

**DCUSA DCP 117 Consultation Responses – Collated Comments**

<b>Question One</b>	<b>Do you understand the intent of DCP 117?</b>	<b>Work Group Comments</b>
Electricity North West Ltd	Yes	The Working Group noted that all respondents understood the intent of DCP 117.
ESP Electricity Ltd	Yes	
GTC	Yes	
IPNL	Yes	
Southern Electric Power Distribution plc and Scottish Hydro Electric	Yes	
SP Distribution, SP Manweb	Yes	
UK Power Networks	Yes	
Western Power	Yes	
<b>Question Two</b>	<b>Are you supportive of its principles?</b>	
Electricity North West Ltd	Yes	The Working Group noted that all respondents were supportive of the principles of DCP 117.
ESP Electricity Ltd	Yes	
GTC	Yes	
IPNL	Yes, the working group have clearly demonstrated the flaw that exists in the current version of the Price Control Disaggregation Model.	
Southern Electric Power Distribution plc	Yes	

and Scottish Hydro Electric		
SP Distribution, SP Manweb	Yes	
UK Power Networks	Yes	
Western Power	Yes	
<b>Question Three</b>	<b>Does the CP facilitate DCUSA General Objectives? Please provide supporting comments.</b>	
Electricity North West Ltd	The CP better meets the DCUSA general objectives as it improves the allocation of costs between the DNO and IDNO.	The Working Group noted that the majority of respondents to the Consultation agree that DCP 117 better facilitates the DCUSA General Objectives as set out in the CP.
ESP Electricity Ltd	Yes	
GTC	<p>Yes</p> <p>The failure to:</p> <ol style="list-style-type: none"> <li>1. consider all customer contributions in respect of new or augmented connections; and the failure to</li> <li>2. allocate customer contributions to the network tier where the assets have been provided and for which contributions have been made,</li> </ol> <p>results in discount factors used to allocate opex within a network tier being unduly skewed to the DNO and leads to DNOs double charging for assets being provided.</p> <p>Objective 1      Such allocation does not give tariffs that are truly representative of all costs incurred at the different network levels and as a consequence distorts the signals about economic, efficient or coordinated</p>	

	<p>development of the distribution system.</p> <p>Objective 2      The CP reduces distortion in competition in that it removes:</p> <ul style="list-style-type: none"> <li>• Undue squeezes in the margins available to IDNOs.</li> <li>• Double charging where the DNO requires IDNOs to pay for assets (through DUoS) which have already been funded through customer contributions.</li> </ul> <p>Objective 3      Meets DNOs' obligations under their SLC 4.5 and SLC 4.6 SLC 13.3 (b) and (c) and SLC 13A.8 and SLC13A.9.</p>	
IPNL	<p>Although the PCDM treats '<i>Load related new connections &amp; reinforcement (net of contributions)</i>' as fully contributed (and therefore does not consider the costs in the opex allocation), the costs are used to determine the percentage split of direct costs within a network level.</p> <p>This is shown by the LDNO discount formula below</p> $\text{Weighted average percentage} \times \left( 1 - \frac{\text{direct costs}}{\text{direct costs} + \text{indirect costs}} \times \% \text{ DNO Main Usage at relevant Network Tier} \right)$ <p>Load '<i>Load related new connections &amp; reinforcement (net of contributions)</i>' is one of six Direct Cost categories in the PCDM. The above formula shows that the ratio of Direct Cost to Total Cost (which is Direct Cost + Indirect Costs) plays a significant part in the calculation of</p>	

	<p>the LDNO discount for LDNO connections to the DNO network at the LV and HV network level in the PCDM. It will also affect the discounts calculated by the extended PCMD for connections at the EHV and 132kV networks. These LDNO discount tariffs are referred to as Boundary EHV and Boundary 132kV respectively in the extended PCDM. Any overstatement of direct costs at these network levels results in a lower LDNO discount for that network level (tier).</p> <p>Currently the PCDM assumes that all costs incurred at the LV and the HV/LV network levels are zero. The Direct Costs in this category that are actually reported at the network level that the connection is provided rather than the level the cost was incurred. All customer contributions are allocated to the LV network level regardless of the network level of the assets that the contribution was recovered against. As a result, the LV network level contains costs incurred for providing HV and EHV assets. Similarly, the HV network level will contain costs for providing assets at EHV.</p> <p>This error in the allocation method of total cost incurred is addressed, at least for the LV network level, by allocating all customer contributions to the LV network level. However, because customer contributions are also recovered from HV and EHV customers and the majority of the cost reported relate to extension assets that are fully funded by customers, subtracting all customer contributions from the cost reported at the LV</p>	
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	<p>network level results in a negative number in all of the DNO PCDMs. This further error is addressed (but not corrected) by deliberately ignoring all customer contributions over and above the costs reported at the LV network level. This omission of customer contributions results in the net direct costs across the HV and EHV network levels being overstated by an amount equal to the disregarded customer contributions.</p> <p>This approach leads to the following in all of the DNO models.</p> <ol style="list-style-type: none"><li>1. The net direct cost allocated to the LV and HV/LV network levels is zero (no RRP costs are reported for HV/LV network level, these are reported as LV costs instead).</li><li>2. This omission of customer contributions from the HV or EHV network levels result is in the ratio of net Direct Cost to net Total Cost at EHV and HV network levels being higher than it should be.</li></ol> <p>It is a reasonable to assume that the net direct costs incurred at the LV and HV/LV network levels is zero. There are three reasons to support this statement:</p> <ol style="list-style-type: none"><li>1. In all but two DNO license areas customer contributions exceed the total cost incurred in providing load related new</li></ol>	
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	<p>connections and reinforcement.</p> <ol style="list-style-type: none"><li>2. New connections at these network levels are usually fully funded by the connecting customer. Where this is not the case, across all projects, the costs of fully funded extension assets far outweigh the costs of partially funded LV and HV and EHV reinforcement. This is because every new connection involves fully funded extension assets, only a comparatively small number of projects will also require reinforcement assets.</li><li>3. The average percentage of total direct costs reported across all DNOs that account for the total of General reinforcement reported at LV and HV/LV network levels is approximately 2%.</li></ol> <p>It is not correct however to disregard the excess customer contributions over and above the costs reported at the LV network level. Any modification to the charging methodology that takes accounts for all customer contribution rather than ignoring a significant proportion of them will result in improved cost reflectivity in the calculation of the ratio of Direct Cost to Total Cost. This will improve the cost reflectivity of the PCDM. The table below illustrates this point. The data shown contains arbitrary figures for 3 different type of new connections schemes, each with end user customer connected to different network level. The figures are not important the principle is the same regardless</p>	
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of the actual figures. We can see in the table below that the total costs of projects with LV end users, HV end users and EHV end users is 3, 2 and 1 units respectively. Each of the schemes is fully funded and therefore attract contribution units 3, 2 and 1. As is the case in the current methodology all customer contributions are allocated to the LV network level, so the result is a net cost of -3, 2 and 1 units across LV , HV and EHV levels respectively. This negative figure is then replaced by a zero and the allocated net cost is 0, 2 and 1 units. Clearly, in this example the actual cost across each network tier is 0.

Under Option 1 proposed in this CP the -3 units would be re-allocated to the HV and EHV network levels. This is clearly more cost reflective than the current methodology.



This Improved cost reflectivity will help ensure that the DCUSA General Objectives are better facilitated as indicated by the working group in the consultation document.

**New Connection Schemes with Extension Assets On**

		LV System	HV System		EHV System
	Project No 1 New Connection Project with LV end users	Actual Project Cost	1		1
		Allocated Project Cost	3	0	0
		Actual Customer Contribution	1	1	1
		Allocated Customer Contribution	3	0	0
		Actual Net Project Cost	0	0	0
		Allocated Net Project Cost	0	0	0
	Project No 2 New Connection Project with HV end users	Actual Project Cost	0	1	1
		Allocated Project Cost	0	2	0
		Actual Customer Contribution	0	1	1
		Allocated Customer Contribution	2	0	0
		Actual Net Project Cost	0	0	0
		Allocated Net Project Cost	-2	2	0



	<table><tr><td rowspan="6">Project No 3 New Connection Project with EHV end users</td><td>Actual Project Cost</td><td>0</td><td></td><td>0</td><td>1</td></tr><tr><td>Allocated Project Cost</td><td>0</td><td></td><td>0</td><td>1</td></tr><tr><td>Actual Customer Contribution</td><td>0</td><td></td><td>0</td><td>1</td></tr><tr><td>Allocated Customer Contribution</td><td>1</td><td></td><td>0</td><td>0</td></tr><tr><td>Actual Net Project Cost</td><td>0</td><td></td><td>0</td><td>0</td></tr><tr><td>Allocated Net Project Cost</td><td>-1</td><td></td><td>0</td><td>1</td></tr></table>	Project No 3 New Connection Project with EHV end users	Actual Project Cost	0		0	1	Allocated Project Cost	0		0	1	Actual Customer Contribution	0		0	1	Allocated Customer Contribution	1		0	0	Actual Net Project Cost	0		0	0	Allocated Net Project Cost	-1		0	1	
Project No 3 New Connection Project with EHV end users	Actual Project Cost		0		0	1																											
	Allocated Project Cost		0		0	1																											
	Actual Customer Contribution		0		0	1																											
	Allocated Customer Contribution		1		0	0																											
	Actual Net Project Cost		0		0	0																											
	Allocated Net Project Cost	-1		0	1																												
	<table><tr><td rowspan="2">All 3 Projects</td><td>Actual Net Project Cost</td><td>0+0+0=0</td><td>0+0+0=0</td><td>0+0+0=0</td></tr><tr><td>Allocated Net Project Cost</td><td>0-2-1=-3</td><td>0+2+0= 2</td><td>0+0+1=1</td></tr><tr><td colspan="2">PCDM allocated net project cost</td><td>0</td><td>2</td><td>1</td></tr></table>	All 3 Projects	Actual Net Project Cost	0+0+0=0	0+0+0=0	0+0+0=0	Allocated Net Project Cost	0-2-1=-3	0+2+0= 2	0+0+1=1	PCDM allocated net project cost		0	2	1																		
All 3 Projects	Actual Net Project Cost		0+0+0=0	0+0+0=0	0+0+0=0																												
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Southern Electric Power Distribution plc and Scottish Hydro Electric	Yes. In our view, this DCP better facilitates DCUSA General Objectives 1, 2, and 3.																																
SP Distribution, SP Manweb	This will depend on the final option suggested by the working group to facilitate this change proposal.	The Working Group agreed that it would be pragmatic to email SP and ask them to provide clarity for each of the three options and what objectives they feel would be better facilitated; and also if in their opinion if any option does not facilitate the objectives.																															

		 RE DCP 117 Consultation Responses
UK Power Networks	<p>Although we believe that it does, as the change proposal looks to correct a perceived distortion in the calculation of the percentage split between direct and indirect costs. However we do have a concern that this could be changing a position which is in fact correct and does not require modification. For example cost reflectivity would be improved if an issue exists and this change corrects it, but would not if no actual distortion exists.</p>	<p>The working group agreed to email UKPN and ask for additional clarification regarding their response and to pose the following questions:</p> <ol style="list-style-type: none"> <li>1. Why they feel that proposal could be changing a position is correct, please clarify why it may be correct that no contributions should be set against HV and EHV tiers.</li> <li>2. Why contributions in excess of the LV costs should be ignored.</li> <li>3. Is it their position that no distortion exists within the allocation of those costs.</li> </ol>  FW DCP 117 Consultation Responses
Western Power	Yes, Increases cost reflectivity and competition	
<b>Question Four</b>	<b>Does the CP facilitate DCUSA Charging Methodology Objectives? Please provide supporting comments.</b>	
Electricity North West Ltd	The CP better meets the DCUSA charging methodology objectives as it improves the allocation of costs between the DNO and IDNO.	
ESP Electricity Ltd	Yes, in particular, DCP 117 proposes changes that improve the cost reflectivity of CDCM that, in turn, supports the development of competition within the market.	
GTC	<p>Yes.</p> <p>The failure to:</p> <ol style="list-style-type: none"> <li>1. consider all customer contributions in respect of new or augmented</li> </ol>	

	<p>connections; and the failure to</p> <p>2. allocate customer contributions to the network tier where the assets have been provided and for which contributions have been made,</p> <p>results in discount factors used to allocate opex within a network tier being unduly skewed to the DNO and leads to DNOs double charging for assets being provided.</p> <p>Objective 1. Meets DNOs' obligations under their SLC 4.5 and SLC 4.6 SLC 13.3 (b) and (c) and SLC 13A.8 and SLC13A.9.</p> <p>Additionally, §19 of the Act only entitles a distributor to require any expenses reasonably incurred in providing a [connection] to be defrayed by the person requiring the connection. §16(4) of the Act states that any reference to making a connection includes a reference to maintaining a connection and continuing to provide the necessary electric lines or electrical plant. Therefore, any expenses recovered pursuant to §19 of the Act will include expenses recovered as a connection charge or as DUoS. Where certain costs in providing and maintaining the connection have been recovered as a connection charge it is unreasonable to recover those expenses again through DUoS.</p> <p>Objective 2 The CP reduces distortion in competition in that it removes:</p> <ul style="list-style-type: none"> <li>• Undue squeezes in the margins available to IDNOs.</li> <li>• Double charging where the DNO requires IDNOs to pay for assets (through DUoS) which have already been funded through customer contributions.</li> </ul>	
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	<p>Objective 3 The charges are more reflective in that CP requires it removes the distortions in the allocation of direct costs to network tiers (and thereby the distortion in the allocation of costs within the HV and EHV network tier) because of the erroneous treatment of customer contributions:</p> <ul style="list-style-type: none"> <li>not all customer contributions relate solely to assets provided at LV (as the PCDM currently asserts).</li> <li>To ignore customer contributions that are in excess of costs of providing connections at LV (by treating them as zero) means that certain costs costs (contributions) are excluded from the 'Total Cost Model'</li> </ul>	
IPNL	Please see response to question 3.	
Southern Electric Power Distribution plc and Scottish Hydro Electric	Yes. In our view, this DCP better facilitates DCUSA Charging Methodology Objectives 1, 2, and 3.	
SP Distribution, SP Manweb	This will depend on the final option suggested by the working group to facilitate this change proposal.	The Working Group noted that this comment was based upon the same logic as given in the response to Question 3; and would be covered in the additional questions posed by email from the Working Group.
UK Power Networks	See the comment above for DCUSA General Objectives.	The Working Group noted that this comment was based upon the same logic as given in the response to Question 3; and would be covered in the additional questions posed by email from the Working Group.
Western Power	Yes, Increases cost reflectivity and competition	
<b>Question Five</b>	<b>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</b>	

	<b>supporting comments.</b>	
Electricity North West Ltd	The analysis comprehensively explains the effects of the different options.	The Working Group noted that the majority of respondents to the Consultation agreed that the analysis explained the different options effectively.
ESP Electricity Ltd	N/A	
GTC	<p>Yes.</p> <p>The analysis shows that although customer contributions are received in respect of connections provided at all network tiers, and in respect of assets provided at all network tiers, the current approach in the CDCM is to only allocate customer contributions to the LV level and, that where the contributions are in excess of the costs of providing contributions at LV they are ignored (by setting them to zero):</p> <ul style="list-style-type: none"> <li>• Sets out the principles underpinning current allocation of customer contributions and connection costs and identifies the consequence at each network level</li> <li>• Describes the basis and the principles underpinning each of the options under consideration. In particular it highlights that: <ul style="list-style-type: none"> <li>⇒ what costs are incurred in respect of connections provided at different network tier; and,</li> <li>⇒ what assets customer contributions relate to for connections provided at different network tiers.</li> </ul> </li> <li>• For each option, explains the effects and issues at each network tier</li> </ul>	
IPNL	Yes, the detailed analysis clearly shows the flaws with the current	


	methodology. This also helps identify a major weakness with the Option 2 proposal, i.e. it proposes to use the reported costs in the RRP as the driver to allocate to total activity cost across all network levels.	
Southern Electric Power Distribution plc and Scottish Hydro Electric	Yes	
SP Distribution, SP Manweb	Yes	
UK Power Networks	<p>Although we believe that a great deal of analysis has been undertaken, we do also have the view that a great deal of it could be considered only to be a belief of the likely impact of the change. We do not believe that the supporting comments are and can be supported by actual evidence; as the actual correct or 'final' number isn't know.</p>	<p>The Working Group noted that the only way to get this information on a 'factual' basis is for all the DNOs to model all of the options themselves. Then to provide the Working Group with these numbers.</p> <p>The Working Group noted that it can take the data and use it, but it is up to the DNO to carry out their own individual impact assessments.</p> <p>The Working Group also felt that the actual final number may not be known, but the point of this particular question was to find out whether or not the analysis supports the options provided. However, the Working Group noted that the DNOs will have to carry out their own analysis in the end.</p> <p>The Working Group also felt that the analysis that has taken place so far is not the impact analysis; what has been do so far does not show that and will need to be undertaken by each DNO.</p> <p>What each option would do in terms of costs. The Working Group questioned what was meant by</p>

		<p>actual evidence – it was confirmed that to get the “real” figures you would need the real project numbers that is used in RRP 2.4 for the given year; and to provide it to the working group.</p> <p>It was agreed that this would be the only to get an absolute result; but the question is whether this data is available.</p> <p>It was noted that the Working Group already discounted this option as it would be too much work; but it appears that if definitive numbers are required for this CP to progress that this may be the only way forward.</p> <p>The Working Group also questioned where the actual evidence is that is correct treatment to exclude significant element of these costs; and by excluding them it could distort competition.</p> <p>A Working Group member produced additional analysis that showed the different options with the costs, which produced %s for the different network tiers.</p> <p>MH noted that this was a good addition, but it still may not meet the “factual evidence” requirement from Ofgem and UKPN’s response.</p>
Western Power	The detailed analysis is very complicated and could confuse the audience	<p>The Working Group noted that within the analysis, there is a detailed analysis sheet; but also a summary sheet which has been made in order to show the effects without having to simply rely on the detailed calculations. It was noted that this should suffice in explaining the analysis more efficiently, but will be</p>

		happy to expand the sheet further if it is required.
<b>Question Six</b>	<b>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.</b>	
Electricity North West Ltd	The sensitivity analysis sufficiently demonstrates the impact of the different options.	The Working Group noted that the majority of respondents to the Consultation agreed that the Sensitivity Analysis sufficiently demonstrates the differences between the status quo and the three options being put forward by the Working Group.
ESP Electricity Ltd	N/A	
GTC	<p>We believe that the sensitivity analysis provides an illustration of the differences arising from each the options.</p> <p>However, the PCDM spreadsheets are outside the governance of DCUSA. Whilst we believe the sensitivity analysis is a reasonable, we think it is ultimately the responsibility for each DNO to validate the assessment and how it impacts on them.</p>	
IPNL	<p>The sensitivity analysis is useful in that it shows that the difference in resulting LDNO discount tariffs between each of the three options proposed is not significant. This does perhaps strengthen the argument for supporting the change proposal Option 3 not to allocate any of the cost referred to as ‘<i>Load related new connections &amp; reinforcement (net of contributions)</i>’. This was put forward in the original DCP094 on the basis that this data was unreliable in the first instance and therefore should not be used. Whilst Option 1 and to a lesser extent Option 2 both lead to more cost reflective tariffs, in than they account for all of the customer contributions rather than</p>	



	ignoring a significant proportion of them, it's worth noting that both of these will involve a level of subjectivity in the choice of cost allocation driver. If the difference between the options is not significant, these ambiguities could be removed by not considering this cost category in the allocation at all.	
Southern Electric Power Distribution plc and Scottish Hydro Electric	Yes	
SP Distribution, SP Manweb	Yes	
UK Power Networks	It demonstrates the difference between the two options and the status quo, however it doesn't answer the question as to whether this is the 'correct' answer just that it is different.	<p>The Working Group noted that the test which needs to be applied under the DCUSA is that the CP better meets the objectives, not that this is not necessarily the "correct" way as this is an absolute term; whereas most items within the methodology (CDCM, Method M and EDCM) are based upon assumptions and theory. To determine what is correct is a "subjective" view.</p> <p>The objective of the sensitivity analysis was to demonstrate the differences between the options being put forward and not whether one is correct, or more correct, over one another.</p>
Western Power	Yes	
<b>Question Seven</b>	<b>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.</b>	
Electricity North West	Option 1 assumes that the all LV connections are fully contributed and then	The Working Group agreed to email ENWL and ask

Ltd	<p>allocates the residual to HV and EHV. Although this is an improvement on the current methodology, it is still not cost reflective and we would therefore not support this option.</p> <p>Option 2 takes account of the contributions in aggregate and then allocates the remainder between voltage levels. This would be the most appropriate way of allocating this cost as the customer contributions are not split between voltage level. We would support this approach as the methodology is appropriate to the data that is available.</p> <p>Option 3 excludes the load related new connections and reinforcement. This cost should be taken into account, and therefore we do not support this option.</p>	<p>for clarification about whether or not in regard to Option 1, that even though they say it is an improvement, would they support it over the status quo if that was the only option put forward by the working group.</p> <p>The second question which the Working Group agreed to pose to ENWL was to ask “Why do in their view is Option 2 more cost reflective?”</p> <p></p> <p>RE Response Requested 20 08 12</p>
ESP Electricity Ltd	N/A	
GTC	<p>In analysing the three options the key judgement that must be made is whether any of the proposed options better meet the DCUSA Objectives. Our comments focus on the judgement whether the change proposal better meets the objectives.</p> <p>1. Connections provided at all network levels will be funded by the customer contributions with the exception of:</p> <ul style="list-style-type: none"> <li>• a proportionate element of connection assets provided for the wider customer base</li> <li>• connection assets provided at more than one voltage level above the voltage of connection to the new development.</li> </ul> <p>These circumstances are described in DNO connection charging methodologies.</p> <p>Therefore, customers will make contributions to connections provided at the HV and EHV network tiers. Additionally, in providing connections to customers at LV, costs will have been incurred and customer</p>	

	<p>contributions received in respect of assets provided at higher network tiers.</p> <p>The presumption in the current PCDM that there are no customer contributions in respect of connections at these network tiers is incorrect. To simply (and deliberately) ignore customer contributions that are in excess of reported LV costs skews the net direct costs for each network tier.</p> <p>2. The ratio of 'direct costs to (direct and indirect costs)' in the PCDM opex worksheet is used to determine the percentage allocation of ALL costs (opex, depreciation and return) within a network tier (where the IDNO connects to the DNO within that network tier. The formula for such allocation is</p> $\text{Costs allocated to the network tier} \times \left( 1 - \frac{\% \text{ DNO Main Usage}}{1} \times \frac{\text{Direct Cost}}{\text{Direct Cost} + \text{Indirect Cost}} \right)$ <p>The direct costs described as "<i>Load related new connections &amp; reinforcement (net of contributions)</i>" form a significant share of the total direct costs as can be seen in table 1 below.</p>	
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		% of load related net of contributions (including negative contributions figure) costs to total direct costs by network tier			% of load related net of contributions (including negative contributions figure) costs to total direct costs across all network tiers
		EHV and 132kV	HV	HV/LV	
ENW		43.9%	51.7%	0.0%	4.2%
Northern Powergrid Northeast		52.6%	26.1%	0.0%	11.4%
Northern Powergrid Yorkshire		26.4%	33.1%	0.0%	3.1%
SPEN SPD		30.5%	11.4%	0.0%	4.5%
SPEN SPM		40.4%	7.9%	0.0%	3.3%
SSEPD SEPD		63.7%	50.9%	0.0%	15.0%
SSEPD SHEPD		37.6%	5.5%	0.0%	0.8%
UKPN EPN		57.1%	28.7%	0.0%	11.0%
UKPN LPN		54.1%	64.2%	0.0%	31.6%
UKPN SPN		35.7%	32.5%	0.0%	4.0%
WPD East Midlands		56.9%	57.2%	0.0%	16.5%
WPD South Wales		28.1%	16.3%	0.0%	-0.5%
WPD South West		22.6%	16.8%	0.0%	3.5%
WPD West Midlands		20.4%	24.4%	0.0%	2.3%

Table 1

The CDCM methodology has never explained nor justified why the allocation of “*Load related new connections & reinforcement (net of contributions)*” in this way is cost reflective of the costs incurred at the relevant network tiers. We contend that it is not. Using the costs in these way inevitably results in a higher proportion of costs being allocated to higher network tiers. This is illustrated in tables 2 and table 3. Table 2 shows the percentage allocation of all direct costs to each network tier under the current methodology. Table 3 shows the percentage allocation of costs to each network tier if costs described as “*Load related new connections & reinforcement (net of contributions)*”.

	EHV and 132kV	HV	HV/LV	LV
ENW	55.4%	32.7%	11.9%	25.4%
Northern Powergrid Northeast	45.6%	40.4%	14.1%	41.0%
Northern Powergrid Yorkshire	36.8%	48.2%	15.1%	34.9%
SPEN SPD	30.6%	47.9%	21.5%	45.8%
SPEN SPM	46.7%	33.3%	20.0%	31.8%
SSEPD SEPD	50.8%	38.5%	10.7%	35.7%
SSEPD SHEPD	38.3%	47.0%	14.7%	19.5%
UKPN EPN	63.7%	26.0%	10.3%	36.7%
UKPN LPN	69.1%	16.0%	14.8%	31.8%
UKPN SPN	48.6%	33.0%	18.3%	30.9%
WPD East Midlands	40.6%	48.2%	11.2%	25.6%
WPD South Wales	36.3%	50.7%	18.0%	26.0%
WPD South West	30.8%	34.6%	34.6%	34.7%
WPD West Midlands	44.9%	43.7%	11.5%	32.1%

Table 2 Percentage allocation of all direct costs to each network tier under the current methodology

	EHV and 132kV	HV	HV/LV	LV
ENW	52.9%	26.9%	20.2%	43.3%
Northern Powergrid Northeast	45.6%	40.4%	14.1%	62.7%
Northern Powergrid Yorkshire	36.8%	48.2%	15.1%	16.1%
SPEN SPD	24.9%	49.8%	25.3%	53.7%
SPEN SPM	35.4%	39.1%	25.5%	40.5%
SSEPD SEPD	38.4%	39.4%	22.2%	74.3%
SSEPD SHEPD	28.8%	53.6%	17.6%	23.5%
UKPN EPN	48.6%	33.0%	18.4%	65.3%
UKPN LPN	60.7%	10.9%	28.4%	60.7%
UKPN SPN	43.5%	31.0%	25.5%	42.9%
WPD East Midlands	35.5%	41.8%	22.7%	52.0%
WPD South Wales	32.0%	52.0%	15.0%	31.8%
WPD South West	29.2%	35.4%	35.4%	42.7%
WPD West Midlands	44.6%	41.1%	14.3%	40.1%

Table 3 Percentage allocation of all direct costs to each network tier under the current methodology

Consideration of the Options

3. Comments on option 1 are as follows

	<ul style="list-style-type: none"> <li>• It takes account of all customer contributions</li> <li>• By allocating all customer contributions in excess of the reported LV costs the treatment of direct costs is no different to that in the current model (the methodology currently sets negative costs to zero).</li> <li>• It is reasonable to assume that the customer contributions in excess of the costs at LV will have been paid in respect of connections made at higher voltage tiers</li> <li>• We recognise that the apportionment of contributions to the EHV and HV network tiers using a MEAV cost driver is less than perfect, but it is better than the status quo. Connections provided at each of these network tiers will be substantially contributed to by customers. Intuitively, we feel that customers are likely to contribute a higher proportion to HV costs than they are to assets provided at EHV (where costs are more likely to be apportioned across a wider customer base – primary substations and EHV networks are rarely constructed for the benefit of a single customer).</li> <li>• The costs reported at each network tier include connection costs for assets provided at higher network tiers. There is no information as to what the costs of assets provided at each tier is. It is not possible to accurately determine what the cost of assets installed at each network tier are.</li> <li>• Customer contributions in total are greater than connection costs. this suggests that the customer contributions cover additional elements of work to those reported in table RRP2.4 – maybe overheads etc. However such contributions will relate to connections work undertaken (it is presumed DNOs don't over recover). Whilst we note that general reinforcement is funded through DUoS, it is appropriate that such all customer contributions</li> </ul>	
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are allocated and not ignored (to do so would deny the IDNO a share of the legitimate revenue stream from new connections).

4. Comments on Option 2 are as follows.

- Many of the arguments for Option 1 also apply to Option 2. For the reasons given above we believe both Option 1 and option 2 are better than the status quo. However, we do not understand the underlying logic or justification for option 2.
- Our view is that we would generally expect LV connections to be more highly contributed towards than connections provided at higher network tiers (and in particular at EHV). We think the effect of option 2 will be that the allocation of customer contributions will over subsidise connections provided at higher network tiers. This is particularly the case for some DNOs where significant general reinforcement costs have been incurred higher network tiers. See table 4 below



	New connections and Customer Specific Reinforcement (£m)					General reinforcement				subtotal	contributions	costs unallocated from RRP 1.3	net total cost
	provided at LV	provided at HV	Provided at EHV	Provided at 132kV	sub total	LV System	HV System	EHV System	132kV System				
ENW	32.0	14.6	2.8		49.4	0.2	3.7	4.1	19.3	27.3	(68.0)	0.9	9.6
Northern Powergrid Northeast	27.3	4.1			31.4	0.7	2.2	4.9	9.4	17.2	(32.7)		15.9
Northern Powergrid Yorkshire	24.8	13.0	5.1		42.9	0.7	1.3	3.4	0.2	5.6	(42.4)		6.1
SPEN SPD	37.2	0.5	0.2		37.9	1.3	3.3	6.4		11.0	(41.3)	(1.3)	6.3
SPEN SPM	26.6	1.5	9.3	2.0	39.4	0.7	0.9	1.4	4.5	7.5	(40.3)	(1.7)	4.9
SSEPD SEPD	33.0	7.2	0.5		40.7	3.6	14.3	9.0	25.9	52.8	(58.0)		35.5
SSEPD SHEPD	7.0	0.5	0.2		7.7	1.3	0.5	5.4		7.2	(14.3)	1.9	2.5
UKPN EPN	42.9	7.4	11.6		61.9	1.7	3.2	18.4	21.7	45.0	(73.1)	0.7	34.5
UKPN LPN	24.3	7.9	20.3		52.5	0.7	3.6	2.6	18.9	25.8	(60.4)	(0.1)	17.8
UKPN SPN	20.1	8.7	7.3		36.1	1.5	1.3	4.8	4.1	11.7	(40.0)	(0.1)	7.7
WPD East Midlands	59.1	32.2	0.6		91.9	1.3	4.7	4.0	26.2	36.3	(81.8)	0.1	46.5
WPD South Wales	15.5	2.9	2.2		20.6	0.3	0.9	1.4	1.1	3.7	(24.8)		(0.5)
WPD South West	19.9	3.6			23.5	0.3	0.5	2.3	2.6	5.7	(27.8)		1.4
WPD West Midlands	36.9	7.3			44.2	0.8	4.6	8.3	1.8	15.7	(54.2)	2.6	8.3

Table 4 Summary of RRP table 2.4 costs by DNO

	<p>5. Comments on Option 3 are as follows.</p> <ul style="list-style-type: none"> <li>• The analysis in developing options 1 and 2 and in gaining a wider understanding of the costs described as “<i>Load related new connections &amp; reinforcement (net of contributions)</i>” shows the following: <ul style="list-style-type: none"> <li>⇒ In providing connections the cost of providing assets at each network tier is not known. (the costs reported at each network tier include the cost of assets at higher network tiers).</li> <li>⇒ How customer contributions relate to connections provided at each network tier or to assets provided at each network tier is not known.</li> <li>⇒ Customer contributions in nearly all DNO areas are significantly higher than connection costs. There is no certainty that customer contributions relate to the same activities or elements of work as connection costs.</li> </ul> </li> <li>• Given that these costs are used to allocate a much higher costs within a network tier and there can be no assurance as to the accuracy of costs: precision should not be confused with accuracy.</li> <li>• Whilst Option 1 has some sort of logic (we don’t see the logic in option 2) such logic is significantly compromised by the uncertainty of the costs it is allocating to different network tiers</li> </ul> <p>6. As a consequence our conclusions are as follows</p> <ul style="list-style-type: none"> <li>• All options better meet the objectives than doing nothing</li> <li>• We believe that option 3 is best because it recognises that the costs and contributions reported for each category can at best be no more than an educated guess, irrespective of what pseudo science is used to allocate them</li> <li>• That being said Option 1 at least recognises that contributions will</li> </ul>	
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	<p>be made in respect of connections provided at higher network tiers (as does option 2) and does apply a logical rationale in trying to allocate such costs.</p> <ul style="list-style-type: none"> <li>• Whilst option 3 recognise that all customer contributions need to be taken into account, we do not support the rationale it uses to allocate those costs.</li> </ul>	
IPNL	<p>Option 1 could be seen a reasonable comprise between the status quo and Option 3. It could be argued that option 1 has an advantage over option 3 in that it does retain the general reinforcement figures which would be lost from the allocation if Option 3 was pursued. In addition, the assumption made by Option 1 is reasonable and not much of a change from the currently methodology.</p>	
Southern Electric Power Distribution plc and Scottish Hydro Electric	<p>Option 1: This is simple to implement. Though not meant to be an accurate solution it is still a better approach than the status quo. However the overall LV net cost is still understated, and the re-allocation driver of 'MEAV' is arguable.</p> <p>Option2: This is also simple to implement. Though not meant to be an accurate solution it is still a better approach than the status quo. Even though the re-allocation driver of 'direct costs' is in itself not accurately allocated, at least the total 'net costs' are distributed on a consistent basis across network levels and not biased towards LV.</p> <p>Option 3: Whilst the original allocation of 'net direct costs' gives a distorted view to IDNO discount proportions, we do not feel that ignoring it in the calculation would better facilitate the DCUSA Charging Methodology objective of cost reflectivity. Hence we do not believe it should be the selected option going forward.</p>	<p>The Working Group discussed these points with Lili Zou (SSE) and agreed with the points that have been raised.</p>

	Overall we feel that both options 1 and 2 are workable approaches, especially given that the sensitivity analysis suggested that the differences between option 1 and 2 are minimal. Option 2 is a more preferable approach due to its unbiased approach towards all network levels.	
SP Distribution, SP Manweb	It does not seem appropriate to exclude the use of the costs completely and that the most cost reflective option should be implemented, however we recognise the difficulty in obtaining these figures.	<p>The Working Group email SP and query whether it is correct that this answer implies they do not support Option 3, but the working group would also like to know which option they support, if any.</p>  <p>RE DCP 117 Consultation Respons</p>
UK Power Networks	As we do not believe that anyone knows what the 'final' or 'correct' number is, it is difficult to consider which of these three options is best, although IF there is a distortion then we believe that option 3 (effectively what was previously option 3 would be most appropriate).	The Working Group noted the comment
Western Power	<p>Option 2 feels the most sensible thing to do as it nets off the difference between total customer contributions and costs before a portioning the difference.</p> <p>The status quo and Option 1 apportion something that is already apportioned and could therefore be splitting costs incorrectly.</p> <p>Option 3 was turned down by OFGEM originally.</p>	<p>The Working agreed email WPD and ask for clarification why they feel Option 2 is splitting these costs more correctly over Option 1.</p> <p>The second question the Working Group would like WPD to clarify is if they could also explain what they mean by "apportioning something that is already apportioned" for Option 1?</p>  <p>RE DCP 117 Consultation Respons</p>
<b>Question Eight</b>	<b>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</b>	

	<b>whether the benefit of the change may outweigh the potential impact and whether the duration of the change is likely to be limited.</b>	
Electricity North West Ltd	No	The Working Group noted that no issues were raised by respondents to the Consultation.
ESP Electricity Ltd	No, although it is ESPE's opinion that this CP should be considered predominantly on its own merits, given the extent to which it facilitates the relevant general DCUSA and CDCM objectives.	
GTC	No	
IPNL	None other than the work being currently undertaken to take the PCDM under DCUSA governance	
Southern Electric Power Distribution plc and Scottish Hydro Electric	Our comments on this DCP are based upon consideration of its potential impacts on DUoS Tariffs in isolation. The cumulative/net effect of all DCPs currently being considered has not been modelled. Therefore, making an assessment of the combined impact on DUoS tariffs is difficult. Our opinions in this response are provided on that basis, and we urge that DCP's are progressed with some caution until these cumulative/net impacts can be modelled and assessed for each of the 14 LDSO Areas.	
SP Distribution, SP Manweb	None	
UK Power Networks	No	
Western Power	No	
<b>Question Nine</b>	<b>Are you supportive of the proposed implementation date of October 2012?</b>	
Electricity North West Ltd	No. The deadline has already past, so the working group should aim for April 2013	The Working Group noted that it would be implemented from October in order to be ready for Indicative Charges in December, so that it would be active in April 2013. There would not be a mid-year price change involved with this CP.
ESP Electricity Ltd	Yes	
GTC	We believe revised charge should be in force from 1 April 2013	

IPNL	Yes	
Southern Electric Power Distribution plc and Scottish Hydro Electric	We support implementation of the DCP at the earliest possible date in compliance with Ofgem/DCUSA notices.	
SP Distribution, SP Manweb	No, we do not support a mid-year implementation date.	The Working Group noted that it would be implemented from October in order to be ready for Indicative Charges in December, so that it would be active in April 2013. There would not be a mid-year price change involved with this CP.
UK Power Networks	We presume that the proposed implementation from 'October 2012', and it is the intention to use for charges effective from 1 April 2013 charges? If that is the case then we would agree to the proposed implementation date.	The Working Group noted that it would be implemented from October in order to be ready for Indicative Charges in December, so that it would be active in April 2013. There would not be a mid-year price change involved with this CP.
Western Power	Definitely not, This should be implemented in April 2013. It is too late for a mid year price change.	The Working Group noted that it would be implemented from October in order to be ready for Indicative Charges in December, so that it would be active in April 2013. There would not be a mid-year price change involved with this CP.
<b>Question 10</b>	<b>Are there any alternative solutions or matters that should be considered by the Working Group?</b>	
Electricity North West Ltd	No	The Working Group noted that there were no alternative solutions provided by respondents.
ESP Electricity Ltd	No	
GTC	Not that we are aware of	
IPNL	No	
Southern Electric Power Distribution plc and Scottish Hydro Electric	Not at this time.	

SP Distribution, SP Manweb	None	
UK Power Networks	We do not believe that there are other solutions which should have been considered.	
Western Power	No	