

# Distribution Charging Methodology Forum Minutes

## Wednesday 24 July 2013

### via teleconference

#### Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Colette Baldwin	(CB)	E.ON UK
David Chalmers	(DC)	National Grid Distribution
Dimuthu Wijetunga	(DW)	RWE npower
Joanne Parker	(JP)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Jonathan Trapps	(JT)	Northern Gas Networks
Rochelle Harrison	(RH)	British Gas
Steve Armstrong	(SA)	National Grid Distribution
Wasif Anwar	(WA)	E.ON UK

*Copies of all papers are available at: [www.gasgovernance.co.uk/DCMF/240713](http://www.gasgovernance.co.uk/DCMF/240713)*

#### 1. Introduction and Status Review

##### 1.1 Review of Minutes

The minutes of the previous meeting 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:** Awaiting further progress on Action 01/01. **Carried Forward**

**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 reported that this was being looked at internally in light of the RIIO outcome and revised 0186 Report format and would be discussed with other Shippers shortly. Update expected at the next meeting. **Carried Forward**

**DCMF 04/02:** British Gas (RH) to undertake a review of the UNC0186 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.

**Update:** The revised format was welcomed and agreed for future use. However, Scotia Gas Networks indicated it would need to confirm internally that the information could be produced before committing to the adoption of the new format. **Carried Forward.**

#### 2. Allowed and Collected DN Revenue (UNC0186 Reports)

##### 2.1 Wales & West Utilities (WWU)

The July Report had been restated in line with the revised format and the comparison had been shown. JE outlined changes made since the April Report. Attention was drawn to items where movement had occurred.

For 2012/13 - Mains & Services Replacement Adjustment – a reduction that feeds through to 'K' to give an £1.7m over recovery. Maximum Allowed Revenue may move very slightly

on Mains Replacement Adjustment. For the RIIO periods going forward there was not a lot of difference to the April Report.

For 2013/14 - the main difference concerned Collectable Revenue; 'K' adjustment is an over-recovery of £3.6m. A 3% reduction in SOQs was assumed for October 2013.

For 2014/15 - there was very little movement. A 3% reduction in SOQs was assumed for this period.

For 2015/16 and 2017/18 - the Exit Capacity 'claw back' had been revised and could be quite high because it was recovering so much more based on the Ofgem cost allowance for these years.

Price increases were shown for 2014/15 and JE gave details.

CB questioned the price reduction of -19% in April 2015/16. JE explained the 'claw back' relating to NTS charges, its basis and how/when applied. The cost allowance seems higher than what is coming through from National Grid NTS (hence the over recovery and subsequent charge reduction); it may be that the 'claw back' changes in the future.

JE was thanked for the format adopted – which was described as 'brilliant'.

## 2.2 Scotia Gas Networks (SGN)

JP explained that SGN had not yet adopted the new format (may start in October).

### a) Scotland

For 2012/13 - Allowed Revenue reduced by £1.6m (RPIit and Zt movement). There was no change on Collected Revenue. This should reflect the final position.

For 2013/14 - Allowed Revenue will decrease by £1.6m (impact of 2012/13 'K'). For Collected Revenue there was a small increase in Commodity.

For 2015/16 - Associated 'K' from 2013/14 is £1.1m. There was no change in view of NTS Exit Capacity from April.

JP noted that SGN had made a submission to Ofgem in respect of streetworks in relation to additional costs.

Responding to a question on SOQs, JP asked if the preference was for no estimates or some estimates; she noted the previous response had been that if the assumptions were clear, it was alright as it was. DW suggested a separate table giving a high/low forecast and hence the range of potential SOQ change. JP agreed to include this in the next report.

**Action DCMF07/01: SOQs – In the next UNC0186 Reports include a table indicating the high/low forecast and the range of SOQs.**

### b) Southern

For 2012/13 - there was a reduction of £1.3m from the April Report. Collected Revenue – an additional £1.4 m (Commodity), carried forward into 2013/14.

For 2013/14 - Allowed Revenue reflected carry forward from the previous year.

For 2015/16 - there was a small movement in Shrinkage – reflects £2m 'K' carried forward from 2013/14. There was no change in view on the [??ECN?] charge.

Referring to SOQs, JP indicated the range was more difficult in this LDZ – there was more of a swing and the range will have a wider tolerance (0-6% reduction). JP will include the details (as for Scotland above) in the next report.

## 2.3 Northern Gas Networks

JT indicated that this was similar to the revised format. Some incentive benefits had been added in around Shrinkage (lag of 2 years) and Leakage - £1.9m benefit to impact 2015/16

onwards. SOQ reductions were still assumed to be 3% each year. There was little movement compared to the April report.

Responding to a question from RH referring to the Environmental Emissions Incentive, JT explained this was drawn from the RIIO calculations, and how this worked. Information on how the target was out performed would be provided at the next meeting.

**Action DCMF07/02: *Environmental Emissions Incentive target – Provide information on how this was out performed.***

## 2.4 National Grid Distribution

DC reviewed each of the DNs in turn.

### a) *East of England*

For 2012/13 - there was no movement on the present position indicated in April.

For 2013/14 - there was a slight increase in Collectable Revenue (as for the other DNs) – £0.6m under recovery to £0.3m over recovery carried forward to 2015/16.

For 2015/16 and 2017/18 – there was a slightly revised forecast, which reflects small differences in items.

For 2015/16 – a slight out performance in Exit Capacity Adjustment – National Grid went with the revised Capacity Allowances (January) so there are not the same 'claw back' adjustments. Shrinkage Factor and Environmental Emissions Incentive were as forecasted in April, years 2015–18 inclusive.

Overall there had been very little movement of the previous forecast. National Grid Distribution had populated Table 2 and DC explained how it had been completed and on what basis.

Totex – Some fluctuation could be seen over the years, reflecting the projected path down to RIIO expectations.

Reopeners were always positive adjustments and reflected the best projections to date.

Streetworks were the biggest single element and reflected current views of additional costs to be incurred (permit schemes, etc).

The Smart Meters figure was highly uncertain, and was a best estimate and subject to change.

SA added that the figures for 2012/13 were not finalised and some changes are expected, eg 'K' for 2013/14. Some factors are highly uncertain (SOQs range could be between +3 and -6).

DW referred to the Smart Metering rollout in Table 2 – a £3m potential reopener, and asked if this had the potential to materialise before 2017/18 or after? Noting this query, DC will refer this back to the RIIO Team and respond to DW.

### b) *London*

The figures were the same as for the previous forecast, but there were potential changes to some inputs.

It was similar to the East of England – small adjustments to Pass Through costs 2015 - 2018. The Shrinkage Cost Adjustment remained as noted in April. The Collectable Revenue 2013/14 was slightly higher (£0.3m) than April; £3.1m over recovery carried forward to 2015/16. There was a slight change to the Forecasted ECN Revenue. SOQ was volatile.

Moving on to Table 2 DC explained the items. It was hoped to reduce the levels of OPEX to come into line with RIIO. There were changes to Streetworks costs – expected increases in environmental costs and Section 74.

*c) North West*

DC indicated this was much the same picture as for East of England and London. There was a slight decrease in Collectable Revenue for 2013/14, and very small movements in ECN 'K' to be carried forward and consequently small differences in the level of charges.

Looking at Table 2 Streetworks, adjustments for 2016/17 and 2017/18 were £13m and £19m respectively, due to the impacts of Section 74 and the Manchester permit scheme coming into force, to be followed by the Lancashire and Liverpool permit schemes. WA questioned why costs for 2017 were higher than 2013 and differed from the other LDZs. DC believed this reflected the expected timing of the different permit schemes – the Manchester scheme was already in operation and others were expected in 2015/16 (costs lagged over 2 years). Noting this query, DC will refer this back to the RIIO Team and will respond to WA.

*d) West Midlands*

The Collectable Revenue for 2013/14 had changed (£8.8m over recovery reduced to £7.4m). There were small adjustments on Pass Through. Shrinkage Costs were as previously forecast.

Looking at Table 2 Streetworks, adjustments for 2016/17 and 2017/18 were £11m for each period; this reflected the expected timing of the Shropshire permit scheme.

**2.5 General Comments**

Responding to a question from DW, DC confirmed that Uncertain Costs (in Table 2 in all of the reports) had not been incorporated in the financial modelling, and directed attention to the notes included at the top of Table 2 on each spreadsheet.

RH thanked National Grid Distribution for the adaptation of its spreadsheet information and declared it to be very useful.

**3. Any Other Business**

None raised.

**4. Diary Planning for Workgroup**

The next meeting will be held in 3 months' time and arrangements will be confirmed when details are known.

**Action Table – Distribution Charging Methodology Forum**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
<b>DCMF 07/02</b>	23/07/12	3.	DNs to consider providing a calculation model to assist understanding how tariffs are calculated.	All DNs	<b>Carried Forward</b>
<b>DCMF 01/01</b>	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)	<b>Carried Forward</b>

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
<b>DCMF 04/02</b>	24/04/13	2.	To undertake a review of the UNC0186 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)	<b>SGN to confirm adoption of new format.</b>  <b>Carried Forward</b>
<b>DCMF 07/01</b>	24/07/13	2.2(a)	SOQs – In the next UNC0186 Reports include a table indicating the high/low forecast and the range of SOQs.	All DNs	<b>Pending</b>
<b>DCMF 07/02</b>	24/07/13	2.3	<i>Environmental Emissions Incentive target</i> – Provide information on how this was out performed.	NGN (JT)	<b>Pending</b>