Distribution Charging Methodology Forum Minutes
Monday 27 April 2009
Elexon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	(TD)	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
Erika Melen	(EM)	Energy Networks Association
Fiona Upton	(FU)	E.ON UK
Gareth Evans	(GE)	Waters Wye Associates
John Edwards	(JE)	Wales & West Utilities
Kevin Woollard	(KW)	Centrica
Paul Sherley	(PS)	Centrica
Richard Fairholme	(RF)	E.ON UK
Richard Street	(RS)	Corona Energy
Rob Hetherington	(RH)	Scotia Gas Networks
Stefan Leedham	(SL)	EDF Energy
Stephen Marland	(SM)	National Grid Distribution
Steve Armstrong	(SA)	National Grid Distribution

1. Introduction

TD welcomed all to the meeting.

1.1 Minutes of Previous Meeting

The minutes of the previous meeting were accepted.

1.2 Review of Actions

Action DCMF 0023: Include a load breakdown in revised versions of SGN's reports

RH confirmed this had been completed. **Action Closed**

2. Topics for Discussion

2.1 Allowed and Collected DN Revenue (UNC 0186 Reports)

Wales & West Utilities

JE explained that the allowed revenue forecast for 2009/10 reflects shrinkage movements and includes a finalised RPI figure. When asked, JE confirmed that the reduction from the January 09 predicted 7.5% price level change to 7% for 2010/11 reflects the change from an assumed zero to 4% AQ reduction. For future years, an inflation assumption had been derived from published bank forecasts.

Northern Gas Networks

AT highlighted that 2009/10 information utilises actual inflation figures, and 2010 onwards is based upon 2.5% inflation, in line with Bank of England targets. However, the spreadsheets allow others to input their own inflation assumptions as they see fit.

Scotia Gas Networks

RH explained that for October 09 SGN had assumed 3% AQ reductions, and 1% thereafter. Incentive revenue movements were driven by shrinkage and mains replacement. Unlike the other DNs, a Traffic Management Act allowance is included from 2010/11 onwards.

National Grid Distribution

SM pointed out some slight, immaterial errors contained within the published report (now replaced).

PS enquired why North West is expected to under recover whilst the remaining DNs over recover. SM was unsure as to the reasons behind the apparent difference but could confirm that a consistent allowance for the reduction in shrinkage costs had been included for all National Grid DNs.

DT asked if the Licence provides any under/over recovery tolerance bands. SM responded that the licence provides for a 3% tolerance (i.e. 100 to 103% & 97 to 100%). SA added that whilst there are no real targets as such, it is not the DNs' intention to over recover. DA reinforced this by pointing out that, should a DN over recover by more than 4%, they have to explain their actions to the Authority. Furthermore, should the DNs breach 6% over recovery over a two year period, the Authority has the right to set the respective DN's charges for the following year.

In response to a question about possible movement in the over recovery given the existing economic circumstances and potential drop in demand, AT suggested that the impact is extremely difficult to predict and assess with any degree of confidence. The DNs confirmed they have not yet taken into account the potential impacts of implementation of Modification Proposal 0244 "Amending DM Supply Point Data for Sites with Significant Changes in Usage" or its alternatives. AT suggested that, if implemented, the impacts are uncertain and would only become apparent over time.

DT wondered if lower demand would reduce shrinkage costs. The DNs said this was not the case as shrinkage allowances are not linked to throughput. SA also emphasised that lower throughput has little effect on the cost of running the networks.

RS enquired if the DNs will continue to invest in-line with their previous projections. SA responded that he believes the DNs will continue to invest in light of the best available indications of peak demand, and so would not necessarily decrease investment in response to the current economic conditions.

TD asked and attendees confirmed that they had found the presentations informative and helpful.

Action DCMF0025: National Grid (SM) to publish a revised 0186 report

2.2 Pricing Consultation Update

The only live consultation was discussed under item 2.5 below.

Concerned about being able to complete his 2010 tariff changes in time, SL enquired as to the reasons behind the delay in the DNPC04 process. SA advised that delays in resolving issues related to the electricity DNO regime and an ongoing investigation. An update from Ofgem is hoped for at the July DCMF meeting. SL suggested that lack of any idea how and when a decision will be made is the frustrating factor. SA gave an assurance that the DNs will try to press Ofgem for a view on when they are likely to be in a position to make a decision, but this is not imminent.

When asked if they had a date in mind by when they would need to know the decision in order to reflect the change in their businesses, Shippers indicated that the standard five month notification period should apply as a minimum - therefore November provides for the last opportunity for a change to be made in April 2010.

2.3 Ofgem Consultation Update

In the absence of an Ofgem representative, this was deferred.

2.4 Charging Structures

It was agreed that this would be covered at a subsequent meeting.

2.5 Effect of 2012 NTS Charges (Exit)

DA presented a summary of the options in discussion paper PDDN04. When NTS exit charges become payable by the DNs, these new costs will be reflected in DN charges. The three principal options if a new charge type is introduced are for charges to be calculated and applied by Offtake, by Exit Zone or by Network. Alternatively, existing LDZ charges could be adjusted to reflect the new cost faced by the DNs.

The main discussion points raised on each option were:

<u>By Offtake</u>

xoserve are looking at the cost of billing on an offtake basis, with allocating supply points to an offtake being a key issue. In principle this approach may be the most cost reflective in that this is the basis on which NTS propose charging the DNs. However, cost reflectivity for specific supply points is dependent on accurately and appropriately relating individual supply points to particular offtakes, which is problematic.

SL wondered how this option would realistically work, and DA responded that it would probably rely on mapping from offtake to supply point based on network flows at the peak at a point in time. AT added that addressing questions and concerns such as these is the reason behind the discussion paper being released well in advance of the eventual implementation of the changes and hoped that responses to the paper will be the first step towards resolving any issues interested parties may have.

When asked about possible implementation costs, SA said a Rough Order of Magnitude (ROM) estimate will be requested from xoserve once responses have been received and collated. Shippers emphasised that there would also be costs for themselves since their billing systems would also need to be modified. It was agreed that having an indication of costs from all parties would be beneficial before further engagement on the options.

DA confirmed that the published discussion paper contains illustrative location specific charges.

<u>By Exit Zone</u>

DA suggested that the locational signals (NTS related) for this option would remain largely as at present. RS voiced a concern that this may not be the most appropriate mechanism – he would be keen to clearly highlight that these are locational signals for supply points that are being referred to, not DN decisions. DA suggested the key is how the DNs recover costs from Shippers in future and views via responses to the paper would be very welcome. The paper is deliberately open in order to invoke discussion and no particular option is being put forward by the DNs as a preferred way forward. That said, the DNs key Licence obligation is to reflect costs incurred and hence selection of a less cost reflective option would need to be justifiable on other grounds.

<u>By Network</u>

DA explained that this approach would introduce a DN wide charge rate, with no intra-DN locational variation.

RS enquired if any analysis had been undertaken to show the potential changes in charges for different customer categories under the various options. SA agreed that this may be informative and the DNs offered to publish some supplementary analysis by 5 May 2009.

Action DCMF0026: DNs to publish supplementary DNPD04 analysis by 5 May

<u>Include in Existing Charges</u>

Views differed over whether or not this option would provide a cheaper solution for both the DNs and Shippers, and whether it is any more or less cost reflective than the specific charge type options.

GE suggested that perhaps a single DN based charge with supporting processes would be beneficial. Whilst not necessarily against this principle, SA argued the issue is striking the right balance between cost reflectivity and change impacts. RS considered that at first glance this looked to be a reasonably sensible approach, but he would need more time to fully consider the implications. However, this option looks to involve less upheaval compared to introducing a completely new charge type.

SL suggested Project Nexus impacts will need to be considered in due course since, if systems were being changed in any event, they might relatively easily accommodate a changed charge structure. He remained uncertain whether introducing a new charge type would significantly increase EDF’s costs.

DA then turned to some additional issues which may need to be addressed in addition to determining which was the appropriate charging approach.

<u>Effect of Interruption Rights</u>

The impacts of purchasing interruption rights remains difficult to fully appreciate until the charging options become clearer. SA posed the question as to whether or not the DNs should look to realign specific charging targets to match their incentives. Again, views on this within interested parties responses would be welcomed.

<u>UNC Based Charges</u>

Ratchets and overruns would need to be considered. AT pointed out that inclusion of a new LDZ Ratchet charge would not provide DNs with additional revenue.

With regard to the DNs incurring NTS Overrun charges, while DA believed it is unlikely that the DNs would incur overrun charges, they had been included for visibility purposes.

Changes to the Level of Charges

NTS charges are changed in October and DN charges in April, and this misalignment increases the likelihood of under- or over-recovery since the DNs have an additional uncertainty to forecast. RS suggested that this has been a long standing and well debated point and was a known issue when the 95:5 changes and move to April DN price changes were proposed and introduced in the interests of stability. SM disagreed that this is a 95:5 issue - this is a separate issue altogether. SL pointed out that this was an issue in the previous GDPCR considerations to which SM suggested that, as the DN licences specify April to April, the argument becomes fundamentally irrelevant. AT suggested the DNs simply wanted to provide acknowledgment that ‘k’ could potentially become more volatile.

SA requested that interested parties put any concerns in writing within their respective responses as the DNs are keen to take views on board. The early publication of the discussion paper is in direct response to Shipper requests and seeks to provides an early indication of the implications of the 2012 changes.

Separate Management of K

The possibility of ring fencing the NTS element of under or over-recovery was put forward.

Next Steps

Responses to the discussion paper are requested by Friday 22 May 2009.

Following receipt of the responses, the DNs will prepare a Discussion Report and expect further discussions to take place. A formal Consultation Paper is still some way off. Furthermore, it is not expected that the Final Consultation Paper will be completed until after completion of the PC68 update (DNPC04). When asked, the DNs agreed to include a summary timeline within the Discussion Report.

3. Date of next meeting and agenda items

TD confirmed that the next meeting is booked for Monday 27 July 2009 in London.

Suggested agenda items put forward were:

- 0186 Reports;
- Pricing Consultation (inc DNPC04 update);
- Ofgem Consultation Update;
- Charging Structures; and
- DNPD04 Update.

4. Any Other Business

None raised.

Action Table

Action Ref	**Meeting Date**	**Minute Ref**	**Action**	**Owner***	**Status Update**
0023	27/10/08	2.1	Include a load breakdown in revised versions of SGN's reports.	Scotia Gas Networks (RH)	Update provided. **Closed**
0025	27/04/09	2.1	Publish a revised 0186 report	National Grid (SM)	*Published 28 April*
0026	27/04/09	2.5	Publish supplementary PDDN04 analysis	All DNs	*Published 5 May*