
Distribution Charging Methodology Forum Minutes

Monday 26 April 2010

Energy Network Association, London SW1P 2AF

Attendees

Tim Davis (Chair)	(TD) Joint Office
Mike Berrisford (Secretary)	(MB) Joint Office
Anna Taylor	(AT) Northern Gas Networks
Bernard Kellas	(BK) Scottish and Southern Energy
Denis Aitchison	(DA) Scotia Gas Networks
Eddie Proffitt	(EP) Major Energy Users Council
Fiona Upton	(FU) RWE npower
Glenn Sheern	(GS) E.ON Energy
Ivalene Bramble	(IB) British Gas
James Stone	(JS) E.ON UK
Joanna Ferguson	(JF) Northern Gas Networks
John Edwards	(JE) Wales & West Utilities
Rob Hetherington	(RH) Scotia Gas Networks
Simon Trivella	(ST) Wales & West Utilities
Stefan Leedham	(SL) EDF Energy
Steve Armstrong	(SA) National Grid Distribution
Steve Marland	(SM) National Grid Distribution

1. Introduction

TD welcomed all to the meeting.

1.1 Minutes of Previous Meeting

Minutes of the 25 January 2010 meeting were accepted.

1.2 Review of Actions

Action 0030: Ofgem to consider making a presentation on incentives to the January 2010 DCMF.

Update: No Ofgem representative was present. **Action: Carried Forward**

Action 0033: The DNs to investigate the provision of improved commentaries to enhance understanding of the differences in the various DN Allowed Revenue assumptions.

Update: It was agreed to close the action in light of the information provided and presented. **Action: Closed**

2. Discussion Items

Copies of all the presentation materials provided are available from the Joint Office web site at: www.gasgovernance.co.uk/dcmf/260410

2.1 Allowed and Collected DN Revenue (UNC0186 Reports)

2.1.1. Wales & West Utilities

When asked why, when the current RPI is so low, there is a projected 9% increase in charges for 2011/12, JE explained that the 9% reflects the unit price element and a User with reducing AQ can expect a smaller change. He confirmed the figures assume a 3.5% reduction in AQs.

EP wondered where, given the figures provided, he would be able to see the benefits from the performance rewarded through the various incentives. SM responded that the incentive to manage the system (especially exit requirements) in a cost effective manner would be reflected in future price controls.

When asked whether or not the 8.2% price adjustment for 2011/12 was indicated in the January figures, JE confirmed that this was the case and reflects a slight shortfall in collected revenue.

2.1.2. Scotia Gas Networks

RH pointed out that for, the -1.8 cost pass through movement for Scotland in 2009/10 reflects a unit rate change whilst the 2010/11 figure of 3.7, primarily reflected changes in business rates, with the increased costs following a revaluation being passed through. In Southern, the 10.9 incentive movement was largely driven by REPEX impacts.

Asked if the Scotland figures included a reopener allowance for the recently agreed CAPEX increase, RH confirmed that it did not since the Licence has not been amended, but would do in future. A TMA allowance will also be included as better information becomes available.

TD noted that the figures were showing price changes that had not been anticipated at the previous DCMF and invited Shippers to indicate if there was anything further that could be provided to assist their understanding. SM added that the key driver for the differences was business rates and the impact of the revaluation could not have been accurately predicted. BK emphasised that the information being provided continues to be extremely helpful.

2.1.3. Northern Gas Networks

AT explained that the majority of changes from her January 2010 report reflected the impacts of the cold weather as well as business rate changes. However, the 8.4% price level change indicated for 2010/11 is not significantly different to the January 2010 report and it would not generate significantly higher revenue.

Asked if there had been any impacts following implementation of UNC modification 0275 "Reduction in DM LDZ Exit Capacity for Supply Points with Significant Changes in Usage", AT indicated that this had not resulted in any significant changes being observed. The other networks confirmed that the effect in other areas was also nugatory.

2.1.4. National Grid

SM explained that, among National Grid's networks, London has experienced the most significant changes since the January 2010 report, with similar factors to those reported by the other DNs – notably the business rate revaluation. IB enquired if, in terms of the 2010/11 figures (for London), any account had been taken of the potential impact of the Olympic preparations. SM recognised that there may be 'work zone' restrictions applied in due course, but the actual location and scale of these remain uncertain. His instinct was that the financial impact could be in the range of + or - £5 million.

EP indicated that his impression was that the SGN presentation provided a wider range of information than the other DN reports and wondered why, as he was under the impression that the whole concept was for DNs to provide broadly similar reports. The DNs pointed out that, whilst adopting a common methodology, the scope of their respective reports reflected differing starting points on which the figures are based (i.e. differing core allowed revenue positions, different incentive levels and the impacts of historical corrective actions etc.).

2.2 LDZ System Charge Functions – a DN Update

SM presented on behalf of all the DNs, covering the approach used historically and the proposed way forward.

In response to SL, SM confirmed that the Peak Day figures reflected diversified demand. SA confirmed that all presently interruptible sites had been excluded from the analysis historically but were now being included to reflect the revised arrangements.

In terms of the modelling assumption that all gas in the lower pressure tiers flows through each of the higher pressure tiers, the potential impact of connection of alternative fuels sources was raised. For example, biogas could enter an intermediate or medium pressure pipe. SM felt that, prior to 2020, the main effect would be to ‘dynamically’ reduce the direct impact on loads connected to the LTS. Furthermore, current predictions indicate a reduction in the overall value of LTS, which may require future reinforcement.

SM emphasised that while the underlying data collection and analysis was common across the DNs, the results could be different for each network. Each DN would look to develop functions that most closely reflected their own costs. This would be consistent with their individual Licence obligations. Shippers indicated that any geographic variation in the functions could have significant system implications for themselves, and both the time and cost needed to implement such changes should be taken into account.

SA pointed out that whilst DN specific functions was the most cost reflective solution, this is by no means set in stone and the formal consultation would seek views on issues such as how best to define the band break points and whether there would be benefits in retaining a national approach. A consultation paper will be issued prior to the July DCMF meeting. However, if the consultation period ends before that meeting, an additional meeting will be arranged to facilitate discussion of the consultation paper.

EP suggested it is valuable to have a common charging methodology and noted that the electricity market is moving towards this approach. He was concerned, therefore, by the suggestion of moving away from this. SA indicated that the balance of advantages between commonality and cost reflectivity would form part of the consultation.

TD encouraged all to consider the proposal as outlined sooner rather than later and to provide the Den’s with early feedback if significant implementation difficulties were anticipated. Any quantification of the implementation impacts could help to inform and shape the consultation.

2.3 Commodity Charge Removal – DN presentation

On behalf of the DNs, DA presented the proposed move from the present 95:5 capacity:commodity split to 100% capacity..

When asked if a UNC modification would be required to support the proposal, SA suggested this would not necessarily be the case.

Contrary to a suggestion that the proposal meant AQs were no longer needed, but only SOQs, DA suggested AQs may still be needed for reasons beyond transportation charges.

EP suggested that, while he had long argued that 100% capacity was the correct charging basis, he struggled to understand the gradual move in this direction by the DNs while the NTS had moved in the opposite direction. SA suggested that it would be better to discuss this directly with National Grid NTS.

2.4 NTS Exit Charges – inc. responses to DNPC06

DA provided the 'DNPC06 Charges - Consultation Report' presentation on behalf of all the DNs. Two further responses were submitted as a result of the extended consultation.

DA advised that the consultation report had not been sent to Ofgem in order to allow for change to be made if DCMF attendees felt this was necessary. However, in the absence of suggested changes, the report will now be formally submitted and Ofgem will have 28 days in which to veto the proposal.

2.5 Authority Update – inc. Impact of Governance Arrangements

In the absence of an Ofgem representative, TD confirmed that the Industry Codes Governance Review had established that charging methodology changes would go through the UNC modification processes, and changes could be raised by any party – including non-code signatories. The proposed licence changes required continuation of DCMF, although its status may be changed..

3. Topics Register

A copy of the topics register updated following the meeting is from the Joint Office web site at: www.gasgovernance.co.uk/dcmf/260710.

3.1 Review of Topics

TD reviewed the status of the Topics, which had been discussed during the meeting as planned.

3.2 New Topics

SM suggested, and the group agreed, to add a new topic on the use of SHQs for charging purposes.

4. Date of next meeting and agenda items

Monday 26 July 2010, Energy Networks Association.

5. Any Other Business

None.

Action Log – Distribution Charging Methodology Forum – 26 April 2010

Action Ref	Meeting Date	Minute Ref	Action	Owner*	Status Update
0030	26/10/09	3.1.2	Consider making a presentation on incentives to the January 2010 DCMF.	Ofgem	Update due at 26/07/10 meeting. Carried Forward
0033	25/01/10	2.1.4	Investigate the provision of improved commentaries to enhance the low level understanding of the differences in the various DN Allowed Revenue assumptions.	DNs	Update provided. Closed