

DCUSA Change Proposal Form

This form is issued in accordance with Clause 10.5 of the DCUSA.

Completed forms should be returned to dcusa@electralink.co.uk for assessment by the DCUSA Panel. Failure to complete all parts of the form may result in it being rejected by the DCUSA Panel.

- PART A – Mandatory for all Change Proposals
- PART B – Mandatory for Non Charging Methodologies Proposals
- PART C – Mandatory for Charging Methodologies Proposals
- PART D – Guidance Notes

PART A - MANDATORY FOR ALL CHANGE PROPOSALS

Document Control	
CP Status	Standard / Urgent
CP Number	DCP 077
Date of submission	10 November 2010
Attachments	n/a
Originator Details	
Company Name	Electricity North West Limited
Originator Name	Pauline Hughes
Category	DG / DNO / IDNO / OTSO / SUPPLIER / OTHER
Email Address	pauline.hughes@enwl.co.uk
Phone Number	01925 846859
Change Proposal Details	
CP Title	CDCM change – Rate of Return %
Impacted parties	DNO/IDNO/Supplier
Impacted Clause(s)	Schedule 16, clause 57
Part 1 / Part 2 Matter	Part 1
Related Change Proposals	None
Change Proposal Intent	
<p>The intent of this change proposal 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 Decision Document.</p> <p>This change proposal will bring the Annuity Rate of Return value used for charging purposes within the CDCM 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.</p>	
Business Justification and Market Benefits	
<p>The proposed change to the Annuity Rate of Return will align the determination of charges with the relevant price control.</p> <p>This will make the charges more cost reflective and address the licence obligation that “compliance with the methodology results in charges which reflect, as far as is</p>	

reasonably practicable (taking account of implementation costs), the costs incurred by the licensee in its Distribution Business.”

By using the proposed change through the DCUSA change process this will avoid having to go through the process every Electricity Distribution Price Control Review.

Source for the Annuity Rate of Return known as Weighted Average Cost of Capital (WACC) is taken from Financial Model Manual – Distribution Price Control Review 5 (DPCR5) dated 10 December 2009.

Proposed Solution and Draft Legal Text

To replace clause 57 of Schedule 16 in DCUSA (v4.1) with the following:

57. Capital costs that are not covered by customer contributions are converted to annual costs using a level annuity with ~~using~~ the annuity period and rate of return set out in table 3.

Table 3 Annuity rate of return and annuity period

<i>Parameter</i>	<i>Value</i>
Annuity period	40
Annuity rate of return (Pre Tax Weighted Average Cost of Capital)	6.9 % until the 31 March 2011, thereafter the (pre-tax) cost of capital set by the Authority as part of the then most recent review of the charge restriction conditions applying under the DNO Party's Distribution Licence.

Proposed Implementation Date

6th December 2010 in order to ensure the correct value is used in the Indicative Tariffs due out by the end of December 2010.

Impact on Other Codes

Please tick the relevant boxes and provide any supporting information.

- BSC
- CUSC
- Grid Code
- MRA
- Other
- None

If other please specify

The Financial Model Manual – Distribution Price Control Review 5 (DPCR5) dated 10 December 2009 and be found on the following link:

<http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Documents1/Financial%20model%20-%20Manual.pdf>

Environmental Impact

No Environmental Impact

Confidentiality

PART B – MANDATORY FOR NON CHARGING METHODOLOGIES CHANGE PROPOSALS

DCUSA Objectives

General Objectives:

Please tick the relevant boxes.

- 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
- 2 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
- 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences
- 4 The promotion of efficiency in the implementation and administration of this Agreement

Rationale for better facilitation of the DCUSA Objectives identified above

PART C – MANDATORY FOR CHARGING METHODOLOGIES PROPOSALS

DCUSA CDCM Objectives

Please tick the relevant boxes.

CDCM Objectives:

- 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
- 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
- 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

General Objectives:

- 1 The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
- 2 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
- 3 The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences
- 4 The promotion of efficiency in the implementation and administration of this Agreement

Rationale for better facilitation of the DCUSA Objectives identified above

CDCM Objectives:

The change from a fixed rate of return to the rate used within the Distribution Price Control Review final proposals will make the tariffs produced by the CDCM methodology more cost reflective and ensure that the change is future proof thereby promoting efficiency in the administration of this agreement.

Has this issue been discussed at any other industry forums? If so please specify and provide supporting documentation

This issue has been raised in the DCMF forum Item no 8 in DCMF Proposed DCUSA Modifications Action Log.

PART D – GUIDANCE NOTES FOR COMPLETING THE FORM

Data Field	Guidance
Attachments	Append any proposed legal text or supporting documentation in order to better support / explain the CP.
Change Proposal Intent	Outline the issue the CP is seeking to address. Please note that the intent of the CP cannot be altered once submitted.
Confidentiality	Clearly indicate if any parts of this Change Proposal Form are to remain confidential to DCUSA Panel (and any subsequent DCUSA Working Group) and Ofgem
CP Status	A CP may be deemed 'urgent' in accordance with Clause 10.4.8 of the DCUSA. The proposer should give supporting reasons.
DCUSA General Objectives	Indicate which of the DCUSA Objectives will be better facilitated by the Change Proposal.
DCUSA CDCM Objectives	Indicate which of the DCUSA CDCM Objectives will be better facilitated by the Change Proposal. Please note that a CDCM change may also facilitate the DCUSA General objectives.
Draft Legal Text	Insert proposed legal drafting (change marked against any existing DCUSA drafting). The Change Proposal Intent will take precedence in the event of any inconsistency.
Environmental Impact	Please see Ofgem Guidance and consider if the change proposal has any environmental impact.
Part 1 / Part 2 Matter	A CP must be categorised as a Part 1 or Part 2 matter in accordance with Clause 10.4.7 of the DCUSA. All Part 1 matters require Authority Consent.
Proposed Implementation Date	The Change can be implemented in February, June, and November of each year.
Proposed Solution	Outline the proposed solution for addressing the stated intent of the CP. The Change Proposal Intent will take precedence in the event of any inconsistency. A DCUSA Working Group may develop alternative solutions.
Rationale for DCUSA Objectives	Provide supporting reasons and information (including any initial analysis that supports your views) to demonstrate why the CP will better facilitate each of the DCUSA Objectives identified.
Related Change Proposals	Indicate if the CP is related to or impacts any CP already in the DCUSA or other industry change process.