

**Distribution Charging Methodology Forum Minutes**  
**Monday 21 January 2008**  
**Elxon, 350 Euston Road, London NW1 3AW**

**Attendees**

|                             |       |                                  |
|-----------------------------|-------|----------------------------------|
| Julian Majdanski            | (MJ)  | Joint Office of Gas Transporters |
| Mike Berrisford (Secretary) | (MB)  | Joint Office of Gas Transporters |
| Alison Russell              | (AR)  | Centrica                         |
| Anna Taylor                 | (AT)  | Northern Gas Networks            |
| Bernard Kellas              | (BK)  | SSE                              |
| Denis Aitchison             | (DA)  | Scotia Gas Networks              |
| Dennis Timmins              | (DT)  | RWE Npower                       |
| Eddie Proffitt              | (EP)  | MEUC                             |
| Fiona Upton                 | (FU)  | E.ON UK                          |
| John Edwards                | (JE)  | Wales & West Utilities           |
| John McNamara               | (JMc) | Ofgem                            |
| Lorraine Goodall            | (LG)  | Scotia Gas Networks              |
| Richard Dutton              | (RD)  | Total Gas & Power                |
| Shelley Rouse               | (SR)  | StatoilHydro                     |
| Steve Armstrong             | (SA)  | National Grid Distribution       |
| Steve Edwards               | (SE)  | Wales & West Utilities           |
| Steve Marland               | (SM)  | National Grid                    |
| Stefan Leedham              | (SL)  | EDF Energy                       |
| Sundee Klair                | (SK)  | Energy Networks Association      |

**1. Introduction**

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

**2. Minutes of Previous Forum**

The minutes of the forum held on 17 September 2007 were accepted.

**3. Review of Actions**

Action 0011: Chair (JM) informed members that UNC Modification 0186 "Provision of Cost Information" had been presented at the 17 January 08 UNC panel meeting and was now out for consultation which closes on 08/02/08. RWE Npower (DT) advised members that it is now their intention to formally withdraw UNC modification 0160 within the next few days.

JM asked, and members agreed, to close the action.

**Action 0011: Closed**

**4. Topics for Discussion**

JM asked, and members agreed, to take the agenda items in the following order which differs from that published in the 'original' agenda.

**a) Update on DNPC03, 95/5 capacity/commodity split**

National Grid (SA) advised members that this item had been tabled on the agenda to make them aware that the Authority had issued a notice on 13 December 2007, that does not veto the proposed change, and therefore the 95:5 capacity/commodity split will become effective on 01 April 2008.

**b) Modification of Standard Special Condition D11 (Timing and Notification of Price Changes)**

National Grid (SA) advised members that the Authority had written to the DN's on 20 December 2007, proposing a DN Licence modification to the timing and notification of future price changes which will take effect on 01 April 2009.

The modification to the timing proposes that changes to the DN's prices will move from 01 October to 01 April each year. However, it should be noted that there will still ordinarily only be one price change per year.

The result of the proposed modification is that the next price change will take place on 01/10/08 to be followed six (6) months later with an additional price change on 01/04/09. Once this 'interim' arrangement is complete, the timing of price changes will revert to a yearly cycle.

**c) Publication of Allowed and Collected DN Revenue and forecast of how this will impact on charges**

Each DN provided a presentation on their respective forecast reports commencing with National Grid Distribution.

SM opened his Gas Distribution Charging presentation by pointing out the following key items:

- On the 'Maximum Allowed Revenue – 2008/13' slide
  - Core revenue now 99% of maximum allowed revenue;
  - Ofgem have included a cost pass through provision in the Core Allowed. Cost Pass through now represents the difference between the provision and actual value of the cost pass through factors i.e. formula rates, NTS pension charges, Ofgem Licence Fee etc.
  - Shrinkage is included to incentivise DNs to purchase Shrinkage gas efficiently;
  - The discretionary reward does not 'kick in' until post 2009, and
  - The mains replacement adjustment and the shrinkage incentive mechanism are likely to be the major items during 2008/09.

- 'Price change and Capacity/Commodity scaling' slide

Example is based upon figures extracted from the West Midlands report. In summary, apply the price change to all unit rates in the Distribution Charging Statement (-11% on the slide) and then apply the scaling factors to the LDZ System Commodity and Capacity charges. This will produce a new set of estimated rates to take effect from October 2008. SM also noted that Interruptible sites would receive capacity charges at a rate of 0.4737 times the firm capacity charge rate.

SM informed members that the pricing assumptions had been based upon 12 months, regardless of the move to the 01 April 09 price change and when

asked, confirmed that the costs include 'pass through' movements (forecast changes to Ofgem's provisions) and forecast movements in incentives and adjustments known at the time of reporting.

Moving on to examine the East of England report, SM reminded members that the first two items on the report are 'broken out' from the Licence requirements (2008/9 to 2012/13) and presented as two separate items to be consistent with the 2007/08 values. Additionally, the figures provided are based upon Licence requirements, and not the Ofgem Final Proposals.

The figures given for 2007/08 represent the values used when setting charges for October 2007 and the Incentives and Adjustments includes all incentives and adjustments for that period. However, from 2008 – 2013 only the Shrinkage value from Ofgem's Final Proposal document had been given.

SM went on to inform members that the forecast collected for 2008/09 is assumed to equal the allowed revenue. In response to a question about the date of the 2.6% October price change level, SM confirmed that this was as at 01/10/07. SM noted that a 1% estimated price increase would be required for East of England.

SA added that the price changes for all of National Grid's networks had been based upon an assumption that the total SOQ level would reduce by 3% from October 2008 as a result of the annual AQ Review. This is consistent with the SOQ movement experienced in the past few years. Additionally, the two factors for the 95:5 split have been uplifted by around 12 to 13% to recover the allowed revenue for the 2008/09 financial year. This was necessary as the scaling factors were determined over a 12 month period and would otherwise lead to a reduced collected income between October and March when compared to the existing 50:50 basis.

SE pointed out the trend in reducing AQ's has occurred over the past 3 years. JMc observed that if the load factor reduced at the same time you could end up with the same SOQ. SE suggested that in his discussions with xoserve this had not necessarily been the case. EP stated that in his view, SOQ is of paramount importance and should not change from year to year. SE did not completely agree with this statement in light of data indicating that over the last 3 years SOQ's have also been reducing possibly as a reflection of improvements in both appliance and insulation efficiencies. The DN's are currently investigating the matter.

Moving on to the London slide, SM advised that October 2007 prices had been set to under recover to the tune of approximately £10 million, thereby reducing the price increase and reducing the anticipated price reduction required in the subsequent year. The movement in incentives and adjustments of (minus) - £19.5m is largely due to mains replacement work forecast over the period at this time.

Additionally, the 295.6 forecasted collected revenue figure for 2008/9 is approximately a 6.9% increase over the previous year. EP enquired as to why London is allowed more 'pass through' and core revenue to which SA advised that this was in the outcome of the Price Control Review.

Moving on to the North West, SM informed members that this had been the worst hit area as a result of the SOQ reduction in October 2007 and as a result expected to under recover by around £7 million. He added that the (minus) - £8.6m 'incentives & adjustments movement' for 2008/09 largely reflects the mains replacement work forecast over the period.

Moving on to the West Midlands, SM informed members that the -£9.3m 'incentive & adjustments movement' figure for 2008/09 reflected the mains replacement activities.

SM went on to add a caveat that a large range of assumptions had been made when compiling the figures and that the price changes given are likely to change before August.

RD pointed out that Ofgem had, in its decision paper, suggested an inflation rate of 3.9% to which SM responded by stating that he believes the RPI is low for a one year sample. SE added that the calculation is based upon July to December 07 divided by July to December 04.

AR asked if it would be possible to add a clarification note for each year on the next set of reports regarding the price level basis of the figures to aid understanding to which SM agreed.

RD asked at what point do the DNs start looking further out beyond the current price control period to which the reply was 2009 (subject to 0186 approval).

In closing, SM reminded members that the information provided for 2008/09 to 2012/13 is reflective of the DN's licence obligation. When asked, SM agreed to an action to realign his + & - values to 'match' the reports provided by the other DN's.

AT (NGN) opened her presentation by reminding members that the report is provided on a 'goodwill basis'. Reflecting Network differences, AT informed members that her modelling includes a 95:5 element for LDZ Charges for which an explanation is provided within the commentary.

When challenged, AT acknowledged that her original weather forecast may have been inaccurate and the actual weather had been colder than forecast resulting in increased commodity revenue.

In closing, AT informed members that she anticipates that her figures may well change by April 08 as they may currently include some anomalies.

LG (SGN) opened her presentation by informing members that she had followed a similar process to AT to derive the information. In SGN's case readers should apply the scaling factors to the existing charges and then apply the 2008/9 factor to this.

SM reminded members that to calculate the charge rates for next year for Interruptible sites they will need to apply an equivalent firm capacity charge and multiply by 0.4737.

SE (WWU) opened his presentation by providing a brief overview of the indices table. Members can expect a further update to the report once the DNMRA has been finalised. SE reiterated that discussions with xoserve reaffirm the view that AQ reduction will continue in 2008.

When asked, SE agreed to take an action to include scaling factors in his report. This concluded WWU's presentation.

In general discussions, SL asked if any assumptions had been made for load factor increase, to which AT replied by stating that her report had been adjusted by the amount that her SOQ's had reduced.

AT informed members that she anticipates publishing her price changes in early May and wonders how she should present the figures, questioning if provision of different indicative notices is an issue. LG believes that Shippers would welcome the inclusion of scaling factors, which was a view supported by the Ofgem and Shipper attendees present. DA suggested that DNs could

include rates as well to avoid confusion over scaling factors. AR supported the need for consistency, but suggested that being provided with the information in the first place is what is more important.

When asked, SE confirmed that the DNs are actively trying to understand the AQ/SOQ issues, in an attempt to be able to make better informed decisions in future. They will next meet with xoserve to discuss the matter on 12 February 08. He agreed to take an action to report back findings at the next DCMF. SA suggested that any feedback from Shippers on the AQ/SOQ issues would be extremely helpful. EP suggested that the AQ problem could be due, in part, to only altering capacity once per annum, thereby negating the 1:20 impacts. SM responded by stating that load factors include a 1:20 factor. AT added that capacity indicators can also reflect differences in appliance efficiencies and charges reflect these differences.

AR asked, and MiB agreed to take an action to publish the various presentations and associated handouts (where appropriate) on the Joint Office web site. Chair (JM) asked the DNs to consider the most appropriate location on the JO web site under which to publish the documents and reminded them to include the location in their respective draftings.

SL asked JMc if any DN had rejected the Authorities proposals for an April price change, to which JMc confirmed they had not.

The DN representatives then provided a brief update on their respective auction seminars as follows:

- WWU – February in Bristol;
- NGN – rearranged for 26 February, and
- SGN – 31 January in Edinburgh & 05 February in London.

Chair (JM) reminded members that the various notifications for the above meetings have already been issued by the Joint Office of Gas Transporters.

EP asked, and SA confirmed that Consumer feedback on the bidding process had been mixed.

In closing, DT thanked all the DNs for their hard work in producing the reports.

**Action 0012: National Grid (SM) to realign the report + & - values to 'match' the other DN reports.**

*Post meeting note: NG provided updated presentation and reports which have been loaded onto the Joint Office web site.*

**Action 0013: WWU (SE) to include scaling factors in their report.**

*Post meeting note: NG provided updated presentation and reports which have been loaded onto the Joint Office web site.*

**Action 0014: WWU (SE) to provide an update at the next DCMF meeting on DN discussions with xoserve on AQ reductions.**

**Action 0015: Joint Office (MiB) to ensure that the various presentation materials are published on the Joint Office web site, preferably in one location - tbc.**

#### **d) Impact of 2007 AQ Review on DN Collected Income**

Chair (JM) suggested, and members agreed, that this matter had been sufficiently covered during discussions on the previous item(s).

**5. AOB**

None.

**6. Date of next meeting**

Chair (JM) asked members to consider when and where they would like the next meeting to take place. He pointed out that historically the DCMF meetings have been arranged at the behest of the DN's to enable them to provide timely and important information to Shippers and other interested parties.

Following a brief discussion, members agreed on a date of Tuesday 06 May 2008, preferably at a London location.

**Action 0016: Joint Office (MiB) to arrange May 08 DCMF meeting and provide confirmation asap.**

*Post meeting note: a room (Pink) has been booked to host the next DCMF meeting at Elexon on Tuesday 06 May 2008.*

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**Action Table (Appendix 1)**

| <b>Action Ref</b> | <b>Meeting Date</b> | <b>Minute Ref</b> | <b>Action</b>  | <b>Owner</b>        | <b>Status Update</b>                   |
|-------------------|---------------------|-------------------|--|---------------------|--|
| 0011              | 17/09/07            | 4c                | RWE Npower & WWU to work towards developing a revised Proposal.  | RWE (DT) & WWU (SE) | Completed.<br><b>Closed</b>            |
| 0012              | 21/01/08            | 4c                | National Grid (SM) to realign the report + & - values to 'match' the other DN reports.   | National Grid (SM)  | Completed<br>23/01/08.                 |
| 0013              | 21/01/08            | 4c                | WWU (SE) to include scaling factors in their report.   | WWU (SE)            | Update due at<br>06 May 08<br>meeting. |
| 0014              | 21/01/08            | 4c                | WWU (SE) to provide an update at the next DCMF meeting on DN discussions with xoserve on AQ reductions.  | WWU (SE)            | Update due at<br>06 May 08<br>meeting. |
| 0015              | 21/01/08            | 4c                | Joint Office (MiB) to ensure that the various presentation materials are published on the Joint Office web site, preferably in one location - tbc. | Joint Office (MiB)  | Update due at<br>06 May 08<br>meeting. |
| 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<br>21/01/08.                 |