

Distribution Charging Methodology Forum Minutes
Monday 26 January 2009
Elxon, 350 Euston Road, London NW1 3AW

Attendees

| | |
|-----------------------------|---------------------------------|
| John Bradley (Chair) | (JBr) Joint Office |
| Mike Berrisford (Secretary) | (MB) Joint Office |
| Andrew Marsh | (AM) EDF Energy |
| 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 |
| Edward Coleman | (EC) E.ON Energy |
| Erika Melen | (EM) Energy Networks |
| Fiona Upton | (FU) E.ON |
| Gareth Evans | (GE) Waters Wye Associates |
| Gareth Jones | (GJ) Envoy |
| Indra Thillainathan | (IT) Ofgem |
| Jenny Boothe | (JBo) Ofgem |
| Jennifer Higgins | (JH) RWE Npower |
| John Edwards | (JE) Wales & West Utilities |
| Karron Baker | (KB) Ofgem |
| Kevin Woollard | (KW) Centrica |
| Patricia Moody | (PM) xoserve |
| Paul Sherley | (PS) Centrica |
| Richard Street | (RS) Corona Energy |
| Rob Hetherington | (RH) Scotia Gas Networks |
| Simon Trivella | (ST) Wales & West Utilities |
| Stephen Marland | (SM) National Grid Distribution |
| Steve Armstrong | (SA) National Grid Distribution |

Apologies

| | |
|----------------------|---------------------------------------|
| Tim Davis | (TD) Joint Office of Gas Transporters |
| Robert Cameron-Higgs | (RCH) Northern Gas Networks |

1. Introduction

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

1.1 Minutes of Previous Forum

The minutes of the forum held on 27 October 2008 were accepted.

1.2 Review of Actions

Action DCMF 0021: National Grid Distribution (SA) reminded members that they had already provided the 'sensitivity indicators' (appertaining to the provision of shrinkage cost predictions) within their 0186 Report assumptions. He went on to add that he considers it to be inappropriate to provide actual shrinkage cost predictions.

Chair (JBr) asked, and members agreed to close the action.

Action DCMF 0021: Closed

Action DCMF 0022: Please see item 2.1 below.

Action DCMF 0023: Scotia Gas Networks (RH) apologised and requested an extension to enable him to provide an update at the April 09 meeting.

Chair (JBr) asked, and members agreed to carry forward the action.

Action DCMF 0023: Carried forward

Action DCMF 0024: Action completed.

Chair (JBr) asked, and members agreed to close the action.

Action DCMF 0024: Closed

2. Topics for Discussion

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

<http://www.gasgovernance.com/industryinfo/TransportationCharges/Meetings/>

NGN (AT) provided members with a brief overview of the 'Mod 186 Report – Assumptions for 2013' presentation, on behalf of all the DN's.

In discussions, AT pointed out to members that 2013/14 will be the first occasion where assumptions will be undertaken beyond the current price control period. Furthermore, all information provided will be in-line with the recommendations of the 0186 proposal.

Some members voiced concern over the utilisation of RPI in the forecast for the 2013/14 year, questioning why it was assumed that there would be an increase in the first place. Additionally, concerns remain surrounding the use of RPI becoming the 'acceptable norm' especially when it is anticipated that each DN may wish to apply a different level of RPI in their respective forecast. One suggested option was to utilise the last price control year's figures instead of RPI. In response, AT pointed out that during the various industry discussions on 0186, the DN's had advocated providing the information for the current price control period only. They were forecasting beyond this, at the request of the Shippers. It was also felt by parties within these discussions that provision of some form of a 'reasonable assumption' (i.e. RPI's) by the DN's would be beneficial.

AT (on behalf of the DN's) advised members that she does not wish to see carry-over of any elements of the Network Code Modification 0698 "Requirement for Publication of Transco's Billed Charges against target" information provision in future, and to this end, the DN's anticipate raising a UNC Modification Proposal in due course.

2.1 Allowed and Collected DN Revenue (UNC 0186 Reports)

Northern Gas Networks

During her presentation, AT highlighted the following items of interest:

- part of the difference between the 2009/10 price level change figure of 7% in the October 08 indicative figures and 4% in the current report reflects changes in the outturn and the utilisation of actual RPI figures from October/November/December 2008, and
- currently the report indicates a 4.1% estimated year on year inflation factor, but in reality, this is now expected to be in the region of 3.9%.

Wales & West Utilities

JE pointed out to members, that changes in the April 09 figures reflect a reduction in the shrinkage prices and the utilisation of the actual December 08 RPI figure, which has had the effect of reducing the allowed revenue figure. When published, the final prices will reflect these differences.

Scotia Gas Networks

RH opened by advising members that part of the difference between the 2009/10 price level change figure of -1.6% in the October 08 indicative figures and -2.3% in the current report for Scotland reflects movement in the shrinkage arena.

RH confirmed that a re-opener allowance had been included in his reports.

National Grid

SM advised members that the West Midlands figures for 2009/10 indicate a reduction in allowed revenue which has largely been offset by the movement in the SOQ's, thereby resulting in very little 'real' change.

In closing, one member asked whether or not, those networks who had not included Traffic Management Act (TMA) related information in their reports, could do so in future. In response, AT advised that she is awaiting information from her local authority before including it within her report(s). SM suggested that he remains uncertain about how re-openers (TMA) will operate in future.

Chair (JBr) asked, and members agreed to close the action.

Action DCMF 0022: Closed**2.2 Pricing Consultation – progress update**

National Grid (SA) opened by informing members that he would have expected to have published the pricing consultation paper (draft proposals for implementation in April 2010) by now, but has delayed its release at the request of the Authority. IT went on to inform members that the Authority had recently launched a Competition Act investigation in electricity distribution, which could be argued has a close association to the Gas Distribution Networks (GDNs) Pricing Consultation, and therefore it was felt prudent to defer publication of the report.

The Authority is expecting to be in a position to update the GDNs on or around June/July 09, although it is difficult to predict when the investigation will actually be completed.

When asked, IT confirmed that the Authority anticipate conducting an impact assessment on the pricing consultation in due course.

2.3 Charging Structures – system charge change update

SM informed members that whilst it had been the intention of the DN's to provide a brief update at this meeting, it is clear that events had overtaken them. He now expects to provide an update following further discussion between the DN's.

2.4 2012 NTS Charges (exit & entry) – early indication

DA advised members that at the October 08 meeting the DN's indicated that they would be able to provide an update at this meeting.

However, a mismatch between the legal text for UNC modification 0195AV "Introduction of Enduring NTS Exit Capacity Arrangements" and the DN licence requirements allied to the late receipt of the NTS charging paper meant that he

was unable to provide a meaningful update at this meeting. He proposed publishing a discussion paper prior to the April 09 meeting for consideration, and accompanying this with placing the item on the agenda to ensure it is covered at that meeting. Members agreed that this was a sensible approach.

3. Date of next meeting and agenda items

Chair (JBr) confirmed that the next meeting will take place at Elexon on Monday 27 April 2009.

When asked for suitable agenda items, the following suggestions were put forward:

- 0186 Reports;
- Pricing Consultation;
- Ofgem Consultation Update;
- Charging Structures, and
- Effect of 2012 NTS Charges (Exit)

4. Any Other Business

None.

Action Table

| Action Ref | Meeting Date | Minute Ref | Action | Owner* | Status Update |
|-------------------|---------------------|-------------------|---|--------------------------|---|
| 0021 | 27/10/08 | 2.1 | Consider whether additional information can be provided on shrinkage cost predictions | National Grid (SM) | Update provided. Closed |
| 0022 | 27/10/08 | 2.1 | Consider how to present changes between quarterly reports | All DNs | Update provided. Closed |
| 0023 | 27/10/08 | 2.1 | Include a load breakdown in revised versions of SGN's reports. | Scotia Gas Networks (RH) | Update due at next meeting. Carried Forward |
| 0024 | 27/10/08 | 3.0 | Arrange January DCMF meeting | Joint Office (MB) | Completed. Closed |