

Summary of Comparison of Alternative Options for DCP117

Status Quo: Maintain the current methodology

- RRP 2.4 only aggregates all costs incurred in providing the connection at which the connection is provided
- RRP 2.4 allocates all customer contributions to the LV network tier
- Price Control disaggregation model treats all customer contributions in excess of cost of providing connections as zero.

Summary of options for the treatment of ‘Load related new connections & reinforcement (net of contributions)’

	Option 1	Option 2	Option 3
Summary of Proposal	<p>Option 1 is to:</p> <ol style="list-style-type: none"> 1. Allocate the total of customer contributions that is greater than the costs reported at the LV tier to the HV and EHV tiers in the proportion of MEAVs at these network levels. 2. To net off the customer contributions allocated to the HV and EHV network tier against the reported costs at each of these tiers. 	<p>Option 2 is to:</p> <ol style="list-style-type: none"> 1. Net off the customer contributions against the total costs across all network tiers reported in this category. 2. Allocate the residual costs between the LV, HV and EHV tiers in proportion to the current allocation of costs. 	<p>Option 3 replicates the proposal put forward by DCP 094:</p> <p>To exclude the use of the costs described as ‘<i>Load related new connections & reinforcement (net of contributions)</i>’ from the calculation of the weighted average percentage of operational costs at each network tier.</p> <p>This is on the basis that the way these net costs are reported misrepresents the costs incurred and customer contributions received in respect of assets provided at each network tier.</p>

	Option 1	Option 2	Option 3
Advantages	<p>We know (from connection charging methodologies) that a proportion of customer contributions will relate to:</p> <ul style="list-style-type: none"> connections provided at network tiers other than LV connection assets provided at network tiers higher than the voltage of connection. <p>Allocating customer contributions (that are in excess of costs of providing connections to LV) to higher network tiers is more cost reflective than simply ignoring them (as is the current approach).</p> <p>The treatment of connections at LV remains unchanged since under the current approach net costs at the LV tier are set at zero.</p> <p>Cost of connections at EHV and HV are now offset by LV contributions. This is more in line with the CDCM approach for all the way tariffs where it is recognised that customers contribute to connections at higher network tiers.</p>	<p>We know (from connection charging methodologies) that a proportion of customer contributions will relate to:</p> <ul style="list-style-type: none"> connections provided at network tiers other than LV; and connection assets provided at network tiers higher than the voltage of connection. <p>Allocating customer contributions (that are in excess of costs of providing connections to LV) to higher network tiers is more cost reflective than simply ignoring them (as is the current approach).</p> <p>Cost of connections at EHV and HV are now offset by LV contributions. This is more in line with the CDCM approach for all the way tariffs where it is recognised that customers contribute to connections at higher network tiers.</p>	<p>We know (from connection charging methodologies) that a proportion of customer contributions will relate to:</p> <ul style="list-style-type: none"> connections provided at network tiers other than LV; and connection assets provided at network tiers higher than the voltage of connection. <p>We know that:</p> <ul style="list-style-type: none"> Customer contributions do not solely relate to connections provided at LV; they also relate to connections incurred at higher network tiers. Connection costs reported by RRP 2.4 for each network tier do not solely relate to assets provided at that network tier; they also relate to assets provided at higher network tiers. General reinforcement costs are not funded by customer contributions. <p>Not using costs reported as '<i>Load related new connections & reinforcement (net of contributions)</i>' means that the distortion in the allocation of costs to network tiers is removed.</p> <p>For the avoidance of doubt, removing this cost category from the calculation of the weighted average percentage does not reduce the value of total opex costs allocated. This is because 100% of these costs are allocated as capex in the Opex allocation worksheet in the PCDM.</p>

	Option 1	Option 2	Option 3
Disadvantages	<ol style="list-style-type: none"> 1. Whilst Option 1 correctly recognises that some of the costs in providing a connection at a given network tier relate to costs of providing assets at higher network tiers it cannot with certainty describe what those costs are. 2. Whilst we can state with a high degree of certainty that customer contributions for connection assets provided at higher network tiers are likely to be greater than zero but less than 100%, we have no information as to what the figure for the HV and EHV network tiers should be. 3. Costs in RRP table 2.4 included general reinforcement costs. This element of work is funded by DUoS. If general reinforcement costs are excluded then, for many DNOs, the reported customer contributions figure is greater than the reported costs of providing connections 4. Whilst Option 1 is better than the status quo, it is difficult to state why it is better than DCP094 proposal. This is because we don't know whether the percentage allocation is accurate or not. Under DCP 94, these net costs are not used so do not influence the weighted average. 	<ol style="list-style-type: none"> 1. Whilst Option 2 correctly recognises that some of the costs in providing a connection at a given network tier relate to costs of providing assets at higher network tiers it cannot with certainty describe what those costs are. 2. Although we can state with a high degree of certainty that customer contributions for connection assets provided at higher network tiers are likely to be greater than zero but less than 100%, we have no information as to what the figure for the HV and EHV network tiers should be. 3. Costs in RRP table 2.4 included general reinforcement costs. This element of work is funded by DUoS. If general reinforcement costs are excluded then, for many DNOs, the reported customer contributions figure is greater than the reported costs of providing connections 4. Whilst Option 2 is better than the status quo, it is difficult to state why it is better than DCP094 proposal. This is because we don't know whether the percentage allocation is accurate or not. Under DCP 94, these net costs are not used so do not influence the weighted average. 5. Option 2 allocates the residual costs across the different network tiers in the same proportion as the costs for connection and reinforcement are reported in RRP2.4. The analysis of the status quo shows that the costs in each of these network tiers relates to costs in higher network tiers. 	<p>By removing these costs from the calculation of the weighted average percentage a smaller percentage of the costs reported in the RRP1.3 (for 2007/8) is used.</p>

	Option 1	Option 2	Option 3
Better meets objectives	YES	YES	YES