

Distribution Charging Methodology Forum Minutes
Monday 13 August 2007
Elxon, 350 Euston Road, London NW1 3AW

Attendees

Julian Majdanski	JM	Joint Office of Gas Transporters
Helen Cuin (Secretary)	HC	Joint Office of Gas Transporters
Amrik Bal	AB	Shell
Anna Taylor	AT	Northern Gas Networks
David Jessop	DJ	Scottish and Southern Energy
Denis Aitchison	DA	Scotia Gas Networks
Eddie Proffitt	EP	MEUC
Fiona Upton	FU	E.ON UK
Indra Thillanathan	IT	Ofgem
John Edwards	JE	Wales & West Utilities
John McNamara	JMc	Ofgem
Julie Sutton	JS	National Grid Distribution
Liz Spierling	LS	Wales & West Utilities
Lorraine Goodall	LG	Scotia Gas Networks
Mark Taylorson	MT	RWE Npower
Nick Wye	NW	Waters Wye Associates
Phil Broom	PB	Gaz de France
Phil Lucas	PL	National Grid Distribution
Richard Street	RS	Statoil
Rochelle Hudson	RH	Centrica
Stefan Leedham	SL	EDF Energy
Stephen Marland	SM	National Grid Distribution
Steve Edwards	SE	Wales & West Utilities
Steve Marland	SM	National Grid Distribution

Apologies

Tim Davis	TD	Joint Office
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1. Introduction

JM gave an introduction and explained the purpose and focus of the meeting.

1.1 Minutes of Previous Forum

The minutes of the forum held on 24 May 2007 were accepted.

1.2 Review of Actions

Action 0007: Statoil to consult with interruptible customers for their views on the impact of the proposed change.

Action Update: RS requested this action to be carried forward.

Action 0009: SS and DJ to specify concerns regarding the impact of the capacity commodity split change on RbD for the DNs to consider.

Action Update: DJ reiterated his comments made at the previous meeting that the current RbD mechanism corrects commodity base charging, however capacity elements will not be corrected. If AQs/SOQs are incorrect there could be a misallocation, this will then result in inaccurate charging. The I&C market could therefore be under allocated and the Domestic market over allocated.

2. Topics for Discussion

2.1 DNPCO3: LDZ System Charges – Capacity / Commodity Split and Interruptible Discounts

DA provided a presentation highlighting the proposed changes and implementation date, explaining the interim solution for Interruptible sites.

DA also provided a table illustrating the Average Charge Adjustment Factors to provide 95:5 revenue recovery compared to the existing 50:50 split, including the Interruptible Site discount.

DA highlighted that some responses to the discussion paper suggested an implementation date of 2011. He confirmed that the DNs see significant advantages to their proposal and he would not support a delay until 2011.

PB highlighted a concern with Appendix 1. He believed that the interruptible figures appeared to be odd, questioning what the figures were based on, i.e. Bottom Stop SOQ? PB suspected that the DMSOQs were probably higher and this has potentially skewed the data and needs to be re-considered. DA acknowledged PB's concerns. PB confirmed that this will be addressed in his response to the paper.

EP questioned the rebate to interruptible sites and expressed concern at the use of the term "capacity" as a charge type as interruptible customers do not pay for capacity and he suggested it should be called a fixed charge, to avoid confusion. He expressed a preference for an earlier implementation date and so would not support an implementation date of 2011.

AB questioned what advice had been sought from Ofgem with regard to a common charging methodology for all DNs. SE confirmed that a common charging methodology was the preferred route due to the complexity and associated xoserve costs. However, he pointed out that the pricing structure would remain separate for each Transporter. AB posed his concerns to Ofgem that DNs are consulting on a common charging methodology and at what point consultations would end.

NW questioned the information in the table and the calculation used for indirect costs included in capacity charges, challenging the robustness of the figures and expressed an interest in obtaining a breakdown. AT highlighted that some indirect costs are still incurred to ensure the maintenance of gas flows and pipeline maintenance, even when gas is not gas flowing.

DJ suggested re-naming the capacity charge to a fixed Customer Charge, but SE highlighted that this would require file format changes and would impact on xoserve and Shipper systems.

PB questioned what system work would be involved with the proposed changes. LG confirmed xoserve have received a change order to assess the system impacts.

SE pointed out that although DNs are proposing to alter the Charging Methodology, the Allowed Revenue will remain the same.

NW suggested that small I&C shippers would be the most affected by the proposed changes. He made the point that an April 2008 implementation date would not allow time for Shippers and Suppliers to discuss contract changes with the end user.

RS expressed concern about Shipper systems and the extra charging functionality required for Interruptible sites.

2.2 Ofgem proposal for Licence Modification

IT provided a presentation on the proposal to modify Standard Special Conditions A4, A5 and D11 of the GT Licence. The proposal would allow DNs to update distribution charges twice a year on 1 April and 1 October.

EP highlighted that his members would strongly oppose two price changes in a year, highlighting that one of the factors consulted on as part of DN sales was to only have one price change.

AB highlighted that it would be difficult to determine any benefit from a change to a 95:5 methodology if two price changes were implemented per year.

DJ suggested that moving the date from 01 October to 01 April could improve stability as it would align with the Price Control period.

SL expressed concern with the effect on transparency with the introduction of two charging changes and noted that if an LDZ has been under-recovering it will be difficult to assess when the charges will change.

EP highlighted the impact to customer contracts.

SE suggested that a 95:5 split and a 01 April price change would facilitate greater stability.

RS asked Ofgem if Shippers would be involved in the discussion process. SE confirmed that discussions could be continued through the DCMF.

Concerns were expressed with regards to Ofgem's proposal to reduce the Indicative Notice Period from five to three months. SL highlighted that with greater stability the notice period should be able to increase, not decrease. SE said that, with greater stability, there should be less variation between indicative and final charges. EP suggested that, if adopted, there would only be a month between indicative and final notifications and suggested that the indicative notification could be removed.

PB asked if the two Ofgem proposals were independent of each other. JMc confirmed that they need not be dependent.

IT concluded her presentation with a timetable for responses.

2.3 UNC Modification Proposal 0160

JM introduced the Proposal and highlighted a clarificatory email provided by the Proposer, Dennis Timmins, which is published on the Joint Office Website.

SE challenged the data items within the Proposal expressing his concern that these would add little value to the visibility and transparency of predicting price changes. He also highlighted that some incentive items are one off items and are only known at the period end. SM concurred that the objective of the Modification Proposal would not be met. SE suggested Review Proposal 0162 may be the appropriate vehicle to identify the information that would be of benefit.

LG agreed that the monthly information provision would not assist with predicting price changes as some of the information could be misleading due to annual incentive items.

SE demonstrated an example spreadsheet which highlighted the items that may be more beneficial on a periodic basis.

EP expressed concern that more transparency is required to assist customers understanding of charges. SE offered to provide a presentation to the next DCMF to assist understanding.

Action 0010: WWU to provide an overview of how allowed and collected DN revenue impacts on charges.

NW expressed concern that the focus appears to be on Shippers trying to predict charges when the real goal was price stability. LG confirmed that the 95:5 split would allow Transporters to provide greater stability of forecasts.

JM highlighted the options available to RWE regarding the Proposal.

3. Next Meeting

It was suggested that the next meeting could be held on 18 September at Elexon on the same day as Review Group 0140. However later discussions highlighted the need to coincide with the next meeting of Review Group 0162. Therefore, the next meeting will be held on 17 September 2007, 11:30am, Elexon 350 Euston Road London.

Action Table (Appendix 1)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0007	19/04/07	2.1	Statoil to consult with interruptible customers for their views on the impact of the proposed change.	RS	Carried Forward
0008	19/04/07	2.1	DNs to produce impact by load band data for each DN to reflect analysis already presented for the Southern DN	All DNs	Closed
0009	24/05/07	2.1	SS and DJ to specify concerns regarding the impact of the capacity commodity split change on RbD for the DNs to consider.	Scottish Power (SS) and SSE (DJ)	Closed
0010	13/08/07	2.3	WWU to provide an overview of allowed and collected DN revenue.	WWU (SE)	Pending