



DCUSA Change Report

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

Executive Summary

DCP 203 seeks to make the required amendments to the DCUSA that will reduce the number of LDNO discount factors for UMS connections to EDNO networks.

This document presents the Change Report for DCP 203 and invites respondents to vote on the proposed change.

1 PURPOSE

- 1.1 This document is issued in accordance with Clause 11.20 of the Distribution Connection Use of System Agreement (DCUSA) and details 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'.
- 1.2 The voting process for the proposed variation and the timetable of the progression of the Change Proposal (CP) through the DCUSA Change Control Process is set out in this document.
- 1.3 Parties are invited to consider the proposed amendments provided as Attachment 2 and submit votes using the form provided as Attachment 1 to dcusa@electralink.co.uk by **15 January 2016**.

2 BACKGROUND AND SUMMARY OF DCP 203

- 2.1 DCP 203 was raised by ESP Electricity Limited and the intent is to make the required amendments to the DCUSA that will reduce the number of Licensed Distribution Network Operator (LDNO) discount factors for UMS connections to LDNO networks. If this CP was to be implemented, it would reduce the number of UMS Customer MPANs required for LDNO Portfolio Billing purposes, and reduce Customer administration costs and tariff charges costs as a result.
- 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. This process requires that end user's MPANs be linked to a Line Loss Factor Class (LLFC) identifier.
- 2.3 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. This information is used by the host DNO to allocate the relevant discount factor to the "All The Way" UoS tariff, to calculate the

associated LDNO tariff that will be applied to the LDNO when the DNO bills the LDNO for the use of its distribution system.

- 2.4 The Proposer further explains that this process works effectively for metered Customers as such Customers tend to have a single, or a small number of exit points per MPAN, typically confined to a single LDNO network. 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.
- 2.5 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 approximately 215 different MPANs and as a consequence 215 invoices for the street lighting. Whilst it is appreciated that some Suppliers combine UMS MPANs on to one invoice, others do not and additional invoices are received by the UMS customer as a result. It is explained that the reason behind the figure of 215+ MPANs 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. 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. $7 \text{ network levels} \times 5 \text{ MPANs (4 UMS NHH operational tariffs + 1 HH)} \times 6 \text{ LDNOs}^1 \text{ (5 x IDNOs and 1 x DNO working out of area)} + 5 \text{ DNO MPANs} = \text{potentially 215 MPANs.}$ While some Suppliers place multiple unmetered MPANs under one bill, it is possible that other Suppliers do not which may lead to additional bills.
- 2.6 Whilst this number of MPANs is technically possible, realistically this level would unlikely be reached for a single Customer with the vast majority of DNO to LDNO

¹ At the time this report was written there was 6 active LDNOs, this is subject to change

connections being at either HV or LV; however as competition in connections on new housing developments grows the number of MPANs that a UMS Customer requires may substantially increase. The implementation of DCP 203 would mean that only 1 network level would be required in the above calculation and this would reduce the maximum number of MPANs from 215 down to 35, i.e. 1 network level x 5 MPANs (4 UMS NHH operational tariffs + 1 HH) x 6 LDNOs² (5 x IDNOs and 1 x DNO working out of area) + 5 DNO MPANs = potentially 35 MPANs.

- 2.7 The Proposer confirmed that Suppliers may be levying administration charges to UMS Customers on a per MPAN basis. Furthermore, there is evidence that administration charges are also levied against UMS Customers by their nominated Meter Administrators (MAs) in respect of each additional MPAN that the MA processes for them. The evidence of additional MPAN and MA charges have been documented in the UMS customer responses to Elexon CP1414 consultation³.
- 2.8 The practice of requiring multiple MPANs for LDNO UMS connections (not something the host DNO has to do) has led to LAs refusing to complete highway adoption agreements with developers who opt to make connections to an LDNO network on the grounds of the increased administration costs that the LA could be exposed to due to the unmetered supply administration issues. This distorts competition as developers face additional obstacles in achieving highway adoption when connecting to an LDNO rather than a DNO network.
- 2.9 The proposed changes under DCP 203 will deliver improved service to UMS Customers by simplifying the current administration process for unmetered connections. The result for end Customers will be a reduction in the number of MPANs required (and the associated administration costs for additional MPANs) to support the varying Point of Connection voltage levels.
- 2.10 The Proposer feels that the simplification of this process will allow developers to award contracts to LDNOs without the fear of highway adoption issues, this in turn will benefit competition in provision of connections and distribution services to distribution networks.

² At the time this report was written there was 6 active LDNOs, this is subject to change

³ <https://www.elexon.co.uk/change-proposal/cp1414/>

- 2.11 It should be noted that, as far as the CDCM is concerned, each additional MPAN would recover the same unit rate for UoS charges. These additional MPANs are required solely for inter-distributor billing purposes. The LDNO will continue to have full legal and regulatory responsibility for connections made to its distribution system.
- 2.12 Given the low volumes of unmetered connections to LDNO networks (when considered relative to DNO connections) and the associated low UoS revenues, the reduction in administration cost would appear to outweigh the loss of cost reflectivity resulting from combining the UoS revenue between the LDNO and the DNO for each network level.
- 2.13 A single LDNO discount will benefit the LDNO as it will reduce the administration of inter-distributor billing costs and also the UMS Customer as it would reduce the number of MPANs required. This change will be cost neutral for DNOs.
- 2.14 The impact in real terms on cost reflectivity of a single discount is that such a change will have a negligible impact (please refer to the Impact Assessment in Section 9) given the low volumes of unmetered connections to LDNO networks (when considered relative to DNO connections) and the associated low UoS revenues. The reduction in administration will benefit the LDNO and UMS Customers. Please see the impact assessment in Section 9 for further detail.

3 PROPOSED LEGAL DRAFTING

- 3.1 The draft legal text for DCP 203 has been reviewed by the DCUSA legal advisors and is provided as Attachment 2.
- 3.2 The draft legal text proposed the following changes to:
- Schedule 16: Clause 147, has 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 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.

4 WORKING GROUP ASSESSMENT OF DCP 203

- 4.1 The DCP 203 Working Group met on 13 occasions. The Working Group was comprised of Distribution Network Operators (DNOs), Independent Distribution Network Operators (IDNOs), as well as Ofgem representation. It is noted that all DCUSA Parties were invited to join the Working Group. Meetings were held in open session and the documents of each meeting are available on the DCUSA website – www.dcusa.co.uk.
- 4.2 The Working Group issued one Request for Information (RFI) and three consultations. These documents are included as Attachments 3, 4, 5, and 6 respectively.
- 4.3 The Working Group notes that the use of terms ‘Portfolio Billing’ and ‘Inter-Distributor Billing’ are used interchangeably throughout this document. These terms have the same meaning as defined in DCUSA Schedule 19 ‘Portfolio Billing’.

5 REQUEST FOR INFORMATION – MARCH 2014

- 5.1 The RFI was issued on 26 March 2014 and requested additional information from DNO and LDNO Parties, along with unmetered supply (UMS) Customers, to further assess the impacts and feasibility of DCP 203.
- 5.2 The RFI sought information on the following:
- For DNOs: Provide information about the number of LDNO UMS MPANs (available from Portfolio Billing data) they have for their distribution area, across how many LDNOs;
 - For LDNOs: Provide information about the number of UMS MPANs they have for each Customer, and how many are within each DNO License area; and
 - For Local Authorities (LA): Provide information regarding how many LDNOs are operating in their area, and how many MPANs they have per LDNO.
- 5.3 There were seven responses received from DNOs and IDNOs, and 44 responses from Local Authorities. The complete set of collated responses and the RFI documents are

included as Attachment 3.

- 5.4 The main conclusions from the RFI were that there was an obvious misalignment between the DNO and IDNO responses to the questions on numbers of UMS MPANs (there were approximately 2,400 MPANs in the IDNO responses and only 750 MPANs in the DNO responses). The Working Group believes that this difference is associated with portfolio billing and the issues of the energisation status for UMS MPANs on LDNO networks not being correctly updated in the Meter Point Administration Service (MPAS). DNOs receive an industry flow (D0314 – Non Half Hourly Embedded Network DUoS Report) from the BSC. This flow records all the ‘energised’ MPANs in the DNO’s distribution area that are connected to the LDNO’s network and updated in MPAS to ‘energised’ by the Supplier. Due to the fact that some UMS Customers do not contract with Suppliers - either through choice i.e. to reduce UMS administration costs for additional MPANs, or by default when their preferred Supplier (with whom they have negotiated competitive tariff rates) is unable to register against the LDNO’s MPAN for commercial reasons e.g. below their required EACs consumption threshold. This is believed by the Working Group to be evidence of the problems for UMS Customers and the additional MPAN costs.

6 WORKING GROUP CONSULTATION ONE – JUNE 2014

- 6.1 The Working Group issued a consultation on 20 June 2014 in order to give parties an opportunity to review and comment on DCP 203. 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.
- 6.2 There were six responses received to the consultation. The Working Group discussed each response and its comments are summarised alongside the collated consultation responses in Attachment 4. A summary of the responses received, and the Working Group’s conclusions are set out below:

Question 1 - Do you agree with the intent of DCP 203?

- 6.3 The Working Group noted that the majority of respondents agreed with the intent of DCP 203.
- 6.4 An IDNO respondent agreed with the intent and explained that the problems

highlighted by the Change Proposer are a major concern for all LDNOs. They believe that if these issues go unchecked that they have the potential to completely stifle the development of LDNO networks which will in-turn have a major impact on Competition in Connections. Furthermore they believe that the current arrangements do not serve the interest of Customers. They claim UMS Customers are being exposed to additional administration costs purely to enable the DNO and LDNO to trade a very small amount of inter-distribution DUOS revenue in respect of UMS connections. The intent of DCP 203 will go some way to helping address these issues.

- 6.5 A DNO respondent, the only respondent to not agree with the intent, noted that they do not agree with the intent due to the reduction in cost reflectivity of Use of System tariffs and the consequences of this. The Working Group noted that whilst this may be true, the reduction in cost reflectivity is negligible due to the low numbers of UMS connections on LDNO MPANs relative to the DNOs.
- 6.6 The Working Group agreed to provide an impact assessment on the existing and new LDNO discount tariffs and include this within the Change Report.

Question 2 – Do you agree with the principles of DCP 203?

- 6.7 The Working Group noted that the majority of respondents agreed with the principles, but two DNO respondents did not agree.
- 6.8 A DNO respondent explained that they do not agree with the principles and are also aware that there is an industry issue if unnecessary costs to Customers are coming from potentially unnecessary administrative costs, but they do not believe this is an issue which should be addressed by the DCUSA. They understand that costs applied by Meter Administrators (MAs) can be high (although as a DNO they do not have visibility of such costs) especially for pseudo half hourly UMS Customers, but this is a commercial arrangement between the UMS Customers and MAs, and hence if these costs are deemed to be unjustifiably high then the MA should be challenged directly. They stated that this proposal proposes a change to the charging methodology which may make a small improvement but will not affect the underlying issue of allegedly high MA charges which should be tackled head-on.
- 6.9 The Working Group noted the comments but noted that Meter Administrators incur

additional costs through having to administer multiple MPANs within a GSP area rather than a single MPAN that includes all of the customer's unmetered connections. It is not unreasonable for a Meter Administrator to factor in these additional costs when setting its charges to an individual customer. The Working Group recognises that DCP 203 will not resolve the situation completely; however, it will make progress to solve portions of the problem.

- 6.10 Another DNO did not agree with the principles and noted that in their view this Change Proposal will produce less cost reflective tariffs by effectively taking a weighted average of the UMS tariffs across voltage levels for all IDNOs. This means that the discount factor applied to the UMS tariffs will be the same for all IDNOs, regardless of the boundary of connection. This will lead to IDNOs with more networks connected at EHV/HV cross subsidising those IDNOs with a greater number of LV connected networks. A knock on impact is that this will distort competition in connections by providing an additional financial incentive to connect at a higher voltage level and an additional cost at lower voltages.
- 6.11 The Working Group disagreed with this response as the adoption of networks is solely based on LDNO metered connections and not on UMS connections. Given the relative revenue generated by the UMS connections versus domestic connections there is no financial incentive for the LDNO to connect at higher voltage level. LDNOs have the same license conditions as DNOs and have a 'duty to develop and maintain an efficient, co-ordinated, and economical system of electricity distribution'. Furthermore, the Point of Connection (POC) voltage is governed by the load requirements and the availability by the DNO. An LDNO would not 'opt' for a HV connection over an LV POC, and go on to install a substation (in most cases) with the associated costs, in an attempt to benefit from the LDNO UMS tariff. Please refer to the Impact Assessment in Section 9 of this Change Report.
- 6.12 An IDNO respondent agreed with the principles and explained that removing the multiple discount factors for UMS connections is a sensible approach to this industry issue. It reduces costs for customers by removing the requirement for multiple MPANs to facilitate LDNO charging. They also state that it reduces the costs of administration for the IDNOs when carrying out LDNO charging (and cost neutral for DNOs).

Questions 3 - Do you have any comments on the proposed legal text? Provide supporting comments

- 6.13 A DNO respondent noted that they believe there is an issue with the legal text allowing an LDNO party to actively reduce their DUoS charges from the host DNO by choosing the lowest tariff possible for each Customer. For example an LDNO could easily benefit from using the new 'LDNO Any' UMS tariffs for their UMS Customers with LV DNO boundaries, thus receiving a higher discount than the 'LDNO LV' UMS tariff, whilst using the voltage specific tariffs for UMS Customers with higher voltage DNO boundaries, thus receiving a higher discount than the 'LDNO Any' tariff. They do not think the legal text is clear enough that this should be prohibited. They are also concerned about the policing of this matter.
- 6.14 The Working Group highlighted that the driver for these decisions will be to reduce the number of MPANs. The Working Group agreed to modify the legal text to mandate the LDNO Any tariff can only be used when the LDNO has networks connected to the host DNO at more than one interface boundary level.
- 6.15 A different DNO respondent highlighted that in Section 124 they believe that the words 'forecast for the charging year' should be added instead of 'determine' and that the word 'made' should be removed. This change will ensure that the calculation reflects the number of MPANs in the charging year.
- 6.16 The DNO Parties will forecast for the charging year, determine the total number of Domestic connections made to LDNO networks, split by LDNO discount category (relating to each of the LDNO boundary network levels), within the DNO Party's Distribution Services Area.
- 6.17 In the equation in Section 124, the top part concerns energised MPANs whereas the bottom part does not. They do not believe this is the intent of DCP 203, and propose adding "energised" before the second "Domestic".
- 6.18 Total No. of LDNO Domestic connections in DNO DSA = the total number of energised Domestic MPANs registered against LDNO networks within the DNO Party's Distribution Services Area.
- 6.19 The Working Group agreed to amend the legal text in line with the comments

received from this respondent.

Questions 4 - Do you have any comments on the model specification documents?

Provide supporting comments.

- 6.20 A DNO respondent noted that they did not have any comments specifically but highlighted that this change is introducing several new tariffs, as are DCP 179 and DCP 137, which may lead to industry issues with the number of available LLFC identifiers.
- 6.21 The Working Group noted the response but felt that this was out of scope for this particular CP.
- 6.22 A different DNO respondent noted that in their view the model specification should include the removal of the existing LDNO tariffs.
- 6.23 The Working Group noted that they are keeping all the existing tariffs as removing them would be anti-competitive for new market entrants who only wanted to connect at one voltage level.

Question 5 - Do you agree with the proposals to address the potential error in inter-distributor billing as a result of customers employing CMS?

- 6.24 The Working Group agreed with the comments received in regard to Question 5, as this was a question that was related to the previous DCP 168 consultation, which has subsequently been withdrawn.

Question 6 - The Working Group considers that DCUSA General Objective 1 and 2 , along with Charging Objective 2 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.

- 6.25 An IDNO respondent explained that the current arrangements are a major issue for IDNOs/LDNOs. Some UMS Customers are complaining of additional MPAN/administration charges for multiple MPANs. This causes delays in highway adoption – an issue that the host DNOs do not experience. As a result it seriously impacts competition in connections – for what in reality is a very small amount of revenue (if revenue is recoverable in the first place – making reference to the MWh

field in D0030 billing flows where much of the low LDNO consumption is not recorded in the 3-decimal place field of the flow).

- 6.26 Therefore they believe DCUSA General Objective 2 and CDCM Charging Objective 2 are better facilitated. As this CP introduces a more efficient and economical billing process they believe it could be argued that General Objective 1 is also better facilitated.
- 6.27 A DNO respondent noted that they agree with the Working Group that General Objectives 1 and 2 and Charging Objective 2 are better facilitated. However there is potential for a detrimental impact to Charging Objective 3 as the averaged discount factors lead to a loss in cost reflectivity. They would like the Working Group to consider whether the benefits of the change will make this loss in cost reflectivity justifiable.
- 6.28 The Working Group acknowledged that cost reflectivity is reduced to some extent, but not significantly.

Question 7 - Do you agree with the implementation date of DCP 203?

- 6.29 The Working Group noted that the majority of respondents agreed with the implementation date.

Question 8 - Are there any alternative solutions or matters that should be considered by the Working Group?

- 6.30 The Working Group noted that a few issues were highlighted in this question for the Working Group to consider.
- 6.31 A DNO respondent felt that it may be useful for the Change Report to highlight the necessity for striking an appropriate balance between the administration costs caused by multiple tariffs and the potential for some loss of cost reflectivity from having fewer tariffs.
- 6.32 The Working Group noted the response, and agreed to provide additional clarity within the Change Report.
- 6.33 A different DNO respondent noted that DCP 203, which will result in an average use of system charge irrespective of the embedded network that is provided, could restrict

or overstate the operating margin available to embedded networks. This would be especially relevant if a network operator focusses on a niche area of network types. For example larger EHV schemes or smaller LV connected schemes. They appreciate that this links with the issue discussed in question 9 and acknowledge that this is a complex area to resolve.

6.34 An impact analysis comparing the average discount percentage for each LDNO against the average discount percentage for all LDNOs should be undertaken to ensure that the proposal will not unfairly restrict the margins for a network operator.

6.35 The Working Group explained that an impact analysis will be provided within the Change Report that will address the points raised within this response.

Question 9 - The Working Group have decided to create 5 new “LDNO Any: Unmetered” discount tariffs rather than replacing the existing LDNO UMS discount tariffs. This means that an LDNO would have the option to choose to be billed on the “LDNO Any: Unmetered” discount for its UMS Connectees only or to opt for the relevant LDNO discount to be applied for all its UMS Connectees connected to its distribution systems at each applicable network level. The Working Group anticipates that all established LDNOs will opt for the new “LDNO Any: Unmetered” discount although future new market entrants that only adopt distribution systems connected to HV or EHV networks may wish to opt for the higher discount that would be available if they were to raise an MPAN for each of their UMS connected at each of the applicable boundary network levels. The Working Group believes that this is the best approach to avoid unfair discrimination to any future LDNO market entrant. Do you agree with this assertion?

6.36 The Working Group noted that there were some concerns raised by DNO respondents to this question.

6.37 One DNO respondent noted that although they understand why the Working Group have made the decision which they have, they believed that this introduces the possibility of ‘cherry picking’ of tariffs taking place between the new ‘ANY’ discount and the one relevant for their connected voltage.

6.38 A different DNO respondent explained that they agree that by maintaining the old tariffs as well as introducing more allows flexibility for new market entrants. However, as per their response to question 3, they are concerned about appropriate tariff

selection and whether additional flexibility could lead to tariff miss-selection. LDNOs will need to make a decision up-front about which set of UMS tariffs they wish to use.

- 6.39 They also believe that the process or ideally the legal text should clearly define that the choice referred above is a once-only option in order to prevent unnecessary changes to tariffs year on year.
- 6.40 Another DNO respondent noted that they strongly believe that there should not be two sets of tariffs that Customers can choose between. This has been an issue for NHH and HH tariffs for Customers that can elect to be settled half hourly as there is a price impact when each Customer moves between the tariffs. This has also been a historical issue for UMS Customers where in one DNO's area a substantial number of UMS Customers moved to non-half hourly settlement in one year and then back to half hourly settlement the following year. They urge the Working Group to consider only making one set of tariffs available to overcome potential issues in the future.
- 6.41 The Working Group discounted the response in 6.40 as the change does not impact UMS Customers 'All The Way' tariffs. The change only affects those terms introduced in to inter-distributor billing. The customer can elect for HH or NHH but cannot 'choose' between two separate UMS tariffs.

Question 10 - The working group discussed the migration of UMS connections from the current discount tariffs to the new arrangement should this DCP be successful. It was agreed that the impact should be negligible as most IDNO networks are still waiting for Local Authorities to complete the highways adoption. This tariff is likely to only be used for LA customers so there is not expected to be any migration issues. Do you agree with this assertion?

- 6.42 An IDNO respondent noted that they agree with the Working Group's assertion. ENC and IPNL most likely have some of the longest established LDNO network servicing domestic developments. Due to the normal time lag between completion of a development and the adoption of the highways by the local authority, the vast majority of adoptable highways served by their networks are not yet adopted by Local Authorities. They therefore cannot foresee there being any problem with migrating existing inventories if this CP is successful.
- 6.43 A DNO respondent did not agree and refuted the suggestion that "This tariff is likely to

only be used for LA Customers...” Their understanding from the DCP 203 legal text is that it introduces a replacement tariff for the LDNO to use for their complete UMS Portfolio. The creation of MPANs is linked to the fact that a UMS supply exists –the ‘adoption by LA’ status is irrelevant to the need for multiple MPANs at each network connection level and energy profile option.

- 6.44 The DNO further responded that MPANs should have been or need to be created for Developers in the first instance before ‘transferring’ them onto the LA ‘equivalent’ MPAN(s) following adoption. In addition, the situation being addressed applies to all UMS Customers, and not just Local Authorities. There are many Developers and Commercial Enterprises operating across several network boundaries and ALL must be included in this CP. This was addressed in the responses to the previous DCP 168 and amended before ultimate withdrawal. Otherwise what is actually being proposed is a ‘Any’ tariff for LA UMS and the remaining LDNO UMS portfolio continues as it is, which as stated in their response to Q9 above would be unacceptable to them.
- 6.45 The Working Group noted the response but stated that change would not be restricted to and benefit LA Customers but would be a benefit for all UMS Customers.

7 WORKING GROUP CONSULTATION TWO – OCTOBER 2014

- 7.1 The Working Group issued its second consultation in October 2014 (included as Attachment 5) in order to gather further industry views on the proposed approach being put forward. The draft legal text proposed 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.
- 7.2 There were seven responses received to the consultation. The Working Group discussed each response and its comments are summarised alongside the collated Consultation responses in Attachment 5.

- 7.3 A summary of the responses received, and the Working Group's conclusions are set out below:

Question 1 – Do you agree with the intent of DCP 203?

- 7.4 The Working Group noted that the majority of respondents agreed with the intent of the CP.
- 7.5 A DNO respondent explained that they do not agree with the intent of DCP 203 as they believe it will result in a reduction in the cost reflectivity of Use of System tariffs.
- 7.6 The Working Group reviewed and noted the comment. It was explained that any reduction in cost reflectivity would be offset by an improvement in administration of inter-distributor billing, which in turn reduces Customer costs. It was highlighted that the response received from an IDNO respondent to this question explains the situation in detail, the response is:

“We believe DCP 203 will go some way to reducing the additional burden that LDNO UMS customers, (Street Lighting Authorities (SLA) customers in particular) face as a result of having their inventory items connected to an LDNO network. This additional administration exists only to enable the host DNO to bill the LDNO for the use of its distribution system (i.e. inter-distributor billing), a bill which often, for the LDNO's largest UMS Customers, amounts to no more than a few hundred pounds per Customer per annum. Currently for most LDNO UMS customers the annual inter-distributor charge is less than £100”.

Question 2 – Do you agree with the principles of DCP 203?

- 7.7 The Working Group noted that the majority of respondents agreed with the principles of the CP.
- 7.8 A DNO respondent noted that they are aware that there is an industry issue of unnecessary costs to Customers and potential barriers to competition arising from potentially unnecessary administrative costs. Reducing the number of tariffs needs to be carefully considered together with the inevitable reduction in cost-reflectivity. They understand from the Change Proposal form that costs applied by Meter Administrators (MAs) and Suppliers can be high; reducing the number of MPANs required is one way to go about dealing with this and may make a small improvement.

However, they feel this will not affect the underlying issue of allegedly high MA and/or Supplier charges.

- 7.9 The Working Group agreed with the response and noted that the implementation of this CP would reduce the charges but not remove the underlying issue entirely i.e. adoption of highways on LDNO networks by LA Customers.
- 7.10 The Working Group agreed to attempt to quantify the charges/impacts of these changes; if it can be successfully accomplished it was agreed to include this information within the Change Report; Section 9 of this document details the Impact Analysis undertaken by the Working Group.

Question 3 –Do you have any comments on the proposed legal text? Provide supporting comments.

- 7.11 The Working Group noted that some DNO respondents provided suggestions to improve the legal text from the responses received to this question.
- 7.12 A DNO respondent notes that the legal text does not align with the consultation document in paragraph 6.1. It is stated in the consultation document that “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” whilst the legal text states “*the LDNO shall apply a Line Loss Factor Class Id that reflects the voltage of connection of the LDNO’s Distribution Systems that provides the majority (i.e. more than 50%) of non-half hourly connections made to the LDNO’s Distribution Systems.*” They believed that if this solution is taken forward the approach outlined in the consultation document of using domestic Customer counts is more appropriate than that in the legal text, subject to their response to question nine.
- 7.13 Furthermore, they are uncomfortable with the legal text stating that “*unless the LDNO notifies the DNO Party otherwise*” a single discount will be applied. They would like to see this amended to ensure that the dialogue between LDNO and DNO takes place regardless of which option the LDNO chooses i.e. to provide clarity of the arrangements for both parties.
- 7.14 The Working Group, in regard to the points raised in paragraph 7.12, agreed with it,

and will amend the legal text accordingly before being submitted to the DCUSA legal advisors.

- 7.15 The Working Group, in regard to the points raised in paragraph 7.13, discussed the point and agreed to examine ways to improve/clarify the legal text regarding moving away from the status quo arrangements, or staying with them.
- 7.16 Another DNO respondent explains that they do not believe that changing Schedule 19 achieves the desired outcome.
- 7.17 They state that Schedule 19 merely describes a process (which itself is not changing). They believe that changes are required to the methodologies (Schedules 16-18). At present these state that the LDNO DUoS charges are based on the voltage of connection. To apply these changes to Schedule 19 in isolation would result in inconsistency and indeed conflict with Schedules 16-18. This could ultimately result in charging that is not compliant with the methodology.
- 7.18 They further stated that by way of example, it may be preferable to open Paragraph 147 of Schedule 16 with *“unless otherwise specified below”* and then to asterisk each of the UMS categories in para 147 and then insert underneath the tables in Paragraph 147 the text proposed by the Working Group at their Paragraph 6.1 of Schedule 19 as the reference to which the asterisks refer. Note that the text proposed by the Working Group needs to include reference to this being NHH UMS only and that the counts should be based on energised NHH non-UMS customers (in order to provide the validation under Q10).
- 7.19 The respondent further notes that an alternative would be to carve out the UMS lines from Tables 8 and 9 in Paragraph 147 of Schedule 16 and insert into an additional Table – with associated changes to the wording of any impacted paragraphs.
- 7.20 The Working Group reviewed and noted the comments within this response and agreed to amend the legal text accordingly, from the suggestions within Paragraphs 2 and 3 of this response, before being submitted to the DCUSA legal advisors.
- 7.21 It was also noted that instead of energised MPANs it should read energised domestic MPANs; this will need to be reflected throughout the legal text.

Question 4 – The Working Group considers that DCUSA General Objective 1 and 2 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.

- 7.22 An IDNO respondent note that they feel that General Objective 1 is better facilitated as the additional admin burden imposed on LDNOs to facilitate inter-distributor billing would be greatly reduced - reducing the number of MPANs required for said billing leads to a more efficient and co-ordinated distribution network. They feel that General Objective 2 is also better met as reducing the number of MPANs required of the LDNO also reduces the additional admin costs borne by the Customer. This has led to difficulties with adoption of LDNO networks in the past. As this issue is exclusive to LDNOs they agree with the Working Group's assessment that this change promotes competition by reducing a potential barrier to competition.
- 7.23 A DNO respondent noted that they do not agree that DCUSA General Objectives 1 and 2 would be better met as a result of this change proposal. This Change Proposal will distort competition between Distributors and place perverse incentives on IDNOs to increase the number of UMS connected Customers where the boundary voltage with the DNO is higher to reduce their DUoS bill.
- 7.24 The Working Group reviewed this response and noted that the impact assessment provided within the consultation documents demonstrated that this CP would be very unlikely to place a perverse incentive on the IDNO; furthermore the connection is led by the IDNO's Customer (Local Authority or street-lighting authority) and not the IDNO itself.
- 7.25 Another DNO respondent disagrees that this DCP will better facilitate General Objective 1, as the proposal requires that the current arrangement to be kept along with the introduction of the proposed solution. They consider this would add to rather than reduce the administrative burden and also add complexity to the current situation, for the reasons below:
- a) In cases where different departments of the same local authority choose to adopt different approaches under this proposal (current and new arrangement), it would be difficult to split the data between the departments due to having a single inventory.

- b) In cases where the customer requests data from the Meter Administrator, this would require manual processes to split the data and this is an additional administrative burden.
- c) There will be cost consequences in terms of the administration burden and IT systems changes, in terms of identifying, delinking and reassigning data from the D0314 flow to the new LLFCs in order to bill correctly in the new arrangement.

7.26 The Working Group disagreed with the items raised within these points as the solution proposed does not attempt to combine the DNO and LDNO inventories under a single MPAN. It was noted that this was previously a considered solution within DCP 168⁴ and is being actively pursued within the Balancing and Settlement Code (BSC); however it is highlighted that the two CPs are independent of one another.

Question 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?

- 7.27 The Working Group noted that there was a split response on this question.
- 7.28 A DNO respondent noted that if this is considered to be the best solution then there is no reason to delay.
- 7.29 A different DNO explained that they do not agree that the CP does not affect the Charging Methodologies. They believe there is a detrimental effect to Charging Objective 3 as IDNOs will be charged based on the typical voltage of connection for UMS Customers. This will result in a cost increase or reduction to the DNO which will be paid for/credited to all Customers.
- 7.30 The Working Group reviewed and noted the comments within this response. It was highlighted that the cost increase/reduction that is referred to within the response is minimal, and this is demonstrated within the impact analysis which was included with the consultation documents.
- 7.31 A further DNO respondent believes this change directly impacts the methodologies. Therefore it must be made on 1 April, which at the earliest would now be 1 April 2016.

⁴ The Administration of Use of System charges relating to connections from Embedded Distribution Network Operator (EDNO) systems to Unmetered Supplies (UMS) for LA customers

Question 6 - Do you agree that amending Schedule 19 only would avoid introducing the additional complexity that the first solution would have done?

- 7.32 The Working Group noted that there was a mixed response to this question from the respondents.
- 7.33 An IDNO respondent agrees and notes that whilst the original solution initially appeared to be more cost reflective it only is so if all LDNOs have a similar mix of DNO boundary network level connections and associated end user Customer connections. They know that this is currently not the case so this proposal appears to be a more pragmatic solution without any price disturbance given the relatively small scale of inter-distributors billing now and in the foreseeable future.
- 7.34 A DNO respondent explains that they agree that the proposal to amend Schedule 19 only avoids introducing extra complexity into the tariff structure but does introduce a similar level of greater complexity into the inter-distributor billing arrangements.
- 7.35 A further DNO respondent did not agree and note that they believe that changes are required to the Charging Methodologies but that they need not be complicated.
- 7.36 The Working Group noted the responses, and has modified the legal text accordingly.

Question 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?

- 7.37 The Working Group noted that there was a split response to this question.
- 7.38 A DNO respondent notes that they do not agree with the principle as it allows LDNOs to cherry pick the most advantageous trading arrangements rather than being allocated the most appropriate tariff.
- 7.39 The Working Group discussed the comments raised within this response and noted that the impact assessment provided within the consultation documents demonstrated that this CP would be very unlikely to place a perverse incentive on the IDNO; furthermore the connection is led by the IDNO's Customer and not the IDNO itself.
- 7.40 A different DNO did not agree and explained they believe this would introduce additional administrative burden to LDNOs to operate both approaches at the same time. If one approach is considered to better facilitate DCUSA objectives then it

should be adopted to replace the other.

- 7.41 The Working Group highlighted that the only change that will be introduced if DCP 203 is implemented would be the Line Loss Factor Class (LLFC) to reflect what is agreed, i.e. one MPAN (one LLFC) per network boundary level or an agreed LLFC to represent the single discount of the agreed boundary network level.
- 7.42 An IDNO respondent agreed to the consultation question asked and noted that by forcing a new entrant to opt for a particular arrangement could affect their business model and therefore be considered anti-competitive. Providing a choice removes that risk.

Question 8 – Do you agree that there should be no adverse impact on Suppliers or Customers as a result of the migration to the new arrangements?

- 7.43 An IDNO respondent explained that due to the fact that the change affects only the portfolio billing arrangements between DNO and IDNO Parties and does not impact on the CDCM/EDCM UMS all the way tariffs – neither Suppliers nor Customers will see any changes to the tariffs as part of the migration exercise. Customers will be positively impacted in that the number of MPANs required for settlement purposes will be reduced – and as result their costs (both DUoS and admin) will also be reduced.
- 7.44 A DNO respondent notes that they agree that this change proposal should have no adverse impact upon either Suppliers or Customers.

Question 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?

- 7.45 An IDNO respondent explains that they believe using NHH customer numbers makes a reasonable proxy for UMS connections as they believe that the ratio of street lighting columns (which make up the vast majority of UMS connections) to domestic Customers is broadly the same across all the DNO areas. They cannot think of any other easy way of tracking the boundary network level of connection for LDNO UMS connections as following the implementation of this CP then all UMS connections will have an LLFC linked to the boundary network level of the majority of the portfolio not the actual network that the UMS connection is made to.
- 7.46 A DNO respondent did not agree on the basis that the DCP would dilute the principle of cost reflectivity signals in DUoS charges and they do not believe that this basic

principle is adequately justified. Also they do not agree with the conclusions of the 'cost analysis' submitted by the Working Group to take an 'average' over several scenarios.

- 7.47 The Working Group agreed to attempt to quantify the charges/impacts of these charges; if it can be successfully accomplished it was agreed to include this information within the Change Report.
- 7.48 A further DNO respondent believes that it should be based on energised upstream/boundary NHH connections. They also believe this should be subject to periodic review, say annually. Such review could be undertaken based on a snapshot of say 31 March in any calendar year for implementation on 1 April, any changes to the LLFC to be made within 5 days of 31 March.
- 7.49 The Working Group noted the response and will incorporate changes into the legal text to address the issue. In regard to the review, it may be easier to state "periodic" rather than a fixed time frame.

Question 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?

- 7.50 A DNO respondent explained that in their view, there is a potential issue with reviewing the dataflow to ensure the correct LLFC has been requested. These dataflows are in standard dataflow format and aren't easy to read and the data contained in them is not easily manipulated.
- 7.51 The Working Group reviewed this comment and noted that the response from an IDNO respondent to this question addresses this point, it states:
- "Yes – the D0314 flow holds MPAN counts for all NHH connections and this information is broken down into profile class and LLFC (that will identify the POC voltage for the NHH MPANs) which can be easily interrogated to determine the POC voltage with the majority of connections".*
- 7.52 Another IDNO respondent agreed with the consultation question and noted that it should be a simple comparison and is likely to only need to be done very infrequently. For example if the split of NHH connections for a particular LDNO with 40,000 Customers is 30% LV , 70% HV, it is a safe assumption that this will not change to 51% LV to 49% HV within say a 12 or even 24 month period.

- 7.53 A different DNO respondent agreed with the consultation question and explained that the D0314 can be used to validate which connection voltage the LDNO has defaulted to for UMS and can be used to determine the connection voltages of all other Customers. This should enable the DNO to validate the application of the LLFC if they choose to.

Question 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.

- 7.54 The Working Group noted that the majority of respondents agreed with this view.
- 7.55 A DNO respondent stated that they do not agree. They believe that the Working Group should further clarify what the requirements of the data are for the new arrangement.
- 7.56 The Working Group reviewed the response and, contacted this DNO in order to clarify how the solution will work under DCP 203 if implemented.

Question 12 – Are there any alternative solutions or matters that should be considered by the Working Group?

- 7.57 An IDNO respondent explains that the change seems a simple and effective solution that only impacts DNO and IDNO Parties (and does not affect their respective business systems).
- 7.58 A DNO respondent noted that the Change Proposal suggests *“Suppliers may be levying administration charges to UMS Customers on a per MPANs basis”* and that *“there is evidence that administration charges are also levied against UMS Customers by their nominated Meter Administrators (MAs) in respect of each additional MPAN that the MA processes for them”*. They would suggest that these charges are challenged and properly investigated to determine whether they are unjustifiably high. If these costs can be reduced without amending inter-distributor billing then the aims of the proposal to reduce administration costs can be achieved without the loss in cost reflectivity brought about by a reduction in the number of tariffs.
- 7.59 The Working Group noted the comments within this response. It was highlighted that this type of analysis would be difficult to quantify as it deals with commercial arrangements between the customer/Supplier and the MAs and is outside the scope

of DCP 203.

- 7.60 It was noted that the Working Group will make best endeavours to provide as much analysis as possible within the Change Report; the impact analysis and associated information can be located in Section 9 of this document.

8 CONSULTATION THREE – MARCH 2015

- 8.1 The Working Group issued its third consultation on 25 March 2015.
- 8.2 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'.
- 8.3 This consultation primarily looked to garner views on the proposed legal drafting and whether these changes meet the intent of the change proposal.
- 8.4 There were eight responses received to the consultation. The Working Group discussed each response and its comments are summarised alongside the collated Consultation responses in Attachment 6.
- 8.5 A summary of the responses received, and the Working Group's conclusions are set out below:

Question 1 – Do you agree with the intent of DCP 203?

- 8.6 The Working Group noted that the majority of respondents agreed with the intent of DCP 203.
- 8.7 A DNO respondent explains that they understand the perceived reduction in administration burden for UMS Customers that connect to LDNOs should the CP be approved. However it is not clear whether the potential benefit to Customers would outweigh the complexity and loss of cost reflectivity that would result from implementation of it.
- 8.8 The same DNO stated that although the impact analysis shows little effects to revenues, the figures in the analysis do not seem to be robust and they do not feel that they can rely on the information provided to inform their view.

- 8.9 The Working Group contacted the DNO for further information regarding their response. In particular, asking what was their reasoning about the analysis which they perceive not to be robust. This information can be located in Section 9 of this document.
- 8.10 A different DNO respondent explained that they agree with the original intent of this change to rationalise LDNO UMS charges in so far as it seeks to reduce potentially unnecessary administrative costs. However the current proposed solution has a detrimental impact on cost-reflectivity which needs to be carefully justified.
- 8.11 The Working Group acknowledges that there is a loss of cost reflectivity; however, the amount of this loss is negligible given the comparatively low value of inter-distributor billing in respect of UMS connections to IDNO networks.
- 8.12 The Working Group agreed to include a section within the Change Report to demonstrate that the impact on cost reflectivity has been considered. This information can be located in Section 9 of this document.

Question 2 – Do you agree with the principles of DCP 203?

- 8.13 The Working Group note that there were mixed responses to this question.
- 8.14 A DNO respondent explained that they agree with the principles but they are unable to determine whether the proposed solution is the best way in which to approach the underlying issue. They believe that the issue this change seeks to resolve has not been quantified so it is difficult to justify the negative impact on cost-reflectivity. The proposed solution will not directly tackle the perceived underlying issue of allegedly high MA and/or Supplier charges.
- 8.15 The Working Group acknowledges that there is a loss of cost reflectivity; however, the amount of this loss is negligible given the comparatively low value of inter-distributor billing in respect of UMS connections to IDNO networks.
- 8.16 The Working Group acknowledges that this CP will not fully address the issues identified for Customers; however, the number of instances where Customers are faced with additional MA and/or Supplier charges will be significantly reduced with the implementation of this CP. It will only be fully addressed by a change to the Balancing and Settlement Code (BSC) that will allow Customers to trade their entire

inventory under the host MPAN(s). However, this is outside the scope of this CP.

- 8.17 A different DNO respondent does not agree with the principles and explain that they believe that allowing the Customer to 'pick and choose' between options is not appropriate and creates additional complexity. As the CP currently stands, it would be difficult in future to readily determine the network level to which each UMS connection is connected.
- 8.18 The Working Group note that there is no change on the status quo as far as the Customer is concerned, other than it would not be mandatory to have separate MPANs for their sites connected at different voltage levels; however, they could still request to have them separate if they chose to. Therefore, the Customer being able to pick and choose is not an option and the Customer's all the way DUoS tariff will not be affected.
- 8.19 The Working Group acknowledges that it will be difficult in the future to determine the boundary network level between DNOs and IDNOs for each UMS connection. However, this has no impact on the all the way tariff that is applied, even under the current arrangements.

Question 3 – Do you have any comments on the proposed legal text? Provide supporting comments.

- 8.20 The Working Group notes that only one respondent had a comment on the proposed legal text. A DNO respondent noted that they are not convinced that the text is prescriptive enough in how the IDNO UMS should be treated; it seems to refer to what not to do but not how to do the calculation.
- 8.21 The Working Group contacted the DNO and asked if they could provide more clarification on what issues they perceive with the legal text so they may be addressed within the Change Report. Unfortunately a response has not been received in time for this change report.

Question 4 – Are there any alternative solutions or matters that should be considered by the Working Group?

- 8.22 An IDNO respondent notes that whilst the CP does address the problem that UMS Customers experience with additional costs incurred for UMS MPANs (particularly

with regards to Pseudo-HH UMS) it does not remove the issue entirely. UMS Customers will appreciate Ofgem's assistance in helping the industry agree a change that will address the issue fully.

- 8.23 A DNO respondent stated that they agree that this proposal is a positive step forward and will reduce the need for superfluous MPANs to be created. Notwithstanding this, they confirm that for their distribution services area, the volume of MPANs in practice, as evidenced in their previous responses, comes nowhere near the suggested volume of 'potential' MPANs, as described in Section 2.4 and 2.5 of this report.
- 8.24 A different DNO respondent explained that although they can understand why this change has been proposed they continue to have a concern regarding the reduction in the cost reflective nature of the charges as a result of this Change Proposal. In that by applying a 'default' voltage of connection for all UMS Customers on an LDNO's network the charge from a DNO to an LDNO will end up being slightly higher (or lower) than should be the case if charged under the current arrangements, which reduces the cost reflective nature of the charges. It is therefore questionable as to whether the DCUSA objectives are better facilitated by this change.
- 8.25 The Working Group acknowledges that there is a loss of cost reflectivity; however, the amount of this loss is negligible given the comparatively low value of inter-distributor billing in respect of UMS connections to LDNO networks.
- 8.26 The Working Group agreed to draft detailed text within the Change Report describing how this CP better facilitates the relevant DCUSA Objectives.

9 IMPACT ASSESSMENT

- 9.1 The Working Group carried out an impact assessment on inter-distributor billing and this is included as Attachment 7. In this spreadsheet there are two worksheet tabs per DNO. These are named "DNO-NAME DATA" and "DNO-NAME UMS ALL". The "DNO NAME DATA" worksheet contains all of the calculations used to determine value of the inter-distributor bill for each of the scenarios considered and compares the difference between the status quo of using multiple LDNO discount tariffs for UMS connections, to using a single LDNO discount tariff and finally to using a weighted average LDNO discount. The "DNO-NAME UMS ALL" worksheet tabs are used to

determine an average weighted LDNO discount, weighted by the total numbers of Domestic connections made to LDNO networks, split by LDNO discount category, within the DNO Party's Distribution Services Area. This calculated weighted average discount is then used in the "DNO NAME DATA" worksheet as described above.

- 9.2 To determine the impact of DCP 203, the Portfolio Bill in respect of UMS connections made to an imaginary LDNO network was calculated using the current discounts based on a number of different scenarios where the LDNO had differing a size and make up of its portfolio of UMS connections to its network. These scenarios are shown in the table below:

Scenario	No of Domestic Connections to the LDNO Network
LDNO A	5,000
LDNO B	10,000
LDNO C	15,000
LDNO D	20,000
LDNO E	30,000
LDNO F	40,000
LDNO G	50,000
LDNO H	100,000

- 9.3 A ratio of UMS street lighting connections to domestic connections of 1:3 was used to help determine a proxy for the number of connections made to streetlights on all LDNO networks within each DNO Distribution Service Areas (DSA). This ratio was considered to be a reasonable estimate of the average number of street lighting columns to domestic connections.

- 9.4 Each scenario was further divided to consider the impact on the LDNO tariff where the split of connections between network with a LV and HV boundary with the DNO network is set out in the table below. For each of the LDNOs A to H, a range of scenarios was considered whereby the impact of using a single LDNO discount tariff was determined when the total volume of UMS connections, calculated based on the LDNOs domestic customer numbers using the ratio in paragraph 9.3, were connected to the LDNO's networks that had the connections splits between networks with an LV boundary point of interface (POI) and a HV boundary (POI) with the DNO network as shown below:

The LDNO's total UMS connections split across its networks where the connection to the upstream DNO network is through an LV boundary POI or a HV boundary POI. In this scenario the split ratio reflects to the proportion of all Domestic connections to the LDNO's networks, which are connected to the host DNO network through an LV boundary POI, to those that are connected via a HV boundary POI. This is calculated using the MPAN volume forecasting data published in each DNO's CDCM model.

LDNO with a 10:90 split of LV to HV DNO Boundary POIs

LDNO with a 20:80 split of LV to HV DNO Boundary POIs

LDNO with a 40:60 split of LV to HV DNO Boundary POIs

LDNO with a 45:55 split of LV to HV DNO Boundary POIs

LDNO with a 48:52 split of LV to HV DNO Boundary POIs

LDNO with a 52:48 split of LV to HV DNO Boundary POIs

LDNO with a 55:45 split of LV to HV DNO Boundary POIs

LDNO with a 60:40 split of LV to HV DNO Boundary POIs

LDNO with a 80:20 split of LV to HV DNO Boundary POIs

LDNO with a 90:10 split of LV to HV DNO Boundary POIs

9.5 For each of the above scenarios the value of the LDNO inter-distributor bill was determined based a single discount and a weighted average discount⁵. The weighted average discount comparison was only undertaken as the Working Group has at one time considered using a weighted average discount. However, whilst the option was later discounted, the reasons for abandoning the weighted discount is described in question 6 Working Group Consultation two - October, see paragraph 7.32.

9.6 These results were compared to the LDNO inter-distributor bill for each scenario based on current tariff and the difference was expressed in nominal value and as a percentage of the UMS and the total Domestic Distributor Bill.

9.7 Finally, to provide context to the analysis in terms of the potential scale of the price disturbance, for each DNO the total value of the forecast annual inter-distributor bill in respect of all connections to all LDNOs operating within the DNO's DSA was

⁵ The weighted average discount determined by average discount percentage, weighted by the total numbers of Domestic connections made to LDNO networks, split by LDNO discount category, within the DNO Party's Distribution Services Area.

determined.

- 9.8 It is clear from the analysis that whilst the percentage change in tariff is significant, the actual value of the price disturbance is insignificant, particularly when considered against the value of the inter-distributor bill when the LDNO's domestic connections are included. Please refer to Attachment 7 Impact Assessment. For each DNO, the relevant data is in the DNO data tab (for example ENW) cell reference I69 and I70 which are the cell references for the actual value and the cell reference for the percentage variance. For example in the ENW data tab the percentage variance is -15.30% but the actual variance, in the total LDNO inter-distributor bill for all UMS connections to embedded LDNO network within ENW's Distribution Services Area, is £862.17.
- 9.9 It is felt that when weighted against the reduction in costs for the UMS Customer⁶ 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. This will lead to both increased competition and also lower costs to the customer.
- 9.10 As the LDNO currently has to issue MPANs to reflect the boundary voltage connection to the upstream network, this means the customer has multiple MPANs purely for DNO/LDNO Portfolio Billing purposes. Reducing the number of MPANs required reduces the additional administration work for customers (to maintain multiple UMS MPANs and their associated inventories and multiple UMS electricity bills).
- 9.11 In summary, the impact analysis for DCP 203 shows that the overall benefits of increased competition and lower costs for the UMS customer outweigh the small loss of inter-distributor cost reflectivity.

10 ASSESSMENT AGAINST THE DCUSA OBJECTIVES

- 10.1 The Working Group has evaluated DCP 203 against the DCUSA Objectives and has concluded that General Objectives 1 and 2 are better met.
- 10.2 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

⁶ These include the reduction in the administration cost of MPANs, Supplier costs and meter administrator charges.

reduction to the LDNOs administration arises from the removal of the requirement to raise different MPANs for the same UMS Customer that has inventories on LDNO networks with different boundary network levels. This will mean that the management of the Customer's inventory by the LDNO's UMSO will also be simplified as it will reduce the number of MPANs per UMS customer required for inter-distributor billing.

10.3 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. This problem with the current arrangements was also recognised by Ofgem in its review of the Competition in Electricity Connections market⁷ where it was acknowledged that there may be reluctance from some LA customers to adopt assets connected to an IDNO network.

10.4 It could be argued that DCUSA Charging Objective 3⁸ 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 do not 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*

⁷ Please see the following extract from:
https://www.ofgem.gov.uk/sites/default/files/docs/2015/01/connections_competition_review_findings_2.pdf - "Unmetered supply inventories. Billing arrangements between a supplier and a large customer (eg a local authority) may become more complex and costly if the customer has unmetered assets (i.e. street lighting) on both a DNO and an IDNO network. As a result, some customers may be reluctant to adopt assets on an IDNO network."

⁸ 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

incurred, by the DNO Party...".

- 10.5 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.

11 IMPLEMENTATION

- 11.1 DCP 203 is classified as a Part 1 matter in accordance with Clause 9.4.2 (B) of the Agreement, and therefore will go to the Authority for determination after the voting process has completed.
- 11.2 The implementation date, subject to Authority approval, is 1 April 2016. The Working Group want to highlight that DCP 203 will not change the UoS 'All The Way' tariff, as it is the methodology for inter-distributor billing that will be affected and not the tariffs themselves.

12 FINAL CONCLUSIONS ON DCP 203

- 12.1 The Working Group's conclusion, reflecting Party opinion as presented in the Consultation responses, is that the proposed legal drafting meets the intent of DCP 203.

13 ENGAGEMENT WITH THE AUTHORITY

- 13.1 Ofgem has been engaged throughout the progression of DCP 203 as an Observer of the Working Group.

14 IMPACT ON GREENHOUSE GAS OMISSIONS

- 14.1 No material impacts on greenhouse gas emissions from the implementation of this CP have been identified.

15 PANEL RECOMMENDATION

15.1 The DCUSA Panel approved the DCP 203 Change Report at its meeting on 16 December 2015.

15.2 The timetable for the progression of the Change Proposal is set out below:

Activity	Date
Change Report approved by DCUSA Panel	16 December 2015
Change Report Issued for Voting	18 December 2015
Party Voting Closes	15 January 2016
Change Declaration Issued	19 January 2016
Authority Decision	23 February 2016
Implementation	1 April 2016

15.3 Parties are invited to vote using the form provided as Attachment 1.

16 ATTACHMENTS:

- Attachment 1 – DCP 203 Voting Form
- Attachment 2 - DCP 203 Draft Legal Text
- Attachment 3 – DCP 203 Request for Information – March 2014
- Attachment 4 – DCP 203 Consultation One – June 2014
- Attachment 5 – DCP 203 Consultation Two – October 2014
- Attachment 6 – DCP 203 Consultation Three – March 2015
- Attachment 7 – DCP 203 Impact Analysis