

## DNO/IDNO Steering group minutes 2 September

Notes from the IDNO/DNO steering group meeting on 2 September

From

Mark Askew

9 September 2009

### 1. Present

Clive Linsdell	ENC
Mike Harding	ENC
Robert Wallace	ESP Electricity
Mo Sukumaran	SSE
Nigel Turvey	WPD
Chris Allanson	CE Electric
Oliver Day	EDF
Andrew Neves	Central Networks
Simon Brooke	ENW
Peter Trafford	Ofgem
Mathieu Pearson	Ofgem
Mark Askew	Ofgem
Paul Smith	Ofgem
Rob Bradley	IPNL
Russell Ward	IPNL
Franck Latremoliere	Reckon LLP

### 2. Introductions

2.1 PT welcomed everyone and stated that he would be moving from his current role in Ofgem and introduced Paul Smith (PS) who would be covering PT's role. PS explained that he was contracted on secondment from CEPA to provide short term support for two days a week on the Independent networks workstream in Ofgem. He stated that his tenure was likely to last a few months.

### 3. Discussion of Portfolio billing

3.1 MA provided a few thoughts from Ofgem on the development of portfolio billing:

- Ofgem welcomed the work undertaken in WS2 and felt that it had made progress and urged all parties to respond to the consultation produced by WS2.
- Whilst DNOs had submitted the CDCM, there was currently no method for billing it. DNOs' priority should be on finding a solution to ensure that they can bill IDNOs on the CDCM methodology by 1 April and should consider the use of temporary solutions if necessary.
- Ofgem's consultation on boundary metering has the potential to effect the environment in which the portfolio billing solution operates. It could therefore impact what is the most proportionate and efficient system to put in place.
- Ofgem welcomes discussion as part of this group as to what the next steps need to be to take portfolio billing forward.

3.2 RB stated that from previous enquiries even once a tender had been agreed, third parties were likely to require 9-12 months to establish such a billing system. The group agreed that it would not be possible to get such a system in place for 1 April 2010. PS invited DNOs to comment on what alternatives were open to them.

3.3 NT stated that whilst WPD accepted the move towards portfolio billing, they had serious concerns over a lack of a billing method for a portfolio tariff. Consequently, alongside their CDCM submission, WPD had submitted a derogation to Ofgem to allow them to charge IDNOs on their current banded methodology. PS stated that Ofgem was considering this derogation.

3.4 CE, SSE, CN, ENW and EDF all stated that they would be prepared to use a temporary solution to bill IDNOs until a automated system could be agreed and worked up. IDNOs commented that they would be happy to provide the necessary data which DNOs required for temporary spreadsheet billing. [Note that SP were absent from the meeting and unable to provide a view but have since confirmed that they would happy with a temporary workaround].

3.5 MH expressed his concern that what ever billing arrangements were agreed they would be unable to fit neatly into the existing governance arrangements under DCUSA or the BSC. He stated that there was a DCUSA working group which had been established to look at this issue. The group agreed that whatever the conclusions of this working group that there were 3 options of governance: i) DCUSA; ii) BSC; or iii) multilateral agreement between DNOs, IDNO and a third party agent.

3.6 All parties agreed that whatever path was chosen, there would have to be changes made to DCUSA and the recently established DCUSA working group appeared like the best place to persue both this work and lead into the wider governance debate. Ofgem was asked to feedback whether it had any initial opposition to any of the governance routes outlined.

**Action: Ofgem to feedback any initial opposition to the governance options for portfolio billing**

3.7 RB stated that he felt a decision was required from Ofgem on the funding arrangements before IDNOs and DNOs could take this work forward. MA commented that to some extent this decision depended on the type of system DNOs and IDNOs wished to implement and whether the cost was deemed proportionate. RB stated that when last put out for tender, all bidders quoted around £200,000 for such a service. RW enquired if there was a materiality question over the proportionality of such an amount if split between all licencees. PS agreed that Ofgem would try and provide feedback to the group on funding arrangements.

**Action: Ofgem to try and provide feedback on the funding arrangements for portfolio billing**

3.8 PS went on to state that Ofgem had noted each DNOs' position on interim workarounds for portfolio billing and would obviously have to respond to WPD's derogation request in due course. He also said that this subject was likely to feature in Ofgem's consultation on the CDCM which was likely to be published at the end of the month.

## **4. Update on CDCM**

4.1 SB gave an update on the CDCM on behalf of the DNOs. He explained that the CDCM had been submitted to Ofgem on 25 August and that the details could be found on the ENA website at: <http://2009.energynetworks.org/structure-of-charges/>. He said that this contained details on the margins available to IDNOs and the principles underpinning the methodology.

4.2 MH stated that a DCUSA working group had been established to look at how the governance of the CDCM would be brought under the auspices of DCUSA. RB expressed concern that his initial analysis illustrated a fall in margin under the CDCM of over 50% in some instances.

4.3 MA stated that since the last meeting, DNOs had taken some decisions on the CDCM which it would be useful for IDNOs to hear. AN then explained that the CDCM contained a zero margin for generation at LV. He stated that the reason behind this came from the fact that the credit for generation was based on the benefit provided at the voltage level above the point of connection. He also explained that the generation tariffs were not scaled. As a result, he said that under a portfolio system, passing on 100% of the benefit the DNO receives to the IDNO seemed to be the most appropriate boundary tariff. RB expressed concern that IDNOs were losing the ability to net generation off the demand they used. DNOs responded that you could not retain this arrangement under a portfolio tariff structure.

4.4 OD and SB then outlined the issue DNOs had with the calculating the average use of the HV network in the CDCM. They explained that the CDCM modelled the costs associated with network levels and required a means to calculate the average use of a network level. At LV they had used the average length of LV main per end user to an IDNO network as a proportion of the average length of LV main per end user on their own network. However, they were unable to use the same calculation at HV due to the different configuration of the HV network and lack of available data on HV IDNOs.

4.5 RB agreed to provide DNOs with data on IPNL's HV network if it would be of help. DNOs stated that it would. SB stated that in the absence of data, the CDCM submission made some assumptions of average use of HV network and all DNOs wanted to work on something more robust. One option was to use a national average of data. He said the matter would be discussed at CMG (common methodology group) and the developments would be fed back to this group. PS stated that Ofgem would be happy to act as a central point for data submission from IDNOs on HV networks

**Action: IDNOs to HV network length and number of customers connected to Ofgem and Ofgem to pass consolidated data to DNOs**

**Action: CMG to work through detail of calculation for average use of HV network**

## **5. A.O.B.**

5.1 SB gave a presentation to the group outlining ENW's proposals for EHV IDNO tariffs. He said that he simply wished to extend the CDCM proposal to provide a discount on the 'all the way' published EHV tariffs to create a boundary tariff. He explained that he was hoping to submit this as a modification to Ofgem but had been advised to present to this group first and see if DNOs would be willing to adopt a similar approach to create a common interim IDNO EHV charging methodology.

5.2 NT stated that such a methodology would not be compatible with WPD's LRIC EHV methodology. OD stated that it would not be compatible with EDF's site specific EHV charges either. CA stated that he would have to consider further, as would AN and MS. MH stated that he was grateful for SB raising this issue and believed it was important DNOs address it as IDNOs were looking to (and in some cases were already) connect to primary substations.

5.3 PS stated that there was a question as to whether these meetings should continue in their current format. MA stated that the working group had been established in July 2008 with the aim of establishing an interim methodology and working towards the submission of the more enduring CDCM. He stated that both of these aims had now largely be achieved and there was a question over what the ToR for the group should be if it continued. PS

asked for views to be forwarded to Ofgem on whether the group should continue and if so, its objectives and scope of work.

**Action: Views on future format of meetings to be forwarded to Ofgem by the end of September**

Date of next meeting: TBC