




DCUSA Consultation		At what stage is this document in the process?
<h2>DCP 438</h2> <h2>Rate of Return</h2> <p>Date Raised: 27/02/2024</p> <p>Proposer Name: Babatunde Olukotun</p> <p>Company Name: National Grid Electricity Distribution</p> <p>Party Category: DNO</p>		01 – Change Proposal
		02 – Consultation
		03 – Change Report
		04 – Change Declaration
<p>Purpose of the Change Proposal (“CP”):</p> <p>This CP aims to update the rate of return as the previous legal text is out of date.</p>		
	<p>This document is a Consultation issued to DCUSA Parties and any other interested Parties in accordance with Clause 11.14 of the DCUSA seeking industry views on this CP.</p> <p>The Working Group recommends that this Change Proposal should proceed to consultation.</p> <p>Parties are invited to consider the questions set in section 10 and submit comments using the form attached as attachment 1 to dcusa@electralink.co.uk by 29 May 2024.</p> <p>The Working Group will consider the consultation responses and determine the appropriate next steps for the progression of the CP.</p>	
	<p>Impacted Parties</p> <p>Suppliers, DNOs and IDNOs</p>	
	<p>Impacted Clauses</p> <p>Section 1.A Paragraph 1</p> <p>Schedule 16 Table 3</p> <p>Schedule 17 Paragraph 2.16, Paragraph 9.2 and Annex 2</p> <p>Schedule 18 Paragraph 2.9 and Attachment 1</p>	

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Any questions?

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Timetable

Activity

Date

Initial Assessment Report

20 March 2024

Consultation Issued to Industry Participants

May 2024

Change Report Approved by Panel

21 August 2024

Change Report issued for Voting

22 August 2024

Party Voting Closes

12 September 2024

Change Declaration Issued to Parties

16 September 2024

Change Declaration Issued to Authority

16 September 2024

Authority Decision

TBC

1 Summary

What?

- 1.1 This change proposal aims to update the rate of return as the previous legal text is out of date.

Why?

- 1.2 According to the current industry legal text:

Annuity rate of return *Set to equal the latest pre-tax real weighted average cost of capital (CC below) for each DNO Party calculated using the following formula:*

$$CC = (\text{Gearing Assumption} \times \text{Pre-Tax Cost of Debt}) + (1 - \text{Gearing Assumption}) \times (\text{Post Tax Cost of Equity} / (1 - \text{Corporation Tax Rate}))$$

where:
Gearing Assumption is set to the 'notional Gearing' value referred to in the ED1 Price Control Financial Handbook;
Pre-Tax Cost of Debt is set to the 'cost of corporate debt' value specified in or calculated in accordance with the most recent Annual Iteration Process applicable when setting distribution Use of System Charges;
Post Tax Cost of Equity is set to the 'cost of equity' value referred to in the ED1 Price Control Financial Handbook; and
Corporation Tax Rate is the rate of corporation tax which is, when setting distribution Use of System Charges, expected to be applicable in respect of the regulatory year (as defined in the Distribution Licence) in which those Charges will take effect.
The CC value is calculated as a percentage, and rounded to two decimal places.

- 1.3 There is a need to update the above legal text so that it does not refer to ED1 price control period because it is no longer relevant.

How?

- 1.4 The parts that we will need to change are the Gearing assumption, the pre-tax cost of debt and the post-tax cost of equity as these refer to previous price control period. The suggestion is to remove reference to previous price control period.
- 1.5 The cells in the PCFM that these could refer to are:
- 1.5.1 Gearing assumption – 'Notional gearing' taken from worksheet "InputSummary" row 180;
 - 1.5.2 Pre-tax cost of debt – 'Allowed return on debt' taken from worksheet "InputSummary" row 158;
 - 1.5.3 Post-tax cost of equity – 'Allowed return on equity' taken from worksheet "InputSummary" row 173;
 - 1.5.4 Corporation tax – 'Corporation tax rate' taken from worksheet "InputSummary" row 264.
- 1.6 We suggest the wording does not refer to the rows just the names as the format of the PCFM may change.

2 Governance

Justification for Part 1 Matter

- 2.1 This CP is classified as a Part 1 matter and will go to the Authority for determination, after the voting process has completed.

Requested Next Steps

- 2.2 Following a review of the consultation responses, the Working Group will work to agree the detail of the solution for this CP.

3 Why Change?

- 3.1 There is need to update the legal text referred to in paragraph 1.2 above, so that it does not refer to ED1 price control period as this is no longer relevant.

4 Code Specific Matters

Reference Documents

- 4.1 Not applicable.

5 Working Group Assessment

- 5.1 The DCUSA Panel established a Working Group to assess this CP. This Working Group consists of DNO representatives. Meetings are held in open session and the minutes and papers of each meeting are available on the DCUSA website – <http://www.dcusa.co.uk>.
- 5.2 The Working Group developed this consultation document to gather information and feedback from market participants.
- 5.3 The Working Group discussed the need for the CP and unanimously agreed with the principles of the CP.

Question 1 – Do you understand the intent of this CP?

Question 2 – Are you supportive of the principles of this CP?

- 5.4 The Working Group identified a number of other sections of the DCUSA, in addition to those identified by the Proposer, which may need to be amended:
- 5.4.1 Schedule 7, Paragraph 9.2 and Annex 2; and
- 5.4.2 Schedule 18 Attachment 1.

Question 3 – Are you aware of any other areas of the DCUSA that may need to be updated, within the scope of this CP? Please provide your rationale.

- 5.5 The Working Group discussed that during the early days of the transition from ED1 to ED2, the updated PCFM was not available. The Working Group considered whether this would need to be reflected in the legal text in some way (and, if not, whether this would cause issues for DNOs), and whether the Authority would need to issue a direction to DNOs if this scenario was to occur.

Question 4 – Does the reference in the proposed legal text to the latest version of the PCFM allow for the transition between price setting journeys from one price control period to the next? Please provide your rationale.

6 Relevant Objectives

Assessment Against the DCUSA Objectives

- 6.1 For a CP to be approved it must be demonstrated that it better facilitates the DCUSA Objectives. There are five general objectives and six charging objectives. The Working Group agreed that this CP should be assessed against the charging objectives.
- 6.2 The Working Group considers that the following charging objectives are better facilitated by this CP:

	DCUSA Charging Objectives	Identified impact
<input checked="" type="checkbox"/>	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	Positive
<input checked="" type="checkbox"/>	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)	Positive
<input checked="" type="checkbox"/>	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	Positive
<input checked="" type="checkbox"/>	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	Positive

<input type="checkbox"/>	5. That compliance by each DNO Party with the Charging Methodologies facilitates compliance with the EU Internal Market Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators; and	None
<input checked="" type="checkbox"/>	6. That compliance with the Charging Methodologies promotes efficiency in its own implementation and administration.	Positive

6.3 The Working Group agreed that charging objectives 1, 2, 3, 4 and 6 are better facilitated by this CP as it removes references to the ED1 price control period, which is no longer relevant, and future proofs the legal text.

Question 5 – Do you consider that this CP better facilitates the DCUSA Charging Objectives? Please give supporting reasons.

7 Impacts & Other Considerations

Does this Change Proposal impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

7.1 The Working Group has not identified any impacts to SCRs or other significant industry change projects.

Consumer Impacts

7.2 The Working Group has not identified any impacts to consumers.

Environmental Impacts

7.3 In accordance with DCUSA Clause 11.14.6, the Working Group assessed whether there would be a material impact on greenhouse gas emissions if this CP was implemented. The Working Group did not identify any such material impact on greenhouse gas emissions arising from the implementation of this CP.

Engagement with the Authority

7.4 This is a Part 1 Matter and meetings are conducted in open governance. The Authority is invited to and can join the Working Group as an observer.

Question 6 – Are you aware of any wider industry developments that may impact upon or be impacted by this CP?

8 Implementation

8.1 As requested by Panel and specified in the terms of reference for this CP, the Working Group considered what an appropriate implementation timescale would be.

- 8.2 The Working Group agreed that this should be implemented, preferably, by no later than the November 2024 DCUSA standard release (due to be published on 7 November 2024) for use for the charging year 2026/2027.

Question 7 – Are you supportive of the proposal to implement this CP by no later than the November 2024 DCUSA standard release?

9 Legal Text

- 9.1 The legal text for this CP is provided as attachment 3.

Question 8 – Do you have any comments on the draft legal text?

10 Consultation Questions

No.	Questions
1	Do you understand the intent of this CP?
2	Are you supportive of the principles of this CP?
3	Are you aware of any other areas of the DCUSA that may need to be updated, within the scope of this CP? Please provide your rationale.
4	Does the reference in the proposed legal text to the latest version of the PCFM allow for the transition between price setting journeys from one price control period to the next? Please provide your rationale.
5	Do you consider that this CP better facilitates the DCUSA Charging Objectives? Please give supporting reasons.
6	Are you aware of any wider industry developments that may impact upon or be impacted by this CP?
7	Are you supportive of the proposal to implement this CP by no later than the November 2024 DCUSA standard release?
8	Do you have any comments on the draft legal text?

- 10.1 Responses should be submitted using attachment 1 to dcusa@electralink.co.uk by no later than 29 May 2024.
- 10.2 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.

11 Attachments

- Attachment 1 – DCP 438 Consultation Response Form
- Attachment 2 – DCP 438 Change Proposal Form
- Attachment 3 – DCP 438 Draft Legal Text