



## **DCUSA Consultation**

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DCP 071 - Allocation of Cost to HV Connected  
IDNOs with LV End Users

## 1 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 Supplier Parties in accordance with Clause 11.14 of the DCUSA seeking views on whether Suppliers consider themselves materially impacted by DCP 071 'Allocation of Cost to HV Connected IDNOs with LV End Users' to determine the Party Categories eligible to vote on the CP.
- 1.3 Parties are invited to consider the proposed drafting set out as Appendix A and B and the impact analysis set out as Appendix C. Parties should submit comments using the form attached as Appendix D to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **04 April 2011**.

## 2 SUMMARY

- 2.1 Ofgem outlined in paragraphs 2.39 – 2.41 of its decision document ref: 140/09 on the "Common Distribution Charging Methodology at Lower Voltages", that the CDCM methodology for allocation of cost to HV connected IDNOs with LV end users is not appropriate and should be dealt with under open governance. Ofgem's recent decision on the charging boundary between the EDCM and CDCM ref: 90/10 allows this matter to now be progressed and resolved.
- 2.2 DCP 071 seeks to modify the CDCM so that for IDNO networks connected at HV, the allocation of the "HV component" of the methodology is split in an appropriate and cost reflective manner between the DNO and IDNO network i.e. to recognise that where the IDNO provides connections to LV consumers but connects to the DNO at HV, it will provide part of the HV network and incur HV costs.
- 2.3 The DCP 071 Working Group has assessed and developed the proposal and prepared 2 variations for consideration -DCP 071 and DCP 071A. Through its

analysis the DCP 071 Working Group has concluded that Suppliers will not be materially affected by either proposal and that the eligible voting party categories can be limited to Distributors. This consultation seeks views on whether Suppliers support that view before the CP is issued for voting.

### 3 IMPACT ANALYSIS

- 3.1 The Working Group initially requested relevant data from IDNOs regarding network length and number of connections; this data was provided in confidence to Ofgem to allow provisional calculation of a revised value of HV Split.
- 3.2 The Working Group requested a number of calculations from DNOs, using a range of values of HV Split, and updated formulas for the calculation of HV: LV Discount and HV: LV Sub Discount. DNOs were asked to update those formulas to the following:

$$[\text{HV: LV discount}] = [\text{LV allocation}] + [\text{HV/LV allocation}] + [\text{HV allocation}] * (1 - [\text{HV split}] * [\text{HV direct proportion}]).$$

$$[\text{HV: LV Sub discount}] = ([\text{HV/LV allocation}] + [\text{HV allocation}] * (1 - [\text{HV split}] * [\text{HV direct proportion}])) / (1 - [\text{LV allocation}]).$$

- 3.3 Four different values of HV Split were calculated and used for impact analysis. These reflected the two different formula for calculating HV Split (see section 4) below, and inclusion and exclusion of sites that would be excluded under the EDCM from the data set used. These values were calculated independently by Ofgem and apply across the whole market. The table below shows the result of these calculations - the percentage of network provided by the DNO. If this modification is implemented then DNOs are expected to use the pre-EDCM values prior to the implementation of EDCM, and in the absence of any further changes or calculations, the post EDCM values after EDCM implementation.

HV Split	Pre-EDCM value	Possible post-EDCM value
Calculated under Option 1 (i.e.	82%	83%

<b>DCP 071)</b>		
<b>Calculated under Option 2 (i.e. DCP 071A)</b>	40%	46%

- 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 Table 1037 of the CDCM spreadsheet, and updated tariff information. The data is attached as Appendix D.
- 3.5 The Working Group's expectation was that Table 1037 should show changes in LDNO HV: LV User Discount, HV: LV Sub User Discount and LDNO HV:HV User discount, but not the LDNO LV:LV User Discount. There should be no material impact on Supplier tariffs. LDNO HV and LDNO HV: LV tariffs would be expected to change.
- 3.6 A number of additional requests for information and clarification were made to DNOs to ensure that all the requested changes had been implemented consistently and correctly.
- 3.7 The Working Group found that the impacts on Table 1037 were in line with expectations. The Working Group noted that the impact assessment results from two DNOs showed an unlikely HV:HV discount outcome. However, the results were not materially different to those of the other DNOs and the Working Group considers that the weight of the evidence from the other twelve DNOs supports the change. The Working Group's observations have been fed back to the two DNOs in question.
- 3.8 The impact on Supplier tariffs was analysed; the absolute impacts were zero or small in all cases. In some cases a large relative impact was identified (i.e. a large percentage change in tariff) and this was assessed as being due to rounding errors (e.g. a very small change to a small number).
- 3.9 The impact on LDNO tariffs was broadly as expected, i.e. decrease in HV and HV: LV tariffs with the magnitude of the decrease decreasing (i.e. moving from

large negative percentage towards zero) as the HV Split increases. HV: HV HH metered tariffs generally showed an increase in line with increasing HV Split.

- 3.10 The Working Group has concluded that there is no material impact on Supplier tariffs. This consultation seeks confirmation from Suppliers that the Working Group assessment is correct.

#### 4 DCP 071 and DCP 071A

- 4.1 The Working Group noted that during the development of the CDCM two different options for calculating the HV Split had been considered:

$$HV\ Split = 1 - \left( \frac{\sum_{i=1}^n (x_i/n_i) / No. IDNO\ connections}{\sum_{j=1}^n (y_j/n_j) / No. DNOs} \right)$$

Where:

$x_i$  = HV network length at IDNO site  $i$

$n_i$  = sum of HV customers and HV/LV substations at IDNO site  $i$

$y_j$  = HV network length for DNO site  $j$

$n_j$  = sum of HV customers and HV/LV substations for DNO  $j$

(Option 1 i.e. DCP 071)

And

$$HV\ Split = 1 - \frac{\text{Sum of IDNO network lengths / Number of IDNO connections}}{\text{Sum of DNO network lengths / Number of DNO connections}}$$

(Option 2 i.e. DCP 071A)

- 4.2 Option 1 was put forward to overcome “outliers” in the IDNO data and it had been argued that these had a disproportionate effect on the HV Split. Ofgem had approved the use of Option 1, with a recommendation that the HV Split be revised as more and/or better data became available.
- 4.3 DCP 071 proposes that the methodology for calculation of HV Split is unchanged i.e. remains as Option 1. The Working Group considered the wording of paragraph 116 of Schedule 16 to be ambiguous. It therefore

proposes the revised legal drafting to improve clarity as a part of this modification.

4.4 Accepting that neither option is perfect, Working Group members considered that Option 2 is more cost reflective because;

- charges are per connection therefore using the average split per connection is more cost reflective;
- it better reflects the situation where a high number of connections are geographically close together; and
- the growth in the number of IDNO connections has reduced the impact of outliers.

4.5 The Working Group therefore developed alternative DCP 071A to change the method by which the HV Split is calculated to Option 2.

4.6 Furthermore, under each Option, the calculation of HV Split was performed using data which first included, and then excluded, sites which would be expected to be excluded from the CDCM once the EDCM is introduced.

4.7 The Working Group noted that a process should be established to enable the annual calculation of HV Split. It was concluded that there would be benefit in an independent agent performing the calculation of HV Split each year, and communicating the result to all interested parties. No other information would be communicated. The independent agent would either request the relevant data from Ofgem, or possibly from DNO and IDNO parties directly. The proposed legal drafting includes DCUSA obligations to enable this process.

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

5.1 The proposed legal drafting of DCP 071 and DCP 071A have been drafted by Wragge and Co and are set out in Appendix A and Appendix B.

5.2 The Working Group recommends implementation on 1<sup>st</sup> October 2011.

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

6.1 The Working Group considers that both DCP 071 and DCP 071A impact the following DCUSA objectives:

- 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.
- Objective 3.1.4: The promotion of efficiency in the implementation and administration of this Agreement

6.2 The Working Group considers that Objective 3.1.2 will be better facilitated by both CPs as they will increase cost reflectivity and thus enhance competition in distribution. Cost reflectivity is increased because where the IDNO provides connections to LV consumers but connects to the DNO at HV, the HV costs it incurs are reflected in the discount rates. Cost reflectivity is also increased by revising the calculation of HV Split as the new calculation better reflects lower costs in the situation where a high number of connections are geographically close together.

6.3 The Working Group considers that Objective 3.1.4 will be better facilitated by both CPs as they will provide a more efficient method for the annual calculation of HV Split.

6.4 The Working Group considers that DCP 071 and DCP 071A impact the following Charging Methodologies objectives:

- Objective 3.2.2: 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);
- Objective 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;

- 6.5 The Working Group considers that under both DCP 071 and DCP 071A Objective 3.2.2 will be better facilitated as the CPs will increase cost reflectivity and thus reduce distortion in the distribution of electricity.
- 6.6 The Working Group considers that under both DCP 071 and DCP 071A Objective 3.2.3 will be better facilitated as the CPs will increase cost reflectivity.
- 6.7 A majority of the Working Group agree that DCP 071A better facilitates these objectives than DCP 071.

## **7 IMPLEMENTATION**

- 7.1 The proposed implementation date is 01 October 2011. Based on the timetable set out in section 11, the outcome of the CPs will be known by May 2011 allowing Distributors to take the proposal into account when publishing their indicative charges at the end of June 2011 and final prices in August 2011.
- 7.2 Suppliers are invited to note that this implementation date will trigger a global price change by DNOs. As noted above the changes to Supplier prices are not expected to be material but this will result in the normal administration activities for all Parties arising from mid-year price changes.

## **8 LEGAL DRAFTING**

- 8.1 The proposed legal drafting is attached as Appendix A and B.

## **9 CONSULTATION**

- 9.1 This consultation seeks Supplier views on whether they consider themselves materially impacted by the proposal to inform which party categories should be eligible to vote.
- 9.2 Responses should be submitted using Appendix C to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **04 April 2011**.
- 9.3 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.



## 10 NEXT STEPS

10.1 Following the end of the consultation period the responses will be considered by the Working Group to determine the Parties impacted by the proposal and therefore those eligible to vote. The Change Proposal will then be issued to for voting and following the vote will be issued to Ofgem for final determination.

10.2 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](mailto:DCUSA@electralink.co.uk) or telephone 020 7432 3011.

## 11 APPENDICES

- Appendix A – Proposed legal text DCP 071
- Appendix B – Proposed legal text DCP 071A
- Appendix C – Results of Impact Analysis
- Appendix D – Response Form