

Distribution Charging Methodology Forum Minutes
Wednesday 14 May 2014
at ENA, 52 Horseferry Road, London. SW1P 2AF

Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Ben Tucker	(BT)	EDF Energy
Bernard Kellas	(BK)	SSE
Charlotte Bantleman*	(CBa)	Total
Clare Cantle-Jones	(CJ)	ENA
Colette Baldwin	(CB)	E.ON UK
David Chalmers	(DC)	National Grid Distribution
Dimuthu Wijetunga	(DW)	npower
George Moran*	(GM)	British Gas
Joanne Parker	(JP)	Scotia Gas Networks
Joel Martin*	(JMa)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Jonathan Trapps	(JT)	Northern Gas Networks
Steve Armstrong	(SA)	National Grid Distribution

* via teleconference

Copies of all papers are available at: www.gasgovernance.co.uk/DCMF/140514

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 DN's to consider providing a calculation model to assist understanding how tariffs are calculated.

Update: SA explained that this action would be addressed in the presentation in item 3.0 below. **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: In the absence of an RWE npower representative, DW advised that Supplier discussions have concluded that it might be better for the DN's to agree a common format and process and the 'industry' can progress it from there. DC then advised that once again the action would be addressed in the presentation in item 3.0 below. **Closed**

DCMF14/01: DN's to look to providing a consistent (tabulated) approach to presenting the suite of information as contained in table 2 of the Scotia Gas Networks report.

Update: SA explained that this action would be addressed in the presentation in item 3.0 below. **Closed**

DCMF14/02: EDF Energy (BT) to provide feedback to the DN's on the Shippers preferred Mod186 format.

Update: SA explained that this action would be addressed in the presentation in item 3.0 below. **Closed**

DCMF14/03: *Linked to action 14/02* – DN's to consider provision of a common (Shipper preferred) Mod186 report format in future.

Update: SA explained that this action would be addressed in the presentation in item 3.0 below. **Closed**

2. Allowed and Collected DN Revenue (UNC0186 Reports)

2.1 Northern Gas Networks

In presenting a brief overview of the changes made to the report since the January 2014 version, JT advised that the report is presented in the new common format with additional information in the form of Table 7 covering the 'Domestic Customer Bill Impact' and the likes of row 77 'Specified Financial Adjustments – Impact on revenue (9/10 prices).

When asked, the DN's confirmed that their respective figures take in to account the effects of a mild winter within their recovery assessments.

It was agreed that adopting a consistent numbered line-by-line approach to reviewing the key aspects to each of the reports would prove beneficial.

2.2 National Grid Distribution

Commencing with the East of England report, DC focused attention on the main movements since the January report and presented rationale behind the figures and assumptions underlying the changes.

East of England

DC explained that line 62 'Bill Impact in 2014-15 prices' takes into account the SOQ reduction of circa 3%, which is in-line with market trends.

When asked whether or not all DN's could consider adopting a similar set of 'baseline' assumptions, SA suggested that subtle differences in the respective DN assumptions may occur, although there might be value in utilising the Treasury (5 year) Forecasts as a starting point.

Moving on to line 70 'Cost of Debt Adjustment (drives changes to WACC)', DC advised that he would look to stating the explicit cost of debt in future reports.

In considering whether or not a consistent high-level view around potential impacts could be provided to assist Suppliers in assessing costs, it was noted that the timing associated with the cost impacts potentially impairs the ability to provide a realistic view. Additionally, the Authorities position / views on financial models may also have an impact on this area. SA suggested that as a general 'rule of thumb' the DN's high-level views represent their respective 'top estimates'.

Asked whether or not the warmer conditions during 2013 Q4 resulted in differences across the National Grid networks, DC confirmed that this is the case whilst also pointing out that the diverse market mix (domestic v's industrial sites) has resulted in recovery variances across the NGD networks.

Rather than individually working through the London, North West and West Midlands reports, DC advised that they are all broadly similar in content and theme to the East of England report.

2.3 Scotia Gas Networks

JP provided a brief review of the changes in the SGN report(s) since the January 2014 version. Apologising, JP advised that she had only just spotted some small errors in the published version 1.0 of the report (restricted to the Exit Capacity Adjustment figures in columns G, H & I, plus an updated Table 5 in both reports) and had therefore provided a version 2.0 which the Chair had just published on the Joint Office web site.

Southern

During a brief review of the figures, JP advised that line 35 is now more reflective of SGN's true position and that she would be looking to include a cost of debt assessment in any future reports.

Scotland

As far as the line 51, column H value for the 'ECN Charges Arithmetical April Price Change (%)' of 8.7% was concerned, JP advised that whilst this may appear to be a large figure, it is not a material impact.

2.4 **Wales & West Utilities**

JE provided a brief review of the changes in the WWU report since the January 2014 version, explaining that as far as line 41 was concerned, the 'collected' figure is the final 2013/14 value which is reflected in an over recovery position within line 42.

Column J on line 27 'Exit Capacity Allowance Adjustment' figure of -5.9% reflects a change in inflation and cost allowance reductions (wholesale cost of gas is reducing – ref line 30 column I value of -3.2%).

The value displayed in column G on line 53 'ECN Charges Arithmetical April Price Change (%)' has been impacted by the associated 'true up' cost from line 48.

Concluding, JE advised that he would be looking to enhance the information in Table 5 in his future reports. When asked whether or not the shrinkage cost assessments are (WWU) internal only, or a more commercial view, JE advised that these are a commercial view extracted from several sources.

In undertaking a more general discussion about adoption of a more consistent DN approach to providing both SOQ forecast and inflation figure assumptions, SA indicated that as far as the SOQ's are concerned the assumptions can be broken down into two key elements – price changes and how these are best reflected in the customer bills. He went on to point out that Ofgem had recently altered their market assumptions view and that the DN's need to provide assumptions that are consistent with the Ofgem Supply Market Indicator. DC added that as a starting point, the National Grid Distribution (NGD) 2014/15 bill was used for the baseline prices (net of inflation) and then assessed out year on year from this starting point (inc. SOQ reduction assessments).

In looking to provide a more consistent approach to providing the inflation forecasts, SA suggested that it might be possible to utilise the treasury forecast (although it was also recognised that these can on occasions be up to 6 months out of date), or alternatively agree a standard set of inflation assumptions.

Whilst supporting the general principle of moving towards a more common and transparent (DN) reporting approach, GM pointed out that he still sees value in the DN's being able to provide their own views / perspectives and therefore cautioned against adopting too strict a position around standardisation of reports.

Action DCMF 05/01: DN's to look to providing a high-level view in the reports relating to costs and any potential impacts and where possible provide a % confidence level indication.

Action DCMF 05/02: DN's to agree a common process for utilisation of the treasury forecasts. (i.e. most recent quarterly reports v's final year forecast v's last available year rolled forwards).

Action DCMF 05/03: DN's to agree a common 'Cost of Debt' provision (inc. percentage assumptions and the rationale behind them).

Action DCMF 05/04: DN's to consider adoption of a common report layout that utilises a line-by-line and column 'matched' style of presentation.

3. Common Charging Tariff Model – ‘Strawman’ for discussion

DC provided a brief overview of the ‘Gas Distribution Transportation – Calculation of Charge Rates for April 2014’ presentation.

During consideration of slide 3 – Stage 1 – Allowed Revenue Calculation, DC advised that copies of the NGD RPi modelling sheet had previously been provided to B Tucker and if anyone else would like a copy he would be happy to provide one to the Joint Office for publication alongside the minutes – consensus was yes.

When asked, DC confirmed that the slightly raised £311.2 million (up from the original £311 million) LDZ Charge Total, was due in the main to rounding up differences which would be balanced out via a ‘k’ adjustment in the following year.

Moving on to focus on slide 5 – Stage 3 – Derive target Cost pools, SA advised that the scaling approach was / is based on a previous industry wide consultation (DPC05) which established the process and how scaling should be applied to achieve the target revenue levels.

During a review of slide 6 – Stage 4 – Revenue Modelling (LDZ Capacity), the DNs were asked if they could provide more information (breakdown) for SOQ related movements, similar in style to the information Xoserve provides on their AQ Impact Assessment. Responding, JE pointed out that WWU do not (currently) apply SOQ reduction assessments to their larger sites. DC also pointed out that the information provided within this table comprises pre-prediction rates only (i.e. do not include revenue).

In considering the Stage 4 – Revenue Modelling (LDZ Commodity) slide 7, DC pointed out that the whilst the CSEP unique sites are calculated in a similar fashion, they have been excluded from the table to aid clarity. SA also advised that these are also calculated on an individual basis.

It was acknowledged that whilst each of the DNs utilise subtly different models, they end up with broadly similar end results, especially when bearing in mind that the capacity / commodity splits (95:5) do not change. Should anyone wish to change the split, a UNC modification would be required to do so.

BT suggested that having a model (for Shippers / Suppliers) over and above the 0186 reports could prove beneficial. However, the DNs do not necessarily share this view as they do not believe it would provide Suppliers with a better forward view, as the problems are really down to a timing issues, ECN related issues along with a pseudo level of accuracy.

Asked whether or not Suppliers would be able to have access to the Xoserve report provided to DNs (in either direct or aggregated data format), SA suggested that this would be a matter best discussed direct with Xoserve although he is aware that there may be confidentiality issues that prevent its provision.

Action DCMF 05/05: National Grid Distribution (DC) to provide a copy of NGDs RPi modelling sheet to the Joint Office for publication prior to the next meeting.

Action DCMF 05/06: DN’s to look to provide a similar ECN related presentation.

Action DCMF 05/07: Shippers / Suppliers to consider how best to move forward on the Tariff Model provisions with a view to providing feedback at the next meeting.

Action DCMF 05/08: DN’s to investigate with Xoserve what potential level of information from their (DN specific) reports could be provided, if any.

4. Any Other Business

None.

5. Diary Planning

The following meetings for 2014 have been scheduled.

Time/Date	Venue	Programme
09:30 Tuesday 29 July	Joint Office, 31 Homer Road, Solihull. B91 3LT.	
10:30 Wednesday 29 October	Teleconference meeting.	

Action Table – Distribution Charging Methodology Forum

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 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 provided. Closed
DCMF 14/01	29/01/14	2.	To look to providing a consistent (tabulated) approach to presenting the suite of information as contained in table 2 of the Scotia Gas Networks report.	DNs	Update provided. Closed
DCMF 14/02	29/01/14	3.1	To provide feedback to the DNs on the Shippers preferred Mod186 format.	EDF Energy (BT)	Update provided. Closed
DCMF 14/03	29/01/14	3.1	<i>Linked to action 14/02</i> - to consider provision of a common (Shipper preferred) Mod186 report format in future.	DNs	Update provided. Closed
DCMF 05/01	14/05/14	2.	To look to providing a high-level view in the reports relating to costs and any potential impacts and where possible provide a % confidence level indication.	DNs	Update to be provided.
DCMF 05/02	14/05/14	2.	To agree a common process for utilisation of the treasury forecasts. (i.e. most recent quarterly reports v's final year forecast v's last available year rolled forwards).	DNs	Update to be provided.

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
DCMF 05/03	14/05/14	2.	To agree a common 'Cost of Debt' provision (inc. percentage assumptions and the rationale behind them).	DNs	Update to be provided.
DCMF 05/04	14/05/14	2.	To consider adoption of a common report layout that utilises a line-by-line and column 'matched' style of presentation.	DNs	Update to be provided.
DCMF 05/05	14/05/14	3.	To provide a copy of NGDs RPi modelling sheet to the Joint Office for publication prior to the next meeting.	National Grid Distribution (DC)	Update to be provided.
DCMF 05/06	14/05/14	3.	To look to provide a similar ECN related presentation.	DNs	Update to be provided.
DCMF 05/07	14/05/14	3.	To consider how best to move forward on the Tariff Model provisions with a view to providing feedback at the next meeting.	Shippers / Suppliers	Update to be provided.
DCMF 05/08	14/05/14	3.	To investigate with Xoserve what potential level of information from their (DN specific) reports could be provided, if any.	DNs	Update to be provided.