

Proposed variation:	<b>Distribution Connection and Use of System Agreement (DCUSA) DCP141 – Invalid Settlement Classes</b>		
Decision:	The Authority <sup>1</sup> directs that proposal DCP141 shall not be made <sup>2</sup>		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	18 January 2013	Implementation Date:	n/a

## Background to the modification proposal

Many customers do not have Half-Hourly (HH) metering equipment. Use of System Charges for these Non Half-Hourly (NHH) Metering Point Administration Numbers (MPANs) are therefore charged by reference to Settlement Class instead.

Settlement Class is a unique combination of Profile Class (PC)<sup>3</sup>, Line Loss Factor Class (LLFC)<sup>4</sup>, Time Pattern Regime (TPR)<sup>5</sup> and Standard Settlement Configuration (SSC).<sup>6</sup> For the majority of NHH customers, the combination of LLFC/PC/SSC/TPR determines their associated profile and half-hourly data values.

Occasionally, a Distribution Network Operator (DNO) may identify an invalid Settlement Class combination (for example that the LLFC is incompatible with the PC). DNOs do not currently use a common approach to invoicing these MPANs.

## The modification proposal

This modification was raised by E.ON (the proposer) following discussions at the Distribution Charging Methodologies Forum (DCMF) Methodology Issues Group (MIG) Billing Supergroup and aims to ensure that all distributors adopt a common approach to billing invalid settlement classes.

If this change proposal is approved, DNOs would have to use the Domestic Unrestricted tariff for all MPANs that have an invalid Settlement Class combination.<sup>7</sup> Where portfolio data contain an invalid Settlement Class combination, the 'LDNO HV: Domestic Unrestricted'<sup>8</sup> fixed and unit charges would be applied as default. DNOs would not be able to alter data contained in the Supercustomer DUoS Report<sup>9</sup> for the purposes of correcting invalid Settlement Class combinations. The DCMF MIG Billing Supergroup assessed several different approaches to resolving this issue and considered that this was the optimal approach.

The proposer believes that this modification will better facilitate DCUSA Charging Objective 3.2.3 as it will require all DNOs to charge for invalid combinations, and DCUSA

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

<sup>2</sup> This document is notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

<sup>3</sup> A category of customers whose consumption can be reasonably approximated to a common profile for Settlement purposes.

<sup>4</sup> A set of Metering Systems defined by a Distribution Network Operator that are assigned the same Line Loss Factor for the relevant Settlement Period. This is used to scale energy consumed or generated to account for the amount of electricity lost UK's Distribution Networks.

<sup>5</sup> A pattern of switching behaviour through time that determines the times at which the meter settlement register is operational (ie recording energy data).

<sup>6</sup> As defined in the Balancing and Settlement Code (BSC). A standard Metering System configuration recognised by the Supplier Volume Allocation Agent System.

<sup>7</sup> Domestic Unrestricted tariff is profile class 1, it consists of one units rate time band and an additional fixed charge.

<sup>8</sup> Licensed Distribution Network Operator (LDNO) HV: Domestic Unrestricted is applied to domestic unrestricted customers that are connected to an HV point of connection LDNO network. The tariff class corresponds to profile class 1 and consists of one unit rate time band and an additional fixed charge.

<sup>9</sup> Distribution Use of System report of profiled data by Settlement Class providing the data items set out in Data Transfer Catalogue D0030

General Objective 3.1.2 as DNOs' approach to billing would be more transparent. The proposer was concerned that, under the current arrangements, some DNOs may not charge those MPANs with invalid settlement class combinations, therefore causing a potential cross-subsidy issue.

### DCUSA Parties' recommendation

The Change Declaration for DCP141 indicates that DNO, IDNO/OTSO<sup>10</sup>, Supplier and DG<sup>11</sup> parties were eligible to vote on DCP141. In each party category where votes were cast (no votes were cast in the DG party category), there was majority (>50%) support for the proposal and for its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to us is that DCP141 is accepted. The outcome of the weighted vote is set out in the table below:

DCP141	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	54	46	100	0	100	0	n/a	n/a
IMPLEMENTATION DATE	54	46	100	0	100	0	n/a	n/a

### The Authority's decision

We have considered the issues raised by the proposal and the Change Declaration dated 12 December 2012. 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 change proposal DCP141 will not better facilitate the achievement of the DCUSA Charging Objectives.<sup>12</sup>

### Reasons for our decision

We consider that on balance, this modification does not better facilitate the DCUSA Charging Objectives.

This change proposal seeks to modify note 2 of paragraph 141 and add a note to paragraph 147 of Schedule 16 of the DCUSA, it therefore is considered a change to the charging methodologies. As the proposed change is restricted to the Common Distribution Charging Methodology (CDCM), we do not consider the DCUSA General Objectives to be relevant to our decision.

**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 proposer believes that the modification will better facilitate DCUSA Charging Objective 3.2.2 as it considers that having a common approach to billing will improve transparency for suppliers (especially new market entrants and smaller suppliers). We agree in principle that a common billing approach should promote supply market competition. However, we note that under Meter Point Administration Service (MPAS) arrangements, MPANs with invalid settlement combinations cannot be switched to another supplier until they are rectified. Since invalid settlement combinations cannot be

<sup>10</sup> Offshore Transmission System Operators

<sup>11</sup> Distributed Generation

<sup>12</sup> 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.

switched, only existing suppliers are likely to gain from the improved transparency that this change proposal offers. Other suppliers, who do not have any invalid settlement combinations, will not encounter any invalid settlement combinations and are therefore unlikely to gain from this change proposal. We therefore consider that this change proposal has a neutral impact on DCUSA Charging Objective 3.2.2.

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

If a DNO fails to charge an MPAN with an invalid settlement combination then another customer has to pick up the cost of distributing electricity to that MPAN. The proposer therefore considers that requiring the DNOs to charge invalid settlement combinations improves the cost reflectivity of charges.

To ensure no cross subsidy of charges, we agree that all customers should be charged for DUoS charges. All DNOs have indicated to us that they already charge invalid settlement class combinations. We note that requiring DNOs to charge invalid settlement combinations ensures that other customers are not picking up these charges, thus facilitating DCUSA Charging Objective 3.2.3. However, charging invalid customers using the default domestic unrestricted tariff may not accurately reflect the MPANs' true tariff class and may therefore not be cost reflective.

We consider that correcting the remaining invalid settlement combinations will result in the most cost reflective charges. We consider that with the minimal volumes involved (only 260 MPANs in one licence area); the potential benefits of correcting invalid settlement combinations should have been assessed.

One supplier suggested that this change proposal also facilitates Charging Objective 3.2.3 by reducing the number of manual changes to Settlement Class data, thus potentially reducing the number of errors. We consider that all parties should have robust quality assurance processes in place to ensure that data inputted are accurate. We therefore consider that the actual benefit of this under DCUSA Charging Objective 3.2.3 is minimal.

Overall, based on the evidence provided, we cannot be confident that, on balance, this change proposal better facilitates DCUSA Charging Objective 3.2.3.

**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';**

One respondent considered that this change proposal helps facilitate DCUSA Charging Objective 3.2.1 by ensuring that DNOs do not manipulate settlement class data, thus placing them in breach of the Master Registration Agreement (MRA) and, as such, their Distribution Licence. We note that, under the Clause 28 of the MRA, distributors only have a responsibility to submit accurate data to the MPAS. We therefore consider that this change proposal has a neutral impact on DCUSA Charging Objective 3.2.1.

## **Decision notice**

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP141: *'Invalid Settlement Classes'* not be made.

**Andy Burgess**

**Associate Partner – Transmission and Distribution Policy**

Signed on behalf of the Authority and authorised for that purpose