



DCUSA Consultation

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

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. Parties to the DCUSA can raise Change Proposals (CPs) to amend the Agreement with the consent of other Parties and (where applicable) the Authority.
- 1.2 This document is a consultation issued to all DCUSA Distributor and Supplier Parties, and to all other interested parties in accordance with Clause 11.14 of the DCUSA seeking views on the implementation of DCUSA CP 095¹ entitled *'Treatment of LV costs in the Price Control Disaggregation Model in determining tariffs to LDNOs connecting to upstream LDNOs at LV'*. This proposal seeks to change the methodology for the calculation of the LDNO discounts, which are in turn used to determine portfolio tariffs applied in respect of LDNO networks connecting to a DNO's distribution system.
- 1.3 Parties are invited to consider the following:
 - 1.3.1 The impact assessment carried out by the Working Group as set out in Section 3, and associated analysis in Appendix A, and
 - 1.3.2 The proposed legal drafting changes to Schedule 16 of the DCUSA as set out in section 5, and
 - 1.3.3 The Working Groups evaluation of DCP 095 against the DCUSA and Charging objectives as set out in Section 6, and
 - 1.3.4 The consultation questions listed in section 8.
- 1.4 Parties should submit comments using the form attached as Appendix C.
- 1.5 DCP095 Response form should be sent to dcusa@electralink.co.uk by no later than **12 pm on 2 September 2011**.

¹<http://www.dcusa.co.uk/Public/CP.aspx?id=115>

2 SUMMARY

- 2.1 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). Step 4 of Schedule 16 in DCUSA describes the principles that the CDCM employs to calculate LDNO discounts. 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.
- 2.2 DCP 095 seeks to modify the methodology so that LV costs are separated into LV service costs and LV mains costs before allocation.
- 2.3 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.
- 2.4 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.
- 2.5 The LV split (as described by paragraph 114 in Schedule 16 of DCUSA) should be amended to apply only to LV mains costs.

3 IMPACT ASSESSMENT OF DCP095

- 3.1 To enable the Working Group to complete its impact assessment of DCP 095 a request for information (RFI) was issued to the DNOs on the 5th August 2011.
- 3.2 The RFI requested DNOs to assess the impact that the change proposal DCP094 would have on the LDNO discounts used in the October 2011 version of the CDCM (i.e. taking the implementation of DCP-71A into account). To facilitate this impact assessment the RFI identified changes that would need to be made to DNOs' October 2011 version of their Method M model(s). The specification provided in the RFI for changes to the Model M was based on the

method employed when the original draft of DCP 095 was submitted to the DCUSA Secretariat for assessment.

- 3.3 The RFI requested that DNOs propose alternative ways to meet the intent of DCP 095 where they felt it was appropriate. The RFI also specified the format in which the data required by the Working Group was to be returned.
- 3.4 The data returned by DNOs was anonymised by the DCUSA Secretariat prior to analysis by the Working Group, and consisted of updates to LDNO discount tariffs and Supplier tariff information as shown in tables 1037 and 3701 of the CDCM Model, respectively. The data is attached in Appendix A - DCP095 Anonymised Impact Analysis returned by DNOs
- 3.5 The Working Group found that the impacts on LDNO discount tariffs (Table 1037) were in line with expectations. The results can be summarised as follows:

	LDNO Discounts under DCP095				Difference from October 2011 LDNO Discount			
	LDNO LV: LV user	LDNO HV: LV user	LDNO HV: LV sub user	LDNO HV: HV user	LDNO LV: LV user	LDNO HV: LV user	LDNO HV: LV sub user	LDNO HV: HV user
DNO 1	35.1%	62.8%	41.0%	30.9%	0.9%	0.0%	0.0%	0.0%
DNO 2	29.9%	63.7%	46.8%	37.1%	1.1%	0.0%	0.0%	0.0%
DNO 3	31.2%	55.2%	33.0%	22.2%	1.0%	0.0%	0.0%	0.0%
DNO 4	31.8%	64.7%	45.7%	39.0%	1.4%	0.0%	0.0%	0.0%
DNO 5	30.3%	58.5%	37.4%	30.7%	1.3%	0.0%	0.0%	0.0%
DNO 6	28.8%	50.0%	27.5%	19.3%	4.9%	0.0%	0.0%	0.0%
DNO 7	21.9%	44.4%	25.9%	17.5%	5.9%	0.0%	0.0%	0.0%
DNO 8	29.4%	54.5%	33.6%	26.0%	4.7%	0.0%	0.0%	0.0%
DNO 9	29.9%	50.9%	27.8%	18.3%	1.2%	0.0%	0.0%	0.0%
DNO 10	27.7%	48.7%	28.1%	19.3%	0.8%	0.0%	0.0%	0.0%
DNO 11	34.6%	61.5%	39.7%	26.2%	1.6%	0.0%	0.0%	0.0%
DNO 12	33.8%	63.0%	41.2%	29.1%	3.2%	0.0%	0.0%	0.0%
DNO 13	31.9%	56.9%	36.0%	27.7%	0.3%	0.0%	0.0%	0.0%
DNO 14	24.9%	57.8%	43.3%	38.5%	0.1%	0.0%	0.0%	0.0%

- 3.6 The impact on Supplier tariffs was analysed by DNOs; the absolute impacts were small or negligible in all cases. These impacts are shown in Appendix A.
- 3.7 This Consultation seeks confirmation from respondents on that the Working Group Assessment is correct.

4 ALTERNATIVE OPTIONS TO THE MEET THE INTENT OF DCP 095

- 4.1 The Working Group considered there were no alternative options available to meet the intent of DCP095. Furthermore, no alternative options were put forward by any DNOs in their response to the RFI.

5 PROPOSED AMENDMENT AND LEGAL DRAFTING

- 5.1 The proposed legal drafting of DCP 095 has been drafted by the Working Group and is as follows:

Proposed Changes to Schedule 16

The effect of the proposed changes is to split LV costs into LV services and LV Mains such that 100% of LV service costs are allocated to the downstream distributor and it is only the LV mains allocations that are apportioned in determining LV split.

Paragraph 97

Change to: *"For the purposes of price control disaggregation the network is split into ~~four~~ five levels: LV Service, LV Mains, HV/LV, HV and EHV".*

Paragraph 98(c)

Change to *"Determination of the proportion of LV Mains network deemed to be used by LV-connected embedded networks. (The DNO party is deemed to provide 0% of the LV Service)*

Paragraph 105

Change to *"For each network level, the relevant net capital expenditure is calculated by adding up total condition based replacement*

(proactive and reactive replacement), combined in the case of LV Service, LV Mains, HV and EHV..."

Paragraph 113

Change to *"The weighted average allocations are then rescaled by the estimated number of units flowing through each network level, and normalised so that they sum to 100 per cent. The result of this calculation is set percentages for each of LV Service, LV Mains, HV/LV, HV and EHV network levels."*

Paragraph 114

Change to *"The DNO Party determines the proportion of the LV Mains network."*

Paragraph 119

that the formula for the LV discount given in Schedule 16 as:

$$= [LV \text{ allocation}] * (1 - [LV \text{ split}] * [LV \text{ direct proportion}]).$$

is amended to:

$$= [LV \text{ Service allocation}] + ([LV \text{ Mains allocation}] * (1 - [LV \text{ split}] * [LV \text{ Mains direct proportion}])).$$

6 EVALUATION AGAINST THE DCUSA AND CHARGING OBJECTIVES

6.1 The Working Group considers that DCP095 has an impact the following DCUSA objective:

6.1.1 Objective 3.1.2: 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.

6.2 The Working Group considers that Objective 3.1.2 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 recovered by the upstream operator even though these costs are not incurred by them. The proposal promotes a more appropriate recovery of these costs.

6.3 The Working Group considers that DCP 095 will have an impact the following Charging Methodologies objectives:

6.3.1 Objective 3.2.2: that compliance by each DNO Party with the Charging Methodology 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);

6.3.2 Objective 3.2.3: that compliance by each DNO Party with the Charging Methodology 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;

6.4 The Working Group considers that under DCP 095 Objective 3.2.2 will be better facilitated as improved cost reflectivity aids the facilitation of competition.

6.5 The Working Group considers that under DCP 095 Objective 3.2.3 will be better facilitated as the CP will improve cost reflectivity, as detailed in section 6.2.

7 IMPLEMENTATION

7.1 The Working Group recommends, subject to Authority approval, implementation from 1 November 2011 with revised charges to be reflected in tariffs taking effect from 1 April 2012. In light of the next steps set out in section 9, the outcome of DCP095 will be known by November 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 1 April 2012.

8 CONSULTATION

8.1 This consultation seeks views from DCUSA Distributor and Supplier Parties, and all other interested parties, on the following questions.

8.1.1 Do you understand the intent of the CP and are you supportive of its principles?

8.1.2 Do Supplier Parties consider themselves materially impacted by the CP and eligible to vote?

8.1.3 Do you agree with the Impact Analysis undertaken by DNOs on behalf of the Working Group?

8.1.4 Do you agree with the associated impact assessment completed by the Working Group?

8.1.5 Do you agree that the legal drafting in section 5 is appropriate to meet the Intent of DCP 095?

8.1.6 Do you agree with the Working Group's assessment that DCP095 better meets the DCUSA General and Charging objectives as outlined in section 6? if not, please explain why and provide your assessment against the objectives.

8.1.7 Do you believe the Intent of DCP095 is adequately met, are there any alternative ways of meeting the intent of DCP095?

8.1.8 Please state any other comments or views on the Change Proposal?

8.2 Responses should be submitted using Appendix C to DCUSA@electralink.co.uk no later than **12 pm on 2 September 2011**.

8.3 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.

9 NEXT STEPS

9.1 Following the end of the consultation period the responses will be considered by the Working Group in preparation of their final report and recommendation to the DCUSA Panel. The Change Proposal will then be issued to the DCUSA

panel for voting and following the vote will be issued to Ofgem for final determination.

- 9.2 If you have any questions about this paper or the DCUSA Change Process please contact the DCUSA Help Desk by email to DCUSA@electralink.co.uk or telephone 020 7432 3011.

10 APPENDICES

Appendix A - DCP095 Anonymised Impact Analysis returned by DNOs

Appendix B - Request for Information (RFI) for DCP095

Appendix C - DCP095 Response Form