

Proposed variation:	Distribution Connection and Use of System Agreement (DCUSA) DCP057: Flexible funding model		
Decision:	The Authority ¹ directs that this variation is not made		
Target audience:	Parties to the DCUSA and other interested parties		
Date of publication:	24 February 2010	Implementation Date:	n/a

Background to the proposed variation

In November 2009 the Authority approved, subject to a number of conditions², a common distribution charging methodology (CDCM) which is to be implemented on 1 April 2010. The CDCM outlines that separate downstream distributors (typically IDNOs) connected to the DNO network will be billed for use of system (UoS) according to their entire portfolio of end customers³.

DNOs and IDNOs established a DCUSA working group to consider how the portfolio billing of downstream distributors would be implemented. One proposal is for a central agent to receive the settlement data of downstream distributors and use a series of lookup tables to map this data onto the appropriate tariffs. The group considered that any central agent would have to be procured by an entity representing both IDNOs and DNOs.

The DCUSA working group considered that DCUSA Ltd appeared to be the most appropriate body to procure any central agent but considered that the DCUSA was not clear as to whether the Panel was able to procure these services. DCP056 was raised in order to remove any doubt that the Panel could procure such services and do so in anticipation of changes to DCUSA. DCP057 was raised to give the DCUSA Panel the power to specify an allocation model for the costs associated with the procurement of these services and also for any future services or activities introduced through any change process.

Currently the DCUSA requires that recoverable costs are apportioned to DCUSA Parties based on a formula set out in Clause 8.9.2 on a quarterly basis. However concerns were raised from DCUSA parties about how the costs of activities such as procuring a central DNO/IDNO billing agent would be allocated between DCUSA parties. Suppliers and generators considered that the decision to procure such an agent was an IDNO/DNO decision which did not aid the fulfilment of their DCUSA obligations.

The proposed variation

The proposed variation ('proposal') seeks to amend the DCUSA to permit the DCUSA Panel to alter the share of costs recovered from DCUSA parties for any project or activity where the Panel feels it is appropriate or where a change process outlines it.

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 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.

Recommendation

The DCUSA Parties recommended to the Authority that DCP057 be implemented, although the Authority notes that a minority of parties rejected the proposal largely on the basis that discretion over costs should not rest with the DCUSA Panel alone. The Panel recommended an implementation in February 2010 in order to coincide with the potential process of procuring of a DNO/IDNO billing agent.

The Authority's decision

The Authority has considered the issues raised by DCP057 and the final Change Declaration dated 20 January 2010 and the comments made by respondents to the initial assessment. The Authority has concluded that:

1. implementation of the proposed variation will not better facilitate the achievement of the Applicable DCUSA Objectives⁴; and
2. directing that the proposed variation be made is not consistent with the Authority's principal objective and statutory duties⁵.

Consequently, the Authority rejects the proposed variation.

Reasons for the Authority's decision

The Authority notes that this proposal was supported by over 50% of DNO, IDNO and supplier parties but that it did not receive unanimous support. The Authority notes that the DCUSA Panel consider that the proposal will better facilitate DCUSA objective (a) and may also better facilitate DCUSA objective (b) although no detailed supporting reasons were provided.

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

The Authority considers that in regards to portfolio billing there would be a clear incentive on DNOs and IDNOs to implement the most efficient arrangements if they, as the party imposing the costs, are also the only ones who paid these costs. If suppliers and generators contributed to the funding of a portfolio billing agent the incentives on DNO and IDNOs to invest in an efficient service would be weaker. However, the Authority notes the proposal does not just relate to portfolio billing and gives the Panel the power to allocate a specific funding model for any activities or projects which it considers appropriate and have been approved as part of the change process.

As outlined above, the Authority is concerned that this gives the Panel broad discretion to allocate costs to parties without any checks or balances to do so in a manner which ensures the development and maintenance and operation of an efficient distribution system. For this reason, the Authority considers that the proposal does not better facilitate 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

⁴ As set out in the Distribution Licence Standard Condition 22.13

⁵The 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 is again concerned that the proposal does not appear to set out any checks and balances over the manner in which the Panel can choose to allocate the costs of future activities inserted into DCUSA. Subsequently, there is nothing to prevent the Panel using the powers proscribed to it within this proposal to allocate costs of any future activities introduced into the DCUSA amongst DCUSA parties in a manner which could restrict competition in the generation and supply of electricity. Consequently, the Authority considers that the proposal does not better facilitate the achievement of DCUSA objective (b).

DCUSA objective (d) – the promotion of efficiency in the implementation and administration of this agreement.

The Authority considers that providing the Panel with broad discretion to allocate costs associated with a future change proposal without the necessary checks and balances may not facilitate the most efficient administration of DCUSA. The Panel may have to devote considerable time to discussing and agreeing the mechanism through which some activities are funded and that there do not appear to be sufficient checks and balances to protect DCUSA parties impacted by the allocation of costs associated with a future proposal. The Authority does not consider that this is an efficient mechanism through which to operate DCUSA.

Consequently, the Authority considers that the proposal does not better facilitate the achievement of DCUSA objective (d).

Decision notice

In accordance with Standard Condition 22 of the Distribution Licence, the Authority hereby directs that the proposed variation set out in DCP056: 'Flexible funding model' is not made.

Rachel Fletcher
Partner, Distribution

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