

**DCUSA BUDGET 2008 / 09**

**1 Introduction**

- 1.1 This paper sets out the 2008/09 Budget as ratified and agreed by the DCUSA Panel February 2008. The paper has been updated from the draft Budget issued in January 2008 to address comments made by one Party in response to the Budget consultation. The updates do not materially impact the agreed Budget but provide clarification in three areas.
- 1.2 The budget reflects a good faith estimate of the resources required by the company to deliver the objectives identified within the DCUSA Operational Plan as detailed in Appendix 1. In line with the terms of the Agreement, any income of the company must match the value of the costs of the company. The assumptions used in assessing the costs for the coming year are detailed below.
- 1.3 The 2008/09 Budget is £303k compared to a current year (2007/08) budget of £448k. Reductions have been achieved on all cost areas but most notably on legal fees, professional fees, meeting costs and contingency. The assumptions used in determining the budget allowances are disclosed in section 4 of this paper. The latest forecast outturn for 2007/08 has been provided for information in section 3. This will allow the reader to assess the proposed budget against the expected performance for 2007/08.

**2 DCUSA Operational Plan**

- 2.1 The operational plan is shown at Appendix 1. Annotated to each objective is an assessment of the likely impact on resources.

**3 Overview of costs**

- 3.1 The budget has been agreed by the Panel at **£303k**. The table below details the cost allowances agreed as representing a good faith estimate of the resources required by the company to deliver the Operational Plan objectives. For comparison purposes the comparable cost allowances used for the current budget year have been provided as well as the latest expected outturn for this current financial year. All figures are shown in £'000's. The forecast cost outturn for 2007/08 is £208k. When preparing the budget the forecast cost outturn for 2007/08 was used as a reference point against which the assumptions and cost estimates for 2008/09 were validated.
- 3.2 As shown, the company is expected to achieve a 33% reduction in its budget costs for the next financial year compared to the current financial year's budget. This reduction reflects the impact of the company now having a full year's operational experience specifically in relation to the management and delivery of the Change Control process and its associated costs such as legal fees and meeting costs.

2008/09 Budget	2007/08 Budget	2007/08 Forecast
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Secretarial services	103	107	103
Website development	10	25	7
Website operation	17	18	10
Legal Fees – change control process etc	50	90	47
Audit fees	5	5	5
Taxation and Professional fees	5	24	3
Insurance	5	15	2
Printing, postage and stationery	2	12	1
Meeting costs & travel expenses	91	112	30
Bank Charges	1	-	-
Contingency	14	40	-
Cost expectation	303	448	208
Income from parties	303	448	448
Projected Cost rebate	-	-	240

#### 4 General cost considerations

Meeting costs and associated travel costs are dealt with separately in the next section.

- 4.1 Secretarial services reflect the contract value. No allowance has been for any potential changes in the scope of the service.
- 4.2 Website development costs reflect a small allowance to cover changes or improvements required to the website either as a result of end user requests or the impact of items within the Operational Plan.
- 4.3 Website operational charges reflect the annual contract value. No allowance has been made in the budget to cover any impact the website developments may have on the operational support requirements.
- 4.4 Based on the current year experience the budget for legal costs has been set at £50k. The Panel consider this to be a reasonable estimate of the likely legal costs to be incurred in processing the expected number of Change Proposals (12) and the resulting work from the Offshore Transmission, Ofgem Code Governance Review and other sundry minor projects.
- 4.5 Audit fees have been maintained at £5k and this reflects a continuation with the existing auditors who deliver a good service and are reasonably priced.
- 4.6 Professional fees have been included at £5k. This allowance covers taxation advice fees of £2k and an allowance of £3k to fund a review of DCUSA operations specifically a review of the Change Control Process and the operation of the website.
- 4.7 An allowance of £5k has been included to cover the cost of renewing the Professional Indemnity and Directors and Officers cover in 2008. The cost included is not materially different to the premiums payable for this current financial year.
- 4.8 A small general administration allowance of £2k has been provided to cover printing, postage and stationery and general administration costs.
- 4.9 A contingency allowance of £14k (5%) has been included and this will be used to cover any costs which the company may incur which have not been separately budgeted for elsewhere. This contingency will only be utilised with prior authority from the Panel.

#### 5 Meeting costs

- 5.1 Meeting costs have been budgeted for on the basis of projected number of meetings for the year. The likely number of chargeable meetings was assessed on an individual meeting basis. In total it is expected that 57 meetings will require chargeable accommodation with a further 21 being facilitated through teleconferences. The balance of meetings will be held on the same day as other meetings or will not require chargeable accommodation.

<i>Meeting</i>	<i>Meetings</i>	<i>Chargeable</i>	<i>Telecon</i>	<i>Non Chargeable</i>
Panel	12	12	-	-
Board	12	-	-	12
AGM	1	-	-	1
Finance & Audit Committee	3	3	-	-
Change Proposal workgroups <sup>1</sup>	36	24	12	-
Offshore Transmission meetings	5	5	-	-
Code Review Meetings	10	7	3	-
Project meetings <sup>2</sup>	12	6	6	-
SLA measured meetings	91	57	21	13
Average cost per meeting		£350 per room hires	£150 per telecon	n/a

- 5.2 The Panel considered that given the resource constraints within the industry and the availability of personnel it is unlikely that a higher number of meetings could be facilitated.
- 5.3 Meeting rooms are assumed to cost £350 per day and this is reflective of the average meeting room hire rate experienced in the current financial year. Teleconferences are budgeted to cost £150 per meeting and this is reflective of the average cost incurred in the current financial year giving a total meeting accommodation budget allowance of £23k.

<sup>1</sup> Assumes 12 Change Proposals requiring 3 meetings per CP

<sup>2</sup> Assumes 3 small projects in year each requiring 4 meetings

- 5.4 Under the terms of the DCUSA, meeting delegates are allowed to recover their travelling expenses. A proposed change to this position was rejected by Parties and the Authority in mid 2007. The company cannot mandate the manner in which delegates attend meetings (although it does seek to limit claims to one delegate per company per meeting). The company also provides the option for teleconference participation as standard for all meetings. The Panel considered that an average of 8 delegates will attend the chargeable meetings with each delegate claiming an average £150 per meeting for travel expenses. This is reflective of the average number of meeting delegates and average value of travel expense claims in the current financial year and equates to a meeting expenses allowance of £68k.
- 5.5 **The total meetings and travel costs budget has been set at £91k.**

**Appendix 1 – DCUSA Operating Plan**

Task	Initial Panel view of resource
The development of rights and obligations as between each DNO Party or IDNO Party and each other DNO Party or IDNO Party.	Material element of work expected to be completed by March '08. Likely to be a number of standard CP's to be raised in 08/09. Legal costs impacted but no impact on meeting costs. Managed through standing legal fees and meeting costs in budgetary allowance.
The creation of a standard list of Recognised Credit Assessment Agencies.	This will require a "standard" CP to be process. Likely to be some legal costs incurred but no meeting costs.
The development of a revised event log in Schedule 7.	Likely to be a limited level of legal costs associated with this work.
Consider the treatment of LEGs & Consolidators under the DCUSA	Unlikely to have a significant impact on resources and would be covered through "standing" legal fees and meeting costs budgetary allowances.
Consider treatment of Offshore Wind Farm Clusters in DCUSA	Likely impact to be of a similar level to Section 2B work in terms of actual meeting costs incurred but ½ the level of the 2B legal costs incurred.
Consider impact on DCUSA of DNO Licence Review	Potentially to be in the order of 2-3 days legal work but no meeting costs incurred.
Restructuring of UoS Charges – standardisation of Relevant Charging Statement.	Likely to be a "standard" level CP and as such covered by standing legal and meeting costs budgetary allowances.
Carry out a review of DCUSA operations specifically a review of the Change Control Process and the operation of the website.	Outcome of review could give rise to a number of CP's. Potentially 2-3 meetings required plus a level of legal costs which could be substantial if Change Process requires amendment. Review may also highlight requirement for further website developments and enhancements to meet users' needs.
Consider impact on DCUSA of Revenue Protection Code of Practice	Likely to be a "standard" level CP and as such covered by standing legal and meeting costs budgetary allowances.
Consider impact on DCUSA of Microgeneration.	Watching brief covered by standard budgetary allowance
Consider impact on DCUSA of Smart Metering.	Watching brief covered by standard budgetary allowance
Consider impact on DCUSA of All Codes Review	Likely to be a "standard" level CP and as such covered by standing legal and meeting costs budgetary allowances.
Ongoing Housekeeping and management of DCUSA	Potential for a number of "straight to Report Phase" type CP's to be developed to clean up housekeeping items.