

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP089 – DNO (I) DNO Billing		
Decision:	The Authority ¹ directs that proposal DCP089 be made ²		
Target audience:	DCUSA Panel, Parties to the DCUSA and other interested Parties		
Date of publication:	19 th September 2011	Implementation Date:	3rd November 2011

Background to the modification proposal

Standard Licence Condition (SLC) 50, which came into effect on the 1 July 2009, placed an obligation on DNOs to develop a common distribution charging methodology (CDCM) for calculating use of system (UoS) charges. On 1 April 2010 the CDCM came into effect following an approval by the Authority³. The CDCM stipulates that separate downstream distributors (typically IDNOs or DNOs operating out of area), connected at high voltage (HV) and low voltage (LV)⁴ to the DNO network, will be billed for use of system (UoS) according to their entire portfolio of end customers⁵.

Prior to the introduction of portfolio billing DNOs charged IDNOs for UoS on the basis of measured flows across the boundary between networks. The form of measurement used was almost universally full settlement type metering. In April 2010, Ofgem published our boundary metering decision⁶. In the decision document we outlined our view that more proportionate arrangements for measuring flows over the boundary would be achieved if the DNO funded the equipment. One consequence of this decision is that boundary metering or other equipment to measure flows of electricity will not be installed at all IDNO sites going forward.

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 arrangements for portfolio billing. These working groups have previously brought forward a number of proposed modifications to both the balancing and settlement code (BSC)⁷ and DCUSA to facilitate portfolio billing. Given the time restrictions imposed on the working groups in terms of implementing a portfolio billing system by April 2010, the groups agreed on the implementation of an interim solution in April 2010 and decided that it could be superseded by more robust processes.

The interim solution was introduced through DCP060⁸ in order to amend the DCUSA and insert a new schedule (Schedule 19) that formalises data arrangements regarding portfolio billing. This modification facilitated the billing for UoS of downstream distributors who operate within a DNO's distribution supply area but are not directly connected to the DNO's network ('nested networks').

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 [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)

⁴ 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.

⁵ 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.

⁶ [Decision on Independent Distribution Network Operator \(IDNO\)/Distribution Network Operator \(DNO\) boundary equipment and which parties should fund this equipment - More Document Information](#)

⁷ P246 link to decision letter:

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

⁸ [DCP060 Introduction of Portfolio Billing Alternative Solution](#)

Since April 2011 the group has been considering what the longer term arrangements for DNO/IDNO billing might be (the so called “enduring” arrangements).

As part of its work, the group consulted on 6 occasions:

When	Subject of consultation
November 2009	Portfolio billing, use of central agent, procurement considerations
December 2009	Reconciliation to boundary metering and loss adjustment
January 2010	Use of Line loss factor class, Profile Class, Standard Settlement Configuration and Time Pattern Regime to validate tariffs
May 2010	Implications of nested networks on portfolio billing
July 2010	Proposed billing solution
February 2011	Alternative billing solutions

Following the February 2011 consultation, the group agreed that the enduring billing solution would be an evolution of the interim solution. The group concluded that a DCUSA change proposal (DCP089) should be raised to enable the agreed billing arrangements, excluding nested network situations⁹. Corresponding changes to the BSC and metering restrigation agreement (MRA) must also be made and the appropriate change proposals have been drafted. At the same time, the group wants to reflect Ofgem’s boundary metering decision into the current governance arrangements.

The modification proposal

The change proposal has been raised by UK Power Networks following the report of the IDNO/DNO Billing Group to the Panel. In general, it proposes to supersede the DCP060 interim solution with an enduring billing solution which brings Ofgem’s decision on boundary metering into the current governance arrangement.

In particular, the modification intends to:

1. Reflect Ofgem’s boundary metering decision on the circumstances when it is appropriate to use boundary metering data to bill for UoS, and who should pay for this metering equipment. Specifically:
 - a) Upstream distributors (typically DNOs) are entitled to install metering at the boundary with downstream distributors (typically IDNOs or out of area DNOs) provided that they pay for this equipment;
 - b) Upstream distributors are entitled to access the premises of downstream distributors to access any metering they have installed (at their own cost) as well as metering installed by downstream distributors to collect data from that meter;
 - c) The party who is required or entitled to install and maintain metering equipment under DCUSA is required to pay for its testing, recalibration or replacement.
 - d) For connections which are exempted from portfolio billing (EHV Distribution charging methodology (EDCM) customers), the upstream distributor can use data from meters that it has installed to bill downstream distributors for UoS;

⁹ Billing arrangements for nested networks are being dealt with separately through DCP090.

- e) For connections which are subject to portfolio billing (CDCM customers), the upstream distributor must use portfolio tariffs to bill a downstream distributor for UoS.
2. Maintain the current practice in relation to boundaries between DNOs at Systems Connection Points¹⁰. Specifically:
 - a) Recipients of energy, which at a Grid Supply Point (GSP) is typically a DNO, are required to install and maintain metering (at their own cost) at any Connection Point which is also a Systems Connection Point and to provide metering data (at their own cost) to the upstream distributor;
 - b) Upstream distributors are entitled to access the premises of the recipient of energy to access any metering to collect data from that meter;
 - c) Upstream distributors can use the data from meters to bill the recipient of energy for UoS.
 3. Amends the portfolio billing process in Schedule 19 of DCUSA. The changes require downstream distributors to provide a return to the upstream distributors on the number of HH customers connected to their network even when that number is nil.

The change report states that although additional changes may come about through the EDCM and other industry codes, there will be no interaction with this proposal as it is a standalone change proposal.

DCUSA Parties' recommendation

The Change Declaration for this change proposal indicates that DNO and IDNO parties were eligible to vote on DCP-089. Additionally, the DCP089 Working Group considered that only DNO and IDNO were eligible to vote on the change proposal, as Suppliers are not included in the billing process between IDNO and DNOs and they would not be impacted by the proposal. In each party category where votes were cast there was unanimous support for the proposal and its proposed implementation date. In accordance with the weighted vote procedure, the recommendation to the Authority is that DCP089 is accepted. The outcome of the weighted vote is set out in the table below:

DCP089	WEIGHTED VOTING (%)			
	DNO		IDNO	
	Accept	Reject	Accept	Reject
CHANGE SOLUTION	100	0	100	0
IMPLEMENTATION DATE	100	0	100	0

The Authority's decision

The Authority has considered the issues raised by the proposal and the Change Declaration dated 15th of August 2011. The Authority has considered and taken into account the vote of the DCUSA Parties on the proposal which is attached to the Change Declaration. The Authority has concluded that:

1. Implementation of the change proposal DCP089 will better facilitate the achievement of the General DCUSA objectives; and
2. directing that the change is approved is consistent with the Authority's principal objective and statutory duties¹¹.

¹⁰ Systems Connection Point means a point of connection (whether consisting of one or more circuits) between two or more Systems excluding a point of connection between Distribution Systems in the same GSP Group.

Reasons for the Authority's decision

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 relevant DCUSA objectives 1 and 3.

We believe that the proposed changes to the governance arrangements in relation to portfolio billing are compatible with our boundary metering decision of April 2010 and clarify the data requirements under portfolio billing. We welcome the move to formalise some of these billing practices under appropriate governance arrangements.

We believe the proposal facilitates relevant DCUSA objectives 1 and 3 and is neutral for the other DCUSA objectives.

DCUSA Objective 1- The development, maintenance and operation by each of the DNO Parties and IDNO Parties of an efficient, co-ordinated, and economical Distribution System.

We agree that the proposal better meets this objective. In March 2010 the Authority set out its view on the proportionate metering arrangements which should exist at the boundary between IDNO and DNO networks¹². This stated that the practice regarding the installation of half hourly (HH) metering equipment (at the IDNOs' expense) to measure electrical flows at the boundary for HV and LV connections appeared disproportionate. We highlighted that the benefits of such metering were outweighed by the costs they imposed and hence were inefficient. We stated that from 1 April 2010 we expected any boundary equipment installed at HV or LV connection points to be funded by DNOs. We also flagged the potential to use portfolio billing (as developed under the CDCM) as an alternative.

The modification reflects the policy which we outlined in our boundary metering decision and encourages the efficient development of the distribution system by removing any potential barriers imposed by the current governance arrangements.

This decision sets out more proportionate arrangements for measuring electrical flows and for billing between IDNOs and DNOs. Consequently, the adoption of this policy into DCUSA leads to a more efficient, co-ordinated and economical distribution system.

DCUSA objective 3- The efficient discharge by each of the DNO Parties and IDNO Parties of the obligations imposed upon them by their Distribution Licences.

We agree that the proposal also better meets this objective. The DCUSA governance arrangements should reflect and align with the licence obligations. It is appropriate for the relevant clauses in DCUSA to change so that licensees can discharge their obligations efficiently.

As set out above, the Authority acknowledges that the proposal will promote efficiency in the portfolio billing process. Portfolio billing of HV and LV customers is mandated by the CDCM. DNOs were required by SLC50 of the Electricity Distribution Licence to bring into effect the CDCM from 1 April 2010. The improvements in the efficiency of the billing process brought about by the implementation of the enduring billing solution, and

¹¹ 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.

¹²<http://www.ofgem.gov.uk/Networks/ElecDist/Policy/IDNOs/Documents1/Final%20boundary%20metering%20decision.pdf>

clarification of existing data requirements, will assist DNOs in the efficient discharge of this licence condition.

Therefore, the Authority considers that by promoting efficiency in the implementation of the CDCM, the proposal better facilitates the achievement of DCUSA objective 3.

Decision notice

In accordance with Standard Licence Condition 22.14 of the Electricity Distribution Licence, the Authority hereby directs that modification proposal DCP089: '*DNO (I) DNO Billing*' be made.

Rachel Fletcher

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Duly authorised on behalf of the Gas and Electricity Markets Authority