



## **DCUSA CONSULTATION**

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**DCP 203 – The Rationalisation of Discount Factors Used to Determine LDNO Use of System Tariffs Relating to UMS Connections on Embedded Distribution Networks and the Associated LDNO Tariffs**

## 1 PURPOSE

- 1.1 The Distribution Connection and Use of System Agreement (DCUSA) is a multi-party contract between Electricity Distributors, Electricity Suppliers and large Generators.
- 1.2 Parties to the DCUSA can raise a DCUSA Change Proposal (“DCP”) to amend the Agreement. DCPs should better facilitate the DCUSA General Objectives and/or Charging Objectives of the DCUSA document.
- 1.3 Amendments to the DCUSA may only be made with the consent of a majority proportion of Parties to the DCUSA, through a voting process, or (where applicable) the Gas and Electricity Markets Authority.<sup>1</sup>
- 1.4 When a DCP is raised, a Working Group is established to assess and develop the proposal in consultation with industry parties and other interested parties.
- 1.5 This document is the third consultation issued in accordance with Clause 11.14 of the DCUSA and seeks industry views on Change Proposal DCP 203 ‘The rationalisation of Discount Factors Used to Determine LDNO Use of System Tariffs Relating to UMS Connections on Embedded Distribution Networks and the Associated LDNO Tariffs’.
- 1.6 The Consultation has been issued to DCUSA Parties, Interested Parties, the Distribution Charging Methodologies Forum (DCMF) Distribution List and Ofgem.
- 1.7 Parties are invited to consider the Change Proposal detailed in this consultation and submit comments using the form attached as Attachment E to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) by **15 April 2015**.

## 2 INTENT OF DCP 203 – THE RATIONALISATION OF DISCOUNT FACTORS USED TO DETERMINE LDNO USE OF SYSTEM TARIFFS RELATING TO UMS CONNECTIONS ON EMBEDDED DISTRIBUTION NETWORKS AND THE ASSOCIATED LDNO TARIFFS

- 2.1 DCP 203 has been raised by ESP Electricity Limited and the intent of this change proposal is to make the required amendments to the DCUSA that will reduce the number of Licenced Distribution Network Operator (LDNO) discount factors for Unmetered Supplies (UMS) connections to LDNO networks.

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<sup>1</sup> For more information about GEMA visit the Ofgem website: <http://www.ofgem.gov.uk/TheAuthority>

- 2.2 The Proposer explains that under the current arrangements, schedule 19 of the DCUSA, entitled Portfolio Billing, sets out the rules for inter-distributor Use of System (UoS) billing where an LDNO is connected to the host DNO and subsequently connects end users to that LDNO's distribution system.
- 2.3 This process requires that end user's MPANs be linked to a Line Loss Factor Class (LLFC) identifier (as defined in the Master Registration Agreement (MRA)). The LLFC shows the voltage of connection of the LDNO's distribution system to the DNO network (i.e. DNO/LDNO boundary network level) and the network voltage of the LDNO's end user customer. In the case of connections provided to UMS Customers that have multiple exit points, often distributed amongst a wide geographic area containing a number of different LDNO distribution systems, the process becomes more complex. Such UMS customers are more often than not Local Authorities (LAs) that are responsible for public street lighting. Such a scenario requires that each UMS customer must trade an additional separate MPAN for each LDNO operating in its area.
- 2.4 As a result, in order to accommodate inter-distributor billing, the LDNO must also ensure that it can differentiate between the connected voltages. So the inventory that a customer provides to an LDNO has to be split by the LDNO across the various voltages and an MPAN applied to each. Potentially a UMS customer with connections to multiple embedded networks connected at multiple voltages could have up to approximately 215 different MPANs and as a consequence 215 bills.
- 2.5 The reason behind this high number is that there are currently seven different LDNO boundary network level interface connection arrangements, namely LV, HV, HV Plus, EHV, 132kV/EHV, 132kV, and GSP. For example in early 2015, there are currently five active LDNOs plus one DNO working 'out of area'. Each distributor operating in the customer's area could be required to provide a suite of MPANs for each network level and then for each different energy profile e.g. dusk till dawn, continuous etc.  $7 \text{ network levels} \times 5 \text{ MPANs (4 UMS operational hour bands + 1 HH)} \times 6 \text{ distributors (5 x LDNOs and 1 x distributor working out of area)} + 5 \text{ DNO MPANs} = \text{potentially 215+ MPANs}$ . Whilst this number of MPANs is technically possible, realistically this level would unlikely be reached for a single customer; however as competition in

connections on new housing developments grows the number of MPANs that UMS customers require may substantially increase.

- 2.6 Should this DCP be implemented an LDNO UMS customer would only need one additional MPAN for each UMS category per LDNO operant in its area, thus significantly reducing the associated UMS administration costs to the customer.

### **3 CONSULTATION ONE – JUNE 2014**

- 3.1 The Working Group issued its first consultation in June 2014. This consultation focussed on a proposed solution which created 5 new “LDNO Any: Unmetered” discount tariffs rather than replacing the existing LDNO UMS discount tariffs. The consultation documents and responses are included as Attachment B.
- 3.2 This solution worked by proposing the following changes:
- Schedule 16: paragraph 98 updated to add the new “LDNO Any: Unmetered” discount weighted average discount calculation;
  - Schedule 16: new paragraph 124 added to specify the formula to be used to determine the new LDNO Any: Unmetered” discount;
  - Schedule 16: paragraphs 124 and 125 are renumbered;
  - Schedule 16: Insert new table 10 showing five new “LDNO Any: Unmetered” discount tariffs; and
  - Schedule 17 and 18: Paragraph 24.1, a new sub-paragraph added to allow for the calculation of UMS Connectees discounts associated with LDNO “Designated EHV Property” distribution systems.
- 3.3 The above amendments therefore required an amendment to the charging models (Common Distribution Charging Methodology (CDCM), both versions of the EHV Distribution Charging Methodology (EDCM) and the Price Control Disaggregation Model (PCDM)).

### **REVIEW OF CONSULTATION ONE**

- 3.4 This approach however introduced errors generated by using a weighted average discount. This error increased the greater the divergence between the LDNO’s own portfolio of domestic connections made to networks with different DNO/LDNO boundary network levels and that of the average across the host DNO. Whilst these

differences were not significant in cash terms due to the relatively low value of most LDNO UMS portfolios, the Working Group felt that the error was too large to be considered insignificant.

- 3.5 As well as introducing these errors, the Working Group also felt that the proposed solution introduced additional complexity. As a result, the Working Group agreed to consider alternative solutions to the issues presented to date within DCP 203. The Working Group felt that since DCP 203 was attempting to reduce the complexity of inter-distributor billing arrangements, the conclusion was that the intent of the CP could be met by reviewing and amending Schedule 19 (Portfolio Billing) of the DCUSA. The solution which consultation two focused upon proposed to introduce changes to Schedule 19 that entitle the LDNO to either opt for the current arrangements or settle on one discount factor which would be governed by the boundary network level that connected the majority of the LDNO's domestic portfolio. For example if the LDNO's domestic portfolio was made up of 51% connected at a HV boundary network level and 49% LV – then the LDNO would opt for the entire inventory to be settled with a HV LDNO discount factor.
- 3.6 The Working Group discussed the basis for determining the applicable LLFC to be applied by the LDNO. The determining factor for the LDNO discount will be based on the upstream LDNO/DNO boundary connection level of the majority of all domestic LDNO connections. The logic being that in time, should the CP be implemented, the LDNOs will not be raising MPANs for UMS connections with different LDNO/DNO boundaries. This may make it difficult in future to easily determine the network level to which each UMS connection is connected. So, for example if the LDNO has agreed with the host DNO that they use a LLFC that represents an LV LDNO discount for all relevant UMS connections, then all the UMS connections would appear to be connected to the DNO at LV, when some may be connected at other network levels.
- 3.7 The upstream LDNO/DNO boundary connection level of the majority of LDNO domestic connections should be a good proxy for upstream LDNO/DNO boundary connection level of the majority of LDNO UMS connections, since the ratio of domestic connections to street lights is considered to be fairly constant across all DNO service areas. Furthermore a high proportion of UMS connections relate to street lighting so these numbers can therefore be considered a good representation of the total number of UMS connections to the LDNO network. Using the domestic

connections will form an enduring basis for the determination of the LLFC to be applied.

- 3.8 The host DNO will be able to review the D0314 data flow (Non Half Hourly Embedded Network DUoS Report) to confirm the LLFC requested by the LDNO is the appropriate LLFC. The D0314 contains the LLFCs and MPAN counts for all NHH connections in the DNO's distribution area for the Embedded LDNO and the LLFCs identify the DNO/LDNO boundary network level of those MPANs.
- 3.9 The Working Group agreed that a further consultation should be issued in order to garner further Industry views regarding this proposed approach to meeting the intent of DCP 203.

#### **4 CONSULTATION TWO – OCTOBER 2014**

- 4.1 The Working Group issued its second consultation in October 2014 (included as Attachment C) in order to gather further Industry views on the proposed approach being put forward. The draft legal text proposed the following changes to Schedule 19 'Portfolio Billing' to be amended to:

- Provide clarity for MPAN Report (Clause 4.1) to include Pseudo HH UMS MPANs;
- Add reference to Clause 5.2 to allow auditing for determining the LLFC Id requested by the Embedded LDNO); and
- Add Clause 6.1 to describe the method of applying the correct LLFC Id i.e. based on the majority of connections for a particular DNO/LDNO boundary network level.

- 4.2 During the review of the consultation responses, it was highlighted that further changes to the legal text would also be needed to the Charging Methodology Schedules 16, 17 and 18 of the DCUSA. It was therefore agreed that a further consultation would be issued once the legal text had been updated.

#### **5 PROPOSED LEGAL DRAFTING**

- 5.1 The proposed legal drafting for DCP 203 is included as Attachment D.
- 5.2 The draft legal text proposed the following changes to:
- Schedule 16: Clause 147, have all been amended to reflect that UMS LDNO tariffs LLFCs are not dependent on the voltage of connection to the DNO.

- Schedule 17: Clause 26.2 and Schedule 18: Clause 26.2 have all been amended to reflect that UMS LDNO tariffs LLFCs are not dependent on the voltage of connection to the DNO.
- Schedule 19 'Portfolio Billing' to be amended to:
  - Clause 4.1 - clarified to state that the report includes Pseudo HH UMS MPANs.
  - Clause 5.2 - audit scope to include LLFC Id application verification.
  - Clause 6.1 – 6.3 added to provide detail on UMS LDNO LLFC allocation.

## 6 CURRENT CONSULTATION

- 6.1 This consultation is primarily looking to garner views on the proposed legal drafting and whether these changes meet the intent of the change proposal.
- 6.2 As identified from the responses to the second consultation, in order to implement the solution as now proposed, changes would be required to the Charging Methodology Schedules 16, 17 and 18 in addition to those in Schedule 19 'Portfolio Billing'.
- 6.3 The Working Group would like for Parties to consider the following consultation questions:
1. Do you agree with the intent of DCP 203?
  2. Do you agree with the principles of DCP 203?
  3. Do you have any comments on the proposed legal text? Provide supporting comments.
  4. Are there any alternative solutions or matters that should be considered by the Working Group?
- 6.4 The Consultation response form (Attachment E) should be submitted to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) no later than **15 April 2015**. Parties are asked to provide as much relevant detail as possible to enable the Working Group to understand the comments and the reasons behind them.
- 6.5 Responses, or any part thereof, can be provided in confidence. Parties are asked to clearly indicate any parts of a response that are to be treated confidentially.

## 7 NEXT STEPS

- 7.1 Following the end of the consultation period the Working Group will meet to review and consider the responses. The DCP 203 Working Group will continue to progress its

work developing and analysing the CP.

- 7.2 If you have any questions about this paper or the DCUSA Change Process or would like to participate in the Working Group please contact the DCUSA Help Desk by email to [dcusa@electralink.co.uk](mailto:dcusa@electralink.co.uk) or telephone 020 7432 3014.

## **8 ATTACHMENTS**

- Attachment A – DCP 203 Change Proposal
- Attachment B – DCP 203 Consultation One – June 2014
- Attachment C – DCP 203 Consultation Two – October 2014
- Attachment D – DCP 203 Proposed Legal Text
- Attachment E – DCP 203 Response Form