

Distribution Charging Methodology Forum Minutes
Monday 17 September 2007
Elxon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis	(TD)	Joint Office of Gas Transporters
Mike Berrisford (Secretary)	(MB)	Joint Office of Gas Transporters
Alison Russell	(AR)	Centrica
Anna Taylor	(AT)	Northern Gas Networks
Barbara Vest	(BV)	Gaz de France
Bali Dohel	(BD)	Scotia Gas Networks
Bernard Kellas	(BK)	SSE
Denis Aitchison	(DA)	Scotia Gas Networks
Dennis Timmins	(DT)	RWE Npower
Eddie Proffitt	(EP)	MEUC
Eddie Blackburn	(EB)	National Grid NTS
Fiona Upton	(FU)	E.ON UK
Kelly Denny	(KD)	E.ON UK
Graham Craig	(GC)	Ofgem
James Crosland	(JC)	Corona Energy
John Edwards	(JE)	Wales & West Utilities
John McNamara	(JMc)	Ofgem
Laura Lyons	(LL)	ScottishPower
Lorraine Goodall	(LG)	Scotia Gas Networks
Lisa Waters	(LW)	Waters Wye Associates
Marie Clark	(MC)	ScottishPower
Richard Dutton	(RD)	Total Gas & Power
Richard Street	(RS)	Statoil
Steve Armstrong	(SA)	National Grid Distribution
Stefan Leedham	(SL)	EDF Energy
Steve Edwards	(SE)	Wales & West Utilities
Sundee Klair	(SK)	Energy Networks Association

1. Introduction

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

2. Minutes of Previous Forum

The minutes of the forum held on 13 August 2007 were accepted. However, LW suggested action 0010 should read:

‘.....that the emphasis should not be providing Shippers with more information to allow them to better forecast prices, but on DNs improving the quality of their forecasting and perhaps if the 95:5 split is introduced requiring them to forecast further in the future’.

It was also pointed out that action 0009 should read:

*‘.....The I&C market could therefore be **over** allocated and the Domestic market **under** allocated’.*

3. Review of Actions

Action 0007: see item 4a.

Action 0010: see item 4b.

4. Topics for Discussion

a) DNPCO3 Consultation Report

DA provided a presentation on the Consultation Report as issued to the Authority on 13 September 2007.

DA explained that issues such as 'not enough information' had been dealt with within the report and the DNs remain unconvinced that the Capacity/Commodity split would encourage the introduction of standing charges. They acknowledged that the AQ Review process may need looking into. DA said that retro-fit modelling had been undertaken as requested, as had the distributional impact based on bottom-stop SOQs.

DA illustrated the derivation of the proposed 47.37% discount factor (45 Interruptible/95 Firm = 0.4737), which maintains the average discounts although individual Interruptible customers charges will change.

DA confirmed that implementation in October 2008 is proposed and illustrated the impact on charge levels of different implementation dates. Concerns were raised that the timescale is too tight and that contracts are already in place based on the existing split. 2009 was suggested as a more appropriate date. DA pointed out that the total revenue collected will not change – the change helps to smooth out 'peaks and troughs' and the main benefit is improved cost reflectivity.

Concern were raised that additional information had been presented, but this is too late and should have been provided prior to the consultation. DA suggested the DNs were seeking to help by responding to requests for further information and did not believe that this had a fundamental bearing on the issues. Ofgem confirmed they will be conducting an impact assessment before deciding whether to veto the proposed change, providing an opportunity for further comments to be provided in light of any new information. This is expected to commence within the next two weeks. Following a 28 day consultation, the decision should be made in November.

AT then presented a simplified model (available on request) looking at retro-fitting the proposed change, as requested at the previous meeting. AT explained the difficulty she had found in meeting the request but that she hoped her model would help to demonstrate the key impacts of the change and how pricing stability would be increased.

Questions were raised about the value of the simplified model and whether more actual experience could be incorporated. TD suggested this was a valiant attempt to demonstrate the impact and that Ofgem might find it helpful, which was confirmed as being the case.

At this point RS gave a verbal update on outstanding action item 0007, stating that Statoil's interruptible customers are generally unaware of the proposed changes, left wondering why they will not receive the full benefit of a move to a 95/5 split, and are generally baffled by the whole process.

Action 0007: Closed.

EP confirmed that his interruptible members were not particularly bothered about the change, expecting it to be neutral. However, that the figures provided at the meeting had changed his initial views and that he will be relaying the information back to his members. EP highlighted, and several members agreed

that this is a serious issue for Shippers and that concerns remain surrounding the speed of the rollout and its potential impact upon existing contracts. Some Shippers repeated that they are not being given sufficient time to prepare for the change, and asked that Ofgem consider this in their decision making process.

EP voiced concern that in light of the change Suppliers will introduce a new fixed monthly charge. RD supported this concern, stating that Shippers are already considering the removal of meters and the closing of meter points in a bid to avoid incurring what they see as excessive charges. JMc advised members that the Authority will be looking into the matter of standing charges as part of its considerations.

b) Overview of Allowed and Collected DN Revenue

SE presented for the DNs. To help demonstrate the make-up of year on year allowed revenue and consequent price changes, SE provided a spreadsheet containing illustrative figures. SE emphasised that the intention was to try and show what components can impact upon pricing, providing an input to discussions about Modification proposal 0160 and Review Group0162.

The DNs were asked how they estimate likely allowed revenue for each incentive. SE said that REPEX plans helped to inform the likely outcome for the mains replacement incentive, which is the key revenue driver.

The impact of demand forecasts on the level of charges was raised, with Shippers suggesting that the use of differing assumptions made predictions of likely price changes more difficult. They would refer the DNs to use a single forecast. SE pointed out that the DNs are mindful not to collude on the setting of charges. However, SE stated that he would be more than happy to discuss WWU's demand forecasting on a one-to-one basis with any interested party – other DNs issued a similar invitation. SL acknowledged that, when contacted, each DN has been open about how they set charges and forecast demand.

TD asked if Ofgem had any concerns regarding collusion by the DNs with respect to transportation charges. GC responded that Ofgem had considered this internally, but did not raise concerns. However, he acknowledged that using differing demand forecasting could be an issue although the DNs are incentivised to not over recover, which is a key protection.

DT believed the structure of information contained within SE's spreadsheet would deliver the intention of Modification Proposal 0160, Provision of Cost Information, and could usefully form a template for publication. SE suggested that once the outcome of the Price Control Review was known, his model should help understanding of the impacts.

AR suggested the information issue was about predicting future charges, with predictability rather than stability being the issue. Shippers were also concerned about the possible licence amendment to allow prices to change in April – an April rather than October 2008 change would significantly reduce the timescales involved. However, JMc suggested this unlikely to come into effect in time for an April 2008 impact.

Action 0010: Closed.

c) UNC Modification Proposal 0160

DT, as Proposer, confirmed he was happy with the draft 0160 Workstream Report.

RS raised Ofgem's consultation on draft Licence conditions, which suggests that it is up to Shippers to identify potential Income Adjusting Events, and asked if 0160 would help with this. It was agreed that this was unlikely.

AR stated that provision of better information (the driver for Review Proposal 0162) was essential to assist Shippers in predicting charges and that 0160 was seen as a step in the right direction. TD asked DT, based upon the discussions, whether he intended modifying 0160 in anyway. DT indicated that he believed 0160 was consistent with the information presented by SE and so he saw no need to refine the Proposal.

TD asked the DNs if they had any concerns about their ability to implement the Proposal as drafted. SA argued DNs could not implement Modification Proposal 0160 as it stands, believing for example that that they are not in a position to predict RAV. Also definitions would be needed as to what was required, for example what was meant by operational costs. SE questioned the need, and DNs ability to provide, month by month figures regarding what is an annual licence obligation.

DT acknowledged that data might not change month on month, but suggested that, say, quarterly revisions would be helpful. SE asked if an additional column in his model would help, showing the 'K' value for the next year. DT felt that a breakdown beyond year 1 would be more meaningful. DT and SE then agreed to work towards developing SE's spreadsheet as a format for publication, and a revised version of Proposal 0160 which would deliver that format.

TD asked AR if information in this format would negate the need for the Review Proposal. AR responded that 0160 is looking to resolve concerns within a price control period, whereas 0162 was looking to address the longer term view.

Action 0011: RWE Npower (DT) & WWU (SE) to work towards developing a revised proposal.

5 AOB

None.

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	Closed
0010	13/08/07	2.3	WWU to provide an overview of allowed and collected DN revenue.	WWU (SE)	Closed
0011	17/09/07	4c	RWE Npower & WWU to work towards developing a revised Proposal.	RWE (DT) & WWU (SE)	