# Why is there a GRUF element in calculations of contribution percentages?

by **Franck Latrémolière** on **Wednesday 9 March 2016**

1. The DCP 243 working group has asked for an explanation for the GRUF term used in the method for calculation of customer contributions under current connection charging policy (table 1060) set out in the CDCM user manual.

2. Take a dramatically simplified example, with only one type of customer and only one distribution network level. Imagine, for this example, that in the last few years there were 10 new connection schemes, and for each of these schemes the customer-specific construction cost was £1 million and the developer contributed £900,000. In the same period, general shifts in already-connected demand led to load-related investment by the DNO of another £20 million.

3. Without a GRUF term, the contribution percentage would be calculated as 90 per cent (£9m/£10m). With a GRUF term, the contribution percentage would be calculated as 30 per cent, as GRUF would be 1 + £20m/£10m = 3.

4. The question is which (if any) of these numbers appropriately represents the proportion of assets that are deemed to be covered by customer contributions under the current connection charging policy (assuming that the current connection charging policy has been in place for the period to which the data referred to above relate).

5. In that period, £30 million of additional network assets were built. The £30 million cost was shared £9 million from connection customers, £21 million from the DNO's own resources. The coverage of assets by customer contributions is 30 per cent, in line with the with-GRUF formula.

6. The ratio of £9 million to £10 million (the calculation without GRUF) is not a reasonable measure of the proportion of network assets covered by customer contributions under the current connection charging policy.

7. Another point is that the line between DNO contributions to customer-specific scheme and DNO general reinforcement might not be watertight. For example, for LV connections, EHV network reinforcement could be classified as general reinforcement or as a customer-specific reinforcement that the customer does not contribute anything to, and nobody should care which pot it goes in. The GRUF mechanism provides equivalent treatment to that expenditure irrespective of how it has been classified.

8. The above logic relies on an assumption that general reinforcement expenditure relates to expansion of the network's capacity. If, in fact, the general reinforcement figures contain a significant amount of expenditure that relates to asset replacement, then there is arguably a problem. Removing GRUF altogether would not solve that problem.

9. This note does not discuss whether there is any merit (in terms of the relevant charging objectives) in the inclusion of customer contribution percentages within the CDCM calculations. I doubt that there is any merit.