

## Distribution Charging Structures ISG

18<sup>th</sup> July 2006

### LC4A Statements and the definition of Use of System Charges

David Tolley (for RWE Npower)

#### *Definition of Use of System Charges*

The DUoSA is a bilateral agreement that covers various aspects of the commercial arrangements between suppliers and distributors. The new arrangements that will securitize the payment of use of system charges will be introduced as a revision to Schedule 1 of the DUoSA. These new arrangements are to apply to all payments of "use of system charges", which are defined in Clause 6 of the DUoSA. This immediately creates a potential source of confusion since the Distribution Licence also defines Use of System Charges but narrowly as the charges specified in the LC4A Statement and backed by methodologies described in the Charging Methodologies Statement produced pursuant to LC4.

The drafting of the DCUSA seeks to extend the definition of Use of System Charges, and thus the payments that must be securitised, to charges contained in the "Relevant Charging Statements". These are defined as the charging statements produced pursuant to the Conditions 4A, 14A, 36C and 48 of the Distribution Licence. A cursory examination of the Statement of Charges produced by the various DNOs shows there is some significant variation in the scope of their content. This raises the prospect of confusion when the security provisions that are to be incorporated in Schedule 1 of the DUoSA are applied.

The purpose of this paper is to review the scope and content of the use of system charging statements that are currently produced pursuant to licence condition 4A with a view to proposing the adoption by distributors of a common form and content for this statement. This would facilitate the implementation of the DCUSA by bringing clarity and consistency to those services for which payment must be secured. This is without prejudice to any discussion on whether the definition of use of system charges should extend beyond the ambit of the LC4A Statement.

#### *The "Relevant Charging Statements"*

Licence Condition 4A requires that the licensee prepares a statement ("the charging statement") which sets out the basis on which charges will be made for use of system. This must be in such a form that it enables the user to make a reasonable estimate of the charges to which he will become liable, and be prepared in accordance with the charging methodology statement required by Condition 4 of the Licence. Various schedules are specified including "charges for the distribution of electricity under use of system", "adjustment factors for distribution losses", and "charges for the provision and installation of plant at entry or exit points".

Licence Condition 14A similarly requires a statement of charges to be prepared showing a schedule of charges for metering point administration services. In this case though the statement must also show the methods and principles on which the

charges have been calculated. Payment arrangements for these services are currently covered by the MRA<sup>1</sup>.

Licence Condition 36C requires the production of a Statement setting out the charges that will be made for the provision of basic metering services and data services. As for the 14A charges the methods and principles on which the charges have been set must be described.

Licence Condition 48 sets out the circumstances when the DNO can increase the use of system charges in order to compensate a supplier acting as a supplier of last resort. The Condition does not require any associated statement and can be ignored for the purposes of this discussion.

### **Structure of DNO charging statements**

DNO charging statements produced pursuant to LC4A might be considered as covering four aspects. First and foremost the statements deal with the core charges for use of the distribution networks. A number of services are then provided ancillary to the use of system. The provision of metering services is a separate licence requirement but interlaces with the use of system charges in that some charging statements sometimes include charges that relate to metering. Finally the statements offer varying degrees of information about the charges and related issues. The four areas are considered below.

### **Core LC4A Charges**

The Core of the LC4A statements are the schedules specifically referenced in the licence condition. These are:

- A schedule of charges for the distribution of electricity under use of system
- A schedule of adjustment factors to be made for distribution losses
- A schedule of charges for accounting and administrative services
- A schedule of charges for the installation and maintenance of plant which are ancillary to the grant of use of system

The third and fourth of these schedules is noted as possibly not being required.

In addition to the first two schedules all DNOs include in their charging statements a schedule that links DUoS tariffs to line loss factor classes (LLFC), loss adjustment factors (LAF), profile classes (PC), meter timeswitch codes (MTC) and standard settlement configurations (SSC). Occasionally this information is included in the schedule of charges but more often it comprises a separate and essential reference table.

The practices of DNOs in relation to the LC4A core schedules are summarised in Table 1.

---

<sup>1</sup> Clause 34.1 and Schedule 7 of the MRA

Table 1

Core Use of System Schedules

| DNO | DUoS Charges                                                                                   | Cross reference to Technical data                                              | LAFF (Voltage x Periods)                                 |
|-----|------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------------|
| CE  | Schedules of rates for NHH, HH, and DG                                                         | Separate look-up tables referenced but not included with 4A                    | NEDL: 3x4<br>YEDL: 5x4                                   |
| CN  | Single schedule composite of rates and technical data for NHH,HH and DG                        | Technical data included with tariff rates                                      | West: 3x4<br>East: 2x4                                   |
| EDF | Tariffs described separately (not tabulated) for all classes of load and DG                    | Separate look-up tables as appendix. Only links tariff description with LLFC   | SPN: 2x5<br>LPN: 22x5 <sup>2</sup><br>EPN: 3x5           |
| SP  | Table of DUoS charges for all load and DG, includes LLFC                                       | Separate look-up table links all other settlement technical data to LLFC       | Manweb L: 5x2<br>Manweb G: 7x1<br>SP L: 4x1<br>SP G: 4x1 |
| S&S | Separate tables of DUoS for NHH, HH, UM and DG. Second set of core table for embedded networks | Look-up tables interleaved with DUoS prices link technical data to tariff code | Southern: 2x4<br>SHEPD: 3x4                              |
| UU  | Table 2 shows DUoS prices by tariff with without MAP service                                   | Table 1 is a look-up table linking technical data to DUoS tariff code          | UU: 4x4                                                  |
| WPD | Separate tables for NHH, HH, UM and DG DUoS tariff rates                                       | Separate look-up tables to link settlement technical data to tariff code       | South West: 4x4<br>South Wales 7x4                       |

<sup>2</sup> LAF shown for line loss factor class rather than voltage

### **Services ancillary to Use of System**

In addition to the core charges the charging statements include other charges that are sometimes described as ancillary to use of system. The scope of these charges varies somewhat between individual DNOs. Table 2 indicates the different types of charge that are found and illustrates some of the variation in the rates.

Table 2

Services ancillary to DUoS appearing in the 4A Statement

| DNO | Energisation | MPAS & DT                                                | Revenue Protection                                                                                  | Other                                                                                                |
|-----|--------------|----------------------------------------------------------|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| CE  | £50          | Not quoted in 4A Statements                              | No separate charge but p/MPAN/day included in DUoS                                                  | RTS <sup>3</sup> by agreement<br>Account review (£75)                                                |
| CN  | £30          | Full refresh £500<br>Resends £25.00<br>Rejections £6.00  | Full tariff<br>Investigation £172<br>Court witness £272                                             | RTS – by agreement<br>Meter damage charges – full tariff                                             |
| EDF | Not quoted   | Full refresh £424<br>Resends £21.13<br>Rejections £1.64  | Site specific<br>Meter replace £87<br>Investigation £132<br>Court witness £231                      | RTS – by agreement<br>Urgent metering services – full tariff                                         |
| SP  | £20          | Full refresh £500<br>Resends £30.00<br>Rejections £15.00 | Site specific<br>Meter replace £55                                                                  |                                                                                                      |
| S&S | £21.80       | Full refresh £580<br>Resends £17.25<br>Rejections £11.25 | Full tariff<br>Investigation £175<br>Meter replace £11<br>Court witness £324                        | RTS – by agreement<br>Unmetered supplies admin (quote)                                               |
| UU  | £47          | Full refresh £575<br>Resends £6.00<br>Rejections £1.50   | Full tariff<br>Investigation £128<br>Meter replace £67<br>Court Witness n/c<br>Police Statement £20 | RTS – by agreement<br>Urgent Metering Services – full tariff<br>Charges for provision of MAP service |
| WPD | £25          | Not quoted in LC4A statement                             | Not applicable                                                                                      | RTS – by agreement                                                                                   |

<sup>3</sup> Radio teleswitching service for group codes

### ***Metering Charges***

LC36C requires a distributor to produce a statement of charges for the provision of basic metering and data services. Schedule 3 to the DUoSA anticipates incorporating both the LC4A charges and those pursuant to LC36C as charges that would be treated as “use of system charges”. References found in the LC4A statements to the publication of metering services are described in Table 3.

Table 3

Metering services

|     |                                                                                                                                                                                                       |
|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DNO |                                                                                                                                                                                                       |
| CE  | The preamble to CE's LC4A statement specifically refers the reader to their separate LC 36B (sic) statement.                                                                                          |
| CN  | CN also reference their separate “Statement of Charges for Metering and Data Services”. However, the LC4A statement includes a schedule of charges for meter damage whether deliberate or accidental. |
| EDF | The LC4A statement notes that a separate statement for basic MAP and MAM services is publicised on the EDF web site. Charges for Urgent Metering services are included in the LC4A statement.         |
| SP  | There are no metering charges referenced in the LC4A statement of charges.                                                                                                                            |
| S&S | No reference to LC36C Statement. UMETS services as part of the LC4A Statement                                                                                                                         |
| UU  | No separate metering charges are shown in the charging statement, but DUoS charges are quoted both inclusive and exclusive of MAP services.                                                           |
| WPD | There are no metering charges referenced in the LC4A statement of charges.                                                                                                                            |

### ***Information included***

Licence Condition 4A requires the statement of charges to include information concerning any distribution use of system rebates that might be granted. Few DNOs make any reference to rebates but some make use of the statement to proclaim a wealth of other information. The purpose of some of this is unclear especially since the 4A statement must be backed by a description of the charging methodology in the LC4 statement.

Table 4

Information provided in charging statement

|     |                                                                                                                                                                                                                                                                                                                                                                     |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DNO |                                                                                                                                                                                                                                                                                                                                                                     |
| CE  | Section 7 of the charging statement includes a description of the super-customer billing methodology.                                                                                                                                                                                                                                                               |
| CN  | Long preamble provided covering licence obligations, price control, connection and use of system boundary, contractual framework, and the principles on which charges are based. Appendices describe super-customer billing methodology, and a glossary of terms is also provided.                                                                                  |
| EDF | A preamble concentrates on how agreed service capacities are derived. The super-customer billing arrangements are described in an appendix. There is also a glossary of terms.                                                                                                                                                                                      |
| SP  | The preamble to the LC4A Statement gives an overview of the methodology for setting charges and describes the contractual framework. There is a description of the super-customer billing system, and notes that describe the various terms used in the DUoS tables                                                                                                 |
| S&S | General introduction. High level description of super-customer billing. General description of tariff types and application including options for service capacities. Definitions of terms used in DUoS tariffs                                                                                                                                                     |
| UU  | An introduction briefly covers relevant licence obligations, the price control, connection boundary, and the contractual framework. There is a description of the super-customer billing methodology and as required by the Licence a statement concerning rebates. The charging schedules are accompanied by descriptive notes. There is also a glossary of terms. |
| WPD | Other than notes to describe the contents and application of charges in the tables there is no description no further aspects are described. The statement does include the load managed area notice pursuant to schedule 11 of the DUoSA                                                                                                                           |

**Observations**

Use of system charges are defined in the distribution licence as covering charges contained in the LC4A Statement of Charges and for which there is a methodology approved pursuant to LC4. The core of the LC4A Statements for all distribution businesses describes these charges together with look-up tables that link the various tariffs to settlement technical data and loss factors that are applied to meter readings.. However, the manner in which this information is presented does not follow a common format adding to the difficulty in digesting the information in supplier systems.

The LC4A statements include charges for services that are ancillary to the provision of use of system. Most charging statements show the transactional charges for MPAS services provided pursuant to LC14A and whose payment arrangements are already provided for in the Meter Registration Agreement. This could create confusion in that if there are treated as LC4A charges different payment terms would apply. There is a surprising variation in the level of the MPAS charges between DNOs.

Some DNOs include revenue protection and urgent metering services as those that are ancillary to use of system, but it is again unclear whether these are included in the statement as part of the LC4A obligation or simply because the charging statement provides a useful vehicle. If it is the former then the calculation of the charge should be backed by an appropriate methodology. If it is the latter then the accompanying contractual arrangements for the payment terms should be clarified.

All statements included charges for the energisation and de-energisation of meter points, and all make reference to radio teleswitching charges although no statement quotes prices for this service. Here also it is unclear whether these charges are provided as part of the LC4A obligation.

Charges for basic metering services are displayed in the LC36C Statement and some LC4A statements direct the reader to it. However, as noted above, some LC4A statements also include meter related charges whose status is unclear. UU incorporates the MAP charge into the DUoS tariff and provides two versions of the tariff that are inclusive and exclusive of the service. This creates further administrative difficulties for a supplier who must separate the metering and DUoS charges for its statutory accounts.

The amount of written information provided in the LC4A statements varies enormously. Now that there is a charging methodology statement provided pursuant to LC4 much of this would appear either superfluous or should be provided elsewhere. It is puzzling why some DNOs include a description of the super-customer billing arrangements, which can only be of interest to a tiny proportion of the readership. Some statements also incorporate a glossary of terms. This is useful given the wide spectrum of acronyms in use, but common definitions would be helpful. A CD in WPD's area is a compact disc whereas in Scottish and Southern areas it relates to crop drying!

### **Conclusions**

- i. It would make incorporation of charges into supplier systems more efficient if the core LC4A schedules and accompanying look-up tables were in a common format. The recently produced spreadsheet for notifying revised charges might be a starting point in the creation of this common format.
- ii. To bring clarity to which charges constitute "use of system charges" both in the context of the Licence and the DCUSA it would be helpful if the charging statements could adopt a format that clearly labels those charges that are produced pursuant to LC4A.
- iii. Charges that arise for other services, which may be optional, could be shown in an accompanying statement. Referencing the contractual arrangements for the associated payment terms would also add clarity.
- iv. Information in the LC4A statement should be restricted to notes concerning the schedules. There may be a need for separate documentation describing billing processes. A common glossary of terms, perhaps provided by the ENA, would be helpful.