



DCUSA Change Report

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

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the DCUSA. The Change Report details DCP 071 and DCP 071A – Allocation of Cost to HV Connected IDNOs with LV End Users. 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 Two variations are issued for voting – DCP 071 and DCP 071A.
- 1.3 Parties are invited to consider the proposed amendments attached as Appendix A and Appendix B and submit votes using the form attached as Appendix C to dcusa@electralink.co.uk by 11 May 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.

3 DCP 071 – ALLOCATION OF COST TO HV CONNECTED IDNOS WITH LV END USERS

- 3.1 The DCUSA Panel considered DCP 071 ex-committee by email in August 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 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.

4 DCP 071 – WORKING GROUP

- 4.1 The DCUSA Panel established a Working Group to review DCP 071. Membership of the Working Group consisted of DNO representatives, IDNO representatives and Ofgem.
- 4.2 The DCP 071 Working Group Terms of Reference tasked the group with assisting the DCUSA Panel in the evaluation of DCP 071 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:
 - 3.1.1: The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks
 - 3.1.2: 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
 - 3.1.3: The efficient discharge by the DNO Parties and IDNO Parties of obligations imposed upon them in their Distribution Licences
 - 3.1.4: 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:
 - 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
 - 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)
 - 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
 - 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
- 4.3 The Working Group met on 5 occasions from September 2010 – March 2011 and carried out a detailed impact analysis to deliver these requirements.

5 DNO CONSULTATION AND IMPACT ANALYSIS

- 5.1 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.
- 5.2 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:

[HV: LV discount] = [LV allocation] + [HV/LV allocation] + [HV allocation]*(1 - [HV split]*[HV direct proportion]).

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

- 5.3 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 6) 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. DCP 071) | 82% | 83% |
| Calculated under Option 2 (i.e. DCP 071A) | 40% | 46% |

- 5.4 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.
- 5.5 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.
- 5.6 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.
- 5.7 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.
- 5.8 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).

- 5.9 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.

6 DCP 071 and DCP 071A

- 6.1 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

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

(Option 2 i.e. DCP 071A)

- 6.2 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.
- 6.3 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.
- 6.4 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.

- 6.5 The Working Group therefore developed alternative DCP 071A to change the method by which the HV Split is calculated to Option 2.
- 6.6 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.
- 6.7 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.

7 SUPPLIER CONSULTATION

- 7.1 Following its assessment of DCP 071 and the alternative DCP071A, the Working Group considered that there was unlikely to be any material impact on Supplier tariffs as a result of either proposal.
- 7.2 A consultation was issued to all Supplier Contract Managers on 21 March 2011 seeking views on whether they considered themselves materially impacted by the proposals, to allow the Panel to determine the Parties eligible to vote. No Suppliers responded to the consultation and no further comments have been received.

8 PROPOSED AMENDMENT AND LEGAL DRAFTING

- 8.1 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.
- 8.2 The Working Group recommends implementation on 1st October 2011.

9 EVALUATION AGAINST THE DCUSA AND CHARGING OBJECTIVES

- 9.1 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.

- 9.2 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.
- 9.3 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.
- 9.4 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;
- 9.5 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.
- 9.6 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.
- 9.7 A majority of the Working Group agree that DCP 071A better facilitates these objectives than DCP 071.

10 IMPLEMENTATION

- 10.1 The proposed implementation date is 01 October 2011. Based on the timetable set out in section 11 the outcome of these CPs will be known by June 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.
- 10.2 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.

11 ENGAGEMENT WITH THE AUTHORITY

- 11.1 Ofgem has been fully engaged throughout the development of DCP 071 and DCP 071A as members of the Working Group and the DCUSA Panel. For the purposes of analysing the impact of this change, specifically the calculation

of HV Split, the “Nominated Calculation Agent” was Ofgem. The Working Group thanks Ofgem for its assistance.

12 PANEL RECOMMENDATION

- 12.1 The Panel approved this Change Report at its meeting on 20 April 2011. The Panel considered that the Working Group had carried out the level of analysis required to enable Parties to understand the impact of the proposed amendment and to vote on the CPs.
- 12.2 In light of the Supplier consultation findings, the Panel considered it likely that only DNO and IDNO Parties are materially impacted by the CPs but agreed that all Parties should be eligible to vote on the Proposal in order to promote greater transparency of the Change Process.
- 12.3 The Panel recommended that should a Supplier or DG submit a vote they complete the comments box on the voting form to detail the impact of the CP on their organisation to assist Ofgem in its determination process.
- 12.4 The timetable for the progression of the Change Proposals is set out below:

| Activity | Date |
|---------------------------------|-----------------|
| Change Report issued for voting | 21 April 2011 |
| Voting closes | 11 May 2011 |
| Change Declaration | 12 May 2011 |
| Authority Decision | 17 June 2011 |
| CP Implemented | 01 October 2011 |

13 APPENDICES:

- A. DCP 071 - Legal Drafting
- B. DCP 071A – Alternative Legal Drafting
- C. DCP 071 and DCP 071A - Voting Form
- D. Results of Impact Analysis