Distribution Charging Methodology Forum

Minutes

Thursday 19 April 2007

Ofgem Offices, Millbank, London

Attendees

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Amrik Bal	AB	Shell Energy Europe
Alison Russell	AR	Centrica
Anna Taylor	AT	Northern Gas Networks
Denis Aitchison	DA	Scotia Gas Networks
Dennis Timmins	DT	RWE
Fiona Upton	FU	E.ON UK
John Bradley	JB	Joint Office of Gas Transporters
John McNamara	JM	Ofgem
Lorraine Goodall	LG	Scotia Gas Networks
Lewis Hodgart	LH	Ofgem
Lisa Waters	LW	WatersWye (for Corona Energy)
Marie Clarke	MC	ScottishPower
Richard Street	RS	Statoil
Steve Armstrong	SA	National Grid Distribution
Steve Edwards	SE	Wales and West Utilities
Stefan Leedham	SL	EDF Energy

1. Introduction

TD 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 10 October 2006 were accepted.

1.2 Actions

0001 SA to send out note extending the deadline for pricing consultation responses to end of week commencing 9 October 2006.

SA informed the forum that this action had been completed **Action Closed**

0002 DNs to consider how DNs will pass-through NTS charges

As the decision on the enduring exit regime had only recently been made the DNs were still considering this aspect but would be consulting on this in due course. It was agreed that this action be closed **Action Closed**

2. Presentation and Discussion

2.1 DNPD02: LDZ System Charges Capacity/Commodity Split and Interruptible Discount

SA introduced the discussion by identifying that the DNs wished to consult on the basis of the discussion paper already circulated. The Joint Office agreed to inform Users of this consultation including identifying its location on the website.

Action 0003: JO to inform Users of consultation timescales and website location of discussion paper.

AT gave this presentation, which summarised the discussion paper. To clarify the impact, DA demonstrated the impact of the proposed change in capacity/commodity split on various load bands in the Southern network, based upon typical load factors. In summary, relatively large cost reductions for the higher load factor bands would be offset by smaller increases in the lower load factor bands.

AT clarified that the consultation would close on 18 May 2007.

LW referred to previous debates and believed that any considerations of cost reflectivity should, in turn, reflect the fixed/variable element of the DNs' costs. She referred to a list produced in 1996 of the costs, which had led to the decision made by Ofgem at that time. Based on the information currently available to shippers it was difficult to identify why such a major change was warranted when a 90/10 split had been rejected in 1996 in favour of a 50/50 split.

DA agreed that more of a cost breakdown would be produced and suggested that the anticipated Pricing Consultation paper was the appropriate document in which to include this. AR suggested instead that it be included in the discussion paper even if this delayed its issue. SA supported DA and suggested that it was better for the debate to proceed as soon as possible in order to give Users the maximum time to debate the issue prior to a decision on implementation. SA referred to cost breakdown submissions as part of the Distribution Price Control which had been published by Ofgem. Attendees recognised that these existed but identified that they did not go into the level of detail required to establish the breakdown of fixed vs volume based costs. JM offered to investigate the background to the original Ofgem decision in respect of the capacity/commodity split and what changes had occurred in the meantime to justify their changed position.

Action 0004: Ofgem to investigate the background to the decision on the original 50/50 split and the ensuing developments that had led it to conclude that this was no longer appropriate.

AR identified that, in the event of implementation, the current DNs' risk would be transferred to shippers as customers preferred commodity based charging. LW agreed with this statement and expressed the belief that customers would be averse to such increases. SA responded that an increase of 0.4% was modest, particularly as these charges were only about 20% of the total charges facing domestic customers. LG asked whether publication of a breakdown would affect the risk exposure of shippers and/or consumers. AR responded that it would be helpful for shippers to be able to explain the rationale to consumers. She also suggested that if DNs had a volume driver in their price control they would be incentivised to over-recover. This argument was not accepted by the DNs.

Turning to incentivising the efficient use of the Network, AR suggested that this would only apply once the enduring DN interruption regime was in place. AT disagreed and believed that there were incentive gains to be made prior to implementation of interruption reform. There was discussion about whether this proposal would amount to an additional discount for interruptible Supply Points. The DNs did not accept this. DA pointed out that, whilst the DNs could not guarantee that this change would not affect Users' net costs associated with interruptible Supply Points, the change was designed to be neutral in this respect.

SA believed that this would enhance the efficiency of the system by incentivising consumers to reduce their peak load and hence the Supply Point SOQ. This would then lead to reduction in investment on the part of the DNs, which would benefit customers in general. In support of this, DA pointed out that many Users currently overstate their SOQs and the change in basis would increase the costs to Users that continue to do this. Attendees, acknowledged this but pointed out that customers were often unaware of their SOQs and even, in some cases, the SOQ concept.

SL conceded that implementation of the change would lead to less variability in charges. AR agreed but pointed out that this was not the sole criterion – predictability was as important to Users as stability when these costs had to be reflected in charges to customers. SA suggested that a change of this nature would take out a major part of the current cost under/over recovery adjustments required.

TD summarised the discussions, particularly the request for DNs to produce cost breakdown figures in support of the proposed split. All the DNs agreed to this action.

Action 0005: DNs to prepare cost breakdown information to clarify the fixed/variable cost element underlying the proposed capacity/commodity split.

The DNs were asked what analysis could be conducted on charge setting once the enduring DN Interruption Regime had been established. DA responded that DNs could not carry out this analysis at present, as this would have to await establishment of option/exercise prices through the auction process. He repeated that, in the interim, the changes proposed were designed to be broadly neutral in respect of Interruptible Supply Points.

Discussion then proceeded on the merits of an April or October implementation date. DA expressed the view that an April implementation would lead to more stable charges than October. LW acknowledged this but stated that Users' contracts usually changed in October each year. AR expressed the concern that Shippers were facing four changes in charges in two years. Normally charges are changed each October. JM suggested that the Forum should not assume that there would be any change in this.

AR outlined a scenario following a mild winter whereby an April implementation might lead to an over-recovery/under-recovery cycle. SA acknowledged that such cycles occurred but did not believe that the change in capacity/commodity split would lead to any greater cycling –even in the initial year and might in fact reduce the degree of cycling. The DNs clarified the current practice where they calculate their under/over recovery at the end of March to reflect in charges from October. The DNs agreed to consider developing typical scenarios that demonstrate the effect of the change on charge cycling both for the initial implementation and on an ongoing basis. These would assume both alternative implementation months ie April and October.

Action 0006: DNs to develop and present typical scenarios that demonstrate the effect of the proposed change on charge cycling.

SL asked about the effect of Exit Reform and any commodity charge element that would apply. The DNs responded that this would be considered but the effect was not known at present and they felt that it was too early to present an analysis of this effect. This was acknowledged.

TD asked whether a change in 2009 or 2010 would be preferable to those present? Most shippers believed that a later change date would be preferable but RS indicated that he would not oppose a 2008 implementation date once he understood better the basis for the change. LW suggested that the DNs consider a phased introduction of say three years from the 50/50 split to 95/5

RS referred to the current incentive to reconnect customers associated with a 50% commodity element - wouldn't a change to 95/5 erode these incentives?

The DNs responded that there would still be a considerable incentive – especially for domestic customers. Users pointed out that there had been examples of disconnection applying mainly to I&C Supply Points. The DNs did not believe there was an issue, but indicated they would not be averse to any review of the incentive regime which Ofgem chose to undertake in the context of the proposed change.

The meeting accepted that, in respect of interruptible load, the proposals attempted to retain the status quo and were not attempting to establish cost reflectivity in respect of these Supply Points. With this in mind, RS volunteered to consult with his interruptible customers on their view of the change.

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

JM had referred to the impact calculations presented by SGN in respect of the Southern DN. Ofgem had also calculated the impact for a number of DNs and found substantial variation amongst them. The DNs acknowledged that there would be differences and agreed to produce data for each DN.

Action 008: DNs to produce impact by load band data for each DN to reflect analysis already presented for the Southern DN

3. Next Meeting

The DNs intend to produce a consultation paper in June/July 2007 and an associated UNC Modification Proposal. it was suggested that a meeting of this forum should take place prior to issue of the consultation paper but after the close-out of the discussion paper.

Wednesday 6th June (pm) has been provisionally set.

Action Table (Appendix 1)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0001	10/10/06	2.2	SA to send out note extending the deadline for responses to end of week. (JO to receive responses.)	SA	This has been completed **Closed**
0002	10/10/06	3	DNs to consider how DNs will pass-through NTS charges	SA	DNs identified that this consideration would form part of future consultations. **Closed**
0003	19/04/07	2.1	JO to inform Users of consultation timescales and website location of discussion paper.	JB	
0004	19/04/07	2.1	Ofgem to investigate the background to the decision on the original 50/50 split and the ensuing developments that had led it to conclude that this was no longer appropriate.	JM	
0005	19/04/07	2.1	DNs to prepare cost breakdown information to clarify the fixed/variable cost element underlying the proposed capacity/commodity split.	All DNs	
0006	19/04/07	2.1	Develop and present typical scenarios that demonstrate the effect of the proposed change on charge cycling.	All DNs	
0007	19/04/07	2.1	Statoil to consult with interruptible customers for their views on the impact of the proposed change.	RS	
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	