
Distribution Charging Methodology Forum Minutes
Wednesday 24 April 2013
at Consort House, 6 Homer Road, Solihull, B91 3QQ

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Bernard Kellas	(BK)	SSE
Binoy Dharsi	(BD)	EDF Energy
Clare Cattle-Jones*	(CJ)	ENA
Colette Baldwin	(CB)	E.ON UK
David Chalmers	(DC)	National Grid Distribution
Dimuthu Wijetunga	(DW)	npower
Jens Martin	(JM)	E.ON UK
Joanne Parker	(JP)	Scotia Gas Networks
Joel Martin*	(JMa)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Jon Trapps	(JT)	Northern Gas Networks
Lewis Hodgart*	(LH)	Ofgem
Rochelle Harrison	(RH)	British Gas
Steve Armstrong	(SA)	National Grid Distribution
Will Guest	(WG)	Northern Gas Networks

* *via teleconference*

Copies of all papers are available at: www.gasgovernance.co.uk/dcmf/240413 and www.gasgovernance.co.uk/0186apr2013

1. Introduction and Status Review**1.1 Review of Minutes**

The minutes of the previous meeting (21/01/13) were accepted.

1.2 Review of Actions

DCMF 07/02: All DNs to consider providing a calculation model to assist understanding how tariffs are calculated.

Update: SA advised that this would be covered under item 3 below.

Carried Forward

DCMF 10/04: Ofgem (JC) to ascertain whether an innovations update would be included as part of the RIIO Licence consultation and, if not, what timescale is involved.

Update: JP confirmed that an innovations update had been included as part of the RIIO Licence consultation.

Closed

DCMF 01/01: RWE npower (JW) in reference to the Tariff Model: Gather views on what specification may be required (including identification of any priorities) and bring forward a strawman for consideration.

Update: DW agreed to take this away and discuss with his colleague (JW) and provide an update at the next meeting.

Carried Forward

2. Allowed and Collected DN Revenue (UNC0186 Reports)

2.1 National Grid Distribution

East of England

DC opened by outlining the subtle differences between this and the January 2013 report and explained that there is a small net difference in the 'k' value, allowed revenue now includes some legacy pricing control elements, the Shrinkage Allowance Revenue Adjustment shows a small negative adjustment reflecting a lower shrinkage cost when compared to Ofgem's allowance, the Discretionary Reward Scheme Revenue Adjustment reflects last years award, the Network Innovation Allowance Revenue Adjustment figures are taken from NGDs plan (based on a lower than predicted cap), the figures also reflect the Ofgem reduction in NTS Exit Capacity cost allowance, 3% SOQ prediction retained, the TOTEX mechanism element has been excluded as it is early days and pass through is currently in line with RIIO.

DC moved on to explain that a forthcoming TMA submission to Ofgem for the London Permit Scheme (outer Metropolitan District), would result in an additional claim worth approximately £3 million. When asked DC confirmed that the expectation is to submit the claim end of June in anticipation of a possible October decision. DC also confirmed that the NTS Exit Capacity price control figure of (£0.5 million) is in line with the allowance.

SA reminded those present that last years REPEX would not be finalised until around the end of June time.

London

Similar to the East of England figures, but with a slight movement reflected in a reduction in Core Allowed Revenue (circa £14 – 16 million) across the period. Additionally, National Grid anticipates raising a 'catch up' TMA of approximately £4 million in due course.

North West

The April figures for 2012/13 show a slightly higher Allowed Revenue of around £3 million (including shrinkage cost, incentive, NIA and DRS allowances) when compared to the January report figures. The 2015/16 Collected Revenue to equal Allowed Revenue percentage has fallen from 8.1% in January to 7.8% in the April report.

West Midlands

The 2012/13 Allowed Revenue is lower than the January forecast to the tune of approximately £7 million with a marginally higher Collected Revenue figure which results in a slightly lower 2013/14 'k' value – the main movement in the Allowed Revenue reflecting a NTS Exit Capacity cost adjustment.

When asked whether or not the 2013/14 additionally £6 million resurfaces in 2015/16, SA agreed that there seemed to be an error in the report and this would be amended after the meeting.

When asked if National Grid has a view on the potential scale of the 2015/16 Price Control re-opener, SA advised that whilst this would be conducted on the basis of the proposed Tax Change going ahead and expected to be in the region of 6 to 8%, it remains at this time, a big unknown.

The provision of the TMA re-opener flag within NGD's reports was applauded. DC advised that the next big re-opener expected in 2015/16 would be in the North West district and would cater for the 'All streets, all works – Manchester Permit'.

In response to the above discussions SA/DC agreed to undertake a new action to provide an updated set of reports for publication by close of play on Friday 26 April.

When asked whether or not the reports are now providing the level and style of information that parties seek, it was suggested that whilst the level of breakdown is good adoption of a

more common format would prove beneficial. RH agreed to undertake a new action to review all 0186 Reports and provide a 'strawman' on a potential future format in time for consideration at the next meeting and with a view to adopting a more standardised format from October onwards.

2.2 Scotia Gas Networks

Scotland

JP provided a brief overview of the Scotland report, pointing out that the opening base revenue figure now reflects updated NTS Exit Capacity costs.

For 2012/13 the Allowed Revenue includes £1.1 million REPEX and a £0.2 million shrinkage allowance whilst the Collected Revenue increases by £0.6 million compared to the January figures with a resulting reduction in 'k' going forward of 0.8.

2013/14 witnesses an increase in the full NIA Allowance whilst the figures for 2015/16 and 17 reflect a shrinkage adjustment.

When asked whether there would be a re-opener, JP indicated that this would be considered in due course.

Southern

For Southern, the indicative a year on year reduction whilst the 2012/13 Allowed Revenue (exc. NTS) movement reflects REPEX impacts whilst 'k' includes approximately £8 million going forward into 2013/14.

Whilst the 2014/15 figures show a baseline drop, there also appeared to be an error in the over/under recovery figure - JP agreed to undertake a new action to investigate whether there is an error in the report, and if so, provide an updated report in due course.

When asked whether or not any SOQ assumptions had been included within her reports, JP advised that whilst none had been included at this time she would be happy to do so if parties believed there would be a benefit.

On a more general theme, RH suggested that the issue is more about transparency rather than commonality across all the DN reports. When asked, all the DN representatives confirmed that they are utilising the Treasury Forecast within their respective RPI assumptions. However, SA pointed out that whilst this can assist the DNs in providing a year-ahead view, forecasting beyond that is difficult.

It was also recognised that the proposed Corporate Rate Tax Reduction could/would also need considering in due course.

2.3 Wales & West Utilities

JE opened by explaining that the 2012/13 shrinkage figure is up 0.3% from the January report, although he is confident that the pass through costs (licence, pensions etc.) remains accurate. The MSRA incentive has reduced along with Allowed Revenue although there is an increase in Collected Revenue due in part to the winter impacts resulting in an over recovery of circa £1.2 million.

For 2013/14 the base Allowed Revenue movement reflects the Ofgem (business rate allowance) changes whilst Collected Revenue assumes a 3% SOQ reduction – this is also assumed for the other years as well. The approximate £2 million over recovery will come off in 2014/15.

Moving on to consider the Transportation Charges (exc. Exit Capacity) price increases predictions for 2013 through to 2018, JE advised that these reflect a flat 3% SOQ reduction for each year from 2014 to 2018, whilst from 2015/16 the impact of the IFRS tax change is taken into account – the main component being REPEX which is modeled in Ofgem's allowance. In considering Notes 1 and 2, JE indicated that he had attempted to identify potential claw back.

SA advised that Ofgem is considering adoption of a dynamic shrinkage allowance approach for the future.

Whilst acknowledging that this report provides the information required, RH indicated a preference for the styles adopted by the other DN's within their respective reports.

2.4 Northern Gas Networks

Keeping his presentation brief, WG advised that a 5.2% Price Control figure had now been included after it had been finalised in the period between the January and April reports. He went on to suggest that the 2012/13 REPEX figure is an unknown factor which could change between now and the June report, at which point it should also be finalised.

Moving on, WG highlighted the fact that the 3.2% Year on Year RPI figure for years 2014/15 and 16 is higher than the other DN's equivalent figure. Whilst he has not modeled in any movements for the pass through costs these remain broadly in line with allowances. SOQ assumption of a 3% reduction has been applied across all four periods.

In closing, WG undertook a new action to provide an updated report that contains the 2017/18 period figures as well.

3. Generic Calculation Model Provision Update

TD advised that at present, the DN's are not in a position to take this matter forward.

4. RIIO Implications for Charges Update

It was acknowledged by those parties present that the RIIO implications had now been included within the respective DN's 0186 Reports.

During a brief discussion, it was suggested that consideration of the impacts and timings associated with when National Grid NTS resets its prices (i.e. moving to an April and/or October release) would be required in due course – NG NTS has indicated that it would consider moving to an April date at some point in the future. LH pointed out that at the recent Transmission Workgroup meeting views remained unclear as to whether or not a permanent move to an April date would prove beneficial so should any DN have an opinion on this matter could they please pass this on to the Transmission Workgroup for consideration. SA responded by suggesting that this matter is possibly more of a Shipper related impact as any associated (volatility) issues get passed through anyway.

5. Allowances for NTS Exit Capacity – Ofgem Update

It was agreed that this had been covered under discussions on items 2 and 4 above.

6. Any Other Business

None.

7. Workgroup process

7.1 Agree actions to be completed ahead of the next meeting

The following new action was agreed:

DCMF 04/01: NGD (SA/DC), SGN (JP) and NGN (WG/JT) to provide updated 0186 Reports that rectify any inherent errors and include the 2017/18 figures where missing from the original report.

DCMF 04/02: British Gas (RH) to undertake a review of the 0186 Reports with the view to providing a 'strawman' for consideration at the next meeting, on the potential adoption in future of a standardised format possibly from October 2013 onwards.

8. Diary Planning for Workgroup

Details of planned meetings are available at: www.gasgovernance.co.uk/Diary.

It was agreed that the date of the next meeting would be notified in due course.

Action Log

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
DCMF 07/02	23/07/12	3.	DNs to consider providing a calculation model to assist understanding how tariffs are calculated.	All DNs	Update to be provided in due course. Carried Forward
DCMF 10/04	23/10/12	3.	Ascertain whether an innovations update would be included as part of the RIIO Licence consultation and, if not, what timescale is involved.	Ofgem (JC)	Update provided. Closed
DCMF 01/01	21/01/13	1.2	Tariff Model: Gather views on what specification may be required (including identification of any priorities) and bring forward a strawman for consideration.	RWE npower (JW)	Update to be provided in due course. Carried Forward
DCMF 04/01	24/04/13	2.	To provide updated 0186 Reports that rectify any inherent errors and include the 2017/18 figures where missing from the original report.	NGD (SA/DC), SGN (JP) and NGN (WG/TP)	Update to be provided in due course.
DCMF 04/02	24/04/13	2.	To undertake a review of the 0186 Reports with the view to providing a 'strawman' for consideration at the next meeting, on the potential adoption in future of a standardised format possibly from October 2013 onwards.	British Gas (RH)	Update to be provided in due course.