

Proposed variation:	DCP060 – Introduction of Portfolio Billing Alternative Solution		
Decision:	The Authority ¹ directs that this variation is made		
Target audience:	Parties to the DCUSA and other interested parties		
Date of publication:	16 April 2010	Implementation date:	16 April 2010

Background to the proposed variation

In November 2009 the Authority approved, subject to a number of conditions², a common distribution charging methodology (CDCM). The CDCM was implemented on 1 April 2010. The CDCM stipulates that separate downstream distributors (typically IDNOs or DNOs operating out of area) connected at high voltage (HV) and low voltage (LV)³ to the DNO network will be billed for use of system (UoS) according to their entire portfolio of end customers⁴.

DNOs and IDNOs established a DCUSA working group, and a related group meeting under the auspices of the Energy Networks Association (ENA), to consider how the portfolio billing of downstream distributors would be implemented. These groups have considered both enduring and interim (prior to the adoption of the enduring arrangements) arrangements for portfolio billing.

These working groups have previously brought forward a number of proposed modifications to both the balancing and settlement code (BSC) and DCUSA to facilitate portfolio billing. Previous modifications have sought to enable data flows between DNOs and downstream distributors⁵ and the procurement and funding of a central agent to process these data flows.⁶ This current variation was brought forward on behalf of the working groups by Donna Townsend of ESP Electricity. It seeks to specify the process of portfolio billing including the form and content of the data flows between DNOs and IDNOs. The variation relates to the arrangements for data flows over an interim period with the expectation that these will be superseded in due course by enduring arrangements.⁷

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 The CDCM only covers UoS charges for customers connected at HV and LV. Charges for customers connected at extra high voltage (EHV) are governed by other arrangements.

⁴ 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.

⁵ P246 link to decision letter:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=85&refer=Licensing/ElecCodes/BSCCode/BSC>

⁶ DCP056 and DCP057, decision letters can be found via the following link:

<http://www.ofgem.gov.uk/Licensing/ElecCodes/DCUSA/Changes/Pages/Changespage.aspx>

⁷ Given the time restrictions imposed on the working groups by the need to have the billing process up and running by the UoS billing run in April the groups considered that a number of aspects of it could be substantially improved upon given more time. A number of aspects of the interim arrangements are likely to be superseded by more robust processes, particularly with regard to the billing of half hourly customers and nested networks.

Currently the DCUSA requires that downstream distributors are billed for UoS by DNOs using data from meters situated at the boundary between the two networks or using an unspecified "alternative" solution. In practice downstream distributors have been billed almost universally using data from boundary meters. Following the work of the DNO/IDNO billing working groups and recent decisions published by Ofgem from April 1 2010 downstream distributors can be accurately billed using settlement data from customers connected to their networks.

The proposed variation

The proposed variation ('proposal') seeks to amend the DCUSA to insert a new schedule that specifies the process of portfolio billing including the form and content of the data flow between DNOs and IDNOs. Further, the proposed variation facilitates the billing for UoS of downstream distributors who operate within a DNOs distribution supply area but are not directly connected to the DNO's network ('nested networks').

The change report stated that specifying the arrangements in a new schedule of the DCUSA to be the most optimal way of doing so. The proposal also argued that currently the DCUSA does not facilitate portfolio billing of nested networks because it only allows the billing for UoS of customers directly connected to the DNO network.

The change report argued that the proposal would better facilitate all of the DCUSA objectives.

Recommendation

The Panel recommended an implementation on 1 April 2010 (or as soon as practical following Authority consent) to coincide with the introduction of the CDCM. In accordance with clause 12.4 of the DCUSA the proposal was put to only DNOs and IDNO parties for vote. The panel considered that there would be no cost, system or process impacts on supplier, distributed generation or offshore transmission parties as a consequence of the proposal. The DCUSA Parties voted unanimously to recommend to the Authority that DCP060 be implemented.

The Authority's decision

The Authority has considered the issues raised by DCP060 and the final Change Declaration dated 26 March 2010 and the comments made by respondents to the initial assessment. The Authority has concluded that:

1. implementation of the proposed variation will on balance better facilitate the achievement of the Applicable DCUSA Objectives⁸; and
2. directing that the proposed variation be made is consistent with the Authority's principal objective and statutory duties⁹.

Consequently, the Authority directs that the proposed variation be made.

Reasons for the Authority's decision

⁸ As set out in the Distribution Licence Standard Condition 22.13

⁹ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

The Authority notes that this proposal was supported by all DNO and IDNO parties. The Authority has taken into account that the DCUSA panel considered that the proposal better facilitates all of the relevant DCUSA objectives.

DCUSA objective (a) – The development, maintenance and operation by the DNO parties and the IDNO parties of an efficient, co-ordinated and economical distribution system

The Authority considers that in regard to portfolio billing there are clear benefits in the operation of the distribution system from its introduction. Portfolio billing has been approved as part of the CDCM as an efficient and effective way of billing IDNOs. In particular portfolio billing supports the introduction of IDNO specific charges. The Authority considers that the process of portfolio billing will benefit, to an extent, from clearly set out guidelines regarding the form and content of data required to bill IDNOs. Clear guidelines will improve transparency, certainty and efficiency in the billing process. However improvements in these areas resulting from the proposal will be limited given: the proposal is not required to enable portfolio billing; and there are alternatives to a new DCUSA schedule for setting out the billing guidelines.¹⁰

The Authority also notes that there is a need to bill nested networks given that there are already a (small) number of situations where there are nested networks in operation. Further, there are likely to be more nested networks in the future. The billing of nested networks for UoS is necessary to provide them with a cost signal regarding their impact on the distribution system. The cost signal will encourage nested networks to make efficient use of the distribution system.

The Authority considers that the proposal will lead to some improvements in the transparency, certainty and efficiency of the portfolio billing process and that it will facilitate the billing of nested networks. The Authority therefore considers the proposal better facilitates the achievement of DCUSA objective (a).

DCUSA objective (b) – 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 Authority acknowledges that the promotion of transparency, certainty and efficiency in the portfolio billing process could promote competition in the distribution of electricity. The Authority accepts that, as the proposal argues, providing transparency to potential new entrants could promote competition. However it is not clear to us that a single process for billing is, as the proposal suggests, necessarily more economical or more effective than a solution which provides for alternative processes to be used.

The proposal would have benefited from consideration of the obligations that the proposed portfolio billing process would place on potential new entrants. It is possible that whilst the process improves the efficiency of billing for existing industry participants it could provide a barrier to new entrants who may be operating at a smaller scale than existing participants and have less well developed systems.

After consideration of the portfolio billing process set out in the proposal the Authority does not consider that the requirements place particularly significant obligations on potential new entrants. The proposal requires that with respect to non half hourly

¹⁰ This latter point is acknowledged in the proposal itself. It states that a DCUSA working practice document was considered. The proposal is not clear on why this alternative was rejected other than to say that it was thought to be optimal to set out the process in a DCUSA schedule.

customers DNOs are provided with an automated data flow from the supplier volume allocation agent. For half hourly customers the IDNO is required to provide the DNO with an excel spreadsheet with a number of fairly standard data regarding the characteristics and consumption of each. The Authority does not consider these requirements a significant obligation on new entrants in addition to those imposed by the requirement for them to sign up to the DCUSA and the BSC. We note that in the development of enduring billing arrangements the DNO and IDNO parties should consider the extent of the obligations that they impose on potential new distributors.

On balance given the increase in transparency and certainty provided by the proposal the Authority considers that it better facilitates relevant objective (b).

DCUSA objective (c) – *the efficient discharge by DNO parties and IDNO parties obligations imposed on them in their distribution licences.*

As set out above the Authority acknowledges that the proposal will, to a limited extent, promote efficiency in the portfolio billing process. Portfolio billing of HV and LV customers is mandated by the CDCM. DNOs were required (by a collective licence modification- CLM) to bring into effect the CDCM from 1 April 2010. The improvements in the efficiency of the billing process brought about by the proposal will assist DNOs in the efficient discharge of this new licence condition.¹¹

On balance the Authority considers that by prompting efficiency in the implementation of the CDCM, 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.*

On 1 April 2010 the CDCM was incorporated into DCUSA.¹² The Authority considers that the proposal will support the introduction of portfolio billing by improving transparency and efficiency in the process of Portfolio billing of HV and LV customers. This will promote efficiency in the implementation of the CDCM and therefore of the DCUSA.

The Authority considers that by promoting efficiency in the implementation of the CDCM the proposal will better facilitate objective (d).

¹¹ Standard licence condition 50 of the electricity distribution licence.

¹² See decision letter for DCP059, link:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=43&refer=Licensing/ElecCodes/DCUSA/Changes>

Decision notice

In accordance with Standard Condition 22 of the Distribution Licence, the Authority hereby directs that the proposed variation set out in DCP060: 'Introduction of Portfolio Billing Alternative Solution' is made.

Rachel Fletcher
Partner, Distribution

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