

Distribution Charging Methodology Forum Minutes
Monday 06 May 2008
Elxon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	(TD) Joint Office
Mike Berrisford (Secretary)	(MiB) Joint Office
Andrew Mullins	(AM) Bord Gais Eireann
Anna Taylor	(AT) Northern Gas Networks
Bernard Kellas	(BK) SSE
Denis Aitchison	(DA) Scotia Gas Networks
Dennis Timmins	(DT) RWE Npower
Elaine Calvert	(EC) Waters Wye Associates
Fiona Upton	(FU) EON
Gill Gurbrinder	(GG) Regent Gas
Graham Craig	(GC) Ofgem
John Edwards	(JE) Wales & West Utilities
John M ^c Namara	(JMc) Ofgem
Kelly Denny	(KD) E.ON
Lewis Hodgart	(LH) Ofgem
Natasha Ranatunga	(NR) National Grid NTS
Nick Wye	(NW) Waters Wye Associates
Paul Sherley	(PS) Centrica
Shelley Rouse	(SR) StatoilHydro
Stefan Leedham	(SL) EDF Energy
Steve Armstrong	(SA) National Grid Distribution
Steve Briggs	(SB) Centrica
Steve Marland	(SM) National Grid Distribution

1. Introduction

TD gave an introduction and explained the purpose of the meeting.

2. Minutes of Previous Forum

The minutes of the forum held on 21 January 2008 were accepted.

3. Review of Actions

Action 0012: TD confirmed that a revised report (realigning National Grid's + & - values to match the other DNs) had been published on 23 January.

Action 0012: Closed

Action 0013: TD confirmed that the WWU report now includes the scaling factors.

Action 0013: Closed

Action 0014: Please refer to item 4.1 below.

Action 0014: Closed

Action 0015: TD advised members that copies of the various reports are available from the DCMF section of the Joint Office web site.

Action 0015: Closed

Action 0016: TD confirmed that this was completed on 21 January.

Action 0016: Closed

4. Topics for Discussion

Copies of all the presentations are available from the DCMF section of the Joint Office web site.

4.1 Allowed and Collected DN Revenue – AQ Reductions

SA presented on National Grid's indicative Transportation Charges for October 2008.

With regard to the 'Mod 186 – East of England' slide, SA was asked how the figures compared with the previous view, and suggested it is roughly the same. However he anticipated changes to the mains replacement element in due course.

Attendees asked why, when there is a specific DN Shrinkage Incentive, shrinkage was shown as a pass-through item? SA explained this was in line with the 0186 specification for the treatment of shrinkage costs. However, in terms of the incentive the National Grid figures anticipated a neutral outcome, with no gain or loss. Attendees confirmed that they are happy with the format of the 0186 information.

SA indicated that, apart from the East of England, the figures were broadly in-line with those provided in January and that the K Movement included an assessment of the likely impact of October 2008 AQ Adjustments.

JE presented the WWU data and explained that the information contains only minor differences to that presented in January, with change to under recovery highlighted. However, JE advised that while the January report had indicated a 5% price increase, the May report indicates a 10% increase. This is largely due to changes in the shrinkage cost projection, accounting for 3.5% of the 5% difference.

Attendees asked if, like National Grid, a like-for-like approach had been adopted. JE confirmed this and advised that indicative capacity/commodity rates (95:5) would be provided for the Joint Office to publish.

AT presented for Northern Gas Networks. Comparing figures with the January report, AT suggested that changes reflected lower than predicted temperatures in March; slight reductions in the REPEX allowance; and a loss of meter work adjustment – a price control adjustment to deal with stranded costs.

Attendees asked if NGN's projections also reflect shrinkage cost increases, which AT confirmed. She added that caution should be exercised when looking at shrinkage cost movements because of the uncertainty surrounding gas prices.

Asked about co-ordination of any DN AQ Review discussions, AT advised that the xoserve AQ data output is provided to all DNs at the same time, and is a national average. Whilst updated AQ data is expected in July, if Shippers could provide their portfolio data sooner, this would be beneficial. SM supported this, adding that if a Shippers have any AQ amendments that they expect to discuss with xoserve in the near future, the impact could be included in the DN calculations.

DA presented for Scotia gas Networks, and explained that revised treatment of the costs of transporting gas by road to some Scottish networks had changed the figures – the costs were previously collected across the Scotland Network but in future all GB customers would contribute. DA advised that the SGN figures were compiled to achieve the correct level of revenue at the year end and the indicative change in charges reflected the move to a 95:5 split.

As the only DN to identify Traffic Management Act costs, DA was asked if there were any specific SGN impacts. He did not believe this was the case.

Attendees asked if the time span of the allowed revenue report matched the anticipated July 0186 report. DA confirmed that the 0186 report will cover a full five year period. AT argued that agreement was needed on the assumptions to use for the next price control period, and suggested assuming neutral incentives and applying an uplift factor. DT accepted AT's helpful suggestion, which was supported by the meeting - i.e. neutral incentives, allowed revenue is as previous year + an uplift, and AQs are unchanged.

Action 0017: JE to provide indicative capacity/commodity rates to the Joint Office for publication.

4.2 Modification of Standard Condition D11 (Timing & Notification of Price Change Update)

SA presented on Potential Changes to Distribution Charges. The DNs are currently reviewing the balance of LDZ system and customer charges under the existing methodology and asked about a potential move to a network specific split. SB responded that he wished to see a common methodology but not necessarily common parameters. SA said the DNs will continue work on this and will look to draft a Pricing Discussion Paper for the July DCMF.

Asked which costs were reflected in customer charges, SA explained it includes all costs which iGTs bear, i.e. the emergency service and service pipe costs. Asked if the iGTs are aware of this definition, DA suggested that this was part of the rationale for publishing a discussion paper.

SA continued that the DNs were also looking at network specific information on the probability of connection to pressure tier by load band, and may conclude that either parameters or the underlying function need updating. SA confirmed that if this was to happen for April 2009, indicative notice of revised charges would need to be issued in November. AT suggested that each DN could provide a progress update at the July DCMF. Attendees emphasised the desirability of retaining a common methodology and hence that some coordination between DNs would be helpful even if some were ahead of others with their analysis.

Finally, SA outlined the possibility of updating the optional LDZ charge in time for April 2009. In light of the range of potential developments outlined, TD asked which areas Shippers felt were a priority as time was tight for an April 2009 implementation. Attendees suggested priorities would depend upon the outcome of initial analysis.

Action 0018: DNs to present a progress review on potential April 2009 methodology changes at the July DCMF.

4.3 DNPC03 and the impacts on embedded storage

NW presented on behalf of operators interested in DN connected storage facilities, emphasising that the view was based upon the current charging arrangements.

NW was concerned that the DNPC03 consultation and Ofgem Impact Assessment did not give sufficient consideration to extreme load factor sites, such as storage. Analysis had revealed that some storage facilities could see a transportation charge increase of 600%, which could make such developments uneconomic – despite storage providing network benefits and being actively encouraged by the Government amongst others. SA suggested that perhaps the real question should be what charges should be applied to storage sites. He was unclear why storage charges should differ from any other site with a similar load factor. NW argued this is a potential barrier to developing storage facilities which, unlike other loads, provide network benefits. AT supported SA - in her view any proposed special treatment for storage sites should be discussed with the Authority rather than DNs. NW reiterated that:

- Analysis was done on an average band basis, and consequently did not go into enough detail;
- The analysis did not cover very low load factor sites; and
- Consideration of strategic aspects of embedded storage utilisation is needed.

TD enquired if the networks could expand the previously provided table to include extreme load factors and the number of impacted sites? AT said it would be helpful for Ofgem to specify a requirement, thereby ensuring consistency and that Ofgem would receive appropriate information to support any change to the present position. GC indicated that the Impact Assessment had specifically asked if the analysis was accurate and had received no adverse comments at the time. However, he supported DN provision of load factor and site numbers and suggested the DNs should also look to provide evidence as to whether or not the current methodology is appropriate. The DNs agreed to seek to present this at the July DCMF.

5. AOB

In light of receiving a number of enquiries, JE confirmed that the DNs believed Interruptible Payments from 2011 onwards would be subject to VAT.

6. Date of next meeting

It was agreed that DCMF should meet on 28 July 2008, with Solihull the suggested location.

Action 0018: Joint Office to arrange 28 July meeting, preferably in Solihull.

The Pink Room at Elexon has been booked for 28 July 2008.

Action Table (Appendix 1)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0012	21/01/08	4c	National Grid (SM) to realign the report + & - values to 'match' the other DN reports.	National Grid (SM)	Completed 23/01/08. Closed
0013	21/01/08	4c	Include scaling factors in their report.	WWU (SE)	Update provided. Closed
0014	21/01/08	4c	Provide an update at the next DCMF meeting on DN discussions with xoserve on AQ reductions.	WWU (SE)	Update provided. Closed
0015	21/01/08	4c	Ensure the various presentation materials are published on the Joint Office web site, preferably in one location - tbc.	Joint Office (MiB)	Update provided. Closed
0016	21/01/08	6	Joint Office to arrange the next DCMF meeting for Tuesday 06 May 08, preferably in London.	Joint Office (MiB)	Completed 21/01/08. Closed
0017	06/05/08	4.1	Provide indicative capacity/commodity rates to the Joint Office for publication	Wales & West Utilities (JE)	Update due at July meeting.
0018	06/05/08	4.2	DNs to present a progress review on potential April 2009 methodology changes	All DNs	Presentation due at July meeting.
0019	06/05/08	6.0	Joint Office to arrange 28 July meeting, preferably in Solihull	Joint Office (MiB)	Completed 08/05/08.