

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP146 – HH Invoice Runs		
Decision:	The Authority ¹ directs that proposal DCP146 be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested parties		
Date of publication:	19 February 2013	Implementation Date:	1 October 2013

Background to the modification proposal

Distribution Network Operators (DNOs) invoice suppliers and generators for the cost of distributing electricity from the point of generation to consumption. Distribution Use of System (DUoS) charges are incorporated into the total electricity bill that the consumer receives from their supplier.³

Half-Hourly (HH) meters measure how much electricity is used every half hour of every day. DNOs and suppliers receive updated HH meter data on an ongoing basis.

There are currently no restrictions on the number of HH invoice runs that a DNO can send to a supplier. The DNOs therefore adopt several different approaches to the frequency of invoices (daily, weekly or bi-monthly).

The modification proposal

This modification was raised by E.ON (the proposer) following discussions at a DUoS billing forum.⁴ It aims to ensure that all distributors adopt a common approach to billing DUoS charges.

It is proposed that DNOs should use reasonable endeavours to ensure that they only submit two HH billing runs each month, one in the first seven days of the month and one in the second seven days of the month. The DCMF MIG assessed the different methods used by DNOs and considered that this method is the optimum approach.

The proposer believes that the modification will better facilitate DCUSA General Objective 3.1.2, on the basis that having a common approach to billing will make it easier for suppliers to validate DNO invoices. The proposer considers that this modification will help promote competition by providing more transparency on how DUoS charges are calculated, which would be of particular benefit for small suppliers and new entrants to the supply market.

DCUSA Parties' recommendation

The Change Declaration for DCP146 indicates that DNO, IDNO/OTSO⁵, Supplier and DG⁶ parties were eligible to vote on DCP146. In the IDNO and Supplier categories there was unanimous support for the proposal and for its proposed implementation date. In the DNO category there was minority support for the proposal and its proposed implementation date. No votes were cast in the DG party category. In accordance with the weighted vote procedure, the recommendation to us is that DCP146 should be rejected. The outcome of the weighted vote is set out in the table below:

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

³ On average, electricity distribution Use of System (UoS) charges account for approximately 20-25 per cent of the total value of the bill.

⁴ The Distribution Charging Methodologies Forum (DCMF) Methodology Issues Group (MIG) Billing Supergroup

⁵ Offshore Transmission System Operators

⁶ Distributed Generation

DCP146	WEIGHTED VOTING (%)							
	DNO		IDNO/OTSO		SUPPLIER		DG	
	Accept	Reject	Accept	Reject	Accept	Reject	Accept	Reject
CHANGE SOLUTION	36	64	100	0	100	0	n/a	n/a
IMPLEMENTATION DATE	54	46	100	0	100	0	n/a	n/a

Our decision

We have considered the issues raised by the proposal and the Change Declaration dated 11 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 DCP146 will better facilitate the achievement of the General DCUSA objectives⁷; and
- directing that the change is approved is consistent with our principal objective and statutory duties.⁸

Reasons for the Authority's decision

This section provides our reasons for rejecting the change proposal against the DCUSA General Objectives which, in our view, are relevant to our decision. We consider that the proposal is neutral in relation to the other DCUSA General Objectives.

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 limiting the distributors to two HH billing runs each month will improve transparency on when and how often DUoS charges are billed. The proposer considers that this will improve transparency for suppliers, with proportionately greater benefits for new market entrants and smaller suppliers therefore facilitating effective competition. We agree that this change proposal will improve transparency and will better facilitate DCUSA General Objective 3.1.2.

Whilst we note that all the suppliers voted in support of this change proposal, one DNO had concerns that smaller suppliers (especially those that specialise in the HH market) could be adversely affected by this change proposal. More regular HH invoice billing has the benefit of spreading costs, thus potentially reducing suppliers' credit cover requirements. Increasing credit cover arrangements can be more problematic for smaller suppliers than their larger supply counterparts. Whilst we recognise this concern, smaller suppliers have not suggested that this will have a material impact on their credit cover arrangements, as they are already required to take account of the maximum level that they could be exposed to.

We agree that fewer HH invoice runs should reduce validation costs for suppliers. We also agree that greater certainty of when and how often HH invoices run are conducted would improve transparency for suppliers, thus facilitating General Objective 3.1.2. On balance,

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

we therefore consider that this change proposal better facilitates DCUSA General Objective 3.1.2.

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

One DNO has suggested that this modification may increase the number of HH Meter Point Administration Numbers (MPANs) that are billed using estimated meter readings, thus potentially leading to more data turnover and disputes. This DNO suggested that this would increase billing costs and hinder the facilitation of an efficient distribution system. We agree with the suppliers that the change proposal may increase the number of disputes, but consider that any issues would be resolved quickly and easily during the next invoice run.

Under the current arrangements DNOs are able to make an informed decision about when and how often to invoice suppliers, based on a number of different factors (including the availability of resources, accuracy of data, cash flow and credit cover positions). We note that this change proposal may restrict DNOs from being able to alter their ongoing billing practices. However we consider that the use of "reasonable endeavours" in the legal drafting provides DNOs with some flexibility to process additional, exceptional, invoice runs. We therefore do not consider that limiting the DNOs to two HH invoices per month will adversely affect a DNOs' cash position or limit their ability to finance their activities.

Overall, we therefore consider that this change proposal has a neutral impact on DCUSA General Objective 3.1.1.

Additional Comments

Two DNOs noted that there was a cost for their organisation of implementing this change proposal. One DNO suggested that the required changes to IT systems would cost it approximately £200,000-£250,000 with some additional business costs.

The suppliers considered that this change proposal would reduce the cost of validating DUoS invoices and noted that there was a financial cost of not implementing DCP146. One supplier noted that one DNO currently billed on a daily basis and suggested that if all DNOs moved to daily billing, then this would cost them an additional £355,000 per year.

Based on the evidence provided, we consider that the reduced validation costs for suppliers in the longer-term, and the potential benefits of more effective competition in the supply market, should outweigh the immediate cost of implementing this change proposal for distributors.

Decision notice

In accordance with standard licence condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP146: '*HH invoice runs*' be made.

Andy Burgess

Associate Partner, Transmission and Distribution Policy

Signed on behalf of the Authority and authorised for that purpose