

Proposed modification:	Distribution Connection and Use of System Agreement (DCUSA) DCP203: The Rationalisation of Discount Factors used to determine LDNO Use of System Tariffs relating to UMS Connections on Embedded Distribution Networks and the associated LDNO Tariffs		
Decision:	The Authority ¹ directs that this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	16 May 2016	Implementation date:	Next scheduled DCUSA release following Authority consent

Background

Schedule 19 of the DCUSA, entitled Portfolio Billing⁴, sets out the rules for inter-distributor Use of System (UoS) billing. This arises where a Licensed Distribution Network Operator (LDNO) is connected to the host Distribution Network Operator (DNO) network and subsequently connects end user Customers to that LDNO's distribution system. This billing process requires that Meter Point Administration Numbers (MPANs) of end users are linked to a Line Loss Factor Class (LLFC) identifier.⁵

The LLFC shows the voltage of connection of the LDNO's distribution system to the DNO network (the DNO/LDNO boundary network level). It also shows the network voltage of the LDNO's end user Customer. This information is used by the host DNO to allocate the relevant discount factor to its "All The Way" UoS tariff and calculate the associated LDNO tariff. The LDNO tariff is used when the DNO bills the LDNO for using its network.

This process works effectively for metered Customers because such Customers tend to have a single exit point (or small number of exit points) per MPAN, and these are typically confined to a single LDNO network. However, in the case of unmetered supply (UMS)⁶ connections provided to UMS Customers that have multiple exit points, the billing process becomes more complex. These UMS connections are often distributed across a wide geographic area containing a number of different LDNO distribution systems. UMS Customers are often Local Authorities (LAs) responsible for public street-lighting (typically unmetered connections).

Currently, the UMS Customer needs an additional MPAN for each LDNO operating in its area and must also be able to differentiate between various connected voltages, possibly leading to a LA having up to 215 invoices for its street-lighting. Whilst unlikely to reach these levels in most cases, the number of MPANs that a UMS Customer requires may substantially increase as competition in connections on new housing developments grows, creating an unnecessarily complicated and administratively burdensome billing process.

Some Suppliers charge UMS Customers administration charges per MPAN. UMS Customers are also charged administration charges for each MPAN by their Meter

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 'Change' and 'modification' are used interchangeably in this document.

³ This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

⁴ The terms 'portfolio billing' and 'inter-distributor billing' are used interchangeably throughout the documentation

⁵ All capitalised terms are as defined in the DCUSA.

⁶ Defined in the DCUSA as "a supply of electricity the quantity of which the Company, through the issue of a relevant Unmetered Supplies Certificate, has authorised not to be measured by physical metering equipment."

Administrators (MAs). This results in high administration charges to the LAs. Some LAs refuse to complete highway adoption agreements with developers who opt to make connections to a LDNO network, because of the increased administration costs. This distorts competition, as developers face additional obstacles to achieving highway adoption when connecting to a LDNO, rather than a DNO, network.

The modification proposal

DCP203 was raised by ESP Electricity Limited on 10 February 2014 to amend the DCUSA to reduce the number of LDNO discount factors for UMS connections to Embedded Distribution Network Operator (EDNO) networks. The proposer considers that simplifying this process will allow developers to award contracts to LDNOs without the fear that LAs will not wish to adopt the street-lighting. The proposer considers that the change could thereby benefit competition in the provision of connections and distribution services.

The working group (WG) that assessed DCP203 issued one request for information and three consultations. It also undertook an impact assessment to determine the potential financial impact of the proposals on DNO revenues.

DCP203 proposes that the EDNO will assign a single LLFC identifier to its MPANs. The assigned LLFC will reflect the boundary voltage of connection of the EDNO distribution systems that provide more than 50% of connections to the EDNO's domestic customers. Applying only one network level would reduce the maximum number of possible MPANs from 215 down to 35.

Applying a single LDNO discount will benefit the LDNO because it reduces the administration of inter-distributor billing. The UMS Customer will benefit through reduced administration and MPAN costs associated with LDNO networks. The proposal will be cost neutral for DNOs as it does not introduce any new LDNO or "All the Way" tariffs, and DNOs will not be required to make any changes to the Common Distribution Charging Methodology (CDCM) model.

The WG considered that applying a single discount would have negligible real term impact on cost reflectivity. The volumes of unmetered connections to LDNO networks relative to DNO connections are low. The reduction in administration costs on portfolio billing would appear to outweigh any reduction in cost reflectivity from applying different discounts for each network level. One consultation response highlighted that, for most large UMS Customers, this portfolio billing would amount to no more than a few hundred pounds per annum.

The DCP203 WG impact assessment considered the difference between the status quo (ie using multiple LDNO for discount tariffs) and using a weighted average LDNO discount over a number of scenarios (based on the numbers of domestic connections to the LDNO Network). A ratio of 1:3 UMS street lighting connections to domestic connections was used to estimate the number of UMS connections on all LDNOs within each DNO Distribution Service Area (DSA). A forecast of the total value of the inter-distributor bill in respect of all connections to all LDNOs operating in the DNO's area was calculated. The WG concluded that while the percentage change in tariff could be significant (up to approximately 15 percent), in real terms it is insignificant (it could be less than £1000 per annum across a DNO's area).

DCP203 would make changes to DCUSA Schedules 16, 17, 18, 19 and 21. These changes primarily reflect that LLFC identifiers for UMS LDNO tariffs are not necessarily dependent on the voltage of connection to the DNO, and provide details of the UMS LDNO LLFC allocation.

The DCP203 WG considered that the proposal better facilitates DCUSA General Objectives⁷ 3.1.1 and 3.1.2. It considered that the proposed change will lead to a more efficient and co-ordinated network because reducing the number of MPANs required will reduce the administrative burden and make the process more efficient. They considered it will also remove the current potential barrier to competition by making the process less burdensome for the UMS Customer and ensure that LDNOs do not face additional requirements over and above those faced by the incumbent DNO. The WG considered that there could be a negative impact on Charging Objective 3.2.3 because of some slight loss of cost reflectivity in these LLFCs. However, it considered that the very small magnitude of the impact is offset by the reduction in administrative costs.

DCUSA Parties' recommendation

The Change Declaration for DCP203 indicates that all parties were eligible to vote on DCP203. In each party category where votes were cast⁸ there was majority (>50%) support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP203 is accepted. The outcome of the weighted vote is set out in the table below:

DCP203	WEIGHTED VOTING (%)							
	DNO ⁹		IDNO/OTSO ¹⁰		SUPPLIER		DG ¹¹	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	76	24	100	0	0	0	n/a	n/a
IMPLEMENTATION DATE	91	9	100	0	0	0	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration and the Change Report dated 12 April 2016. 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 better facilitate the achievement of the DCUSA Charging Objectives;¹² and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹³

Reasons for our decision

We consider this modification proposal will better facilitate DCUSA Charging Objectives 3.2.1 and 3.2.2 and has a neutral impact on objective 3.2.3. On balance, we consider the relevant objectives are better facilitated.

⁷ The DCUSA General Objectives (Applicable DCUSA Objectives) are set out in Standard Licence Condition 22.2 of the Electricity Distribution Licence and are also set out in Clause 3.1 of the DCUSA.

⁸ There are currently no gas supplier parties.

⁹ Distribution Network Operator

¹⁰ Independent Distribution Network Operator/Offshore Transmission System Operator

¹¹ Distributed Generation

¹² The DCUSA Charging Objectives (Relevant Objectives) are set out in Standard Licence Condition 22A Part B of the Electricity Distribution Licence and are also set out in Clause 3.2 of the DCUSA.

¹³ The Authority's statutory duties are wider than matters that the Parties must take into consideration and are detailed mainly in the Electricity Act 1989 as amended.

DCUSA Charging Objective 3.2.1 'that compliance by each DNO Party with the Charging Methodologies facilitates the discharge by the DNO Party of the obligations imposed on it under the Act and by its Distribution Licence'

Each DNO party has an obligation to achieve an efficient and co-ordinated network. We consider that the proposal will lead to a reduction in the number of MPANs required for the administrative function of Portfolio Billing. It will also facilitate a more efficient billing process. The LDNO management of the UMS Customer's billing will be simplified and be less complicated for the Customer.

DCUSA Charging Objective 3.2.2 'that compliance by each DNO Party with the Charging Methodologies facilitates competition in the generation and supply of electricity and will not restrict, distort, or prevent competition in the transmission or distribution of electricity or in participation in the operation of an Interconnector (as defined in the Distribution Licences)'

The DCP203 WG considered that this change will remove a potential barrier to competition through a less administratively burdensome process.

We consider that reducing the number of complexities around the Portfolio Billing process will better facilitate effective competition in UMS connections. The current arrangement is a potential barrier to competition because the LDNO faces administrative costs which the DNO does not. UMS Customers are reluctant to adopt street-lighting connected to an LDNO because of the incremental costs of administering these UMS connections, which they would not face if these connections were provided by the DNO.

DCUSA Charging Objective 3.2.3 'that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business'

The DCP203 WG noted that this proposal will lead to a slight reduction in cost reflectivity because the LLFC associated with the actual voltage of each UMS connection will not be applied. Rather, the LLFC associated with the majority of the connections will be applied to all. It noted, however, that the more efficient administrative process could reduce Customer charges, which would more than offset any small negative impact on the UoS charges.

One of the DNO respondents did not agree with the proposal because it considers it will produce less cost reflective tariffs by effectively taking a weighted average of the UMS tariffs across voltage levels for all IDNOs. This means that the discount factor applied to the UMS tariffs could be the same for all IDNOs, regardless of the boundary of connection. This could lead to IDNOs with more networks connected at EHV/HV level cross-subsidising those IDNOs with a greater number of LV connected networks.

We agree that the proposal will technically lead to a slight reduction in cost reflectivity over some of these connections, but equally that it is not reasonably practical to maintain the current arrangements given the associated administrative burden. We therefore consider that there is an overall neutral impact on this objective.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP203 *'The Rationalisation of Discount Factors used to determine LDNO Use of System Tariffs relating to UMS*

Connections on Embedded Distribution Networks and the associated LDNO Tariffs' be made.

Frances Warburton
Partner, Energy Systems

Signed on behalf of the Authority and authorised for that purpose