| | | | |
|---|---|---|---|
| Modification proposal: | **Distribution Connection and Use of System Agreement (DCUSA) Change Proposal (CP)344 – Solutions for New Approach to Billing and Remittance** | | |
| Decision: | The Authority[1] has decided to reject[2] this modification[3] | | |
| Target audience: | DCUSA Panel, Parties to the DCUSA and other interested parties | | |
| Date of publication: | 19 April 2022 | Implementation date: | N/A |

**Background**

DCUSA Parties currently have two options for processing billing between Parties, either a manual billing process or using the Data Transfer Network (DTN) to transmit D2021 and D2026 flows commonly known as Distribution Use of System (DUoS) e-billing. The e-billing method enables automated processing of large amounts of data over the DTN, while manual billing requires more time by comparison.

While it can be argued that the DUoS e-billing service offers advantages over the manual process, this is a commercial product owned by ElectraLink Ltd that Parties must pay to utilise. For some Parties this cost is justified and manageable, but for some this may not be the case. The indirect result is that predominantly larger DCUSA Parties use the DUoS e-billing service, while smaller DCUSA Parties and market entrants tend to individually use manual billing processes.

---

[1] 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.

[2] This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

[3] 'Change' and 'modification' are used interchangeably in this document.

The two options for processing billing results in a dual process for DCUSA Parties to manage. Operationally, this means that some Parties need two sets of internal processes in place to send and/or receive invoices which could lead to potentially increased costs.

## The modification proposal

DCP344 was raised on 26 February 2019 by SSE Energy Supply (Proposer). Whilst there were other options considered and discounted, the final intent of the modification is to mandate that all DCUSA Parties utilise an e-billing solution for consistency of operations. The solution requires DCUSA Ltd to procure the Distribution Use of System (DUoS) e-billing service from ElectraLink Ltd. This would be used by all DCUSA Parties with the ongoing costs of the service to be apportioned between Parties via the cost recovery mechanisms set out in the DCUSA.

The full legal text is included within the final Change Report.[4]

## DCUSA Parties' recommendation

For the majority of the Party Categories that were eligible to vote, the sum of the Weighted Votes of the Groups in each Party Category which voted to accept the change solution was more than 50%. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP344 is accepted. The outcome of the weighted vote is set out in the table below:

| **DCP344** | WEIGHTED VOTING (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | DNO[5] | | IDNO/OTSO[6] | | SUPPLIER | | CVA[7] REGISTRANT | |
| | Accept | Reject | Accept | Reject | Accept | Reject | Accept | Reject |
| CHANGE SOLUTION | 100% | 0% | 14% | 86% | 100% | 0% | 0% | 0% |
| IMPLEMENTATION DATE | 100% | 0% | 14% | 86% | 100% | 0% | 0% | 0% |

[4] Solutions for a new approach to billing and remittance - DCUSA

[5] Distribution Network Operator

[6] Independent Distribution Network Operator/Offshore Transmission System Operator

[7] Central Volume Allocation

## Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 15 March 2022. We have considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration We have concluded that:

- implementation of the modification proposal will not better facilitate the achievement of the Applicable DCUSA objectives.[8]

## Reasons for our decision

We consider this modification proposal will not better facilitate the identified Applicable DCUSA Objectives (b) or (d) and has a neutral impact on the other applicable objectives.

***Applicable DCUSA Objective (b) – The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity***

The Proposer and Working Group have asserted that DCP344 would better facilitate DCUSA General Objective (b) as it would deliver a solution that rectifies an arrangement that undermines effective competition between Parties. This has been argued that with the benefit of a single approach to billing, new market entrants would have clarity on the processes and costs for the issue. In addition, the existing system and the corresponding format of the D2021 flow is well understood and works well for those Parties that currently use it. There is also an argument raised that this solution would have a minimal impact for current users whilst they switch all other Suppliers currently using the manual billing option to e-billing and deliver a solution that addresses inefficiencies in current processes. It’s also noted that the current approaches could lead to avoidable errors and unnecessary risk.

We disagree with these assertions relating to this Objective being better facilitated. We have not been provided with any evidence that demonstrates the current magnitude of errors or risks being incurred by industry, and how this would be offset by the introduction of the DCP344 solution. The Change Report provides anecdotal correlations

[8] The Applicable DCUSA Objectives are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence.

between all DCUSA Parties using the e-billing service and this facilitating competition. However, there has been no corresponding evidence, or business case, to support these claims. It was also noted that the requirement to utilise the e-billing service would ensure new market entrants are able to operate as efficiently as existing Parties. We also note that even without the proposal to make it mandatory to use the e-billing service, new entrants can use this service should they wish to do so, and this is not dependent upon the approval of DCP344.

The implementation of DCP344 would lead to DCUSA Parties funding a DUoS e-billing service provided under contract by ElectraLink Ltd and that the estimate for this service provision is £565k. What has not been fully articulated within the report, is how these costs may affect smaller Parties without substantial budgets, and whether this could potentially impact their ability to compete and remain solvent in the current or future market conditions. In addition to that, the Change Report does not explain how the DCUSA cost recovery mechanism may benefit some parties who currently utilise the service by having the costs recovered in this way. We would have expected to see a full comparison of examples detailing current costs, projected cost allocations under the DCUSA cost recovery mechanism, and the impacts on Parties that currently use the service and those that do not.

We note that several Parties also raised the issue that the only e-billing system that has been proposed and evaluated is from ElectraLink Ltd. and there is no rationale provided as to whether this presents the most value for money from a service provision perspective. Additionally, we don't think there is sufficient evidence provided to assess whether it is the best product in the market for this purpose. We are concerned that these costs are ultimately borne by electricity consumers, and we would have expected the Change Report to robustly explain why the option chosen presented the best value at lowest cost so that end consumers only fund the most optimal commercial solution.

The legal text is prescriptive to the e-billing service being provided by ElectraLink Ltd. It also provides no review mechanism to ensure that the provider of the e-billing service itself remains fit for purpose in the future. The issue of mandating the use of a commercial service is not a new concept for industry codes; however, we find the requirement to use a specific company for an ongoing service is concerning. In the absence of any evidence within the Change Report to substantiate the claims, we are not convinced that the future procurement process will result in the best outcomes for DCUSA Parties or consumers. We would have expected the DCP344 solution to include a fully open, transparent procurement process that it is open to multiple bidders to ensure the best products, services and prices are realised ahead of mandating this into the DCUSA. In addition to this, we have concerns that the consolidation of a monopolistic position in the provision of a data-based service could be contestable by its mandated use.

***Applicable DCUSA Objective (d) – The promotion of efficiency in the implementation and administration of the DCUSA arrangements***

The Proposer and the majority of the Working Group felt that DCP344's solution would address inefficiencies in current processes that lead to avoidable errors and unnecessary risk, thereby better facilitating this Objective. We have not been presented with any evidence of how this would transpire in practice, aside from asserting that this would mitigate against increased costs and risks. However, the incurred costs from any specific risks have not been identified or explained sufficiently to justify the implementation of the DCP344 solution, or to prove that this Objective would be better facilitated.

We acknowledge that the proposed e-billing service has already been adopted by some DCUSA Parties whereas other Parties use a manual billing process; however, we believe this service should not be treated as the only available option that could help the Parties to move from manual billing to a e-billing approach. In the transition from an optional to a mandated service, we would expect all Parties to be satisfied that the services that are contracted are value for money, and that unnecessary costs are not passed on to Parties or consumers. Without a fully open and competitive procurement process for these services being assessed or included within DCP344, we are unable to determine how these assurances would be guaranteed. We have not been provided any type of assessment illustrating how the current e-billing service fulfils any of these criteria.

The rationale provided by the Proposer and Working Group behind this Objective being better facilitated primarily relates to individual Party systems and processes. If a Party currently utilises this service, but another Party does not, it follows logically to imply it would be more efficient if they both use the same services. This does not however mean that the use of a specific service would better facilitate a DCUSA Objective. It simply provides a case that for existing users of a particular service it would be more efficient for them to have all parties follow suit.

We note that a solution based on convenience for any Party does not provide a robust case for a change being approved. Our decisions are based on what delivers the best outcomes for consumers. In this instance, there has been no assessment provided within the Change Report detailing how the mandated use of the service would provide any realisable benefits for Parties or consumers in terms of reduced costs or efficiencies. Conversely, this would lead to increased costs for those DCUSA Parties which do not currently utilise ElectraLink's e-billing service which would ultimately be passed on to consumers.

**Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority has decided that modification proposal DCP344 'Solutions for New Approach to Billing and Remittance' should not be made.

**Michael Walls**

**Head of Retail Market Operations**

Signed on behalf of the Authority and authorised for that purpose