DCUSA Change Report

DCP 118 - ALLOCATION OF EHV COSTS IN THE CDCM PRICE DISAGGREGATION MODEL

1 PURPOSE

1.1 This document is issued in accordance with Clause 11.20 of the DCUSA and details DCP 118 entitled "Allocation of EHV costs in the CDCM Price Control Disaggregation Model".

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 (Appendix B) and submit their votes using the form attached as Appendix F to dcusa@electralink.co.uk no later than 8 March 2013.

2 BACKGROUND

2.1 DCP 118 was raised by GTC (for and on behalf of the Electricity Network Company Limited). The intent of DCP 118 is to modify the Price Control Disaggregation Model (described in paragraphs 96 to 125 of Schedule 16) such that it excludes those EHV costs and revenues that are excluded from the CDCM because the costs are recovered through the EDCM site-specific EHV charges.

2.2 The Proposer explains that DNOs determine tariffs to LDNOs by applying discount factors to the CDCM all the way tariffs calculated by the CDCM Model 101. The discount factors applied to the all-the-way tariffs are determined using the Price Control Disaggregation Model (PCDM), alternatively known as 'Method M'. This takes the price control components of Capex, Return and Operation for DPCR4 and allocates them to different DNO network levels. The spreadsheet subsequently allocates the revenues between the upstream distributor (the DNO) and the downstream distributor based on the proportion of network that the LDNO and DNO provide in distributing electricity to end customers.

2.3 Whilst the CDCM Model 101 is used to determine charges to end consumers, it only uses EHV costs that relate to providing connections to HV and LV customers, excluding EHV costs/ revenues to EHV customers; the PCDM utilises total EHV costs, including those EHV costs which relate to providing connections and use of system to EHV site-specific customers.

2.4 The Proposer notes that by using total EHV costs in the PCDM, EHV costs used to provide connections to EDCM customers are also allocated to CDCM customers connected to IDNO networks. This would appear to be double counting these costs.

2.5 The Working Group believes the effect of this is that the EHV element of costs in the PCDM is overstated with the effect that discount factors are understated.

2.6 The Proposer believes that, as a result of correcting this perceived flaw in the methodology, the tariffs would be more reflective of the relevant costs incurred by CDCM users at different network levels; and therefore could reduce any potential distortions in competition.

3 DCP 118 – WORKING GROUP

3.1 The DCUSA Panel established a Working Group to assess and refine DCP 118. The Working Group met on 13 occasions and was comprised of DNO and IDNO Parties as well as an Ofgem representative.

3.2 Meetings were held in open session and the minutes and papers of each meeting are available on the DCUSA website – www.dcusa.co.uk.

4 OVERVIEW OF THE PROPOSED SOLUTIONS AND WORKING GROUP RECOMMENDATION

4.1 A detailed description of how the PCDM calculates discounts is provided in Appendix G. A breakdown of the total price control settlement cost elements are allocated to the network levels using a Modern Equivalent Asset Value (MEAV) and a Calc Net Capex Driver. To illustrate the flaw in the current methodology, a very simple version of the calculation of the MEAV driver in the PCDM is shown below in Table 1. The same principle can be applied to the calculation of the Calc Net Capex Driver.

4.2 DCP 118 is concerned with the allocation of total costs to the EHV network level using these drivers; and that the data used to calculate these drivers, namely capital expenditure and asset replacement costs, include the costs for assets that are used by EDCM customers and CDCM customers. The PCDM is used to determine the split of CDCM tariff costs only and does not recover charges from EDCM customers.

4.3 It is therefore necessary to adjust these drivers to ensure the proportions of the EHV costs that relate to EDCM customers are removed. This will help ensure an allocation of costs across the network levels in the PCDM that represents the proportionate use of those network levels by CDCM customers. The tables below illustrate the current MEAV driver calculation method and the impact on the calculation when EHV costs are reduced to account for EDCM customers' contribution to those costs.

Table 1: Current Methodology

Type of Expenditure	EHV	HV	HV/LV	LV	LV Service
MEAV	£100	£100	£100	£100	£100
MEAV by Network level as a % of Total network MEAV	20% (£100/ £500)	20%	20%	20%	20%

4.4 The table above demonstrates that in this instance 20% of the total system MEAV relates to the EHV network. However, it is known that a portion of these EHV assets provide benefit to EDCM customers, and therefore should not form part of the calculation.

4.5 Removing this portion of the EHV MEAV from the allocation to the EHV network level reduces the EHV allocation to 16%, and the allocations to the remaining network levels increase from 20% to 21%. This result is illustrated in the table below and yields a more cost reflective representation of the network level MEAVs used by CDCM customers.

Table 2: Proposed Methodology

Type of Expenditure	EHV	HV	HV/LV	LV	LV Service
MEAV	£80	£100	£100	£100	£100
MEAV by Network level as a % of Total network MEAV	16% (£80/ £500)	21%	21%	21%	21%

4.6 As outlined above, the Working Group considered that to implement DCP 118 it will be necessary to reduce the cost allocation to the EHV network level in the PCDM in order to take account of the proportion of EHV costs recovered from EDCM customers.

4.7 This can achieved by adjusting the EHV element of the MEAV and Net-Capex cost drivers to account for the proportion of EHV costs recovered from EDCM customers.

4.8 The Working Group considered two methods to reduce the allocation of costs to the EHV network level, these are outlined below:

- Reduce the EHV network level allocation by multiplying the cost allocation drivers by the ratio of the MEAV of EHV and 132kV assets attributable to CDCM customers to total MEAV of EHV and 132kV assets attributable to all customers. This ratio is calculated by dividing the MEAV of the EHV and 132kV network levels in the CDCM model, net of the Notional MEAV of EHV and 132kV assets used in the EDCM model, by the sum of the MEAVs of the EHV and 132kV network levels in the CDCM model. The MEAVs in the CDCM model are taken directly from the 500MW Model that includes assets that serve both CDCM and EDCM customers. The EDCM calculates the notional value of EHV assets in the 500MW Model that are used by EDCM customers. By subtracting this Notional MEAV of EHV and 132kV assets from the associated MEAVs in the CDCM model, the result obtained is a representation of the MEAV of the EHV and 132kV assets in the CDCM model used by CDCM customers only.
- An alternative option is to reduce the EHV network level allocation by multiplying the cost allocated to the EHV network level by the ratio of units distributed to LV and HV customers to the sum of units distributed to all customers (LV, HV and EHV) in the 2007/08 period.

4.9 To complete the correction, it will also be necessary to reduce the total allowed revenue in the PCDM to remove the revenues recovered from EDCM customers.

4.10 The Working Group considered two methods to reduce the total allowed revenue in the PCDM to take account of the revenue recovered from EHV customers. These methods are outlined below:

- The total allowed revenue in the PCDM is reduced by subtracting the revenues recovered from EHV customers subject to site-specific charging for the relevant charging period (i.e. 2007/08 or 2008/09).

- The alternative option is to reduce the total allowed revenue by a proxy for the revenue recovered from EHV customers subject to site-specific charging for the relevant charging period (i.e. 2007/08 or 2008/09). This proxy is calculated by multiplying the total allowed revenue in the PCDM by the ratio of revenues recovered from EDCM customers to total revenue to be recovered from both CDCM and EDCM customers as forecast in April 2012.

4.11 The Working Group issued an RFI to DNOs requesting that the above changes be modelled in the PCDM. The different methods of changing the cost allocation drivers and reducing EHV revenue from the total allowed revenue results is 4 permutations of potential changes to the PCDM. The methods are described as Options 1 to 4 within the RFI, and are fully detailed within Appendix C, and are summarised in the table below.

Table 3: Proposed Options within the RFI

PCMD Change	EHV Cost Allocation Reduction Driver	Removal of EHV Revenue from "Revenue to Share"
Option 1	MEAV ratio	EHV Revenue in 2007/2008 RRP
Option 2	MEAV ratio	ratio of EDCM to CDCM revenue
Option 3	Units billed ratio	EHV Revenue in 2007/2008 RRP
Option 4	Units billed ratio	ratio of EDCM to CDCM revenue

4.12 **Option 1 – Overview of Proposed Solution**

A. Option 1 proposes to adjust the network level drivers to reduce the allocation to the EHV network level by using the MEAV data from the EDCM and CDCM models.

B. The total allowed revenue in the PCDM is reduced by subtracting the revenue recovered from EHV customers subject to site-specific charges for the relevant PCDM charging period (i.e. 2007/08 or 2008/09).

4.13 **Rationale for progressing Option 1**

A. The Working Group proposes to use MEAV data from the EDCM and

CDCM models to determine the proportion of EHV and 132kV network asset MEAVs in the 500MW model that relate to CDCM customers only. This ratio is then applied to the existing EHV network level allocations in the PCDM. This is a valid approach as:

- the CDCM and EDCM MEAVs that are used to determine this ratio originate from the 500MW model, and
- The construction of the 500MW model has not changed since the charging period used in the PCDM.

B. This ratio can then be applied to the allocations in the PCDM without any detrimental impact on the cost reflectivity of the PCDM.

C. Using actual data from the same charging year as the "total allowed revenue" in the PCDM is preferable, it appears better to use the actual data relating to EHV charges (where the data is available) rather than choosing a proxy. It was highlighted that it could be argued that the use of the current split between EDCM and CDCM customers might give a more cost reflective result as the PCDM is ultimately used the split current CDCM all-the-way tariffs between DNOs and IDNOs. The Working Group felt that this is not a significant issue as the impact assessment shows that the difference between the two approaches has a negligible impact on the final discount tariffs.

4.14 **Option 2 – Overview of Proposed Solution**

A. Option 2 proposes to adjust the network level drivers to reduce the allocation to the EHV network level by using the MEAV data from the EDCM and CDCM models as per Option 1.

B. The total allowed revenue in the PCDM is reduced by subtracting a proxy for the revenue recovered from EHV customers subject to site-specific charges for the relevant PCDM charging period (i.e. 2007/08 or 2008/09). This proxy is calculated by multiplying the "total allowed revenue" in the PCDM by the ratio of revenues recovered from EDCM customers to total revenue to be recovered from both CDCM and EDCM customers as forecast in April 2012.

4.15 **Rationale for not progressing Option 2**

A. The EHV Costs Reduction Factor is calculated in the same way as for Option 1; however, the reduction of the "total allowed revenue" to

account for revenue recovered from EHV customers is carried out using a proxy rather than the actual values. It appears to be more appropriate to complete the calculation using actual data rather than using a proxy. For this reason, the Working Group recommends that Option 2 is not be progressed.

4.16 Option 3 – Overview of Proposed Solution

A. Option 3 proposes to adjust the network level drivers by the ratio of units distributed to LV and HV customers to the sum of units distributed to all customers (LV, HV and EHV) in the relevant charging period (i.e. 2007/08 or 2008/09).

B. The total allowed revenue in the PCDM is reduced by subtracting the revenue recovered from EHV customers subject to site-specific charges for the relevant PCDM charging period (i.e. 2007/08 or 2008/09).

4.17 Rationale for not progressing Option 3

A. One of the respondents to the consultation noted that a major weakness with using this approach to adjust the EHV network level allocation was that units distributed do not form a significant element of charges to EDCM customers. It was further explained that such charges are influenced more by the EDCM customer's agreed maximum import capacity.

B. The Working Group discussed this issue during the preparation of the consultation document and generally agreed with this concern. However, it was felt that this may still be a feasible option given the data available to DNOs and therefore was included in the consultation. However after further review the Working Group recommends that Option 3 is not progressed.

4.18 Option 4 – Overview of Proposed Solution

A. Option 4 proposed to adjust the network level drivers in the same way as Option 3; i.e. to adjust the network level drivers by the ratio of units distributed to LV and HV customers to the sum of units distributed to all customers (LV, HV and EHV) in the relevant charging period (i.e. 2007/08 or 2008/09).

B. The total allowed revenue in the PCDM is reduced by subtracting the proxy for the revenue recovered from EHV customers subject to site-specific charges for the relevant PCDM charging period (i.e. 2007/08 or 2008/09). This proxy is calculated by multiplying the "total allowed revenue" in the PCDM by the ratio of revenues recovered from EDCM customers to total revenue to be recovered from both CDCM and EDCM customers as forecast in April 2012.

4.19 Rationale for not progressing Option 4

A. The rationale for not progressing Option 4 is the same as that for Option 3; it is that there is a major weakness with using this approach to adjust the EHV network level allocation in that units distributed do not form a significant element of charges to EDCM customers. It was further explained that such charges are influenced more by the EDCM customer's agreed maximum import capacity.

B. The Working Group agrees with this assessment and therefore recommends that Option 4 is not progressed.

5 IMPACT ASSESSMENT

5.1 The table below shows a summary of the impact of DCP 118 on CDCM charges. The full impact assessment results can be found in Appendix E.

5.2 It was noted that there is a negligible impact on CDCM all-the-way tariffs, this was as expected.

5.3 The impact on LDNO discounts varies between licensees as expected. The average change, maximum and minimum change in percentage points from the current LDNO percentage discounts are summarised in the table 4 below:

Table 4: Summary of Results of LDNO Discount Impact Assessment

Change in discount	LDNO LV: LV user	LDNO HV: LV user	LDNO HV: LV sub user	LDNO HV: HV user	DNO/IDNO Boundary Connection Level
Average change across all 14 DNO areas	1.1%	1.4%	1.0%	0.9%	**Change is expressed in percentage points difference from the current LDNO percentage discounts. A positive number represents an increase in the LDNO discount.**
Maximum change across all 14 DNO areas	3.9%	4.6%	2.5%	2.1%	
Minimum change across all 14 DNO areas	0.0%	0.0%	0.0%	0.0%	

5.4 The impact assessment has shown the method employed to remove the revenue recovered from EHV customers subject to site-specific charges does not have a significant impact on the resulting LDNO discounts.

6 DCP 118 – RFIs and CONSULTATION

6.1 The Working Group carried out two RFIs and a Consultation to give Parties an opportunity to review and comment on DCP 118. The two RFIs provided the Working Group with additional information about the solutions progressed, and also the impacts of those solutions. The complete set of RFI documents are attached as Appendix D. The Consultation sought views from Industry Parties about the four options that the Working Group had considered during the course of its assessment of DCP 118. The Consultation documents are attached as Appendix C.

6.2 There were seven Parties that responded to the consultation, and the collated responses are documented in Appendix C. There were 2 DNO respondents which only provided an impact analysis, and did not provide answers to any of the consultation questions.

6.3 The responses to the consultation were supportive of the intent and the principles of DCP 118. The Working Group discussed each response and its

comments are summarised alongside the collated Consultation responses in Appendix C.

Question 1 - Do you understand the intent of DCP 118?

6.4 The Working Group noted that all respondents understood the intent of DCP 118.

Question 2 - Do you agree with the principles of DCP 118?

6.5 The Working Group noted that all respondents were supportive of the principles of DCP 118.

Questions 3 - Do you agree that DCP 118 better facilitates the DCUSA General Objective 2 and DCUSA Charging Objective 3?

6.6 The Working Group noted that all respondents who answered this question were supportive and agreed that DCP 118 better facilitates DCUSA General Objective 2 and DCUSA Charging Objective 3.

Questions 4 - Do you have any comments on the proposed legal drafting of DCP 118?

6.7 The Working Group noted that the majority of the respondents did not have any comments on the legal drafting. Two DNO respondents did not answer the question.

6.8 One DNO respondent noted that they were happy with the proposed legal text, whilst the remaining respondents stated that they had no comments regarding the legal drafting.

Question 5 - Do you feel that you have access to all of the data necessary to facilitate the progression of DCP 118? Please provide supporting comments.

6.9 The Working Group noted that the four DNO respondents who answered this question confirmed that they did have access to all of the data necessary to facilitate the progression of DCP 118.

Question 6 - Both option 1 and option 2 as described above use MEAV data from EDCM and CDCM models to determine how the cost allocated to the DNO's EHV network in the PCDM should be adjusted to take account

of the use of the EHV network by EDCM customers. This adjustment is referred to as the EHV Cost Reduction Driver and is used in two of the calculations in the PCDM:

Firstly, in calculating the MEAV by voltage level, the EHV cost reduction driver is multiplied by the sum of the MEAV costs of the EHV asset categories. This results in a reduction of the percentage MEAV allocation for EHV assets.

Secondly, the EHV cost reduction driver is also used to adjust the Net Capex calculation in the PCDM, where it is multiplied by the sum of the Net Capex of EHV and 132kV assets. This results in a reduction of the percentage Net Capex allocation for EHV assets. The Working Group considers that the EHV Cost Reduction Driver should be calculated using the following formula:

$$\text{EHV Cost Reduction Driver} = \frac{\text{EHV assets in CDCM model}}{\text{All Notional Assets in EDCM}}$$

Where

All Notional Assets in EDCM = Total sole use assets for demand + total notional capacity assets + total notional consumption assets + sole use assets generations only. These figures are calculated in the DNO's EDCM model table 4131.

EHV assets in CDCM model = Assets 132kV + Assets 132kV/EHV + Assets EHV + Assets EHV/HV. This is sum of the modelled EHV asset values scaled by load factor that are used for the allocation of operating expenditure in the CDCM model.

This equation is proposed based on two assumptions; firstly, that the MEAVs of the network levels that are inputted into the CDCM model from the 500MW model will contain EHV assets that are shared between EDCM and CDCM customers. Secondly, that by subtracting the figure for all notional Assets in the EDCM model the remaining numerator should represent the value of assets used by CDCM customers only.

Do you believe that the method described that uses MEAV data to calculate the EHV Cost Reduction Driver is appropriate? If not please provide any alternative suggestions that you feel the Working Group should consider.

6.10 Five respondents gave an answer to this question, four of whom were supportive of the Working Group's assertions.

6.11 A DNO respondent agreed with both of the Working Group's assumptions; that the assets in the 500MW model include a representation of those assets used by all customers, including EHV customers and that by subtracting the notional asset values in the EDCM model from those EHV

asset values in the 500MW model the result would give a good representation of the asset value of EHV assets used by CDCM customers only.

6.12 The same DNO respondent noted that the implementation of DCP 138 'Implementation of alternative network use factor (NUF) calculation method in EDCM' will change the notional asset values in the EDCM, but that this change would improve the cost reflectively of this asset calculation and would therefore complement the calculation method proposed for determining the EHV Cost Reduction driver.

6.13 Another DNO respondent stated that they were uncomfortable with the proposal to use data from the EDCM that has only existed since 2012 to determine a percentage to be applied to data in the PCDM where most of the data relates to the 2007/08 reporting period.

6.14 The Working Group acknowledged the comment regarding the time difference, but notes that the MEAV data from the EDCM and CDCM models are used only to calculate a proxy percentage of the total MEAV that is likely to relate to CDCM customers only. It will then apply this proxy percentage to the actual data (from the 2007/08 RRP) within the PCDM.

6.15 The Working Group explained that in doing so, this method does not mix the data from the different periods but instead uses CDCM and EDCM MEAVs from a hypothetical 500MW model to determine the likely split of the actual EHV MEAV reported in the RRPs used in the PCDM between site-specific EHV customers and all other network users. This type of approach is common throughout all of the DUoS charging models. Furthermore, the Working Group noted that the 500MW model has not changed since the 2007/08 charging period; and since this is the source of the proxy percentage to be applied to the actual 2007/08 data, the proxy percentage can be applied to the PCDM without any detrimental impact on the cost reflectivity of the PCDM.

Question 7 - The Working Group did consider an alternative method to use MEAV data to calculate the EHV Cost Reduction Driver. This is as follows:

EHV Cost Reduction Driver

This option was based on an assumption that the EHV assets in the 500MW model are used exclusively by CDCM customers. The Working Group does not believe this to be the case and therefore rejected this option and in favour of the equation shown in section 5. Do you agree with the Working Group's assertion?

6.16 The Working Group noted that all respondents who answered this question agreed with the Working Group's assertion in relation to this issue.

Question 8 - Do you believe the application of EHV Cost Reduction Driver to the MEAV and Cal Net Capex calculations is an appropriate means of reducing the costs allocated to the EHV network levels to take account of the partial funding of these assets by EDCM customers? Is there another way this could be done using data that is readily available to DNOs?

6.17 The Working Group noted that all respondents who answered this question believed the application of the EHV Cost Reduction Driver was an appropriate means to account for the use of the EHV network by EDCM customers.

Question 9 - The RFI issued in August 2012 required the PCDM to be amended to reduce the "Total revenue to share" in the PCDM between the DNO and IDNO by removing the revenues recovered from EDCM type customers. Upon examination of some of the impact assessment data returned from DNOs (as part of the August 2012 RFI) the Working Group has noted that the removal of the EHV revenue only from the "Total revenue to be share" in the PCDM actually has the effect of moving some costs away from the lower voltage network levels. This is because removing the EHV revenue from the "Total revenue to share" only increases the percentage of the "Total allowed revenue" that is "Total revenue not to share" by the PCDM, as result of the equation below:

Total allowed revenue = Revenue not to share1 + Total revenue to be share

This outcome was unintended; the EHV revenue should have been

[1] This term is referred to as "not to be split" in the PCDM but for consistency is changed here to "Revenue not to share". This is consistent with the proposed legal drafting and should be included in the PCDM when it moves under DCUSA governance.

reduced from the "Total allowed revenue" as opposed to the "Total revenue to share". This issue is addressed in this RFI by removing the EHV revenue from the PCDM by deducting the EHV revenue from both the "Total revenue to share" and the "Revenue not to share" in proportion to the ratio of "Total revenue to share" and the "Revenue not to share" to the "Total allowed revenue" respectively. These deductions are carried out using the following formulae:

Revenue to share deduction = $\frac{\text{Total revenue to share}}{\text{Total allowed revenue}} \times \text{EHV revenue}$

Revenue not to share deduction = $\frac{\text{Revenue not to share}}{\text{Total allowed revenue}} \times \text{EHV revenue}$

Where:

Total revenue to share = Total allowed revenue – Revenue not to share.

Revenue not to share = Transmission Exit Charges + Incentive Revenue.

Total allowed revenue = the Total allowed revenue for relevant regulatory year (being either the 2007/2008 or 2008/2009 charging year).

EHV revenue = EHV component of the base revenue (Brt) relating to EHV connected customers for relevant charging year (being either the 2007/2008 or 2008/2009 charging year). Depending on the option selected, this value will be determined using a breakdown of BRt data for the relevant charging year, or a ratio of EDCM to Target Revenue from the CDCM and EDCM models for the current charging year.

Do you agree with the method(s) proposed to remove the revenue recovered from EHV customers? Do you think it is appropriate to adjust the revenue "not to share" percentage using the correction factor shown above? Please give reasons for your answer.

6.18 The Working Group noted that all respondents who answered this question supported the Working Group's proposal to adjust the "Total allowed revenue" in the PCDM in the manner prescribed within the question.

Question 10 - Please provide comments on the strengths and weaknesses of each of the proposed options to change the PCDM to implement DCP 118 and indicate your preferred option.

6.19 One DNO commented that their preferred solution was Option 1, which uses the MEAV of the EDCM notional assets along with revenue information from 2007/08 RRP year. It noted that a major weakness with Options 2 and 4 is that they are both based on Units Distributed which is not related to capacity; and that since capacity is particularly relevant for EDCM charges that it was not appropriate to base the split on units distributed only.

6.20 The same DNO Respondent further noted that the EHV revenue removed from the total allowed revenue should not exceed the current values of revenue recovered from EDCM customers.

6.21 The Working Group agrees with the comments put forward by the DNO Party regarding the use of Units Distributed. However, it does not share the view that the amount of EHV revenue removed from the "Total allowed revenue" should be capped by current values of revenue recovered from EDCM customers and this goes against the idea of using current split of revenue between CDCM and EDCM customer as a proxy for the split in the 2007/08 charging period.

6.22 The Working Group noted that it is likely that this point will be academic in any case as it appears more appropriate to use the actual data from the 2007/08 charging period (i.e. Option 1) as this data is available to all DNO Parties. The Working Group also noted that the impact assessment shows that the method used to deduct EHV customer revenue from the revenue recovered from all customers has a negligible impact on the calculation of the final LDNO discount tariffs.

6.23 Another DNO Respondent commented that their preferred solution was to use MEAV to determine the EHV Cost Reduction Driver; both Options 1 and 2 employ this method. The DNO Party also noted that there were no questions relating to the options that use Units Distributed (Options 3 and 4) to determine the EHV Cost Reduction factor.

6.24 The Working Group acknowledges the comment that there were no questions specifically relating to the use of Units Distributed to calculate the EHV Cost Reduction Driver. The Working Group felt that this was because the acquisition of such data and the calculation of the discount percentage were self-evident.

6.25 It was also noted that Respondents had the opportunity to comment on the

strengths and weaknesses of each of the options.

6.26 Another DNO Respondent commented that they had concerns using revenue data from 2012 to determine the amount of EHV Revenue to be removed from the "Total allowed revenue" in the 2007/08 charging period (i.e. Options 2 and 4). Instead, they preferred the actual data from 2007/08 to be used in order to remove the EHV revenue from the PCDM. The DNO Party did not offer any clear preference on the method used to determine the EHV Cost Reduction Driver.

6.27 The working Group acknowledges this comment and agrees that where the data is available, it appears preferable to use the actual data relating to EHV charges rather than choosing a proxy. However, it could be argued that the use of the current split between EDCM and CDCM customers might give a more cost reflective result as the PCDM is ultimately used the split current CDCM all-the-way tariffs between DNOs and IDNOs.

6.28 The Working Group felt that this is not a significant issue as the impact assessment shows that the difference between the two approaches has a negligible impact on the final LDNI discount tariffs.

Question 11 - Are there 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.

6.29 One DNO respondent noted that the implementation of DCP 138 'Implementation of alternative network use factor (NUF) calculation method in EDCM' will change the notional asset values in the EDCM, but that this change would improve the cost reflectively of this asset calculation and would therefore complement the calculation method proposed for determining the EHV Cost Reduction driver.

6.30 The Working Group noted and agreed with this comment.

6.31 Another DNO Respondent comments that consideration should be given to a wholesale change of the PCDM as the input data from the RRP of 2007/08 has since between replaced by a new RRP for DCPR5 and it likely to be changed again for the upcoming RIIO-ED1 price control period.

6.32 The Working Group acknowledges these comments but notes that changes to the entire PCDM are well beyond the scope of DCP 118, and that the DCMF MIG would examine this issue in further detail.

7 PROPOSED LEGAL TEXT

7.1 The proposed legal drafting of DCP 118 has been considered by the Working Group, and reviewed by the DCUSA legal advisor, and is attached as Appendix B.

8 DCP 118 – WORKING GROUP CONCLUSIONS

8.1 The Working Group's conclusion, reflecting Party opinion as presented in the Consultation responses, is that proposed legal drafting for Option 1 meets the intent of DCP 118 and should therefore be issued for Party voting and Authority determination.

9 EVALUATION AGAINST THE DCUSA OBJECTIVES

9.1 The Working Group considers that the following DCUSA Objectives are better facilitated by DCP 118:

- **DCUSA General Objective 2**[2] – Better Facilitated.
- **DCUSA Charging Objective 3**[3] **–** Better Facilitated.

9.2 The Working considers that the remaining General and Charging Objectives are not impacted by DCP 118.

9.3 This change proposal addresses defects in the Price Control Disaggregation Model used to calculate discount factors applied to upstream DNOs' all the way tariffs in determining the tariffs that should apply to network operators who connect to their distribution system.

9.4 The DUoS margin available to a licensed distributor connecting to another distributor operating within its distribution services area is the difference between the upstream distributor's all-the-way DUoS charges to the end customer and the upstream distributor's DUoS charge to the downstream

[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

[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

distributor. If the charge to the downstream distributor is not reflective of the total costs then a margin squeeze may result which could have the effect of restricting, distorting or preventing competition.

9.5 As such, the Working Group agreed that the removal of costs from the EHV network level that are recovered from EDCM customers satisfies DCUSA General Objective 2 and DCUSA Charging Objective 3 since this CP, if approved, will improve the cost reflectivity of the current Price Control Disaggregation Model; and therefore will improve competition in the distribution of electricity.

10 IMPLEMENTATION

10.1 DCP 118 is classified as a Part 1 matter in accordance with Clause 9.4.2 (B) of the Agreement, and therefore will go to the Authority for determination after the voting process has completed.

10.2 The Working Group noted that the implementation date was originally placed at 1 April 2013. However, as the timeline has moved during the course of the Working Group's assessment of DCP 118, the Proposer now recommends that the implementation date should be 1 October 2013, subject to Authority approval.

- The Working Group discussed the implementation date and the majority of the members agreed that 1 April 2014 would be more preferable, as making a single change to the CDCM inputs to revise the LDNO discounts will cause a significant amount of work if a mid-year change was instigated as a result of this one change. The result of implementing this change with effect from October 2013 will be that all tariffs would need to be re-calculated, which will require new models and charging statements to be published. As a result some Parties suggested having an implementation date of 1 April 2014, when all inputs are reviewed, which also aligns with Ofgem's view of reducing volatility by only allowing one price change per year in April from the introduction of RIIO-ED1.

- IDNO members suggested that an earlier implementation date should have been chosen. This was because they felt that as the Working Group had been established in January 2012, there had been ample time for a change proposal to be worked up for an April 2013 implementation. Any delay would further deprive IDNOs of margins that they believe they are entitled

to, subject to the CP being approved.

11 ENGAGEMENT WITH THE AUTHORITY

11.1 Ofgem has been fully engaged throughout the development of DCP 118 as a member of the Working Group.

12 PANEL RECOMMENDATION

12.1 The Panel approved this Change Report on 20 February 2013. 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 118.

1.1 The timetable for the progression of the Change Proposal is set out below:

Activity	**Date**
Change Report Issued for Voting	22 February 2013
Voting Closes	8 March 2013
Change Declaration	12 March 2013
Authority Decision	18 April 2013
CP Implemented	1 April 2014

2 APPENDICES:

- Appendix A – DCP 118 Change Proposal
- Appendix B – DCP 118 Proposed Legal Drafting
- Appendix C – DCP 118 Consultation Documents
- Appendix D – RFI Documents
- Appendix E - DCP 118 Impact Assessment
- Appendix F - DCP 118 Voting Form
- Appendix G – Description of PCDM