

DCP 328 – impact assessment

Summary of Options under consideration

Option A

Tariffs to connections on licence exempt networks that are subject to Settlement (i.e. they have registered MPANs) will be determined by applying a rebate to the all the way tariff that DNOs apply to equivalent customers connected directly to their network. The rebates will depend on what voltage tier the licence exempt network connects to.

Consideration of licence exempt networks that connect to the LDNO/DNO network at LV where customers are at LV

The proposed methodology is to allocate charges identified as LV customers to the LES.

The '*LV Customer*' DUoS component is determined by applying a proportion of OPEX costs to the LV customer tier. Capex costs are not allocated because they are deemed to be fully funded through connection charges.

The Opex costs allocation is determined by the MEAV values of the 500MW model and the asset values in the service models. The service models are opaque in the CDCM so it is not clear how the charges are derived. It is assumed that they are costed on the basis of providing services to a new housing development.

The assessment of the allocation of costs (and therefore the margin) to a licence exempt distributor is on a totally different basis to that used for determining IDNO margins. There is no evidence to support the rationale for a different approach and/or to demonstrate why different approaches for different classes of network operator are appropriate under competition law.

The key differences between a licence exempt operator and a licensed network operator are in respect of the services that need to be provided by the upstream distributor to facilitate competition in supply on the downstream network. An illustration of these is provided in table 1. In addition to providing these services (and the costs associated with their provision), the upstream distributor will incur additional costs in respect of the MPANs it manages on the licence exempt network. For example:

- Ofgem Licence fees (£/MPAN);
- DCC charges (£/MPAN);
- Charges in respect of other industry codes and agreements (£/MPAN).

Also, IDNOs will incur business rates for their network and where they provide MPANs to a licence exempt network, in respect of the licence exempt network. IDNO rates are calculated locally, by each local authority, and not centrally. Therefore, it is difficult to provide an exact figure. However, we believe a budgeted of c £3.60/ MPAN is appropriate across GB.

Just taking business rates, licence fees and DCC charges implies a charge of £6 per MPAN. This is before the costs in table 1 are considered, which, in turn, is before costs associated with managing the network are provided.

This contrast with the illustrative figures provided by the DCP 328 working group suggesting that where an IDNO connects a licence exempt network, the net margin available to the IDNO in NPG Yorkshire' DSA would be £1.81/ MPAN.

We think this, on its own, evidences fundamental flaws in the approach adopted by DCP328. Another way of considering it is that NPG would need to fund all the services described in table 1 below, the costs associated with licence fees, DCC charges and business rates, and the costs of operating the LV network it owns for £1.81.

We therefore suggest that the approach adopted by DCP 328 is unduly discriminatory and leads to margin squeeze and that either the cost margin for licence exempt networks under DCP 328 is too high, or that the margin made available to IDNOs under the PCDM is too low.

Charges need to discriminate between the different arrangements that are required and the different costs that are incurred for licence exempt operators and for IDNOs. DCP 328 fails to do this.

Service to be provided	Class of downstream network operator	
	Licensed	License exempt
Provision of MPANs	Yes	No
Registration services for the MPAN	Yes	No
Management of different arrangements where site is only partially settled	Yes	No
Contract management with suppliers	Yes	No
Facilitating metering arrangements	?	No
Facilitating data exchanges with suppliers, agents and settlement	Yes	No
Management of LAFs	Yes	No
DUoS Billing and collection (provision of systems and the service)	Yes	No
Customer call handling	Yes	No
Vulnerable customer management	Yes	No

Table 1. Illustration of services that need to be provided to licence exempt distributor by (upstream) licensed upstream distributor