



DCUSA Change Report

DCP 095 - Treatment of LV costs in the Price Control Disaggregation Model in determining tariffs to LDNOs connecting to upstream LDNOs at LV

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA, and details DCP 095 – Treatment of LV costs in the Price Control Disaggregation Model in determining tariffs to LDNOs connecting to upstream LDNOs at LV. 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.
- 1.2 Parties are invited to consider the proposed amendments (Appendix A), together with the Consultation documentation (Appendix B), the reconfigured analysis (Appendix C) and submit their votes using the form attached as Appendix D to dcusa@electralink.co.uk by 02 November 2011.

2 SUMMARY

- 2.1 DCP 095 was raised by the Electricity Network Company and seeks to make corrections to the cost allocations within the CDCM model. Currently, the CDCM calculates portfolio tariffs for LDNO networks that connect to a DNO's distribution system by applying LDNO discounts to final tariffs (i.e. tariffs calculated in respect of end consumers on the DNO Party's network). In step 4 of Schedule 16 in the DCUSA it describes the principles that the CDCM employs to calculate LDNO discounts.
- 2.2 In practice these principles are embedded in an Excel workbook entitled "Method M". In calculating the LDNO discounts the methodology treats the costs of mains and services at LV as a single input when allocating cost between network levels, according to the ratio of the length of upstream and downstream LV mains.
- 2.3 DCP 095 will to modify the methodology so that LV costs are separated into LV service costs and LV mains costs before allocation.
- 2.4 This permits 100% of service costs to be allocated to the LDNO when calculating the discount factors for the LV:LV tariff, in recognition of the fact that all service costs are borne by the operator of the 'last mile' of network, i.e. the LDNO.
- 2.5 The split of LV costs between upstream and downstream network operators using the ratio of the length of upstream and downstream LV mains should only apply to those costs allocated to LV mains.

- 2.6 The LV split (as described by paragraph 114 in Schedule 16 of DCUSA) should be amended to apply only to LV mains costs.

3 DCP 095 – WORKING GROUP

- 3.1 The DCUSA Panel established a Working Group to assess and refine DCP 095.
- 3.2 The DCP 095 Working Group met on 6 occasions and consisted of representatives from DNOs, IDNOs and an Ofgem representative.

4 CONSULTATION

- 4.1 The Working Group carried out a Consultation to give Parties an opportunity to review and comment on the CP.
- 4.2 The respondents to the Consultation all agreed, and concurred on all points that were addressed. There were various comments that addressed the governance of the Method M, as well as the cumulative effects of implementing the four CPs (DCP 094 – 097) which this working group reviewed. These comments were discussed and deemed to be outside the scope of the Working Group.
- 4.3 One respondent felt that there was a possibility that there could be material impacts on Suppliers in the future, and therefore should be given the opportunity to vote and comment on the Change Proposal. The proposer did not feel that there was an immediate impact on Suppliers, however to address this point, it was agreed to give Suppliers the opportunity to vote on DCP 094.
- 4.4 A complete and detailed summary of Party responses are set out in Appendix B.
- 4.5 Whilst reviewing the Consultation responses, it was brought to the Working Group's attention by Ofgem that it would like to see the impacts and materiality of DCP 095 expressed in monetary values. The analysis has been reconfigured to show both the percentage and monetary value changes.
- 4.6 The additional analysis was circulated to the Working Group, and it was concluded that these changes will have a minimal impact upon tariffs. The additional analysis details the changes in tariffs in both percentage and monetary value changes and is attached as Appendix C.

5 PROPOSED LEGAL DRAFTING

- 5.1 The proposed legal drafting of DCP 095 has been drafted by Wragge and Co and is attached as Appendix A.

6 EVALUATION AGAINST THE DCUSA AND CHARGING OBJECTIVES

- 6.1 The Working Group considered the Consultation responses regarding whether DCP 095 better facilitated each DCUSA General and CDCM Objectives.
- 6.2 The Working Group agreed that the following DCUSA General Objective was better facilitated:
- Objective 2¹ – Better Facilitated - The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity.
- 6.3 The Working Group considers that General Objective 2 is better facilitated by DCP 095 as it will improve the cost reflectivity of the methodology and thus enhance competition in distribution. Cost reflectivity is improved because DCP 095 removes the distortion that currently exists where some costs relating to LV services are allocated to the upstream operator even though these costs are not incurred by them. As a consequence the downstream LDNO receives a lower margin than the DNO would do if it owned and operated the assets as part of its distribution system. The CP promotes a more appropriate allocation of these costs. If defects identified in the CP are not addressed the lower margins could ultimately lead to margin squeeze and foreclosure of the market; thereby distorting and preventing competition.
- 6.4 The Working Group agreed that the following DCUSA CDCM Objectives were better facilitated:

¹ 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

- Objective 2² – Better Facilitated – Will result in improved cost reflectivity and will aid the facilitation of competition.
- Objective 3³ – Better facilitated - The CP will improve cost reflectivity.

7 IMPLEMENTATION

- 7.1 DCP 095 is classified as a Part 1 matter in accordance to Clause 9.4.2 (B) of the Agreement, and therefore will go to the Authority for determination after the voting process has completed.
- 7.2 The outcome of DCP095 will be known by early December 2011, allowing Distributors to take the proposal into account when publishing their indicative charges in December 2011 and final prices in February 2012 for implementation from 01 April 2012.

8 ENGAGEMENT WITH THE AUTHORITY

- 8.1 Ofgem has been fully engaged throughout the development of DCP 095 as a member of the Working Group.

9 PANEL RECOMMENDATION

- 9.1 The Panel approved this Change Report by ex-Committee on 18 October 2011. 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 095.
- 9.2 The timetable for the progression of the Change Proposals is set out below:

Activity	Date
Change Report issued for voting	19 October 2011
Voting closes	02 November 2011
Change Declaration	04 November 2011
Authority Determination	09 December 2011
CP Implemented	01 April 2012

² That compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)

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

10 APPENDICES:

Appendix A - DCP 095 - Legal Drafting

Appendix B - DCP 095 – Consultation Documents

Appendix C – DCP 095 – Reconfigured Analysis

Appendix D - DCP 095 - Voting Form