

Proposed variation:	<b>Distribution Connection and Use of System Agreement ("DCUSA") DCP243 – Treatment of Customer Contributions in the CDCM</b>		
Decision:	The Authority <sup>1</sup> has decided to reject <sup>2</sup> this modification <sup>3</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	17 December 2018	Implementation date:	n/a

## Background

In the Common Distribution Charging Methodology ('**CDCM**'), 'Customer Contributions' are intended to reflect the amount of money paid to the Distribution Network Operator ('**DNO**') in relation to work instigated at the request of the customer.

Under the current methodology, Customer Contributions are calculated using data which was submitted in the DNO-specific Forecast Business Plan Questionnaire's ('**FBPQ**'). This costing data, required to calculate the Customer Contribution percentages, is based on information from between 2005/6 to 2008/9. More up-to-date cost and revenue data is now available in the Regulatory Reporting Packs ('**RRP**'), which are submitted to Ofgem by the DNOs.

UK Power Networks ('**the Proposer**' or '**UKPN**') considers that using more recent data, from the last five reporting years and updated on an annual basis, will better reflect the costs incurred by DNOs and customers, and seeks to update the source data used to calculate Customer Contributions in the CDCM.

This modification proposal has been discussed extensively at industry forums, including the Distribution Charging Methodologies Forum ('**DCMF**') and Methodologies Issues Group ('**MIG**'). Prior to the modification being raised in 2015, the template used to calculate the Customer Contributions was developed within these forums, with further refinement occurring in the working groups.

## The modification proposal

DCP243 was raised by UKPN on 05 June 2015. The modification proposal seeks to:

- Update the data used to calculate Customer Contributions within the CDCM. This will be DNO-specific and will only include connections carried out by the host DNO (excluding work carried out, or with parts carried out, by Independent Connection Providers ('**ICPs**')).
- Use an updated template to populate CDCM model input 1060<sup>4</sup> with data from the relevant DNO's RRP<sup>5</sup>.
- Calculate Customer Contributions annually using data from the most recently completed five-year period.

<sup>1</sup> References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> "Change", "proposal" and "modification" are used interchangeably in this document.

<sup>4</sup> Table 1060 is an input table within the CDCM, used to calculate Customer Contribution percentages at connection. The CDCM model can be found on the individual DNO websites.

<sup>5</sup> The Regulatory Reporting Packs are submitted to Ofgem on an annual basis.

As indicated, currently, Customer Contributions input data in the CDCM is based on a fixed data set from between 2005/6 and 2008/9. DCP243 proposes that Customer Contributions be calculated using data from the RRP, which is submitted to Ofgem in the Connection Reporting Pack every year. Specifically, the proposed solution involves using a five-year rolling average, updated annually, in order to calculate the proportion of customer funded work applicable at each voltage level.

Four consultations were conducted as part of the working group process, seeking views on variants of the proposal. These variants are summarised below:

- 'Option A' – Update Customer Contributions annually, using a five-year rolling average and the most recent reported data (the subsequent basis for this modification and described above).
- 'Option B' – Using the same calculation as above but applied to the five years of the Distribution Price Control Review 5 ('DPCR5') period (2010/11 to 2014/15), to produce an average Customer Contribution figure across all 14 DNO licensees. This would then be hardcoded into the methodology.
- 'Option B1' – Use the same methodology as 'Option B' but on a DNO-specific basis, to produce a Customer Contribution value which would be hardcoded into the methodology.
- 'Option C' – Remove Customer Contributions from the CDCM.

### *Consultations*

The proposal was discussed by the working group and was subject to a Request for Information ('RFI') and four industry consultations. Details of these consultations, and responses, can be found in the Change Proposal Report<sup>6</sup>, dated 19 April 2018.

- The first consultation sought industry opinion on the change proposal, and whether the updated Customer Contributions template (developed in the MIG) was appropriate for the collection of reported data.
- The second consultation focused on the method to calculate Customer Contributions, including how costs should be split between voltage levels, the data that should be used and how often the calculation should be updated. It also considered whether Distributed Generation ('DG'), Unmetered Supplies ('UMS'), ICP and Independent DNO ('IDNO') data should be included in the calculation.
- The third consultation included Option C, which removed the Customer Contributions from the CDCM. It also considered the operational issues with calculating Customer Contributions using the RRP data, including the inclusion/exclusion of ICP, IDNO, DG and UMS connections data.
- The fourth and final consultation presented the final work group solution, as well as discussing how connections involving multiple voltage levels, and connections at the Low Voltage ('LV') substation level, should be treated. It also included the tariff impact assessment.

After completion of the fourth consultation, it was agreed that 'Option A' (hereafter referred to as the '**proposal**') would best meet the DCUSA Charging Objectives ('Relevant Objectives').

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<sup>6</sup> The Change Proposal Report, and other relevant information, can be found on the DCUSA website [here](#).

## Key assumptions and considerations

During the working group, and through consultation, decisions had to be made on how certain costs should be split between voltage levels, where the data available in the RRP was not split out by voltage level at a sufficiently granular level. Decisions also had to be made about the types of connection cost data that should be included in the calculation of Customer Contributions, specifically where those connections were for DG connections, or where those connections involved work carried out by ICPs or for IDNOs.

### *Splits and connections at multiple voltage levels*

The data used to calculate Customer Contributions (CN2/CR5 data from the RRP) does not, in some cases, separate out connection cost to specific voltage levels, where work is conducted on multiple voltage levels. Whilst some DNOs had sufficiently granular data to determine this split, others did not.

- The working group agreed that it was more appropriate to use data which was submitted to Ofgem in the same format across all DNOs, to ensure consistency and transparency. As such, a percentage split had to be established to assign the costs to the relevant voltage levels. The conclusion, which was consulted upon with industry in three of the consultations, was that where a connection is on one voltage level, 100% of the costs would be assigned to that level, but where work was required at multiple voltage levels, the cost would be split equally across the voltage levels involved.
- The working group concluded that LV substation data is not readily available due to the low number of these connections. Because of this, they agreed to mirror LV Customer Contributions to take into account Customer Contributions at the LV substation level. Whilst individual DNO data could have been used to calculate the voltage split, this would not be using a common data set.

### *Exclusion of ICP, IDNO and DG connections data*

The working group considered whether DG, ICP and IDNO connection data should be included when calculating Customer Contributions. DG data is reported within the RRP. Similarly, connection costs, where there is ICP involvement in providing the connection, are reported on in the RRP. Only the DNO costs are reported on, however, not the ICP costs themselves. There is no regulated reported connection data for IDNO connections.

- The working group concluded that DG connection data should be excluded, due to the fact that the CDCM is a demand-based model.
- The working group also decided, after consultation, to exclude connection schemes that included work carried out by an ICP, from the Customer Contributions calculation. This means that only connection costs for schemes that are carried out solely by the DNO will be included in calculating the Customer Contribution percentages.
- The working group noted that there is no regulated reporting data for ICP connection schemes, meaning that this could not be used, and the working group decided that if only the DNO costs associated with the ICP connections were included in the calculation, there was a risk that the Customer Contributions would be understated in the final tariffs and by voltage level.

- Finally, the working group concluded that IDNO data should not be included in the Customer Contributions calculation, due to the fact that there is no regulated reported IDNO connection data.

### *Working group impact assessment*

The working group carried out a tariff impact assessment according to the different DNO regions, using the updated methodology. This looked at the customer tariff impact, customer group impact and the annual change in revenue per customer.

The results indicate that the impact of the proposed change varies by distribution region. Across all DNO regions, the proposed change leads to a decrease in the generation credit revenue and the corresponding generation credits (average 5% decrease across the DNO regions).

This does, however, vary by region. The tariff impact assessment provided, indicates that there is a maximum reduction of 42% in generation credits for some regions, with LV generation seeing less of an impact than High Voltage generation customers. In other regions, however, generation credits increase by up to 14%.

Revenue from demand users across all the DNO regions generally increase on average (average c. 1% across all the DNO regions). The largest increase is seen in the UKPN region with an increase of c. 106% in the UKPN (Eastern Power Networks) domestic off peak (related MPAN<sup>7</sup>) tariffs. This is atypical, however, with most tariffs increasing on average by about 1-3%. The largest decrease in demand tariffs is also seen in the UKPN (London Power Networks) region, where there is a decrease of c. 14% in the LV substation half-hourly metered tariffs.

### **DCUSA Parties' recommendation**

In each party category where votes were cast (no votes were cast in the DG or Supplier party category),<sup>8</sup> there was not majority support (>50%), in some groups, for the proposal and for its proposed implementation date. There was unanimous support for both the proposal and implementation date by DNOs. Of the three IDNOs who voted, one was supportive of both the proposal and implementation date, and two rejected both the proposal and implementation date. Further information on the voting, including reasoning, can be found with the Change Proposal Report.

In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP243 is rejected. The outcome of the weighted vote is set out in the table below:

<b>DCP243</b>	WEIGHTED VOTING (%)								
	DNO <sup>9</sup>		IDNO/OTSO <sup>10</sup>		SUPPLIER		DG <sup>11</sup>		
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject	

<sup>7</sup> An MPAN is a Meter Point Administration Number, with tariffs being applied to relevant MPANs.

<sup>8</sup> There are currently no gas supplier parties.

<sup>9</sup> Distribution Network Operator

<sup>10</sup> Independent Distribution Network Operator/Offshore Transmission System Operator

<sup>11</sup> Distributed Generation

CHANGE SOLUTION	100%	0%	33%	66%	n/a	n/a	n/a	n/a
IMPLEMENTATION DATE	100%	0%	33%	66%	n/a	n/a	n/a	n/a

The majority of the working group concluded that Relevant Objectives three and four would be better facilitated by the proposal, specifically as the data sources would be more reflective of the cost incurred, and better take account of the changes to connection charges/data available. The working group also concluded that the proposal would be neutral in relation to the other Relevant Objectives.

### Our decision

We have considered the issues raised by the proposal and whether its implementation would better facilitate the Relevant Objectives. We have taken into consideration the issues raised by stakeholders and the working group, in the Change Declaration and Change Proposal Report. We have also taken into consideration the results of the impact assessment and responses to the various consultations, and the conclusions reached by the working group and DCUSA Parties on the proposal which is attached to the Change Declaration. We have concluded that:

- Implementation of the modification proposal (DCP243) will not better facilitate the achievement of the Applicable Charging Methodology Objectives.<sup>12</sup>

Our reasoning leading to this conclusion is explained below.

### Reasons for our decision

We consider that this modification proposal will not better facilitate Applicable Charging Methodology Objectives three and four and has a neutral impact on the other Relevant Objectives.

***Third Applicable Charging Methodology Objective – that compliance with the Relevant 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 a Distribution Services Provider<sup>13</sup> in its Distribution Business***

The working group, all DNO parties and one IDNO party voted that the proposal better facilitates this Relevant Objective. Two IDNO parties voted to reject the proposal. This was due to the proposal's potential overlap with work being carried out under the Charging Futures arrangements<sup>14</sup> and the Energy Network's Association Open Network Project,<sup>15</sup> and 'concerns that progressing this change in isolation may not have an overall positive effect on the development or improvement of the models or methodology.'

All DNOs who voted, agreed that Relevant Objective three would be better facilitated by this proposal, and that using more up-to-date data would 'improve cost reflectivity' and 'reflect the costs incurred'. Two DNOs did state the overlap with the work being

<sup>12</sup> The DCUSA Charging Objectives (Relevant Objectives) are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence.

<sup>13</sup> Distribution Services Provider: means any Electricity Distributor in whose Electricity Distribution Licence the requirements of Section B of the standard conditions of that licence have effect (whether in whole or in part).

<sup>14</sup> <http://www.chargingfutures.com/>

<sup>15</sup> <http://www.energynetworks.org/electricity/futures/open-networks-project/>

undertaken by the Forward Looking Charges Task Forces under Charging Futures, and noted that the decision should consider this, but that the modification was a step in the right direction.

One respondent stated in response to the fourth consultation that, whilst this objective would be better facilitated with the change, there are a number of outdated data sets used within the CDCM, and these should be updated together, not in isolation. Another respondent to the second consultation noted, in regards to the decision to exclude ICP connection data, that the '*CDCM should recognise that these customers are paying the ICP for increasing the DNO asset base*' and ICP data should not be excluded.

In regards to the use of 'splits' to assign costs to a specific voltage level, some respondents noted that these were 'arbitrary' unless a specific split could be determined, and another respondent noting that these 'splits' were only required due to lack of more granular data by some of the DNOs.

### *Our Position*

On balance, we do not think that Relevant Objective three is better facilitated by the proposal. Whilst elements of the proposal do offer an improvement on cost reflectivity (due to the use of more up to date connections data and allowing for Customer Contributions to be updated to reflect current connections), there are elements of the proposal which are less cost reflective and as a consequence potentially introduce distortions into the charging methodology. Specifically:

- We have concerns about the exclusion of both ICP and IDNO connections data in the calculation of Customer Contributions, as set out in the proposal. Whilst we understand, from the Change Proposal Report, that the exclusion of ICP/IDNO data is due to the fact that there is no regulated reporting data on which to base the Customer Contributions for this market segment, we do not think that it can be argued that exclusion of this data is more cost reflective than the status quo. The current data set used, from the DNO RRP's from between 2005/6 to 2008/9, whilst out of date, will include the majority of connections undertaken, as the majority of connections were undertaken by the DNOs, not third parties. By excluding third party, ICP and IDNO connections data, some connections data will be excluded, at a risk of skewing the resulting Customer Contribution values and voltage level splits.
- Third party connections (including ICP and IDNO) have been increasing, as set out in the annual DNO RRP's. Given the rising number of connections being undertaken by third parties or ICPs/IDNOs, the modification proposal could lead to future distortions within the CDCM charging methodology.
- According to the data within the RRP's, at some voltage levels and within certain DNO regions, 'third parties' (which will include ICP/IDNOs) will complete up to 100% of connections. If the proposal were adopted, this would mean no data being included in the Customer Contributions calculation for that voltage level, with a follow on impact on both the demand and generation tariffs.
- The use of 'splits' to assign costs to multiple voltage levels, whilst a pragmatic solution, is proposed as a solution in the absence of more granular data. We recognise that not all DNOs have data at a sufficiently granular level to determine these splits, but consider that a more robust methodology could be determined, as opposed to an equal split across the voltage levels involved.

We conclude that, whilst a case has been made that the proposal improves cost-reflectivity within the CDCM due to the use of more current data, on balance, Relevant Objective three is not better facilitated by the proposal and has the potential to create future distortions.

***Fourth Applicable Charging Methodology Objective – that, so far as is consistent with the first three Applicable Methodology Objectives, the Relevant Charging Methodologies, so far as is reasonably practicable, properly take account of developments in a Distribution Services Provider’s Distribution Business***

The working group, all voting DNO parties and two IDNO parties note that the proposal better facilitates Relevant Objective four as the use of more up-to-date data, from the RRP, reflects the more recent information now available to the relevant parties.

Some respondents, however, expressed concern about the fact that ICP/IDNO data was to be excluded, as set out in our consideration of Relevant Objective three.

*Our position*

Whilst we agree that the use of more recent data, updated annually, may better reflect the changing number and value of connections within a DNO’s area, we have concerns that exclusion of certain data could lead to ongoing distortions. The exclusion of connections data for ICPs and IDNOs, as set out in the proposal, is ignoring a current and ongoing change in connection activity on many, if not all, of the DNO networks.

This is demonstrated in the DNO RRP, submitted to Ofgem annually, which show that the number of third party connections is generally increasing across many of the DNO areas. As such, excluding these in the Customer Contributions calculation would not properly take account of the developments in a Distribution Services Provider’s Distribution Business.

Additionally, and as described under our reasoning in respect of objective three, the exclusion of this data could mean that a selective subset of connections are reported on in the CDCM, with the potential to skew the resulting customer tariffs.

As a result, and on balance, we do not think that the proposal better meets Relevant Objective four.

**Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification proposal *DCP243: Treatment of Customer Contributions in the CDCM* should not be made.

**Chris Brown**

**Head of Core and Emerging Policy**

Signed on behalf of the Authority and authorised for that purpose