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| Modification proposal: | Balancing and Settlement Code (BSC) P246: 'Reporting to LDSOs of aggregated metering data for Embedded networks' (P246) | | |
| Decision: | The Authority ¹ directs that this proposal be made ² | | |
| Target audience: | National Grid Electricity Transmission (NGET), Parties to the BSC and other interested parties | | |
| Date of publication: | 28 January 2010 | Implementation Date: | 31 March 2010 |

Background to the modification proposal

At present the BSC provides for downstream distributors (including independent distribution network operators – “IDNOs”) to receive settlement data to calculate charges for use of their own networks. Upstream distributors (typically distribution network operators – “DNOs”) charge downstream distributors for use of their network based on meter readings at the ownership boundary between the two networks. Settlement data from downstream distributors is not used for this purpose.

In November 2009, the Authority approved the common distribution charging methodology (“CDCM”)³. The CDCM introduces a new distribution use of system charging methodology at the lower voltages – low voltage and high voltage. It states that upstream distributors should charge downstream networks based on the portfolio of end customers connected to the downstream networks as opposed to the current method whereby the total consumption of each network is measured at the boundary and a single (commercial tariff) applied.

In order to charge and bill on this ‘portfolio’ basis, the upstream distributor needs to know the aggregate consumption of each customer class connected to each downstream network within its distribution service area (“DSA”). All DNOs have a licence obligation to charge in accordance with this approved CDCM from 1 April 2010.

Since the approval of the CDCM, a working group under the distribution, connection and use of system agreement (“DCUSA”) has been overseeing the transition from the current billing method to portfolio billing. This working group proposed that upstream distributors make use of downstream distributors’ settlement data in order to comply with the portfolio billing aspect of the CDCM. Elexon has highlighted that the BSC does not currently provide for this settlement data to be sent to upstream distributors for this purpose.

The modification proposal

P246 was raised by the BSC Panel⁴ on the recommendation of Elexon to enable:

- Upstream distributors to receive the relevant downstream distributors’ settlement data for the purposes of billing on a portfolio basis, thus allowing upstream distributors to comply with the CDCM; and

¹ The terms ‘the Authority’, ‘Ofgem’ and ‘we’ are used interchangeably in this document. Ofgem is the Office of the Gas and Electricity Markets Authority.

² This document is a notice of the reasons for this decision as required by section 49A of the Electricity Act 1989.

³ The background to and detailed proposals of the CDCM can be found on the website of the Energy Networks Association: <http://2010.energynetworks.org/structure-of-charges/>

⁴ The BSC Panel is established and constituted pursuant to and in accordance with Section B of the BSC.

- Elexon to provide this data directly to the upstream distributor in a format which can facilitate portfolio billing with minimal changes to billing systems.

BSC Panel recommendation

At its meeting on 14 January 2010 the BSC Panel considered a draft of the final modification report (FMR). The majority of the Panel considered that the proposal better facilitated the achievement of relevant objective (a), (c) and (d).

The Authority's decision

The Authority has considered the issues raised by the modification proposal and the FMR dated 15 January 2010. The Authority has considered and taken into account the responses to Elexon's consultation which are attached to the FMR⁵ and all relevant information, including the discussions of the Panel and the BSC working group which developed the proposal. The Authority has concluded that:

1. Implementation of the modification proposal will better facilitate the achievement of at least one of the relevant objectives of the BSC⁶; and
2. Directing that the modification be made is consistent with the Authority's principal objective and statutory duties⁷.

Reasons for the Authority's decision

The Authority considers that the modification proposal is neutral against relevant objectives (a) and (c) and better facilitates the achievement of relevant objective (d). The Authority notes to the wider benefits to the proposal in terms of it enabling the implementation of an aspect of the CDCM at the most efficient cost to consumers.

As indicated above, there are two aspects to this proposal;

- The issue of permitting upstream distributors to use downstream distributors settlement data; and
- The issue of allowing Elexon to provide to provide this settlement data directly to upstream distributors (or agents thereof).

The Authority sets out below in more detail the reasons for its decision.

Objective (a) – *efficient discharge of the obligations of the Transmission licence.*

The Authority disagrees that the proposal better facilitates the achievement of relevant objective (a) and considers that the proposal is neutral to this objective.

The Authority notes the BSC Panel's view that the proposal allows for the more efficient discharge of SLC C3 2(b) of the transmission licence. This condition makes reference to (i) the determination of quantities of electricity delivered to and taken off the total

⁵ BSC modification proposals, modification reports and representations can be viewed on the Elexon website at www.elexon.com

⁶ As set out in Standard Condition C3(3) of NGET's Transmission Licence, see: http://epr.ofgem.gov.uk/document_fetch.php?documentid=4151

⁷The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Electricity Act 1989.

system and (ii) the determination and financial settlement of obligations between BSC parties arising from quantities of electricity delivered to and taken off the total system⁸.

The Authority considers that while the proposal does allow for the more efficient discharge of part (ii) of the SLC C3 2(b), it does not provide for the more efficient discharge of part (i). The proposal must assist the efficient discharge of part (i) and part (ii) of the condition if the condition as a whole can be said to be efficiently discharged. This is not the case in this instance. Part (ii) relates to the financial settlement of obligations between BSC parties. The Authority notes that both upstream and downstream distributors are BSC parties and that the provision of settlement data to upstream distributors will allow them to more accurately bill downstream distributors under the CDCM. However, part (i) of SLC C3 2(b) relates to the quantities of electricity placed on and taken off the total system. The Authority considers that this relates to generation and supply and billing between distributors has no impact on the quantities of electricity placed on or taken off the network.

Consequently, the Authority considers that the proposal is neutral to relevant objective (a).

Objective (c) – promoting effective competition in the generation and supply of electricity and in the sale and purchase of electricity

The Authority disagrees that the proposal better facilitates the achievement of relevant objective (c) and considers that the proposal is neutral to both competition in generation and supply and the sale and purchase of electricity.

The billing arrangements between distributors are insulated from decisions over the purchase and sale of electricity. The Authority considers that competition in generation will not be impacted by how upstream and downstream distributors bill each other for the cost of transporting the electricity generated to end users as the costs of transportation are not borne by generators. We note too that the costs associated with this proposal are ring-fenced and levied on distributors only.

The Authority similarly considers that the proposal has no impact on competition in supply. The Authority would highlight that downstream distributors are subject to a relative price control and charging methodology which means that they replicate the use of system charges levied by the host DNO⁹. Consequently, each supplier within a DSA will be charged the same for use of system regardless of whether the end customer is connected to an IDNO or a DNO network. We consider that this removes the potential for this proposal to have any impact on competition in supply.

⁸ SLC C3 2(b) states: “*The balancing and settlement arrangements are arrangements:*

(i) for the determination and allocation to BSC parties of the quantities of electricity delivered to and taken off the total system, and

(ii) which set, and provide for the determination and financial settlement of, obligations between BSC parties, or (in relation to the system operator's role in co-ordinating and directing the flow of electricity onto and over the national electricity transmission system) between BSC parties and the licensee, arising by reference to the quantities referred to in sub-paragraph (i), including the imbalances (after taking account of the arrangements referred to in sub-paragraph (a)) between such quantities and the quantities of electricity contracted for sale and purchase between BSC parties.”

⁹ This is done through amended condition BA2 of the distribution licence which states that the licensee will not exceed the fixed, unit or any other component of the charge levied by the host DNO. IDNOs also have approved charging methodologies which state that they will replicate the tariffs of the host DNO

Objective (d) – promoting efficiency in the implementation and administration of the balancing and settlement arrangements

The Authority notes that the FMR makes reference to section S paragraph 2.7.7 of the BSC being unclear as to which parties are allowed to receive settlement data¹⁰. We note that the FMR outlines that the current arrangements allow for the "the relevant LDSO [licensed distribution service operator] to receive Settlement data for use in calculating charges for the use of, and connection to, its Distribution System"¹¹. The Authority notes that the term "relevant LDSO" is not defined within the BSC and the FMR states that according to industry practice this term refers to the LDSO connected to the end customer. Whilst we would agree with this assertion, the Authority would stress that this meaning is unclear and that therefore the proposal removes any uncertainty over who can be provided settlement data. We note that the legal text clearly sets out whom settlement data can be provided to and under which circumstances. We consider that this is more efficient and therefore better meets relevant objective (d).

The Authority agrees with the Panel that the proposal better facilitates the achievement of relevant objective (d). We note that the BSC and the DCUSA appear to be out of line with each other regarding what upstream distributors are able to use the settlement data of downstream distributors for. The Authority consider that clarifying within the BSC that upstream distributors can use such settlement data for billing downstream distributors will remove any ambiguity in the BSC arrangements and therefore promote efficiency.

Wider statutory duties

The Authority considers that the proposal is consistent with its statutory duties. The proposal will allow for the introduction of portfolio billing under the CDCM from 1 April at the least cost to industry and, therefore, potentially consumers. We note that it is more efficient for one adjustment to be made to Elexon's settlement systems in order to provide the settlement data, than for each individual downstream distributor to make changes to their systems (a potential alternative to the proposal which we have been asked to consider).

We therefore consider that allied to the marginal benefits the proposal has in better achieving the relevant objectives, the proposal is also in the best interests of consumers and therefore meets our wider statutory duties.

Decision notice

In accordance with Standard Condition C3 of NGET's Transmission Licence, the Authority hereby directs that modification proposal BSC P246: 'Reporting to LDNOs of aggregated metering data for embedded networks' be made on 31 March 2010.

Rachel Fletcher
Partner, Local Grids

Signed on behalf of the Authority and authorised for that purpose

¹⁰ This is detailed on p15 of the draft FMR which was sent to the BSC panel for consideration

¹¹ Taken from section S.2.7.7 of the BSC