

DCUSA CHANGE DECLARATION

DCP 133 - 500MW Network Common Model for CDCM Input

VOTING END DATE: 1 AUGUST 2014

DCP 133 - 500MW Network Common Model for CDCM Input	WEIGHTED VOTING				
	DNO	IDNO	SUPPLIER	DISTRIBUTED GENERATOR	GAS SUPPLIER
CHANGE SOLUTION	Accept	Reject	Accept	n/a	n/a
IMPLEMENTATION DATE	Accept	Reject	Accept	n/a	n/a
RECOMMENDATION	<p>Change Solution – REJECT In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the change solution was more than 50% in all Categories.</p> <p>Implementation Date – REJECT In respect of each Party Category that was eligible to vote, the sum of the Weighted Votes of the Groups in that Party Category which voted to accept the implementation date was more than 50% in all Categories.</p>				
PART ONE / PART TWO	Part One – Authority Determination Required				

PARTY	SOLUTION (A / R)	IMPLEMENTATION DATE (A/R)	WHICH DCUSA OBJECTIVE(S) IS BETTER FACILITATED?	COMMENTS
DNO PARTIES				
Electricity North West Ltd	Reject	Reject	We believe that the change proposal is contrary to DCUSA Charging Objectives 3 & 4 which relate to efficiency of operations. The proposed model is more detailed than the existing model but this does not mean that it is more reflective of forward looking, long run marginal costs. It is adding more complexity to the arrangements in the interests of spurious accuracy.	
Northern Powergrid - Northern Electric Distribution Ltd	Reject	Reject	Charging Objective One – a common methodology will result in consistency and also transparency of process.	At the moment, “The Common 500MW Network Model” does not appear to improve the commonality in the calculation of DUoS charges (as seen by the wide range of outputs across all DNOs). It is unlikely that this can be explained by different design policies or DNO topography. The resultant changes in CDCM will have a significant and noticeable impact on the resultant CDCM and EDCM tariffs. There will also be initial volatility to the resultant tariffs whilst not achieving the increase in commonality that was desired at the beginning of the process.
Northern Powergrid - Yorkshire Electricity Distribution plc	Reject	Reject	Whether or not it is more cost reflective would depend on the accuracy of the current 500 MW model. Charging Objective Two – Commonality and transparency will assist in the facilitation of competition. Charging Objective Three – as the costs will be reflective of the real costs that would be incurred. To ensure cost reflectivity continues, it would be reasonable to assume the	

			<p>model would be reviewed yearly with updated asset costs as DNO specific asset costs would be expected to change year on year.</p> <p>Charging Objective Four - a review of costs and also the model on a yearly basis will ensure that changes in design practices costs are captured in the model.</p> <p>General Objective Two – Commonality and transparency will assist in the facilitation of competition.</p> <p>General Objective Three – a common model used by every DNO based upon a common methodology will enable compliance.</p>	<p>Whilst DNOs would use a common model/spreadsheet, the variations in a number of the outputs being entered into the CDCM have actually increased significantly rather than reduced. It is noted that the change strives to improve commonality and transparency; we are not convinced that this is achieved and this change adds a significant layer of complexity to the calculation of tariffs.</p> <p>There is an increase in complexity but there is no increase transparency, there appears to be a nominal increase in commonality with the use of a common model.</p>
Scottish Power - Manweb	Reject	Reject	N/A	N/A
Scottish Power - Distribution	Reject	Reject		
SSE - Scottish Hydro-Electric Power Distribution plc	Accept	Accept	Charging Objective 2 is better facilitated with both the model and methodology being incorporated into DCUSA as it provides better transparency.	Supportive of the principles but have concerns regarding representation of generation dominated networks in the Common 500MW Network Model. We also note that there are significant price impacts for end customers, in both CDCM and EDCM.
SSE - Southern Electric Power Distribution plc	Accept	Accept		
UKPN - Eastern Power Networks	Accept	Accept	We feel that Charging Objectives 1, 2	N/A

UKPN - London Power Networks	Accept	Accept	and 3 and General Objective 2 will be improved as a result of DCP133, in that there will be greater consistency between companies in how they undertake the network modelling used to underpin the charging methodologies, this should enhance the transparency and cost reflectivity of the methodology.	
UKPN - South Eastern Power Networks	Accept	Accept		
Western Power Distribution - East Midlands plc	Accept	Accept	General objectives 2,3 Charging objectives 2,3,4	N/A
Western Power Distribution - South Wales plc	Accept	Accept		
Western Power Distribution - South West plc	Accept	Accept		
Western Power Distribution - West Midlands plc	Accept	Accept		
IDNO PARTIES				
GTC	Reject	Reject	We are not sure to what extent, if any, the 500MW model is deemed to be part of the charging methodology – as opposed to being an input to the methodology. If it is part of the methodology then we would expect to see the 500MW models published already to comply with LC13.15 (note Paragraph 4.1 of the change report identifies the 500MW model as an “...input into the Common	Notwithstanding the above, we welcome and support strongly <ul style="list-style-type: none"> the publication of the 500MW methodology as an annex to Schedule 16. The publication of the User Manual and the Excel workbook This is irrespective of whether it is the HIDAM or some other methodology. We think this is an important piece of work undertaken by DNOs. Publishing and

			<p>Distribution Charging Methodology (CDCM) model and indirectly into the EHV Distribution Charging Methodology (EDCM) model”). If it is not part of the Charging Methodology then we are not sure that DCUSA charging Objectives apply or to what extent a change proposal is required to change inputs (i.e. the 500MW model) other than areas where paragraphs 16 to 31 of Schedule 16 require changes (we think service models are out of scope of the 500MW model?). If the HIDAM is part of the methodology the current 500MW models should be published. Leaving the governance points raised above to one side and looking at the HIDAM itself. We have insufficient knowledge or transparency to judge whether the proposed HIDAM better meets the DCUSA objectives when compared to the model currently used by DNOs. The main claim in the change proposal is that the DCUSA objectives are better met by introducing commonality and that such commonality improves cost reflectivity. However, the change report does not explain or justify why this commonality automatically</p>	<p>bringing the 500MW Model under DCUSA governance improves transparency and is to be welcomed. We are disappointed that the working group feel that legal constraints prevent DNOs publishing populated models because of competition law constraints. We think it is important to have a fuller explanation behind this advice. We have seen the broad heading of competition law used many times in the past to justify undue secrecy.</p>
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			<p>improves cost reflectivity and better meets the objectives. Additionally Paragraph 5.3 of the change report highlights that certain aspects need to be bespoke to reflect different DNO design policies and are therefore not common.</p> <p>We agree that Section 9 of the Act places general obligations on distributors to operate an economic efficient distribution system.</p> <p>However, it is not explained how and why the HIDAM it better achieves this (in the round) than current arrangements (Why are the current arrangements flawed?).</p> <p>The same is true with other objectives. We do not feel that statements made in the change reports are backed up with appropriate evidence or justification. We think it is essential that the change report sets out and justifies why objectives are better met: to do this it needs to compare and contrast itself with the existing approaches. We do not think commonality is in itself a justification that objectives are better met.</p> <p>Such justification is important. Future change proposals to the HIDAM will need to justify that they better meet the objectives. This is difficult if not</p>	
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			<p>impossible if justifications for the status quo are unclear (DCP117 is a clear example of this where the existing rationale for the current approach was never justified. It would seem inappropriate that the HIDAM was waived through with limited justification, but where future proposals required a much higher burden of evidence</p> <p>To demonstrate that the HIDAM is better we would expect to see each of the principal components of the HIDAM to be compared against the current 500MW model used by DNOs with an explanation why the proposed approach is better</p>	
SUPPLIER PARTIES				
British Gas Retail	Reject	Reject	<p>The change does not better achieve any of the objectives and has a detrimental impact on charging objective 3. We provide further details in our comments section below but in summary:</p> <ul style="list-style-type: none"> The methodology has resulted in a wide range of 500MW model outputs across the DNOs and the reasons for this have not been provided. Therefore it has not been demonstrated that commonality or consistency have been improved. 	<p>We do not believe that this change proposal should be implemented. We have process and policy concerns with the proposal:</p> <p>Process Concerns:</p> <p>Paragraph 6.3 of the change report makes clear that the impact assessment for this change not only includes the effects of changes to the 500MW model costs resulting from the proposed change, but also includes the impact of significant changes to the diversity factors used in the CDCM. The working</p>

			<ul style="list-style-type: none"> • Since the populated 500MW models will not be published, the increase in transparency is limited and unjustified by the significant increase in complexity of the methodology. • The proposed change in treatment of power factor results in a detrimental impact on the cost reflectivity of the final tariffs. 	<p>group has clearly stated that changes to diversity factors are outside of the scope of the change proposal. Our analysis suggests that the changes to the diversity factors are having a much larger impact on the resulting tariffs than the change to the 500MW model costs.</p> <p>Further to this, the revised diversity factors used in the impact assessment are not relevant as they cannot be used if this change is implemented. This is because they calculate the HV/LV diversity factor using firm capacity data rather than maximum demand data as is required by Schedule 16 (in both its current form and as amended by this change).</p> <p>We have already highlighted this process issue to the working group and suggested that a revised impact assessment is required.</p> <p>It is inappropriate to seek the view of industry parties on the basis of an impact assessment that does not reflect the impact of the proposal in question. It is also for this reason that we reject the proposed implementation date – it is not possible to agree an implementation date until such time as a corrected impact assessment has been consulted upon.</p>
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				<p>Policy Concerns:</p> <p>There are a number of policy concerns we also have with this change:</p> <ul style="list-style-type: none"> • Commonality: DNOs were unable, due to competition law concerns, to openly share their applications of the new methodology to ensure commonality of approach. A wide range of 500MW model outputs across the DNOs has resulted and it has not been demonstrated that this can be explained by different design policies or DNO topography. • Transparency: Furthermore, we are concerned that since the 500MW models will not be published, the application of the 500MW model methodology by the DNOs (and resultant impacts on CDCM and EDCM tariffs) will not be transparent to the industry and so any misapplication is unlikely to be corrected. • Complexity: The additional complexity brought by this change both to the operational side of producing tariffs and to the CDCM legal text is significant. However, transparency improvements will be very limited since the actual models will not be published. Given this and our concerns about the commonality of application and the
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				<p>resulting outputs, we do not consider the additional complexity is justified.</p> <ul style="list-style-type: none"> Power Factor Assumption: Paragraph 78 of current Schedule 16 (see below, our emphasis added) makes clear that the calculation of the p/kVA/day for modelled network assets needs to apply the same power factor used in the network model: <p>78. For each demand user type, and for each network level, the unit cost to be attributed to capacity charges or fixed charges in respect of that network level is</p> $ \begin{aligned} & \text{[p/kVA/day from network model assets]} \\ & = 100 * \text{[standing charge factor]} * \text{[network level } \text{£/kW/year]} * \text{[user loss factor]} / \text{[network level loss factor]} * (1 - \text{[contribution proportion]}) / \text{[days in year]} / (1 + \text{[diversity allowance]}) * \text{[power factor in network model]} \end{aligned} $ <p>Paragraph 79 of current Schedule 16 states that the power factor in network model parameter is set to 0.95, but this is set out explicitly to ensure consistency with paragraph 21 which states that the 500MW model's design assumes a power factor of 0.95.</p> <p>The proposed legal text for this change removes the requirement set out at paragraph 21 in relation to the power</p>
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				<p>factor assumed in the 500MW model's design, but maintains the requirement set out at paragraph 79 so that tariffs are still calculated using a 0.95 power factor.</p> <p>The change report states that the working group consider this to be a clarification of the CDCM power factor. However, we believe this creates an inconsistency between the derivation of the asset costs and the derivation of the CDCM tariffs, and is a change to a principle established by the CDCM. This means that the volume of assets in the 500MW model, and therefore the cost of those assets input into the CDCM, will be derived using a different power factor than the one used in the CDCM to convert those costs to a p/kVA/day, resulting in an adverse impact on the cost reflectivity of the final tariffs.</p>
EON	Accept	Accept	We agree with the working group as to the objectives being better facilitated.	N/A
Npower	Accept	Accept	<p>DCUSA Charging objective 3. could be said to be better facilitated as the asset value outputs of the common 500MW model should be more cost reflective as the model is more detailed.</p> <p>And if updated on a regular basis would also help to better facilitate charging objective 4</p>	<p>We have concerns around wide range of outputs from the HIDAM the lack of transparency of inputs to the model prevents 3rd parties from being able to validate or challenge the outputs. However we recognise bringing the model and methodology under the governance of DCUSA is a significant step forward and will allow parties to raise</p>

				changes to the methodology in the future.
SSE Energy Supply Ltd	Accept	Accept	N/A	N/A
DISTRIBUTED GENERATOR PARTIES				
N/A				
GAS SUPPLIER PARTIES				
N/A				