

Appendix B - DCP 117 RFI

Illustration on alternative way of allocating 'Load related new connections & reinforcement (net of contributions)' in the Method M worksheet entitled "Calc – WPD Opex Allocation".

This illustration uses the data provided by WPD West in their current Method M

Currently, WPD West allocation of 'Load related new connections & reinforcement (net of contributions)' is as follows:

	C	D	E	F	G	H	I
4		Total activity cost - from RRP 1.3	Costs allocated to network tiers in RRP - from 2.2 and 2.3				Unallocated costs = Total - costs allocated to network tiers
5			EHV	HV	HV/LV	LV	
6	Load related new connections & reinforcement (net of contributions)	1.4	4.9	4.1	0	-7.6	0

The allocation of these costs replicates that which is reported to Ofgem by DNOs in Table 2.4 ("Detailed Capex Analysis") of their regulatory reporting submission for 2007/8.

This options suggests that a better way of allocating costs may be as follows

1. Assume that costs 'Load related new connections & reinforcement (net of contributions)' are zero (i.e. that LV costs are fully contributed to). The current method M already makes this assumption in calculating the percentage allocation of direct costs by setting negative values to zero (cells Y46 to AB47 in the "Calc – WPD Opex Allocation" worksheet of Method M).
2. Any customer contributions that are over and above the LV costs (i.e. where a negative number is shown) are allocated to higher network tiers.
3. The allocation of these customer contributions to higher network tiers can be carried out using cost drivers. So taking the WPD West reported costs:
 - The -£7.6 million represents customer contributions over and above the costs incurred at LV.
 - This -£7.6 million costs is allocated to higher voltage tiers. This is illustrated using MEAV cost driver. For WPD West the MEAV percentages are as follows:

	LV	LV/HV	HV	EHV
MEAV	45%	7%	26%	22%

- Allocating the -£7.6 million to the LV/HV + HV and EHV network tiers would be calculated using the ratio of 33:22. This would give revised cost figures for 'Load related new connections & reinforcement (net of contributions)' as follows:

6			Costs extracted from RRP Tables			
		Total activity cost - from RRP 1.3	Costs allocated to network tiers in RRP - from 2.2 and 2.3			Unallocated costs = Total - costs allocated to network tiers
7						
8			EHV	HV	HV/LV	LV
9	Load related new connections & reinforcement (net of contributions)	1.4	1.9	-0.5	0.0	0.0

Notes

- In the regulatory reporting pack table RRP 2.4, HV/LV costs are not separated out from HV. Therefore for this illustration, the MEAV percentages for HV and HV/LV have been added together. An alternative approach would be to separate out the HV costs in table RRP 2.4 into HV and HV/LV.
- For this illustration the HV costs are marginally negative, but much less so than the negative values identified as LV customer contributions in the current model.