

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

Attendees

Tim Davis (Chair)	(TDa) Joint Office
John Bradley (Secretary)	(JB) Joint Office
Andrew Marsh	(AM) EDF Energy
Anna Taylor	(AT) Northern Gas Networks
Bernard Kellas	(BK) Scottish and Southern Energy
Denis Aitchison	(DA) Scotia Gas Networks
Erika Melen	(EM) Energy Networks Association
Eddie Proffitt	(EP) Major Energy Users Council
Dora Guzeleva	(DG) Ofgem
Elisha Walsh	(EW) Bórd Gáis
Fiona Upton	(FU) E.ON UK
John Edwards	(JE) Wales & West Utilities
Jenny Higgins	(JH) RWE npower
Karron Baker	(KB) Ofgem
Paul Sherley	(PS) Centrica
Rob Hetherington	(RH) Scotia Gas Networks
Stefan Leedham	(SL) EDF Energy
Stephen Marland	(SM) National Grid Distribution
Simon Trivella	(ST) Wales & West Utilities
Tim Dewhurst	(TDe) Centrica

1. Introduction

TDa welcomed all to the meeting.

1.1 Minutes of Previous Meeting

The minutes of the previous meeting held on 27 April 2009 were accepted.

1.2 Review of Actions

Action DCMF 0025: Publish a revised 0186 report.

This was published on 28 April 2009.

Action Closed

Action DCMF 0026: Publish supplementary PDDN04 analysis.

This was published on 05 May 2009.

Action Closed

2. Topics for Discussion

2.1 Allowed and Collected DN Revenue (UNC 0186 Reports)

2.1.1. National Grid Distribution

SM pointed out that there had been few changes since the last presentation. There was, however, an increase in allowed revenue through incentives of circa £6m in East of England in 2008/9 and a reduction in North London of £10m in 2008/9, which would affect 2009/10. He envisaged substantial over-recovery in London and, to a lesser degree, West Midlands for 2009/10 - National Grid was therefore proposing an October 2009 reduction in all charges

in these two DNs of 10% and 4% respectively. SL asked whether permission had been sought from Ofgem for an October price change. Both SM and DA responded that, whilst DNs are required to inform Ofgem, formal consent is not required under the licences. SL asked why London charges tend to be volatile, and SM explained that its small size was key - undertaking replacement work in the East of England rather than London DN part of Outer London would impact allowed revenue in each, but have a far greater proportionate impact on London DN because of the difference in size.

2.1.2. Scotia Gas Networks

RH outlined some of the key factors impacting charges such as traffic management, mains replacement and shrinkage allowances. SOQ reductions in both Scotland and Southern were 3%. In Southern, SGN was facing a similar over-recovery situation to National Grid Distribution and so had given indicative notice of an October price change which would be confirmed by 31 August. FU questioned the effect of the incentive schemes and their outcomes and asked whether price volatility as seen since the move to an April price change would continue. The DNs acknowledged that uncertainty remained which created volatility. SM pointed out that the proposed October price change should reduce volatility by bringing allowed and collected revenue in line within the formula year.

TDa asked whether 0186 data had met its intention of increasing certainty amongst Shippers. FU responded that the data was very helpful. JH pointed out that a breakdown of individual reasons for change would be helpful, possibly in graphical form. AT suggested that use of information varied from Shipper to Shipper such that publishing standard analysis may not be helpful, and emphasised that NGN would be willing to discuss any issues with individual Shippers. EP suggested that the DNs should provide a trace of when and how assumptions change – it shouldn't be up to Shippers and consumers to generate this information from previous reports. EP also expressed a concern that mains replacement is falling behind the programme agreed with Ofgem under the price controls. SM stated that the programme as a whole is on schedule but there were some variations from LDZ to LDZ.

SL asked about the effect of SGN's current re-opener application under its price control. RH responded that this had not been reflected in the information provided since the outcome was not yet certain. SL suggested that an increase was likely and it would have been helpful to at least see a suggested range.

2.1.3. Northern Gas Networks

AT highlighted the reasons for predicted over-recovery for 2009/10 which was close to 3%. She was anticipating some impact from the AQ reviews, which would have an offsetting effect. However, this would be known until late in October 2009. If the AQ reduction was smaller than forecast, then to avoid breaching the 3% over-recovery trigger in the Licence, NGN might make a price change from 01 January 2010. Formal notice of such a change, if it proved necessary, would be given on 31 October 2009.

EP expressed concern at a January 2010 price change from the consumer standpoint and BK expressed the same view as a Shipper. AT stated that a January 2010 change would be set with a view to reducing the scale of any April 2010 price change, but she would not expect it to entirely replace an April 2010 change.

2.1.4. Wales & West Utilities

JE was predicting lower recovery than previously highlighted and shrinkage price reductions had made an impact. The forecast over-recovery was much smaller than other DNs and the next price change would be in April 2010.

PS asked why there had been different assumed reductions in forecast AQ from LDZ to LDZ. SM responded that all the DNs based their forecasts on xoserve data and set-out the differences in the LDZs within National Grid Distribution, as an example. DA confirmed the use of xoserve data in including some of the analysis carried out on domestic load factor but SGN had concluded that the impact of load factor changes would be small. AT explained that NGNs situation was similar to SGN. WWU tended to base its AQ predictions on extrapolating trends from the last two years. ST clarified that the data received by the DNs from xoserve was, other than its aggregated nature, the same as that received by Shippers.

2.2 Pricing Consultation Update

2.2.1. DNPC04

DNPC04 had not been formally passed to Ofgem and the DNs were considering incorporating cost reports for the latest year. There was a possibility of reconsultation in light of the revised information, which was supported by Ofgem

2.2.2. DNP04

DA gave a brief presentation on the responses received to DNP04. There was unanimous support for LDZ Exit Capacity charges being based on a flat pricing rate. There was little support for these charges being applied by Offtake and practical difficulties were anticipated in allocating Supply Points to Offtakes. The greatest support was on the basis of Exit Zone and, compared with the status quo, this was the least change. There was a range of views on application by Network. Although there was an advantage in terms of stability there a disadvantage in terms of cost reflectivity. No respondents favoured incorporating this charge in another DN charge as it was considered this would reduce cost transparency. Although the NTS charges would change each October, respondents did not consider that this justified an October price change and preferred the DNs to rely upon April price changes. Respondents favoured a separate "K" for cost reflectivity reasons.

DA suggested that the DNs felt a second discussion paper was unnecessary given the degree of consensus, but that a UNC Modification Proposal and Pricing Consultation document would be required to implement the change. The change order was also being discussed with xoserve. He suggested commencing the consultation in October 2010 which would allow the consultation to take into account any developments that took place in the interim.

EP asked for the rationale behind NTS Exit Capacity being charged to the DNs but Commodity being charged to Shippers. Attendees believed Ofgem favoured this approach as part of NTS exit reform in order to generate appropriate incentives and DG agreed to establish the rationale.

Action 0027: Ofgem (DG) to obtain and advise the rationale behind NTS Exit Capacity being charged to DNs but NTS Commodity to shippers.

NGN identified that these costs had already been included in their 0186 data but the other DNs had not included them as yet. The DNs agreed to consider adopting a consistent approach in future.

Action 0028: DNs to consider and report when and how NTS Exit Capacity would be included in future 0186 reports.

2.3 Ofgem Consultation Update

Ofgem were still considering governance of pricing changes under its governance review and would be reporting on this shortly.

2.4 Charging Structures

AT gave a "laymans guide" presentation on DN charging structures. The current methodology had been based on data applied nationally. The DNs were reworking this methodology for their own networks. SL asked about customers connected to CSEPs and the rationale behind it. AT identified that the DNs were awaiting the outcome of DNPC04 prior to forming proposals on CSEPs. AT then indicated an outline discussion and consultation paper schedule in order to take this forward, including the impact of DNPC04 and three years of cost information.

DG identified that Ofgem supported incorporating the additional year of cost data and would prefer to receive DNPC04 proposals following reconsultation. Ofgem did not, at this stage, anticipate any further delay. The DNs expected to issue a consultation paper in September 2009 to enable discussion at the next DCMF.

3. Date of next meeting and agenda items

TD confirmed that the next meeting is booked for Monday 26 October 2009 in London.

4. Any Other Business

None raised.

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner*	Status Update
0025	27/04/09	2.1	Publish a revised 0186 report	National Grid (SM)	Published 28 April Closed
0026	27/04/09	2.5	Publish supplementary PDDN04 analysis	All DNs	Published 5 May Closed
0027	27/07/09	2.2.2	Obtain and advise the rationale behind NTS Exit Capacity being charged to DNs but NTS Commodity to shippers	Ofgem (DG)	
0027	27/07/09	2.2.2	Consider and report when and how NTS Exit Capacity would be included in future 0186 reports.	DNs	