



## DCUSA CONSULTATION

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**DCP 117 - TREATMENT OF '*LOAD RELATED NEW CONNECTIONS & REINFORCEMENT (NET OF CONTRIBUTIONS)*' IN THE PRICE CONTROL DISAGGREGATION MODEL**

## 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.
- 1.2 Parties to the DCUSA can raise a DCUSA Change Proposal (“DCP”) to amend the Agreement. DCPs should better facilitate the General Objectives and (if applicable) the Charging Methodology Objectives of the DCUSA document.
- 1.3 Amendments to DCUSA may only be made with the consent of a majority proportion of Parties to the DCUSA, through a voting process, or (where applicable) the Gas and Electricity Markets Authority.<sup>1</sup>
- 1.4 When a DCP is raised, a Working Group is established to assess and develop the proposal in consultation with industry parties and other interested parties.
- 1.5 This document is a Consultation issued in accordance with Clause 11.14 of the DCUSA and seeks industry views on Change Proposal DCP 117 – Treatment of ‘*Load related new connections & reinforcement (net of contributions)*’ in the Price Control Disaggregation Model.
- 1.6 The Consultation has been issued to DCUSA Parties, CDCM Interested Parties and Ofgem.
- 1.7 Parties are invited to consider the Change Proposal detailed in this Consultation and submit comments using the form attached as Appendix E to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **20 August 2012**.

## 2 INTENT OF DCP 117 – TREATMENT OF ‘LOAD RELATED NEW CONNECTIONS & REINFORCEMENT (NET OF CONTRIBUTIONS)’ IN THE PRICE CONTROL DISAGGREGATION MODEL

- 2.1 DCP 117 has been raised by GTC (For and behalf of the Electricity Network Company Limited). The intent of this change proposal is to correct distortions in the calculation of the percentage split between direct/indirect costs<sup>1</sup> brought about by the way net costs described as ‘*Load related new connections & reinforcement (net of contributions)*’ are calculated and allocated to different network tiers. The percentage

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<sup>1</sup> For more information about GEMA visit the Ofgem website: <http://www.ofgem.gov.uk/TheAuthority>

split between direct/indirect costs is used as part of the calculation of discount factors where an LDNO connects to the DNO '*Calc – WPD Opex allocation*'.

- 2.2 On 9 December 2011 The Authority published its decision to reject DCP094 - Treatment of '*Load related new connections & reinforcement (net of contributions)*' in the Price Control Disaggregation Model used to determine LDNO discount factors. In advice given as part of their decision Ofgem stated: "We therefore suggest that the modification be resubmitted and the Workgroup carry out further analysis in respect of the cost reflectivity of each approach". This change proposal is essentially a resubmission of DCP094 to enable such further analysis to be undertaken.
- 2.3 The intent of this change proposal is broader in scope than the original DCP094 since it allows alternative solutions to be considered to address the flaw brought about by the way '*Load related new connections & reinforcement (net of contributions)*' costs are treated (e.g. allocating customer contributions identified in RRP2.4 to different voltage tiers).
- 2.4 The Proposer feels that the current calculation and allocation of net costs described as '*Load related new connections & reinforcement (net of contributions)*' leads to the allocation of costs within a voltage tier being distorted in favour of the upstream DNO.
- 2.5 It is further considered by the Proposer that by correcting the perceived defect that the methodology will be more cost reflective and therefore less likely to distort competition.

### **3 DCP 117 – WORKING GROUP CONSIDERATIONS**

- 3.1 The Working Group is comprised of DNO and IDNO Parties along with Ofgem representation; all DCUSA Parties were invited to attend the Working Group.
- 3.2 All Working Group members are supportive of the general principles of the proposal.
- 3.3 The Working Group reviewed the CP against the following DCUSA General Objectives:
  - Objective 1<sup>2</sup> – Better facilitated
  - Objective 2<sup>3</sup> – Better facilitated

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<sup>2</sup> The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks

- Objective 3<sup>4</sup> – Better Facilitated
- Objective 4 – No impact
- Objective 5 – No Impact

3.4 The Working Group reviewed the CP against the following DCUSA Charging Methodology Objectives:

- Objective 1<sup>5</sup> – Better Facilitated
- Objective 2<sup>6</sup> – Better Facilitated
- Objective 3<sup>7</sup> – Better Facilitated
- Objective 4 – No Impact
- Objective 5 – No Impact

3.5 This Proposer feels that this Change Proposal addresses defects within 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 at LV and HV.

3.6 The Proposer further explains that 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 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.

3.7 It is surmised that as such DCP 117 satisfies CDCM objectives 1, 2 and 3 since the

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<sup>3</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

<sup>4</sup> The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

<sup>5</sup> The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks

<sup>6</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

<sup>7</sup> The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences

current Price Control Disaggregation Model could be seen to distort cost reflectivity.

#### **4 OPTIONS FOR PROGRESSION**

- 4.1 The Working Group has identified three options for the progression of DCP 117 which are outlined in Appendix B – Summary: Comparison of Alternative Options. Following a review of the Consultation responses, the Working Group will discuss and refine the option(s) accordingly and progress with the most robust option.
- 4.2 The analysis within Appendix C – ‘DCP 117 Detailed analysis’ and also Appendix D – ‘DCP 117 Sensitivity Analysis’ provide a more comprehensive overview of the different options being explored within the Working Group.

#### **5 PROPOSED LEGAL TEXT**

- 5.1 Following a review of the Consultation responses, the Working Group will work to agree which option to progress as the solution for DCP 117. Following this process, the group will draft and develop the legal text which will be consulted upon with DCUSA Parties after its completion.

#### **6 CONSULTATION**

- 6.1 Parties are asked to consider the intent and impact of DCP 117 and answer the following consultation questions:
  1. Do you understand the intent of DCP 117?
  2. Are you supportive of its principles?
  3. Does the CP facilitate DCUSA General Objectives? Please provide supporting comments
  4. Does the CP facilitate DCUSA Charging Methodology Objectives? Please provide supporting comments
  5. Do you feel that the analysis contained within Appendix C - ‘DCP 117 – Detailed Analysis’ sufficiently demonstrates the effects of the different options being discussed within the Working Group? Please provide supporting comments
  6. Do you feel that the sensitivity analysis contained within Appendix D – ‘DCP 117

Sensitivity Analysis' sufficiently demonstrates the sensitivity between the Status Quo and the different Options? Please provide supporting comments.

7. Provide comments on the three options which have been described within the analysis, including: strengths/weaknesses of each option, preferred option (including supporting comments) and any further comments the Working Group should consider in regard to any of the options.
  8. 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.
  9. Are you supportive of the proposed implementation date of October 2012?
  10. Are there any alternative solutions or matters that should be considered by the Working Group?
- 6.2 The Consultation response form (Appendix E) should be submitted to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **20 August 2012**. Parties are asked to provide as much relevant detail as possible to enable the Working Group to understand the comments and the reasons behind them.
- 6.3 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.

## **7 NEXT STEPS**

- 7.1 Following the end of the consultation period the Working Group will meet to review and consider the responses. The DCP 117 Working Group will submit its final report setting out the proposed variations to DCUSA Panel before the CP is issued to all DCUSA Parties for voting.
- 7.2 If you have any questions about this paper or the DCUSA Change Process or would like to participate in the Working Group please contact the DCUSA Help Desk by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3014.

## 8 APPENDICES

- Appendix A – DCP 117 Treatment of '*Load related new connections & reinforcement (net of contributions)*' in the Price Control Disaggregation Model
- Appendix B – Summary: Comparison of Alternative Options
- Appendix C – DCP 117 Detailed Analysis
- Appendix D – DCP 117 Sensitivity Analysis
- Appendix E – Response Form