

<b>DCUSA CHANGE REPORT</b>	
<b>CHANGE PROPOSAL</b>	DCP 077 (Urgent) – CDCM change – Rate of Return %
<b>DATE OF ISSUE</b>	19 November 2010 <sup>1</sup>
<b>ISSUED TO</b>	DCUSA Contract Managers
<b>PARTIES ENTITLED TO VOTE</b>	All Parties
<b>RETURN DEADLINE (Voting End Date)</b>	14 December 2010 – <a href="mailto:DCUSA@electralink.co.uk">DCUSA@electralink.co.uk</a>

## 1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA. The Change Report details DCP 077 – CDCM change – Rate of Return %. The voting process for the proposed variation and the timetable of the progression of the CP through the DCUSA Change Control Process is set out in this document.
- 1.2 Parties are invited to consider the proposed amendment attached as Appendix A and submit votes using the form attached as Appendix B to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by 14 December 2010.

## 2 SUMMARY

- 2.1 The intent of DCP 077 is to modify the CDCM methodology contained within Schedule 16 of DCUSA to change the Annuity Rate of Return from a fixed value of 6.9% to the value within the relevant Distribution Price Control Review Document. (The current value is 5.6%).
- 2.2 The issue raised under DCP 077 has been discussed at the Distribution Charging Methodology Forum (DCMF) prior to being considered at the DCUSA Panel on the 17 November 2010.

## 3 DCP 077 – RATE OF RETURN %.

- 3.1 The DCUSA Panel considered DCP 077 at its meeting on the 17 November 2010. The Panel determined that the CP was an urgent Part One change that should be progressed through the Definition Procedure to allow a Working Group to assess and develop the drafting.
- 3.2 DCP 077 seeks to modify the CDCM so that the Annuity Rate of Return value used for charging purposes within the CDCM is in line with the value used by DNOs and Ofgem in the relevant price control. This will make the CDCM methodology more cost reflective and ensure a more consistent approach between charging and the determination of the allowed revenue.

<sup>1</sup> Re-issued on 03 December with the addition of: Para 4.9, Section 9, Appendix C and an extension to the voting end date throughout the report.

#### 4 DCP 077 – WORKING GROUP

- 4.1 The DCUSA Panel established a Working Group to review DCP 077. Membership of the Working Group consisted of 3 DNO representatives, 2 Supplier representatives and 1 IDNO representative.
- 4.2 The DCP 077 Working Group Terms of Reference tasked the group with assisting the DCUSA Panel in the evaluation of DCP 077 by undertaking the following activities:
- Consulting with the Parties, and (where appropriate) with any interested third party, on the proposal.
  - Considering and clarifying the likely effects of the proposed variation to the Agreement, and indicating which Party Categories it considers will be affected by the proposed variation.
  - Evaluating, developing and refining the proposed variation to the Agreement to the extent that it better facilitates the DCUSA General and CDCM Objectives
  - Evaluating the likely impact of the proposed date for implementation of the variation, and where it considers appropriate, amending this date.
  - Considering whether, if the proposed variation were made, the Agreement would better facilitate the achievement of the DCUSA General Objectives than if that variation were not made:
    - The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
    - 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
    - The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences
    - The promotion of efficiency in the implementation and administration of this Agreement
  - Considering whether, if the proposed variation were made, the Agreement would better facilitate the achievement of the DCUSA CDCM Objectives than if that variation were not made:
    - that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence
    - 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)
    - 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
- o that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business

- 4.3 The Working Group met on 17 November 2010.
- 4.4 The Working Group discussed the proposed implementation date of 6<sup>th</sup> December 2010.
- 4.5 The Working Group agreed that it would endeavour to proceed with the change as rapidly as possible, but given the dependence on external factors it could not control whether or not the change would be made in time for indicative pricing (December 2010).
- 4.6 The Working Group heard that some DNOs wish to publish indicative prices on 17th December and hoped that Ofgem would appreciate this in its decision making. However they agreed that DNOs should be mindful that the outcome of this DCP may not be known at the time that they wish to publish indicative prices.
- 4.7 The Working Group agreed that no consultation is necessary due to the simplicity of the change.
- 4.8 The Working Group agreed that a 5 day (rather than 10 day) voting period would assist in expediting the change.
- 4.9 The Panel subsequently directed that the CP be issued to DNOs for impact assessment and the voting period was extended to 14 December 2010.

## **5 PROPOSED AMENDMENT AND LEGAL DRAFTING**

- 5.1 The proposed legal drafting of DCP 077 has been drafted by Wragge and Co and is set out in Appendix A.

## **6 EVALUATION AGAINST THE DCUSA AND CHARGING OBJECTIVES**

- 6.1 The DCP 077 Working Group considered whether the proposed change would better facilitate the DCUSA General and CDCM Objectives.
- 6.2 The Working Group considers that the proposed change would better facilitate DCUSA General Objective 3.1.3 and CDCM Objectives 3.2.1, 3.2.3 and 3.2.4.
- 6.3 Objective 3.1.3<sup>2</sup> would be better facilitated because DNOs will be able to more efficiently discharge their licence obligations and the CDCM will not need to be changed on each Distribution Price Control Review.
- 6.4 Objective 3.2.1<sup>3</sup> would be better facilitated because compliance of each DNO Party with the CDCM will better facilitate discharge of its licence obligations.

---

<sup>2</sup> 3.1.3 the efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences;

<sup>3</sup> 3.2.1 that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence;

- 6.5 Objective 3.2.3<sup>4</sup> would be better facilitated because cost reflectivity will be improved.
- 6.6 Objective 3.2.4<sup>5</sup> would be better facilitated because the DPCR is a development in each DNO Party's business and the charges calculated under the CDCM will reflect that development.

## 7 ENGAGEMENT WITH THE AUTHORITY

- 7.1 Ofgem has had visibility of the development of DCP 077 through its participation in the DCMF and the DCUSA Panel.

## 8 PANEL RECOMMENDATION

- 8.1 The Panel approved the DCP 077 Change Report on 19 November 2010. The timetable for the progression of the Change Proposal is set out below:

ACTIVITY	DATE
Party Voting	19 November – 14 December 2010
Change Declaration	15 December 2010
Authority Consent	28 Days following the Change Declaration by no veto or by indicating a positive stance within the 28 days.
Implementation	As soon as reasonably practicable following Authority consent or non veto (following 28 days).

## 9 DNO ANALYSIS

- 9.1 Appendix C contains detailed analysis from each DNO setting out the impact of DCP 077 on their charges, as well as a summary spreadsheet showing the position across all DNOs.

### Appendices:

- A. DCP 077 - Legal Drafting
- B. DCP 077 - Voting Form
- C. DNO Analysis

<sup>4</sup> 3.2.3 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;

<sup>5</sup> 3.2.4 that, so far as is consistent with Clauses 3.2.1 to 3.2.3, the Charging Methodologies, so far as is reasonably practicable, properly take account of developments in each DNO Party's Distribution Business.