

**Distribution Charging Methodology Forum Minutes**  
**Monday 28 July 2008**  
**Elxon, 350 Euston Road, London NW1 3AW**

**Attendees**

Tim Davis (Chair)	(TD)	Joint Office
John Bradley (Secretary)	(JB)	Joint Office
Anna Taylor	(AT)	Northern Gas Networks
Bernard Kellas	(BK)	SSE
Barry Largent	(BL)	GTC
Denis Aitchison	(DA)	Scotia Gas Networks
Dennis Timmins	(DT)	RWE
Eddie Proffitt	(EP)	MEUC
Gareth Evans	(GE)	WatersWye
Gareth Jones	(GJ)	IPL
Huw Davies	(HD)	EDF Energy
Ian Foster	(IF)	Fulcrum
Indra Thillainathan	(IT)	Ofgem
John Edwards	(JE)	Wales & West Utilities
Kelly Denny	(KD)	E.ON
Kerri Matthews	(KM)	National Grid Distribution
Leigh Bolton	(LB)	Cornwall Energy
Natasha Ranatunga	(NR)	National Grid NTS
Phil Broom	(PB)	Gaz de France
Paul Sherley	(PS)	British Gas Trading
Rob Hetherington	(RH)	Scotia Gas Networks
Steve Armstrong	(SA)	National Grid Distribution
Sarah Carter	(SC)	GTC
Steve Edwards	(SE)	Wales & West Utilities
Sabrina Jones	(SJ)	GTC
Sundee Klair	(SK)	Energy Networks Association
Steve Marland	(SM)	National Grid Distribution

**1. Introduction**

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

**1.1 Minutes of Previous Forum**

With the exception that Elaine Calvert attended on behalf of WatersWye rather than National Grid NTS, the minutes of the forum held on 06 May 2008 were accepted.

**1.2 Review of Actions**

**Action 0017: JE to provide indicative capacity/commodity rates to the Joint Office for publication.**

This was completed

**Closed**

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**Action 0018: DNs to present a progress review on potential April 2009 methodology changes at the July DCMF.**

See item 2.3 below

**Closed**

**Action 0019: Joint Office to arrange 28 July meeting, preferably in Solihull.**

London had proved to be more convenient

**Closed**

## **2. Topics for Discussion**

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

### **2.1 Allowed and Collected DN Revenue**

RH presented on behalf of SGN, explaining the reasons for the changes from the previous versions.

DT questioned the difference in shrinkage in 2008/9. RH stated that this was due to gas price increases. In answer to another question, RH confirmed that there had been some movements in the incentive allowances, and that 2-3% SOQ reductions had been assumed.

SM presented on behalf of National Grid Distribution. The picture was similar to SGN's. No allowance had been made for tax changes, but these could be significant in future. PB asked what assumption had been made on shrinkage gas prices and whether these were consistent across the DNs. The DNs responded that they had each formed their own view, but all had used Heren. Reductions of between 2% and 3% on SOQs had been assumed. In the North West and East of England, there had been more mains replacement activity than predicted - increasing K. East of England showed the highest price increases due to the relatively low prices of the previous year, and vice versa North London.

JE presented on behalf of Wales & West Utilities. The reasons for movements such as shrinkage costs were similar to the other DNs. Repex was broadly in line with predicted. Wales & West had assumed a 5% reduction in SOQ. This reflected the DN specific information provided by xoserve.

AT presented on behalf of Northern Gas Networks. Similar features to other DNs were observed. NGN also assumed a 5% reduction in SOQ. AT mentioned that due to a lack of success in securing metering contracts, adjustments had been made to allowed revenue that reflected asset stranding. EP expressed concern with this concept and felt it inappropriate for customers to pay for this. AT responded that this mechanism had been agreed as part of the distribution price control review. SE argued that metering work effectively provided a subsidy which offset the cost of providing an emergency service - consumers were not paying extra following the loss of meter work but rather paying less than the full cost of an emergency service if meter work was also undertaken.

### **2.2 October 2008 Charges**

The DNs confirmed that, in line with UNC requirements, final October 2008 charges would be published by the end of the week. The percentage change in each DN would be close to the numbers already presented.

IT then gave a presentation on behalf of Ofgem. Concerns had been expressed in respect of the application of DNPC03 and an information request was sent to the DNs in order to expand the analysis already carried out with respect to sites

with a range of load factors. The presentation set out the potential impact of the proposed changes on firm and interruptible sites. The main conclusion was that the majority of Supply Points will see decreases in charges and also the majority will see little absolute change – although some large percentage changes were identified. Ofgem's view was that a sufficient case had not been made for not pursuing the change in the capacity commodity split and the amended interruptible discounts. GE expressed concern that some sites would see major increases in costs, for example 114 sites would see a doubling of distribution charges. Embedded storage would be adversely affected due to its low load factor – since transportation charges are a major element of the variable costs faced by these sites, economic viability would be threatened were the changes to be implemented.

GE stated that he would therefore like to see the same information presented but based on type of use. AT pointed out that this information was not available to DNs - the information would need to be provided by Shippers. SM pointed out that there was only one embedded storage site at present, so identifying the impact would not require classification of all sites. PB suggested that sites providing embedded generation would face similar impacts. SM questioned the value of the analysis as introducing different charges for different end users appeared unduly discriminatory. GE suggested that storage sites provide network benefits and consequently justify a different charging approach. TD suggested that it was late in the day to carry out further analysis since it could not be completed before notice is given of the charges to apply from October. GE agreed to pursue the issue directly with Ofgem.

### **2.3 Forecasting Risks, Methodology and Licence Changes**

SM gave this presentation. He concluded with four alternatives for reducing charging volatility associated with capacity. There was then a discussion on the fourth alternative - introduction of fixed supply point charges. EP pointed out that a similar principle applied in electricity whereby capacity could be booked for a five year period on a take-or-pay basis. EP also pointed out that NDM customers are not presently rewarded for reducing their peak offtake since SOQs are derived from the AQ and profiles.

PB suggested that better understanding of the key uncertainties would be helpful prior to moving to a change in methodology – what drives volatility in charges and which are the most important factors? PB identified, for instance, factors such as gas prices for shrinkage, price of steel, mains and service replacement rate and changes in AQ. The DNs agreed to the following action.

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

SM referred to a statement by Ofgem that some costs, such as overheads and provision of an emergency service, are neither related to capacity nor commodity, such that charging on a different basis may be justified. This was acknowledged by the meeting.

### **2.4 Shipper Priorities for Methodology Changes**

The DNs confirmed that analysis was continuing to identify the case for potentially introducing revised customer and system charges. SA identified that the DNs were expecting to issue a consultation paper in August, and that implementation in April 2009 was feasible for any change in the split between customer and system charges, and in unit rates. However, the level of detailed analysis being conducted which made a 2009 implementation of any change to the system charge unit rate unlikely. TD asked the shippers whether this

conformed to shippers' priorities or if other options should be pursued first. No alternatives were proposed by those Shippers present.

**3. Date of next meeting and agenda items**

It was agreed that DCMF would meet at Elexon on 27 October 2008, starting at 10:00.

**4. Any Other Business**

None.

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**Action Table**

Action Ref	Meeting Date	Minute Ref	Action	Owner*	Status Update
0017	06/05/08	4.1	Provide indicative capacity/commodity rates to the Joint Office for publication.	Wales & West Utilities (JE)	Completed
0018	06/05/08	4.2	DNs to present a progress review on potential April 2009 methodology changes.	All DNs	Completed
0019	06/05/08	6.0	Joint Office to arrange 28 July meeting, preferably in Solihull.	Joint Office (MiB)	Completed
0020	28/07/08	2.3	Provide a "ready reckoner" to identify the effect of changes in key parameters on Transportation Charge.	All DNs	

JE = John Edwards, MiB = Mike Berrisford