives that they specifically mentioned as being better facilitated.

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

5.11 The Group observed that all of the respondents agree that the Change Proposal better facilitates the Charging and General Objectives

Question 4 - Are you supportive of the proposed implementation date of 1 April 2016?

5.12 Four respondents were supportive of the proposed implementation date of April 2016. One respondent pointed out that they preferred the April 2018 implementation

date because the change to NUFs calculation is a high value change for customers and more notice should be given to customers. Another respondent stated that it would depend on when the cost impact.

5.13 The Working Group members considered whether the implementation date should be changed to April 2017. It was noted that although most respondents agreed with the April 2016 implementation this date might mean that impacted customers do not get sufficient notice on changes to the new NUFs calculation methodology. The Working Group agreed for 1 April 2017 implementation date to give customers sufficient notice.

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

5.14 The respondents did not provide comments on the legal text in the consultation. Having agreed a new implementation date of 1 April 2017 the Working Group agreed to modify the DCP 138 Legal text to capture this change.

Question 6 - Are there any alternative solutions or matters that should be considered by the Working Group?

5.15 The majority of the respondents agreed that there were no other solutions or matters to be considered by the Working Group. One respondent questioned whether it would be better if spare capacity is socialised equally across all users, rather than paid for by those closest to that spare capacity.

5.16 The Working Group noted the response and drafted an email addressing the respondents concerns. The response pointed out that under the current method of calculating network use factors, the entire cost of an asset is apportioned to those deemed to use it and sites that have larger than necessary connection assets associated with past use of the network by other end users will currently bear the full cost.

Question 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.

5.17 No respondents expressed any concerns with regards to the CP having an impact upon

or being impacted by any wider industry developments.

Question 8 - Do you have any further comments?

5.18 The majority of respondents did not have further comments regarding the CP. One respondent highlighted that prior to implementation DNO's will need to ensure that every effort is made to explain to customers and sites which face large percentage changes in distribution charges why the change is necessary and be able to fully justify the change. The Working Group noted the concerns raised and agreed to address them by clarifying what the CP is trying to achieve and its intended outcome.

6 DCP 138 – SECOND CONSULTATION

6.1 In light of the new agreed implementation date and revised the legal text the Working Group agreed to issue another consultation to give DCUSA Parties a further opportunity to comment on the agreed changes. The Second consultation was issued on 7 July 2015. Seven responses were received to the consultation.

6.2 The consultation document, along with the responses received, is provided as Attachment 8.

Question 1: The Working Group revised the legal text by updating the 'caps and collar' NUFs calculation timeline in table in Schedule 17 and Schedule 18. Do you have any comments on the proposed legal text of DCP 138?

6.3 The Working Group noted that the majority of respondents did not have further comments on the proposed legal text and that two respondents provided further feedback on the legal text.

6.4 One respondent mentioned that it may be inappropriate to use pre- DCP 138 NUFs to set up caps and collars on post DCP 138 NUFs. The Working Group explained that that the respondent may have misunderstood what the CP has done as the Group has not used pre- DCP 138 NUFs set caps/collars on post-DCP 138 NUFs.

6.5 Another respondent provided an attachment with proposed modifications to the DCP 138 legal text. It was observed that the revised wording from the legal advisor did not reflect what was proposed by the Working Group. The Working Group agreed that that the legal text should be clear in order to avoid another CP being raised to correct

the text in the future.

6.6 The Working Group agreed to make the suggested changes to the legal text and issue the legal text to the DCUSA legal advisor for a final review.

Question 2: The Working Group agreed to revise the proposed implementation date to 1 April 2017 to enable customers impacted by the change get more notice on changes to the new NUFs calculation methodology. Are you supportive of the proposed implementation date of 1 April 2017?

6.7 The Working Group noted that the majority of respondents were supportive of the proposed implementation date of 1 April 2017.

Question 3: Do you have any further comments?

6.8 The Working Group noted that one respondent provided further comments on the CP.

6.9 The respondent pointed out that data from 2012 cannot be relied on in the light of apparent significant changes in power flow modelling results in some DNO areas since then (e.g. the reduction in FCP charge 1 in WPD West Midlands) and changes in the customer base (many current customers/tariffs did not exist in 2012).

6.10 The Working Group clarified that the CP had not relied on data from 2012 and that more recent data had been used in making changes to the CP.

6.11 The respondent also highlighted that the consultation period was very short. The Working Group noted that the consultation period was short as it was only consulting on the changes made to the implementation date and the legal text. It was noted that the first consultation had been issued for a longer consultation period.

7 WORKING GROUP ASSESSMENT OF DCP 138 FOLLOWING INDUSTRY CONSULTATION

7.1 After reviewing the consultation responses, the Working Group discussed the Change Proposal. The Working Group agreed that the DCP 138 should be implemented on 1 April 2017 to give sufficient notice of the changes to customers.

7.2 Given the new agreed implementation date the Working Group agreed to modify the updated legal text for ‘caps and collar’ NUFs calculations in in Schedules 17 and 18.

7.3 Members of the Working Group considered whether it was possible to calculate the 2016 and 2017 charges in the same year. Given that charges for both April 16 and April 17 will be set at the end of 2015, they questioned whether the legal text being proposed needs to cater for both the current approach to network use factors (for 2016/17 charges) and the approach under DCP 138 (for 2017/18 charges). In their discussions the Working Group wanted to ensure that the legal text is aligned with the DCP 178[2] legal text.

7.4 The Working Group was advised that DCUSA would maintain a number of pre-release versions of relevant schedules to make sure the approach to network use factors caters for both 2016/17 and 2017/18 and that putting text into the code for each effective year would mean redundant text throughout the code as we look back.

7.5 The Working Group noted and addressed the concerns raised by one of the consultation respondents regarding the intent of the CP and potential charges on customers.

7.6 In their response the Group explained that under the current method of calculating network use factors, the entire cost of an asset is apportioned to those deemed to use it. This is true even if a portion of the asset capacity is “unused” or “spare”. So those sites that have larger than necessary connection assets associated with past use of the network by other end users will currently bear the full cost.

7.7 The Change Proposal sets out to socialise this charge and allocate the costs associated with unused capacity on the network to all demand users of the network (EDCM and CDCM) rather than just to users of the assets that made up unused capacity. So the sites that have larger than necessary connection assets associated with past use of the network by other end users will not have to bear the full cost.

7.8 It was noted that in the DCP 138 impact assessment the Working Group ensured that they engaged with DCUSA Contract Managers regarding the impact of the CP on tariffs. A number of customers were contacted based on the specific impact of the proposed change on their tariffs. Customers identified their own tariff and the impact of DCP 138 based upon MPAN or LLFC.

7.9 In regards to the second consultation the Working Group noted that a majority of the

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respondent agreed with the proposed Implementation date of 1 April 2017. The Working Group agreed to make changes to clarify the legal text and issue this to the DCUSA Legal advisor for a final review.

8 ENGAGEMENT WITH THE AUTHORITY

8.1 Ofgem was given the opportunity to engage with the development of DCP 138 as an observer of the Working Group.

9 IMPACT ON GREENHOUSE GAS EMISSIONS

9.1 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 138 were implemented. The Working Group did not identify any material impact on greenhouse gas emissions from the implementation of the Change Proposals.

10 PROPOSED LEGAL TEXT

10.1 The proposed legal drafting of DCP 138 has been considered by the Working Group, and reviewed by the DCUSA Legal Advisor, and is provided as Attachment 1.

10.2 In their review of the DCP 138 Legal text the Working Group felt it was important to have the reference to the DCP 138 Impact Assessment on the NUFs calculation table. It was noted also noted that the 15 month notice period should considered when deciding on the NUFs calculation timeline.

10.3 This text updates both Schedule 17 and Schedule 18 of the DCUSA with the DCP 138 proposed solution.

11 EVALUATION AGAINST THE DCUSA OBJECTIVES

11.1 For a DCUSA Change Proposal to be approved it must be demonstrated that it better meets 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 9.

11.2 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 138.

Charging Objective 1 - 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.

11.3 The CP better meets Charging Objective 1 by allocating only the proportion of the asset annuitised MEAV, which is deemed to be used by customers, to that EDCM customer, in the calculation of NUFs.

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

11.4 The CP better meets Charging Objective 3 to facilitate competition 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 underutilised assets to individual EDCM customers. This means that any prospective connectees will be only being allocated costs (through Network Use Factors) for actual capacity used with respect to network assets, and not the allocation of spare capacity to all customers. This will ensure new connectees are only charged for the capacity they wish to utilise based upon maximum load conditions, ensuring that each EDCM customer (including new connectees) will be treated equally – based upon actual demand.

Charging Objective 4 - 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.

11.5 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 - development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks.

11.6 The CP better meets General Objective 1 by reflecting the utilisation of distribution assets more efficiently and fairly in the calculation of NUFs.

General Objective 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.

11.7 The CP better meets General Objective 2 by not over allocating costs to customers and socialising the unused capacity costs.

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

11.8 The CP better meets General Objective 3 by satisfying the licence obligation on DNOs to review the charging methodologies and where appropriate introduce changes that improve the methodology.

12 IMPLEMENTATION

12.1 The Working Group agreed to change the implementation date of DCP 138 to 1 April 2017. The reason for this is to give customers sufficient notice of changes to charges.

13 WORKING GROUP CONCLUSIONS

13.1 The Working Group has discussed the proposed amendment to DCUSA and the Group unanimously agreed that the legal text developed for DCP 138 better facilitates the DCUSA Objectives.

13.2 The Working Group agrees that DCP 138 should be issued for Party voting.

14 PANEL RECOMMENDATION

14.1 The Panel approved this Change Report on **14 August 2015.** 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 138.

14.2 The timetable for the progression of the Change Proposals 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 2017

15 NEXT STEPS

15.1 Parties are invited to consider the proposed amendments (Attachment 1) together with the Consultation documentation (Attachments 7 and Attachment 8) and submit their votes using the Voting form (Attachment 2) to dcusa@electralink.co.uk by **7 September2015.**

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

16 ATTACHMENTS

- Attachment 1 – DCP 138 Legal Text
- Attachment 2 – Voting Form
- Attachment 3 – ENA Consultation Document
- Attachment 4 – ENA Report (1 June 2012)
- Attachment 5 – Ofgem Decision letter – 4 November 2014
- Attachment 6 – DCP 138 Impact Analysis
- Attachment 7 – DCP 138 Consultation One
- Attachment 8 – DCP 138 Consultation Two
- Attachment 9 – DCP 138 Change Proposal Form
- Attachment 10– DCP 138 CDCM Prices Impact Analysis