Distribution Charging Methodology Forum Minutes
Monday 27 October 2008
Elexon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Anna Taylor	(AT)	Northern Gas Networks
Anthony Horwood	(AH)	International Pipelines Limited
Bernard Kellas	(BK)	SSE
Cecilia Bjorkegren	(CB)	Northern Gas Networks
David Speake	(DS)	ES Pipelines
Denis Aitchison	(DA)	Scotia Gas Networks
Dennis Timmins	(DT)	RWE Npower
Eddie Blackburn	(EB)	National Grid
Eddie Proffitt	(EP)	MEUC
Fiona Upton	(FU)	E.ON
Gareth Evans	(GE)	WatersWye
Indra Thillainathan	(IT)	Ofgem
Jennifer Higgins	(JH)	RWE Npower
John Edwards	(JE)	Wales & West Utilities
Karron Baker	(KB)	Ofgem
Kelly Denny	(KD)	E.ON
Paul Edwards	(PE)	GTC
Paul Sherley	(PS)	British Gas Trading
Phil Broom	(PB)	Gaz de France
Richard Dutton	(RD)	Total Gas & Power
Rob Hetherington	(RH)	Scotia Gas Networks
Shelley Rouse	(SR)	StatoilHydro
Stefan Leedham	(SL)	EDF Energy
Steve Armstrong	(SA)	National Grid Distribution
Stephen Marland	(SM)	National Grid Distribution

1. Introduction

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

1.1 Minutes of Previous Forum

The minutes of the forum held on 28 July 2008 were accepted.

1.2 Review of Actions

Action 0020: Provide a “ready reckoner” to identify the effect of changes in key parameters on Transportation Charge

See item 2.1 below. **Action 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/

2.1 Allowed and Collected DN Revenue (UNC 0186 Reports)

Wales & West Utilities

JE drew attention to the 'Comments' section of the WWU report and highlighted:

- the allowed revenue drop of £2.5million to £289.5million largely reflects shrinkage, with lower gas prices than previously assumed;
- the true extent of mains replacement is unknown at present;
- the 2008 SOQ/AQ Review will amend the Forecasted Collected Revenue to a figure nearer to £294million, an over recovery of approximately £4.5million, with SOQs reduced less than assumed;
- inflation assumed as 4.6% for 2009/10, and 3.6% thereafter;
- shrinkage gas costs based on 10 October Heren Report;
- Reduced SOQ impact has been projected through 2009/10, and
- The latest April 2009/10 estimate is an average reduction in transportation charges of 6%.

In closing, JE reminded attendees that indicative April 2009 charges would be published by the end of the week.

National Grid

SM initially presented the East of England data and indicated that much of the change from the previous report was due to correcting a modelling error, impacting the assumed future path of SOQs. He went on to add that whilst there is no real SOQ data available for beyond 2009, National Grid has projected a declining trend. When asked, he confirmed that the 2009/10 -12.6% price level change needed for collected to equal allowed revenue included the impact of the AQ Review.

Considering the other National Grid DNs, SM advised that the main differences between the July and October figures for the present year were changes in mains replacement and shrinkage (reflecting changing gas price assumptions). SM was asked if he could provide any detail behind the shrinkage gas cost assumptions and agreed to ascertain whether or not it is possible to do this without compromising National Grid's commercial position.

In response to questions, SM pointed out that an assessment of the impact of the potential rebalancing were DNPC04 to be implemented was included at the bottom of each of the 0186 spreadsheets. When asked, attendees indicated that publishing the data as spreadsheets rather than PDFs was extremely helpful.

Action 0021: SM to consider whether additional information can be provided on shrinkage cost predictions.

TD suggested that a consistent issue emerging from questions related to how the figures compare with the previous quarter's figures, and the DNs agreed to consider how this might be presented going forward.

Action 0022: DNs to consider how to present changes between quarterly reports.

Scotia Gas Networks

RH advised that inflation had been modelled at 4% for 2009/10, and 2% thereafter.

Examining the Scottish data, RH confirmed that the April 2009 price level change needed for collected to equal allowed revenue had increased from 2.3%, as presented in the July report, to 3.2%.

When asked about the difference between the 2008/09 indicative incentive movement figure compared to the current figure RH confirmed that the difference reflects a -1% change from the SOQ/AQ Review.

Moving on to examine the Southern data, RH pointed out that the effects of the Traffic Management Act (TMA) are clearer in this area and the impact had been included in the figures. TD asked if other DNs expected to include a TMA allowance in their figures in future, and it was confirmed that his was likely once the actual position in each area became clearer.

When asked, RH agreed to include a load breakdown, similar to that provided by National Grid to illustrate the impact of DNPC04, in revised versions of SGN's reports.

Action 0023: RH to include a load breakdown in revised versions of SGN's reports.

Northern Gas Networks

AT said that the indicative notice, due on Friday, was expected to include a load band breakdown, showing the potential impact of DNPC04.

AT explained that the 2008/09 incentive movement between this current report and the previous one reflects REPEX, which flow forward to 2009/10 resulting in a 2.5% movement in 'K'. AT suspected that estimating shrinkage prices slightly earlier (end of September) than the other DNs was likely to result in an increased shrinkage value compared to the other DNs.

AT emphasised that the indicative April 2009 charges, due for publication on Friday, will reflect a change in the previous projection of a 3% AQ reduction to 3.5%.

In closing her presentation, AT pointed out that each respective DN report includes a 'Sensitivity' caveat statement.

When asked, attendees indicated that the provision and discussion of Mod 0186 Revenue Reports has assisted them in making informed decisions and that the reports are improving with each release - the information was matching Shipper expectations.

AT pointed out that each DN report includes a 'Sensitivity' statement. In light of this, closure of Action 20 was agreed (Provide a "ready reckoner" to identify the effect of changes in key parameters on Transportation Charge).

2.2 October 2008 Charges

The DNs indicated that the revised charges had been implemented, and any questions were invited – no issues were raised.

2.3 DNPC04 Methodology for Determining the Balance of Revenue between LDZ System Charges and Customer Charges

AT provided the presentation on behalf of all the DNs, indicating that the DNPC04 consultation closes on Tuesday 04 November 2008.

When asked for their responses to the question on slide 5, as to whether to rebalance on a network specific or national basis, several attendees indicated that they did not support either option, citing that neither option was reflective of market needs. In particular, they were looking for stable prices against which to offer contracts. AT suggested that whilst a national approach may be less cost reflective than a network specific approach, it still appeared superior to the current arrangements. SL added that he would support network specific rebalancing of the charges which would be aligned with network specific charges.

In examining the differences in the respective balance of network system costs, AT indicated that the variances reflect factors such as network densities, geographical impacts, varying management styles, network efficiencies and asset structures and associated costs.

In discussing the table on slide 6, AT suggested that a move to 74.4% LDZ System costs from the current 71.8% is not too large a change. Attendees questioned if national rebalancing was necessary in light of this relatively small shift. PB voiced concern that implementing a national approach would incur costs and it had not been demonstrated that these would be outweighed by the benefits. Furthermore, PB argued that the timing of the proposed change is unfortunate and it would have been better for this to be undertaken at the same time as the move to a 95:5 capacity commodity split. Others added that the potential impacts on the I&C market are a major concern and that the analysis of the proposal's impact should clearly identify the load size impacts.

In response, DA pointed out that subsequent analysis will look at the case for restructuring the customer charge to be more cost reflective, including looking at variation by load size. This raised further concerns about pricing stability and predictability and, when challenged, DA agreed that it would be feasible to delay the proposed 01 April 09 implementation to allow sufficient time to include load factor changes as well. SM voiced concern at this suggestion, believing that it is more beneficial to keep the elements separate and reminded all that they have the option to highlight their concerns in consultation responses. SA emphasised that the rationale behind the proposal is that it provides for a more cost effective approach, in line with the DN licence obligations and therefore it could be argued to be important to implement the changes sooner rather than later.

DS, on behalf of the iGT's, voiced concerns surrounding the proposal believing that, given the Relative Price Control approach, it would result in a substantial margin squeeze which would impact upon competition. Additionally, consumer issues such as increasing surcharges and stranded assets are a major concern. SM suggested that DS might usefully raise concerns about competition impacts directly with the Authority.

Moving on to the question of how the charging methodology should provide for the split to be reset, the option of an appropriate tolerance (trigger) level was discussed. AT suggested that + or – 1% may be suitable.

When asked if they could provide figures for the intervening years, the DNs responded that the figures provided highlight where we are right now and that significant year on year movements were unlikely. SA added that the information and ability to opt for a network by network approach has only recently become available following the creation of network specific price controls and respective licences. The DNs questioned the value of providing national data for 2003 onwards, preferring to rely on data which had been produced to a consistent format for price control review purposes.

Attendees suggested that predictability of charges is important and hence wondered if adopting a 5 yearly review process would be more sensible. In response, SM argued that it remains difficult to ascertain at which point the proposed 75:25 approach would cease to be cost reflective and hence utilising a ‘threshold trigger’ would provide a more cost reflective solution. However, most Shippers remained concerned about the market impact of three separate proposals in the same area (95:5, DNPC04, the next step) being progressed in series rather than in parallel, creating ongoing uncertainty and instability in charging.

TD enquired if, in light of these discussions, Ofgem felt it should undertake an impact assessment before deciding whether or not to veto the DNPC04. IT indicated that they would like to reserve the right to make a judgement at a later date based upon the consultation responses. Attendees suggested that an early indication of intent would benefit all parties concerned.

When asked, the consensus among attendees was in favour of deferring implementation beyond April 2009, although PS in particular felt it appropriate for steps to improve cost reflectivity to be implemented as soon as practical and hence he favoured implementation in April 2009. SM suggested that the DNs would like to await written responses to the consultation before deciding whether or not to propose an April 2009 implementation.

The DNs indicated that they anticipate submitting a report and proposal to Ofgem 2 to 3 weeks after the consultation closes on 4 November, with an Ofgem decision due within 28 days of receiving that report.

2.4 Future Changes to Methodology – Feedback from Shippers

SM emphasised that the DNs would welcome Shippers’ suggestions on how best to go about improving both predictability and the charging structure in general. However, to stimulate debate, he outlined some ways that might help deliver greater predictability.

The level of SOQs is one source of uncertainty and SM suggested amending the AQ Review cycle could help to address this, and that charges might be payable based on the SOQ as at 1 January. PS acknowledged that knowing the xoserve position on 1 January following the mid yearly review could benefit all parties.

SM did not see a rolling AQ regime, as being developed by UNC Development Work Group 0209 work, as providing any more certainty for charge setting purposes. SL suggested that this was not necessarily a view shared by DWG 0209 members, including other network representatives – it had been argued that moving the AQ review to April would be beneficial. SM replied by stating that unpredictable year on year SOQ movements remains a concern and having the data available in January would enable him to set more accurate charges. SL suggested that moving to a 1 January review raises major concerns, from a domestic perspective, about the impact upon the winter consumption predictions. Furthermore, if the DNs are championing cost reflectivity as the basis for the proposed DNPC04 changes, then surely having more accurate monthly AQ data is beneficial.

Moving on, SM suggested that whilst DNPC03 had gone some way to addressing the concerns surrounding risk associated with the current approach, further debate is necessary for the DNs to be able to gauge interested parties views. When asked, however, attendees suggested there was little appetite for change.

In closing, AT emphasised that the DNs are looking to engage with parties on the charging methodology and DCMF was proving to be very useful. Attendees suggested that running workshops to facilitate Shipper feedback on specific issues could be advantageous.

3. Date of next meeting and agenda items

TD asked for views on an appropriate date and location for the next DCMF meeting. AT suggested that at least one week following the publication of the 0186 reports, and London was identified as the preferred location. Suggested agenda items were:

- 0186 Reports;
- Pricing Consultations – Progress Update;
- Exit Charges – an early indication of the impact of NTS charges being paid by the DNs from October 2012

Action 0024: MB to arrange January DCMF meeting.

4. Any Other Business

None.

Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner*	Status Update
0020	28/07/08	2.3	Provide a "ready reckoner" to identify the effect of changes in key parameters on Transportation Charge	All DNs	Update provided **Closed**
0021	27/10/08	2.1	Consider whether additional information can be provided on shrinkage cost predictions	National Grid (SM)	Update due at next meeting
0022	27/10/08	2.1	Consider how to present changes between quarterly reports	All DNs	Update due at next meeting
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
0024	27/10/08	3.0	Arrange January DCMF meeting	Joint Office (MB)	Details to be added to JO events diary.