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DCUSA Consultation

DCP094 Treatment of Load Related
Connections (net of customer contributions)

PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between electricity Distributors, 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 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 094¹ entitled "Treatment of Load Related Connections (net of customer contributions) in the CDCM Price Control Disaggregation Model". 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 DCP094 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 consultation response form attached as Appendix C - DCP094 Response Form should be sent to dcusa@electralink.co.uk by no later **than 12 pm on 2nd September 2011**.

¹ <http://www.dcusa.co.uk/Extranet/CP.aspx?id=114>

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 (final tariffs are those calculated in respect of end consumers on the DNO Party's network). Step 4 of Schedule 16 in DCUSA describes the rules that the CDCM employs to calculate LDNO discounts. In practice these rules are embedded in an Excel workbook entitled "Method M". In calculating the LDNO discounts the methodology allocates certain (but not all) DNO indirect opex costs to different network levels using different cost drivers. (RRP data already allocates direct costs to the relevant network level). It then calculates weighted average percentages for allocating the DNO opex costs. In practice the weighted average percentages are calculated in the Method M '*WPD – Opex Allocation*' worksheet and used to allocate opex costs in the Method M '*WPD- Final Allocation*' worksheet. . In addition, the proportion of direct costs to indirect costs is used in the calculation of LDNO discounts where the LDNO connects to the DNO within a network level; for instance, where an LDNO connects to the upstream distributor at LV and where the downstream customer is connected at LV. This will also be true for HV connected sites when DCP 071A² is implemented in tariffs from October 2011.
- 2.2 One of the costs used to determine the LDNO discounts is '*Load related new connections & reinforcement (net of contributions)*'. Whilst this is a direct cost and is fully allocated (and therefore is not used to calculate the weighted average percentage of indirect costs between voltage levels), it is nonetheless used to calculate the proportion of direct costs to indirect costs, which is in turn used to determine the LDNO discounts that apply where the LDNO connects to the DNO within a network level.
- 2.3 The proposer of DCP094 has assessed that the way '*Load related new connections & reinforcement (net of contributions)*' customer contributions and costs are allocated in DNOs RRP (DNOs' RRP table 2.4) distorts the calculation of the proportion of direct costs to indirect costs. This is because:

² <http://www.dcusa.co.uk/Extranet/CP.aspx?id=111>

- 2.3.1 All connection costs are allocated to the network level at which the connection is provided; i.e. for a connection provided at LV, costs of providing assets at HV and other network levels are allocated to the LV network level.
 - 2.3.2 All Customer contributions are allocated to the LV network level irrespective of the network level at which the connection is provided.
 - 2.3.3 This means that net costs at the LV network level are understated (often negative) whilst net costs at other network levels are overstated.
- 2.4 The intent of DCP094 is to change the methodology such that the cost figures coming under the heading '*Load related new connections & reinforcement (net of contributions)*' are not used in the calculation of weighted average percentages for indirect costs and in the calculation of the proportion of direct costs to indirect costs.

3 IMPACT ASSESSMENT OF DCP094

- 3.1 To enable the Working Group to complete its impact assessment of DCP094 a request for information (RFI) was issued to DNOs on the 5th August 2011.
- 3.1.1 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 DCP094 was submitted to the DCUSA Secretariat for initial assessment.
 - 3.1.2 The RFI requested that DNOs propose alternative ways to meet the intent of DCP094 where they felt it was appropriate.
 - 3.1.3 The RFI also specified the format in which the data required by the Working Group was to be returned.

3.2 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 - DCP094 Anonymised Impact Analysis returned by DNOs

3.2.1 The results of the LDNO discount tariffs (CDCM Table 1037) are summarised as follows:

	LDNO Discounts under DCP094				Difference from October 2011 LDNO Discounts			
	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	34.2%	63.1%	41.4%	31.4%	0.0%	0.3%	0.5%	0.5%
DNO 2	28.8%	64.1%	47.4%	37.8%	0.0%	0.4%	0.6%	0.7%
DNO 3	30.2%	56.3%	34.7%	24.1%	0.0%	1.1%	1.7%	1.9%
DNO 4	30.4%	65.0%	46.2%	39.5%	0.0%	0.3%	0.5%	0.5%
DNO 5	29.0%	58.6%	37.6%	31.0%	0.0%	0.1%	0.2%	0.2%
DNO 6	20.6%	45.8%	27.7%	19.5%	0.0%	1.4%	1.8%	2.0%
DNO 7	28.1%	55.1%	34.5%	27.0%	0.0%	0.6%	0.9%	1.0%
DNO 8	27.4%	50.5%	28.1%	20.0%	0.0%	0.4%	0.6%	0.7%
DNO 9	29.9%	51.2%	28.2%	18.7%	1.2%	0.3%	0.4%	0.4%
DNO 10	26.9%	49.3%	29.0%	20.4%	0.0%	0.7%	1.0%	1.1%
DNO 11	33.1%	62.0%	40.4%	27.1%	0.0%	0.5%	0.7%	0.9%
DNO 12	30.6%	63.5%	41.9%	30.0%	0.0%	0.5%	0.8%	1.0%
DNO 13	31.6%	58.3%	37.9%	29.9%	0.0%	1.3%	2.0%	2.2%
DNO 14	24.8%	58.0%	43.6%	38.9%	0.0%	0.2%	0.3%	0.4%

3.2.2 DNO 9 (highlighted in red above) appeared to produce an inconsistent result when compared to other DNOs in that it showed a change in the LV:LV discount, which was unexpected.

3.3 The impact on Supplier tariffs was assessed by DNOs; the Working Group's view was that the absolute impacts were either very small or negligible in most cases.

4 ALTERNATIVE OPTIONS TO THE MEET THE INTENT OF DCP 094

- 4.1 The Working Group considered there were no alternative options available to meet the intent of DCP094. 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 094 has been drafted by the Working Group. The Working Group proposes to amend paragraph 101 of Schedule 16 of DCUSA to read as follows:

"Data from the RRP are used to distinguish between direct and indirect costs, with direct costs coded by network level. For the purpose of this calculation, capital expenditure referred to as "Load related new connections & reinforcement (net of customer contributions)" ~~is included, is not allocated to any network level but negative figures are replaced with zero. All other direct costs are allocated.~~ This analysis provides direct costs percentage for each network level, based on RRP data. The direct cost percentage for LV is denoted "[LV direct proportion]" and the direct cost percentage for HV is denoted "[HV direct proportion]"

- 5.2 The Working Group recommends, subject to Authority approval, implementation from 1 November 2011 with revised charges to be reflected in tariffs taking effect from the 1st April 2012.

6 EVALUATION AGAINST THE DCUSA AND CHARGING OBJECTIVES

- 6.1 The Working Group considers that DCP 094 has an impact on 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 because DCP094 removes distortions in the allocation of costs incurred by DNOs. The improved cost reflectivity brought about by the change will better promote competition in distribution.
- 6.3 Removing these costs from all network levels is more cost reflective than the current methodology because it corrects the artificial and incorrect weighting of direct costs to the HV, HV/LV and EHV network levels. Furthermore, this is achieved without significant disturbance to the overall cost incurred by DNOs as the total cost in this category when summed over all network levels is negligible in comparison to the total costs recorded in the RRP by DNOs.
- 6.4 A preferred solution may be to correct the '*Load related new connections & reinforcement (net of contributions)*' data used to allocate the costs to the correct network levels. However, the Working Group believes that this level of granularity of information may not be easily available. Whilst the solution proposed, i.e. not to allocate these costs to any network level, is not perfect the Working Group recognises that it is better than the current allocation method and therefore better meets Objective 3.1.2.
- 6.5 The Working Group also considers that DCP 094 will have an impact on the following Charging Methodology objectives:
- 6.6.1 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);
- 6.6.2 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;

- 6.6 The Working Group considers that under DCP 094 Objective 3.2.2 will be better facilitated as the CP will enhance cost reflectivity thereby reducing distortion in the allocation of costs between competitors in the distribution of electricity.
- 6.7 The Working Group considers that under DCP 094 Objective 3.2.3 will be better facilitated as the CP will improve cost reflectivity, as detailed above.

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 DCP094 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 level of data used in the Impact Analysis undertaken by DNOs on behalf of the Working Group? Provide supporting comments
- 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 094?

- 8.1.6 Do you agree with the Working Group's assessment that DCP094 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 that the intent of DCP 094 is adequately met, or that there are alternative ways of meeting the intent of DCP 094?
- 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 2nd 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 - DCP094 Anonymised Impact Analysis returned by DNOs

Appendix B - Request for Information (RFI) for DCP094

Appendix C - DCP094 Response Form