

**DSC SERVICE DOCUMENT**  
**BUDGET AND CHARGING METHODOLOGY**

Version: [ ]

Effective date: [ ]

**1 General**

**1.1 Introduction**

1.1.1 This Document is the Budget and Charging Methodology referred to in Section GTD Paragraph [3.1.4(//)] and Clause [3.3[/]] of the DSC Terms and Conditions and is a DSC Service Document.

1.1.2 This Document is an integral part of and is incorporated in the DSC.

1.1.3 The version of this Document which is in force, and the date from which it is in force, is as stated above.

**1.2 Interpretation - general**

1.2.1 In this Document:

- (a) **Uniform Network Code** or **UNC** means the Uniform Network Code [/];
- (b) a reference to Section GTD is to Section D of the General Terms of the Uniform Network Code;
- (c) **DSC Terms and Conditions** means the DSC Terms and Conditions as defined in and for the time being in force pursuant to Section GTD;
- (d) terms defined in the DSC Terms and Conditions and not otherwise defined in this Document have the meanings given to them in the DSC Terms and Conditions;
- (e) terms defined in any other DSC Service Document and not otherwise defined in this Document have the meanings given to them in that DSC Service Document;
- (f) the further provisions of the DSC Terms and Conditions as to interpretation apply.

1.2.2 In the case of any conflict between the provisions of this Document and any other part of the DSC the provisions of the DSC Terms and Conditions as to priority apply.

**1.3 Amendment**

1.3.1 This Document may be amended in accordance with the Change Management Procedures.

**1.4 Interpretation – specific**

1.4.1 In this Document:

- (a) references to the **Committee** are to the Contract Management Committee;
- (b) **Costs** means any cost, expense, liability or other outgoing of the CDSP, however arising or incurred;
- (c) the **CDSP Budget** is a budget setting out the Costs which the CDSP expects to incur in a CDSP Year and the other matters provided for in paragraph [/];
- (d) **Charge** means any charge made by the CDSP to a Customer or Third Party for the provision of a Service or otherwise for the recovery of any Costs;
- (e) the **Charging Year** is the CDSP Year for which [CDSP Charges] are to be determined;
- (f) for the purposes of calculating any Charge or Charges, a **Charge Base** is the relevant amount in respect of Costs, adjusted by a margin (and where applicable otherwise adjusted) as provided in paragraphs [/];
- (g) a **Charging Share** in relation to a Customer in a Customer Class is a proportion (aggregating one (1) for all Customers in that Customer Class) by reference to which a particular Charge Base is to be apportioned between such Customers for the purposes of calculating a Charge;
- (h) in relation to a Specific Service the **Charging Measure** is the unit or other measure (as specified in the Service Description) by reference to which the Service is ordered or (as the case may be) use of the Service is measured;
- (i) [references to a Customer Class include as separate Customer Classes DN Operators, IGTs, and DN Operators and IGTs collectively<sup>[1]</sup>].

## 1.5 Scope and purpose

1.5.1 [/]

## 2 Classification of Services, Costs and Charges

### 2.1 Services

2.1.1 As provided in the Services Description, the Services provided by the CDSP comprise:

- (a) General Services;
- (b) **Specific Services**<sup>[2]</sup>;
- (c) Additional Services; and
- (d) Third Party Services.

2.1.2 General Services and Specific Services are defined by Service Lines and grouped into Service Areas as provided in the Services Description.

### 2.2 Costs

2.2.1 The Costs of the CDSP comprise Service Costs and Investment Costs.

- 2.2.2 **Service Costs** (also referred to as 'run-the-business' costs) are all Costs other than Investment Costs.
- 2.2.3 **Investment Costs** are Change Costs and Infrastructure Costs<sup>[3],[4]</sup>
- 2.2.4 **Change Costs**<sup>[5]</sup> are Costs of the CDSP in respect of the Change Procedures in respect of Service Changes set out in the Change Management Procedures, subject to paragraph [7].
- 2.2.5 Costs of the Change Procedures under the Change Management Procedures in respect of in respect of any proposed Service Change up to and including the point at which the Change Management Committee approves or is deemed to approve an Evaluation Quotation Report sent by the CDSP are not Change Costs (and not Investment Costs), and accordingly are Service Costs.
- 2.2.6 **Infrastructure Costs** are Costs of the CDSP, other than Change Costs, in respect of the renewal, replacement or upgrade of fixed assets employed by the CDSP in the provision of **Services**<sup>[6]</sup>.
- 2.2.7 For avoidance of doubt, Costs of the CDSP in respect of the development of Additional Services and Third Party Services are charged for as part of the Charge for those Services, and are not included in Change Costs (or in the Change Budget).

## 2.3 Charges

- 2.3.1 The CDSP's Charges comprise:
- (a) a Charge (**Customer Charge**) in respect of participation as a Customer under the DSC;
  - (b) the following Charges in respect of Services:
    - (i) charges (**General Service Charges**) made in respect of General Services;
    - (ii) charges (**Specific Service Charges**) made in respect of Specific Services;
    - (iii) charges (**Additional Service Charges**) made in respect of Additional Services
    - (iv) charges (**Third Party Service Charges**) made in respect of Third Party Services;
  - (c) the following Charges in respect of Investment Costs:
    - (i) charges (**Change Charges**) made to recover Change Costs;
    - (ii) charges (**Infrastructure Charges**) made to recover Infrastructure Costs.
- 2.3.2 Except for Third Party Service Charges, all categories of Charge are payable by and only by Customers.
- 2.3.3 The amount of the Customer Charge is £\_\_\_\_\_ per annum.

### 3 Preliminary

#### 3.1 Charge Base Apportionment Table

3.1.1 For the purposes of calculating General Service Charges, the **Charge Base Apportionment Table** is the table below which sets out the proportions in which amounts in respect of Service Costs in each Service Area (for General Services) are to be apportioned to different Customer Classes:

Service Area	Shipper Users	Transporters			
		Transmission	Distribution		
			DNs + IGTs	DNs	IGTs

3.1.2 [The Charge Base Apportionment Table would be changed only if a Service Change (see Change Management Procedure) added a new or removed an entire Service Area or a new Customer Class. The change to the Charge Base Apportionment Table would be done as part of the Service Change procedure.]

#### 3.2 Cost Allocation Model<sup>[7]</sup>

3.2.1 The CDSP will establish and keep under review and may from time to time revise a **Cost Allocation Model**.

3.2.2 The Cost Allocation Model will provide for the allocation of Service Costs:

- (a) in relation to General Services, to different Service Areas;
- (b) in relation to Specific Services, to different Service Lines;

on the basis of the input costs used to establish the CDSP Budget.

3.2.3 The Cost Allocation Model and its application are subject to Contract Assurance Audit as provided in the Contract Management Arrangements.

#### 3.3 Charging Shares

3.3.1 This paragraph [7] sets out the basis on which different Charging Shares are to be calculated for individual Customers within each Customer Class.

3.3.2 For each Customer which is a Shipper User and for each Month M, the **Shipper Monthly Charging Share** for a Month is calculated as:

$$ASP_M / \sum ASP_M$$

where

ASP<sub>M</sub> is the aggregate number of the Supply Points for which the Shipper User is Registered User as at [7] before Month M;

$\Sigma$  is the sum over all Shipper Users

- 3.3.3 For the DNs and IGTs, the **Relevant Transporter Annual Charging Share** for a DSC Year is:

$$ASP_Y / \Sigma ASP_Y$$

$ASP_Y$  is the aggregate number of Supply Points on the DN's or IGT's network as at [/] before the DSC Year, derived from CDSP records

$\Sigma$  is the sum over all (i) DNs and IGTs, or (ii) all DNs, or (iii) all IGTs, according to the Customer Class in question.

- 3.3.4 The Relevant Transporter Annual Charging Share for NTS is 1. [*This may not be needed depending on precise drafting.*]
- 3.3.5 An Annual Charging Share (for each Shipper User) may also be needed – see e.g. 6.2.1. This could be an arithmetic mean of the Monthly Charging Shares for the Charging Year.

### 3.4 Accounting principles

Budgets and accounting statements to be prepared on accruals basis in accordance with UK GAAP.[8]

## 4 Annual process - budget

### 4.1 Overview

- 4.1.1 [To list the basic outputs required from the budget for charging purposes:

- (a) Annual Service Charge Base
- (b) Core Annual Service Charge Base (after deduction of forecast costs / revenue attributable to Specific Charges and Third Party Services)
- (c) Annual Change Charge Base
- (d) Annual Infrastructure Charge Base.]

- 4.2 The document containing the CDSP Budget may contain information relating to years after the Charging Year but any such information has no effect for the purposes of the DSC and only the information relating to the Charging Year shall be counted as the CDSP Budget.

### 4.3 Statement of planning principles

- 4.3.1 The CDSP will establish a **Statement of Planning Principles** for the Charging Year setting out the basis on which the CDSP will establish a CDSP Budget.
- 4.3.2 The Statement of Planning Principles will include planning period, assumptions, strategic context, service footprint, basis of financial forecasts.
- 4.3.3 The Statement of Planning Principles will cover all activities of CDSP (including provision of [Additional Services[9] and Third Party Services).

4.3.4 The CDSP will:

- (a) prepare and provide to the Committee a draft Statement of Planning Principles;
- (b) discuss the draft with the Committee;
- (c) take into account, as it considers appropriate, the views of Committee in finalising the Statement of Planning Principles.

#### **4.4 CDSP Budget**

4.4.1 On the basis of the Statement of Planning Principles, the CDSP will establish the CDSP Budget in respect of Costs for the Charging Year by assessing the forecast input costs of performing the activities in the Statement of Planning Principles, in the following categories:

- (a) run-the-business (including people, systems, property, financing costs (if any), other);
- (b) investment, divided into change; infrastructure.

4.4.2 [/].

#### **4.5 Adjustment for margin**

4.5.1 The CDSP will adjust the Costs in the CDSP Budget (in each category) by adding a margin to determine the following Charge Bases:

- (a) Annual Service Charge Base;
- (b) Investment Charge Base divided into:
  - (i) Infrastructure Charge Base;
  - (ii) Change Charge Base.

4.5.2 [*To set out principles on which margin is set*<sup>10</sup>.]

#### **4.6 Adjustment for Specific Charges**

4.6.1 The CDSP will adjust the Annual Service Charge Base for the Charging Year (Y):

- (a) by deducting the amounts forecast to be received by the CDSP in the Charging Year in respect of Specific Service Charges, Additional Service Charges and Third Party Service Charges;
- (b) by adding or deducting (as appropriate) the Forecast Under-recovery or Forecast Over-recovery for CDSP Year Y-1;
- (c) by adding or deducting (as appropriate) the amount of the Outturn-to-Forecast Under-recovery or Outturn-to-Forecast Over-recovery for CDSP Year Y-2.

4.6.2 [Forecast Budget Under/Over Recovery is the forecast difference between costs (plus margin) and revenues, for Y-1, forecast when preparing the budget for Y. Outturn Forecast Under/Over Recovery is the difference between the actual under or over-recovery (based on the audited accounts) for Y-2 and the forecast when preparing the Y-1 budget.]

4.6.3 The **Core Annual Service Charge Base** is the Annual Service Charge Base adjusted as provided in paragraph 4.6.1.

#### **4.7 Budget consultation**

4.7.1 The CDSP will:

- (a) prepare and provide to the Committee a draft CDSP Budget;
- (b) discuss the draft with the Committee;
- (c) take into account, as it considers appropriate, the views of Committee in finalising the CDSP Budget, and provide to the Committee a report that outlines the actions taken in response to the views of the Committee;
- (d) send the final CDSP Budget to the Committee and each Customer.

#### **4.8 Budget appeal**

To set out an appeal process as required by the draft licence condition.

Will need to include provisional use of the original budget, and true-up based on Ofgem decision.

#### **4.9 Budget amendment**

To set out circumstances (to include a successful appeal) in which the Annual Budget might be revised, and the application of the revised budget in recalculating charges.

### **5 Calculation of General Service Charges**

#### **5.1 Allocation of Core Annual Service Charge Base**

5.1.1 The CDSP will apply the Cost Allocation Model to allocate the Core Annual Service Charge Base to each of the Service Areas<sup>[11]</sup> in the Charge Base Apportionment Table.

5.1.2 This gives the **Annual Service Area Charge Base** for each Service Area<sup>[12]</sup>.

#### **5.2 Apportionment of Annual Service Area Charge Base**

5.2.1 For each Service Area, the Annual Service Area Charge Base is apportioned between each Customer Class in the Area Customer Group on the basis of the proportions set out in the Charge Base Apportionment Table.

5.2.2 This gives the **Annual Service Area Class Charge Base**.

#### **5.3 Aggregation of Annual Service Area Class Charge Base**

5.3.1 For each Customer Class, the Annual Service Area Class Charge Base is aggregated over all Service Areas to give the **Annual Customer Class Service Charge Base**.

#### **5.4 Monthly Customer Class Charge Base**

5.4.1 The **Monthly Customer Class Service Charge Base** is 1/12 of the Annual Customer Class Service Charge Base.

## 5.5 Monthly Service Charges<sup>[13]</sup>

5.5.1 For each Month in the Charging Year a Shipper User's Monthly Service Charge is calculated as the Monthly Shipper Charging Share (for that Month) of the Monthly Customer Class Service Charge Base for Shipper Users.

5.5.2 For each Month in the Charging Year a [Transporter's] Monthly Service Charge is calculated as follows:

- (a) calculate the Relevant Transporter Annual Charging Share (for that year) of the Monthly Customer Class Service Costs for the relevant class (NTS, DN + IGT, DN, IGT);
- (b) aggregate over each of such relevant classes to arrive at a single Monthly Service Charge

## 6 Specific Charges

[Specific Charges are calculated as follows:

- (a) in the [CDSP Budget] the CDSP forecasts the demand for each Service Line which is a Specific Service;
- (b) such demand is expressed by reference to the Charging Measure for the Specific Service;
- (c) Costs (adjusted by margin to create Charge Base) are allocated to the Service Line (using the Cost Allocation Model) on the basis of such forecast demand;
- (d) the unit Specific Service Charge for the Specific Service is calculated by dividing the aggregate allocated Charge Base by the forecast demand.]

## 7 Infrastructure Charges

### 7.1 Annual Customer Class Infrastructure Charge Base

7.1.1 Annual Customer Class Infrastructure Charge Base is calculated for each Customer Class as:

$$AIC * ACCSCB / \sum ACCSCB$$

AIC Annual Infrastructure Charge Base

ACCSC Annual Customer Class Service Charge Base per 4.3.1<sup>[14]</sup>

$\sum$  sum over Customer Classes.

### 7.2 Monthly Infrastructure Charges

7.2.1 Monthly Infrastructure Charges for each Customer are calculated as Monthly Charging Share of 1/12 of Annual Customer Class Infrastructure Charge Base for the relevant class.



7.2.2 It may be convenient to define ACCSCB /  $\sum$ ACCSCB as a **General Charging Proportion** for a Customer Class.

## 8 Change Charges

### 8.1 Introduction

8.1.1 Change Charges are payable by Customers in respect of Service Changes for which the CDSP performs activities in a Charging Year.

8.1.2 This paragraph 8 sets out the basis on which:

- (a) Change Charges for Customers will be calculated after the Charging Year;
- (b) Provisional Change Charges for Customers are calculated before the Charging Year;
- (c) a reconciliation and adjustment in respect of Change Charges is made after the Charging Year.

8.1.3 The **Change Budget Amount** is the amount in the CDSP Budget (adjusted for margin) in respect of **Chargeable Change Activities**[15].

### 8.2 Calculation of Change Charges

8.2.1 For each Service Change for which the CDSP performs a [Chargeable Change Activity] in the Charging Year:

- (a) [the Service Change is assigned to a Service Area by reference to the Service Line or Service Lines to which the Service Change relates];[16]
- (b) the Costs allocated to the Chargeable Change Activity are calculated [in accordance with the Cost Allocation Methodology];
- (c) [a Charge Base is calculated by adding a margin];
- (d) such Charge Base is apportioned between each Customer Class on the basis of the proportions set out in the Charge Base Apportionment Table for the relevant Service Area.

8.2.2 For each Customer Class, the Charge Base is aggregated (over all Service Areas, and all Service Changes for a given Service Area) to give the **Annual Class Change Charge Base**.

8.2.3 The Change Charge payable by each Customer for the Charging Year is the Customer's [Annual Charging Share] of the Annual Class Change Charge Base.

### 8.3 Provisional Change Charges

8.3.1 For each month of the Charging Year Customers will pay Provisional Change Charges calculated as follows.

- (a) for each Service Change which is known when the Budget is established, the CDSP will estimate the relevant Costs and the amount payable by each Customer Class by way of Change Charge in respect of such Service Change in accordance with paragraph 8.2 above;

- (b) the CDSP will calculate the **Residual Change Charge Base** as the amount of the Change Budget Amount less the aggregate amount of estimated Change Charges under paragraph [7];
- (c) the Residual Change Charge Base is be allocated between Customers based on [what?].

8.3.2 For each Customer the Provisional Annual Change Charge [Base] is the aggregate of the amounts calculated in respect of that Customer under paragraphs [8.3.1(a) and (c)]; the monthly charge is 1/12th.

8.3.3 No within-year change is made in respect of Provisional Annual Change Charges.

#### **8.4 Year-end adjustment**

8.4.1 Following the end of each Charging Year[17] the CDSP will calculate, for each Customer:

- (a) the aggregate amount payable in respect of Change Charges calculated in accordance with paragraph 8.2;
- (b) the aggregate amount which has been paid by the Customer by way of Provisional Change Charges;
- (c) the difference between (a) and (b).

8.4.2 An adjustment payment is made in respect of such difference.

8.4.3 [For avoidance of doubt, any difference in aggregate between the Change Budget Amount and the amounts payable by Customers by way of Change Charges will form part of the adjustment under paragraph 4.6.1 in respect of under or over recoveries[18].]

### **9 Charging Statement**

#### **9.1 General**

9.1.1 The Charging Statement sets out the result of applying the rules in 4, 5 and 6 to the CDSP Budget.

#### **9.2 General Service Charges**

9.2.1 The Charging Statement will set out:

- (a) for each Service Area:
  - (i) the Annual Service Area Cost
  - (ii) for each Customer Class, the Annual Service Area Class Costs;
- (b) for each Customer Class, the Annual Customer Class Service Costs;
- (c) indicative unit amounts based on aggregate SOQs for all Shipper Users and Supply Points for all Transporters?

#### **9.3 Specific Service Charges**

9.3.1 Charging Statement to set out rates and relevant units for Specific Service Charges.

**9.4 Investment Charges**

9.4.1 Charging Statement to set out details of Infrastructure Charges and Change Charges.

**10 Invoices**

To set out what detail will be contained in individual invoices and supporting information for each charge

**11 Timetable**

To set out the expected timetable for the annual processes as above.