

Modification proposal:	Distribution Connection and Use of System Agreement (DCUSA) DCP282 – Embedded Distribution Network Operator (EDNO) UMSO		
Decision:	The Authority ¹ directs this modification ² be made ³		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	18 May 2017	Implementation date:	First Release following Approval ⁴

Background

An unmetered connection is a connection that uses electricity without a meter to measure electricity consumption. Unmetered connections are installed where consumption is small and predictable or it is impractical for supply to be metered (eg for technical, financial or legal reasons).⁵ For example, the majority of lamp posts and traffic lights are likely to have an unmetered connection.

Some customers have a large number of unmetered connections (eg Local Authorities (LAs)). It is likely that the majority of their unmetered connections will be connected to an electricity distribution network owned by the local Distribution Network Operator (DNO). However, some of their unmetered connections may be connected to electricity distribution networks owned by Embedded Distribution Network Operators (EDNOs). EDNOs are Independent Distribution Network Operators (IDNOs) or DNOs acting outside of their Distribution Service Area.⁶ EDNOs compete with DNOs to own and operate electricity distribution networks across GB.

Under the current governance framework, a customer is required to have separate inventories⁷, Meter Point Administration Numbers (MPANs)⁸ and supply contracts for DNO-connected and EDNO-connected unmetered supply points. For customers that have unmetered connections to multiple EDNOs, this can require them to have numerous MPANs/supply contracts. This creates additional costs and complexity.

For example, some suppliers and meter operators charge unmetered customers administration charges per MPAN. Customers that have both DNO-connected and EDNO-connected unmetered supply points (and therefore multiple MPANs) consequently face additional costs compared with customers that only have DNO-connected unmetered supply points. Customers with both DNO-connected and EDNO-connected unmetered supply points also have higher administrative costs as a result of having to manage multiple supply contracts (eg invoices).

As a result of the additional costs and their low annual energy consumption, some customers find it difficult to contract with their preferred supplier or use their existing negotiated supply contracts for their EDNO-connected unmetered supplies.

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 next DCUSA release is scheduled on the 29 June 2017.

⁵ The Electricity (Unmetered Supply) Regulations 2001 outline when an unmetered supply may be given to a customer.

⁶ The Distribution Services Area is the area specified by the Authority in accordance with the electricity distribution licence.

⁷ In relation to unmetered connections, an inventory is a list of equipment, appliance or devices being used by the customer.

⁸ An MPAN is reference number used to uniquely identify an electricity supply point.

Our 2015 review identified that this issue was potentially limiting competition in the market for electricity distribution connections.⁹ Specifically, we were concerned that some parties were choosing not to award work to EDNOs because some LAs were refusing to adopt EDNO-connected street lighting.¹⁰ We therefore encouraged parties to propose modifications to the industry codes in order to address this issue.

There have been three previous change requests that sought to simplify the administration of EDNO unmetered connections:

- [DCUSA change request DCP168](#)¹¹ - DCP168 aimed to enable a customer with unmetered connections on both DNO and EDNO networks to manage their energy supply on a single MPAN. DCP168 was withdrawn in 2013 because the scope of the modification was unintentionally limited to benefit only LA customers.
- [Balancing and Settlement Code \(BSC\) change request CP1414](#)¹² - The modification aimed to allow unmetered customers to combine DNO and EDNO unmetered connections onto a single inventory. The modification was rejected by the Supplier Volume Allocation Group in March 2015, because the group considered that the key benefits were not within scope of the BSC (the facilitation of competition in distribution is not part of the BSC objectives).
- [DCUSA change request DCP203](#) - DCP203 reduced the number of discount factors required for unmetered connections to EDNO networks and simplified the administration of these connections. DCP203 was approved by us on 16 May 2016¹³ and implemented on 30 June 2016.

Since 2015, Electricity North West Limited (ENWL) and Western Power Distribution (WPD) have implemented arrangements to consolidate DNO and EDNO unmetered supply points onto a single inventory/MPAN. Their solution requires multiple additional bilateral agreements (eg between the unmetered customer, EDNO and DNO).

The modification proposal

DCP282 was raised by Eastern Power Networks (EPN) on 14 September 2016. EPN considers that the modification better meets the DCUSA General Objective 3.1.1 by improving efficiency and co-ordination between the DNO and EDNO. EPN considers that the modification would also better meet DCUSA General Objective by 3.1.2 by removing a potential barrier to competition in electricity distribution connections.¹⁴

This modification seeks to allow customers with both DNO and EDNO unmetered connected supply points to combine all of their information onto one inventory.¹⁵ This would subsequently remove the need for separate MPANs and supply contracts.

Where the customer chooses to combine its inventories,¹⁶ the DNO's Unmetered Supplies Operator (UMSO) service will manage the administration of EDNO-connected unmetered

⁹ The findings of our review into competition in the electricity distribution connections market can be found [here](#).

¹⁰ Under the Highways Act 1980, LAs adopt new roads and street lighting from private developers to form part of a public highway.

¹¹ More information on DCP168 can be found [here](#)

¹² More information on BSC1414 can be found [here](#)

¹³ Our decision letter on DCP203 can be found [here](#).

¹⁴ DCUSA General Objectives 3.1.1 and 3.1.2 are:

- 3.1.1 the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System;
- 3.1.2 the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity;

¹⁵ Customers with a mix of half-hourly (HH) and non-half hourly (NHH) assets will still be required to submit a one inventory for each.

¹⁶ The modification allows customers to choose whether to combine their inventories, it does not oblige them to do so.

supplies, rather than the EDNO's UMSO service. In the BSC, the UMSO is responsible for the administration of unmetered supplies for settlement purposes. If a customer chooses to combine its inventories, the EDNO would remain obligated to validate the customer's inventory and ensure that the data remains accurate.

This modification builds on the arrangements implemented by WPD and ENWL, but removes the need for multiple bilateral agreements and codifies a solution within DCUSA.

Where a customer elects to combine its data onto a single inventory, the proposed process would work as follows:

- The EDNO approves the unmetered connection and manages the customer's connection agreement.
- The unmetered customer notifies the EDNO of its intention to combine its data onto one inventory. The single inventory will clearly identify any EDNO-connected supply points.
- The unmetered customer provides the combined inventory to both the DNO and any EDNO identified on the inventory. The combined inventory can also be shared with any DNO or EDNO identified on it.
- The EDNO reviews the data in the inventory to ensure that it is accurate.
- The DNO's UMSO processes the single inventory and bills the Relevant Supplier for all of the Distribution Use of System (DUoS) charges,¹⁷ in accordance with BSC and DCUSA obligations. The EDNO does not bill the Relevant Supplier for its DUoS charges.
- The EDNO bills the DNO to recover its DUoS charges for EDNO-connected unmetered supplies.

DCUSA Parties' recommendation

The Change Declaration for DCP282 indicates that all parties were eligible to vote on DCP282. In each party category where votes were cast (no votes were cast in the DG party category),¹⁸ 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 DCP282 is accepted. The outcome of the weighted vote is set out in the table below:

DCP 282	WEIGHTED VOTING (%)							
	DNO ¹⁹		IDNO/OTSO ²⁰		SUPPLIER		DG ²¹	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	71	29	100	0	100	0	n/a	n/a
IMPLEMENTATION DATE	71	29	100	0	100	0	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration and Change Report dated 11 April 2017. 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:

¹⁷ DUoS charges are the charges levied by Electricity Distributors for the operation, maintenance and development of the electricity distribution network.

¹⁸ There are currently no gas supplier parties.

¹⁹ Distribution Network Operator.

²⁰ Independent Distribution Network Operator/Offshore Transmission System Operator.

²¹ Distributed Generation.

- implementation of the modification proposal will better facilitate the achievement of the DCUSA General objectives;²² and
- directing that the modification is approved is consistent with our principal objective and statutory duties.²³

Reasons for our decision

We consider this modification proposal impacts DCUSA General Objectives 3.1.1 and 3.1.2. We consider that the modification proposal has a neutral impact on the other applicable objectives. We therefore consider the applicable objectives are better facilitated.

DCUSA General Objective 3.1.1 – the development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System

The proposer and the majority of working group participants consider that the proposed change will better facilitate DCUSA General Objective 3.1.1 by facilitating greater coordination between DNOs and EDNOs for the benefit of the unmetered customers. We agree that the proposed changes should increase co-operation between DNOs and EDNOs to administer unmetered connections more efficiently.

For example, the proposed modification will allow customers with DNO and EDNO connected unmetered supply points to manage all of their unmetered connections on a single MPAN/supply contract; therefore, reducing administration costs for the consumer. We therefore consider that the modification better meets General Objective 3.1.1 to develop an efficient, co-ordinated and economical Distribution System.

DCUSA General Objective 3.1.2 – the facilitation of effective competition in the generation and supply of electricity and (so far as is consistent with that) the promotion of such competition in the sale, distribution and purchase of electricity

The proposer considers that the modification better facilitates DCUSA General Objective 3.1.2 by providing an optional, simplified approach for administering unmetered supplies for customers connected to both EDNO and DNO networks. The proposer considers that this removes a perceived barrier to choosing an EDNO to complete unmetered connection work. The majority of working group participants agreed with this position. One of the DNOs considered that there was not enough evidence to support this conclusion.

We note that our 2015 review into Competition in Connections identified several issues that were potentially limiting the development of competition in the market for electricity distribution connections. One of these issues was the complex and costly regulatory framework for billing customers that have unmetered supply points on both EDNO and DNO networks. We consider that the proposed modification helps address this issue by introducing a simplified, more efficient process. We consider that the modification will reduce a potential barrier to customers choosing EDNOs to complete unmetered connections work, and therefore better facilitates DCUSA General Objective 3.1.2 by facilitating greater competition in the distribution of electricity.

²² 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.

²³ 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.

We consider that the proposed modification will also facilitate competition in the supply of electricity. We understand that some suppliers will not contract with customers for their EDNO-connected unmetered supplies due to annual consumption levels being below their commercial threshold. The modification combines DNO and EDNO inventories/MPANs to create a single inventory/MPAN with an accumulated consumption level. This single supply contract should be more attractive to suppliers than several supply contracts with small annual consumption levels, due to reduced administrative expenses. We, therefore, consider that the modification should facilitate greater competition in the supply of electricity.

DCUSA General Objective 3.1.4 – the promotion of efficiency in the implementation and administration of this Agreement and the arrangements under it

Two DNOs do not support the proposed modification because they consider that it would increase their costs (eg the additional administrative costs of acting as the UMSO for EDNO-connected unmetered supplies). These DNOs consider that the additional cost of undertaking UMSO responsibilities for EDNO-connected unmetered supplies makes the DNOs' implementation of their own UMSO responsibilities less efficient. These DNOs, therefore, consider that the proposed modification negatively impacts DCUSA General Objective 3.1.4.

All parties have had multiple opportunities to identify the cost of implementing this modification (eg industry consultation), and to date, none of the parties have identified significant costs that would be incurred as a result of implementing this modification. We note that the majority of DNOs consider that any additional costs are negligible. We also note that two DNOs have also been completing these activities voluntarily.

We acknowledge that requiring the DNO's appointed UMSO to undertake responsibilities for EDNO-connected customers may result in some additional administrative costs, which could impact the efficiency of the DNO's own UMSO activities. However, we expect any potential additional costs would not be material. To the extent that DNOs do incur costs as a result of undertaking UMSO activities for EDNO-connected unmetered supplies, then we consider it reasonable that a DNO should be able to recover these costs. We consider that Clause 43.2.2 of 'Section 2B – Distributor to Distributor/OTSO Relationships' of DCUSA may provide a suitable mechanism for a DNO to recover these costs. Since we consider that any costs associated with implementing this modification are minimal and the DNOs have an existing mechanism to recover these costs, we consider that this modification has a neutral impact on this DCUSA objective. If industry participants do not consider that this would be an appropriate mechanism, then we would encourage them to raise a code modification to introduce an appropriate alternative cost recovery mechanism.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP 282: '*Embedded Distribution Network Operator (EDNO) UMSO*' be made.

James Veaney
Head of Electricity Connections and Constraints Management
Signed on behalf of the Authority and authorised for that purpose