

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP056: Permission for DCUSA to tender for services and subcontract activities required by DCUSA Ltd		
Decision:	The Authority ¹ directs that this variation not be made		
Target audience:	Parties to the DCUSA and other interested parties		
Date of publication:	24 February 2010	Implementation Date:	n/a

Background to the proposed variation

In November 2009 the Authority approved, subject to a number of conditions², a common distribution charging methodology (CDCM) which is to be implemented on 1 April 2010. The CDCM outlines that separate downstream distributors (typically IDNOs) connected to the DNO network will be billed for use of system (UoS) according to their entire portfolio of end customers³.

DNOs and IDNOs established a DCUSA working group to consider how the portfolio billing of downstream distributors would be implemented. One proposal is for a central agent to receive the settlement data of downstream distributors and use a series of lookup tables to map this data onto the appropriate tariffs. The group considered that any central agent would have to be procured by an entity representing both IDNOs and DNOs.

The DCUSA working group considered that DCUSA Ltd appeared to be the most appropriate body to procure any central agent but considered that the DCUSA was not clear as to whether the Panel was able to procure these services. DCP056 was raised in order to remove any doubt that the Panel could procure such services and do so in anticipation of changes to DCUSA.

The proposed variation

The proposed variation ('proposal') seeks to expand the functions and constitution of the DCUSA panel as set out in section 5 of DCUSA. At present, once a matter is added to DCUSA then the Panel can procure and delegate responsibility to a third party. The proposal seeks to make it explicit that the Panel can take pre-emptive steps in order to procure services from third parties in anticipation of matters being added to DCUSA.

Recommendation

The DCUSA Parties recommended to the Authority that DCP056 be implemented, having unanimously voted in favour. The Panel also recommended an implementation in February 2010 in order to allow the DCUSA panel to commence the tender process to aid the efficient implementation of portfolio billing.

¹ The terms 'the Authority', 'Ofgem' and 'we' are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² These conditions related to the forecast capex input data used to calculate IDNO tariffs, the calculation of HV IDNO tariffs, the calculation of IDNO generation tariffs and network unavailability rates. Further details are available in Ofgem's decision document: [http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/CDCM%20decision%20doc%20201109%20\(2\).pdf](http://www.ofgem.gov.uk/Networks/ElecDist/Policy/DistChrgs/Documents1/CDCM%20decision%20doc%20201109%20(2).pdf)

³ At present each IDNO site is allocated a commercial tariff and is individually charged based on the consumption of each site. Under the CDCM each IDNO end customer is allocated a tariff and the IDNO charged on the aggregate consumption across the DSA of each customer class.

The Authority's decision

The Authority has considered the issues raised by DCP056 and the final Change Declaration dated 20 January 2010. The Authority has concluded that:

1. implementation of the proposed variation will not better facilitate the achievement of the Applicable DCUSA Objectives⁴; and
2. directing that the proposed variation is not consistent with the Authority's principal objective and statutory duties⁵.

Reasons for the Authority's decision

The Authority notes that this proposal received unanimous support from DCUSA parties though there were few substantive comments provided or reasons to support the proposal.

DCUSA objective (c) - *efficient discharge by DNO and IDNO parties of obligations imposed by them in their Distribution licences.*

The Authority recognises that DNO parties have a licence obligation to implement and comply with a CDCM from 1 April 2010 and that the CDCM requires DNOs to bill downstream distributors (typically IDNOs) on a portfolio basis. Furthermore, IDNOs have a licence obligation to charge in accordance with their UoS charging methodology and these methodologies outline that they will replicate the upstream distributors' (typically DNOs') tariffs. There is therefore a direct link between the implementation of portfolio billing and the licence obligations imposed on DNOs and IDNOs.

The Authority understands that the preferred method to implement portfolio billing (as outlined in the code of practice⁶ being considered by the DCUSA working group) is to use settlement data from downstream distributors. If this 'raw' settlement data is to be used for portfolio billing it needs to be filtered and processed in order to:

- Identify the customer class and voltage of connection of the end user;
- Identify the voltage of connection of the boundary point between the IDNO and DNO; and
- Map the appropriate settlement data onto the correct LLFCs to permit the upstream distributor to feed the data into their billing system

This information is required in order for the upstream distributor to implement portfolio billing accurately under an automated process.

The Authority notes that this filtering and mapping of settlement data could be carried out more efficiently by a single provider rather than each DNO and IDNO investing in their own systems. This will save duplicating industry costs several times over. Furthermore, the Authority recognises that contracting a single provider is the most efficient manner for DNOs & IDNOs to procure such a service.

⁴ As set out in the Distribution Licence Standard Condition 22.13

⁵The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

⁶ This code of practice is largely outlined in the ENA consultation of August 2009:
<http://2010.energynetworks.org/storage/LDNO%20billing%20Consultation.pdf>

However, the Authority does not consider that this proposal is required to allow the DCUSA Panel to procure the third party provider. As the change report notes, the Panel has the ability to procure services from third parties for activities which are already contained within DCUSA. We note that DCP046⁷ has been approved by the Authority in anticipation of the CDCM being placed into DCUSA in order to fulfil DNOs' licence obligations⁸. The CDCM makes explicit reference to billing on a portfolio basis. Thus had the CDCM already been inserted into DCUSA or had parties waited until it had been inserted, there would have been no need to raise this proposal.

Furthermore, the Authority notes that section 42 of DCUSA already references that in terms of procuring data for use of system billing the Company and User can employ an 'Alternative Solution as the company may reasonably require for the calculation of Use of System charges'. We consider that this may already provide the Panel with the power to procure a third party service for portfolio billing. We note that the change report does not outline why parties believe that a proposal is required to permit them to procure a DNO/IDNO billing service.

Without this explicit case as to the need for the proposal, the Authority is unable to state that this is the most efficient means of DNOs and IDNOs fulfilling their licence obligations, as the proposal may not be required at all. Therefore, the Authority does not consider that the proposal better facilitates the achievement of DCUSA objective (c).

DCUSA objective (d) – *the promotion of efficiency in the implementation and administration of this agreement.*

The Authority notes that the change report makes reference to the proposal going further than covering the procurement of an IDNO/DNO billing agent. Paragraph 2.3 of the change report comments that the proposal seeks to make it explicit that the Panel can take pre-emptive steps to commence necessary activities before the matter is introduced into DCUSA.

The Authority is concerned that this pre-emptive aspect of the proposal is enduring and will permit the Panel to take any steps to procure services which it reasonably considers will be added to DCUSA. This could lead to the DCUSA Panel devoting time and resources to procuring services and activities which never actually enter the DCUSA. The Authority therefore considers that the proposal has the potential to reduce the efficiency in the implementation and administration of DCUSA.

Consequently, we do not consider that the proposal better facilitates the achievement of DCUSA objective (d).

Decision notice

⁷The Authority's decision on DCP046 can be found at:

<http://www.ofgem.gov.uk/Licensing/ElecCodes/DCUSA/Changes/Documents1/DCP046D.pdf>

⁸The obligation is contained in SLC 22A.2:

22A.2 The first purpose is to ensure that, with effect from the relevant incorporation date, and subject to paragraph 22A.3 in respect of modification arrangements, each of the following Charging Methodologies of the Distribution Services Providers is incorporated into the DCUSA as if it were one of the matters that is required to be included in the DCUSA by virtue of the provisions of standard condition 22:

(a) the Common Distribution Charging Methodology ('CDCM') in force under standard condition 13A (Common Distribution Charging Methodology), for which the incorporation date is 1 April 2010; and
(b) the EHV Distribution Charging Methodology ('EDCM') in force under standard condition 13B (EHV Distribution Charging Methodology), for which the incorporation date is 1 April 2011.

In accordance with Standard Condition 22 of the Distribution Licence, the Authority hereby directs that the proposed variation set out in DCP056: '*Permission for DCUSA to tender for services and subcontract activities required by DCUSA Ltd*' is not made.

Rachel Fletcher
Partner, Distribution

Signed on behalf of the Authority and authorised for that purpose.