



DCUSA CONSULTATION

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 and 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 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.¹
- 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 a second 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 by **5 November 2014**.

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 LDNO discount factors for UMS connections to LDNO networks.
- 2.2 The Proposer explains that under the current arrangements, schedule 19 of the

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

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. This process requires that end user's MPANs be linked to a Line Loss Factor Class (LLFC) identifier (as defined in the 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 UMS 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. Furthermore, 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 LA customer with connections to multiple embedded networks connected at multiple voltages could have up to approximately 180 different MPANs and as a consequence 180 bills for the street lighting.

- 2.3 The reason behind this high number is that there are currently seven different IDNO boundary network level interface connection arrangements, namely LV/LV, HV/LV, HV Plus, EHV, 132kV/EHV, 132kV, and GSP. There are currently five active IDNOs 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 network levels x 5 MPANs (4 UMS operational hour bands + 1 HH) x 6 distributors (5 x IDNOs and 1 x distributor working out of area) + 5 DNO MPANs = potentially 180+ 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 may require will substantially increase.
- 2.4 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.
 - 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).

- 3.4 This approach however introduced errors generated by using an average weighted discount. This error increased the greater the divergence between the LDNO's own portfolio of domestic connections made to networks with different DNO/IDNO 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.
- 3.6 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.
- 3.7 The solution which this consultation focuses upon proposes to introduce changes to Schedule 19 that entitles 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 UMS portfolio. For example if the LDNO's UMS 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.
- 3.8 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 NHH 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 to easily determine the network level that each UMS connection is made at. 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. Using the NHH domestic connections will form an enduring basis for the determination of the LLFC to be applied.

- 3.9 The 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 EDNO and the LLFCs identify the POC voltage level of those MPANs.
- 3.10 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 DCP 203 – LEGAL DRAFTING

- 4.1 The proposed legal drafting is included as Attachment C. The draft proposes 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)
 - 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 POC Voltage level.

5 EVALUATION AGAINST THE DCUSA OBJECTIVES

- 5.1 The Working Group has evaluated DCP 203 against the DCUSA Objectives and has concluded that General Objectives 1 and 2 are better met.
- 5.2 General Objective 1 is better met as the administration on LDNO parties is reduced and therefore leads to a more efficient and co-ordinated distribution network. The reduction to the LDNOs administration arise from the removal of the requirement to raise different MPANs for the same UMS customer that has connections on it inventory to LDNO networks with different LDNO/DNO boundary network levels. This will mean that the management of the customer's inventory by the LDNO's UMSO will also be simplified.
- 5.3 General Objective 2 is better met as the current arrangements are leading to significant difficulties being encountered by LDNO's customers that wish to complete Section 38 highways adoption agreement with their respective local authority. This issue exists due to the incremental costs that the local authority is exposed to in

administering the UMS connections associated with the adoption of the highway. This problem is exclusive to LDNO customers, who would not encounter the issue if they were to appoint the DNO to adopt the extension assets. It is therefore reasonable to state that the current arrangements could be considered a potential barrier to competition.

- 5.4 It could be argued that DCUSA Charging Objective 3² is not better met by this CP on the basis that there could be a small impact on overall cost reflectivity in the loss of granularity of the application of LDNO Discount tariffs to UMS connections, however the working group notes that the changes are not material and don't appear to favour either LDNO or DNO parties. The key consideration here is that the objective states that the charge should "so far as reasonably practicable after taking into account implementation costs reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party...". The impact assessment undertaken by the working group shows that the cost disturbance created by the Change Proposal is not significant and when weighted against the reduction in DUoS costs for the UMS customer and administration costs for both the LDNO and the LDNO's UMS customers these costs are far greater than the reduction in inter-distributor cost reflectivity.
- 5.5 Under this proposed solution, the Working Group have evaluated DCP 203 against the DCUSA Charging Objectives and have concluded that as there are no changes to the Charging Methodologies (Schedules 16 – 18) as a result the impact upon these is neutral.

6 CONSULTATION

- 6.1 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.

² that compliance by each DNO Party with the Charging Methodologies results in charges which, so far as is reasonably practicable after taking account of implementation costs, reflect the costs incurred, or reasonably expected to be incurred, by the DNO Party in its Distribution Business

4. The Working Group considers that DCUSA General Objective 1³ and 2⁴ are better facilitated by DCP 203; do you agree with this opinion? Please provide supporting comments on this and any other DCUSA General or Charging Objective you feel is impacted by DCP 203.
5. As the CP does not affect the Charging Methodologies, the change could be implemented in the next DCUSA release following Authority consent. Do you agree with the implementation approach of DCP 203?
6. Do you agree that amending Schedule 19 only would avoid introducing the additional complexity that the first solution would have done?
7. Do you agree that new LDNO entrants to the market should have the choice to opt for the current arrangements or choose to adopt the new approach?
8. Do you agree that that there should be no adverse impact on Suppliers or Customers as a result of the migration to the new arrangements?
9. Do you agree that the basis for determining the applicable LLFC to be applied by the LDNO for the LDNO discount will be based on the upstream LDNO/DNO boundary connection level of the majority of all NHH domestic LDNO connections?
10. Do you agree that the Portfolio Billing data already received by the DNO (in the D0314 flow) will be able to be assessed by the DNO to confirm the LLFC requested by the LDNO is correct?
11. The Working Group believes that the current wording defined in Schedule 19 will support the proposed new UMS LLFC assignment and associated billing arrangements and there should be no impact on Parties IT systems as a result. Do you agree with this assertion? Please provide your rationale if you disagree with this view.
12. Are there any alternative solutions or matters that should be considered by the Working Group?

6.2 The Consultation response form (Attachment E) should be submitted to dcusa@electralink.co.uk no later than **5 November 2014**. 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.

³ The development, maintenance and operation by the DNO Parties and IDNO Parties of efficient, co-ordinated, and economical Distribution Networks

⁴ The facilitation of effective competition in the generation and supply of electricity and (so far as is consistent therewith) the promotion of such competition in the sale, distribution and purchase of electricity

- 6.3 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 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 Proposed Legal Text
- Attachment D – Impact Analysis on Charges
- Attachment E – Response Form