

Distribution Charging Methodology Forum Minutes

Monday 21 January 2013

at 31 Homer Road, Solihull. B91 3LT

Attendees

Tim Davis* (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Bernard Kellas	(BK)	SSE
Ben Tucker*	(BT)	EDF Energy
Binoy Dharsi*	(BD)	EDF Energy
Clare Cattle-Jones	(CJ)	ENA
David Chalmers	(DC)	National Grid Distribution
Jens Martin	(JM)	E.ON UK
Joanne Parker*	(JP)	Scotia Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Jonathan Wisdom	(JW)	RWE npower
Lewis Hodgart	(LH)	Ofgem
Rochelle Harrison	(RH)	British Gas
Steve Armstrong	(SA)	National Grid Distribution
Steven M ^c Knight*	(SM)	GDF Suez
Will Guest*	(WG)	Northern Gas Networks

* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dcmf/210113> and <http://www.gasgovernance.co.uk/0186jan2013>

1. Introduction and Status Review

1.1 Review of Minutes

Following a brief discussion and agreement that the Ofgem comments for 2013/14 had been sufficiently captured, the minutes of the previous meeting (23/10/12) were accepted.

1.2 Review of Actions

DCMF 07/02: All DNs to consider providing a calculation model to assist understanding how tariffs are calculated.

Update: SA advised that the DNs have discussed the matter but have been focussed on dealing with the RIIO outcome. The DNs could write to Shippers and other interested parties in due course to seek views on what might be expected in terms of a specification.

When asked if copies of each DN's existing model could be provided, SA indicated that these are confidential and the DNs were looking to consider development of a generic model when it was clear what outputs are required. Shippers suggested the requirement is a 'middle man' style of model that sits somewhere between the 0186 reports and the actual tariffs, with at least a 3 year forward looking capability. JW agreed to gather views on what specification may be required (including identification of any priorities) and bring forward a strawman for consideration.

The Joint Office agreed to add an agenda item to ensure the matter is considered at the next meeting.

Carried Forward

DCMF 10/01: All DNs to illustrate assumptions used to move from Initial Proposals to allowed revenue in 0186 reports.

Update: SA explained that he had provided this with the indicative charges. Shippers pointed out that there are inconsistencies between the DNs in terms of how indicative charges are presented – some DNs provided a percentage indication with others providing the unit rate. All were requested to provide unit rates in future.

Closed

DCMF 10/02: All DNs to consider providing a view of SOQ changes by AQ band and the potential impact on charges.

Update: Shippers thanked NGN for providing this. SA apologised for inadvertently omitting to provide a view – he would build this in for the future.

Closed

DCMF 10/03: Scotia Gas Networks (JP) to update the SGN 0186 Report to include figures based on Initial Proposals.

Update: JP apologised that she did not provide any initial proposals based figures, but noted that these were overtaken by the final proposals.

Closed

DCMF 10/04: Ofgem (JC) to ascertain whether an innovations update would be included as part of the RIIO Licence consultation and, if not, what timescale is involved.

Update: SA advised that whilst there is an Innovations Incentive included within the licence, he is unsure of the actual details. LH was unable to provide an update for the action.

Carried Forward

2. Allowed and Collected DN Revenue (UNC0186 Reports)

2.1 Scotia Gas Networks

Scotland

JP provided a brief overview of the Scotland report, pointing out that the figures presented exclude allowed revenues relating to SIU's and NTS Exit Capacity. The indicative percentage price change required in April 2013 is 14.7%, in line with the allowed revenue set out in Ofgem's Final Proposals.

When asked whether or not, any of the DNs had included a Network Innovations Allowance (NIA) within their respective baseline revenues, the answer was no - however this is incorporated within Allowed Revenue figures. The DNs were asked to ensure this is reflected consistently in future reports.

Southern

For Southern, the indicative percentage price change required in April 2013 is 15.4% (exc. income related to NTS Exit Capacity).

JP pointed out that NTS Exit Capacity charge changes would potentially impact on both reports and discussions with Ofgem are ongoing regarding this impact. SA added that Ofgem had written to each DN asking whether or not they would wish to realign their allowances in line with proposed NTS Exit Charges (subject to the actual NTS Exit Charges being available in a timely manner). Whilst an indication from Ofgem has been sought, the

DNs have everything in place and are simply awaiting provision of the final figures.

JP advised that whilst the SOQ assumption is a reduction of 1.5%, the final figure could be in the range of 2.0 to 2.5%. Furthermore, she also believes that REPEX impacts could potentially change the final figures.

When asked whether or not the 2015 IFRS change is included in the reported figures, JP suggested she would need to investigate further before providing a definitive answer. However, both SA and JE suggested that it should be assumed that they are for all the DNs reports.

2.2 National Grid Distribution

East of England

SA advised that a small under recovery for the year is shown, reflecting SOQ changes. He is currently awaiting a mains/service replacement update which could impact the figures.

The 2013/14 figures are based on final proposals with a 'neutral' NIA impact assumption. The report provides 'k' broken down into both LDZ and NTS Exit components. A 13.1% increase is envisaged for the 'Charge Adjustment to achieve Target Opening RIIO Recovery' with the LDZ system charging elements reflecting a significant amount of rebalancing (capacity/commodity elements). The constant 3% RPI forecast used for 2015/16 onwards is not expected to change significantly.

In considering the 'NTS Exit Capacity Costs recovered through LDZ ECN Charge' figure of £41.9m for 2013/14, SA observed that this would reduce to circa £28.8m (equating to an approximate price reduction of 16.2%) if figures were realigned to Ofgem's proposed allowance adjustment – the present assumption being that the revised allowance would be applied by Ofgem in due course.

A 3% year on year SOQ reduction has been assumed throughout.

When asked, if he could provide examples of the breakdown of distribution charges (exc. NTS Exit Capacity elements) for 2014/15 and 2015/16 and thereafter for an overall three year period, SA confirmed that these would be provided in due course.

London

Similar to East of England, a small under recovery for the year is shown – albeit down from the previous report. The figures indicate an average 9.3% price increase from April 2013 (exc. ECN elements).

In considering the 'NTS Exit Capacity Costs recovered through LDZ ECN Charge' figure of £34.4m for 2013/14, SA observed that this would reduce to circa £19.5m (equating to an approximate price reduction of 14.2%) if figures were realigned to Ofgem's proposed allowance adjustment.

Indications are that the revenue levels are reducing for 2014/15, but increasing for 2015/16 to reflect assumed Tax changes, although 2015/16 remains a big uncertainty. Should the proposed changes not take place then it is highly likely a re-opener would be required. When asked, SA was unsure whether or not a similar situation would be faced on the electricity side.

North West

An under recovery of circa £8m is shown as carried forward into 2013/14, reflecting larger than anticipated SOQ movements. The figures indicate an average 14.3% price increase from April 2013 (exc. ECN elements).

West Midlands

SA noted the small over recovery of circa £2m for the year, with an average 7.5% price increase from April 2013 (exc. ECN elements).

In considering the 'NTS Exit Capacity Costs recovered through LDZ ECN Charge' figure of £22.8m for 2013/14, SA observed that this would reduce to circa £20.5m if figures were realigned to Ofgem's proposed allowance adjustment.

In summing up, SA advised that the NTS Exit Allowances remain a big uncertainty and therefore the figures for this year may be tweaked in due course - rebalancing would roughly stay the same, but the proportions may change.

BK indicated that the reports as published had largely answered his concerns around 'k', although he still has an issue about when the changes kick in.

When asked for the 2012/13 SOQ figures, SA advised East of England 4.8%, London 4.4%, North West 6.0%, and West Midlands 4.7%. He cautioned that care is needed when looking at straight SOQ changes relative to financial impacts, which vary according in line with variations in SOQ change between load bands.

2.3 Wales & West Utilities

JE stated that on 17 January National Grid (Transmission) published Exit Capacity prices from 01 April 2013 and indicative Exit Capacity prices from 01 October 2013. Whilst these are lower than the cost allowance published by Ofgem on 21 December 2012 in their Final Proposals, Wales & West will be using the Ofgem Cost allowance for calculating their charges from 01 April 2013.

JE advised that the 2012/13 figures had changed little compared to the October 2012 figures, although allowed revenue had reduced slightly. Additionally, the figures reflect a 6.5% reduction in capacity income.

With regards to the 'Total % Increase Excluding Exit Capacity' for 2013/14 of 6.2% (IPs) and 15.9% (B.Plan) presented in the October report, JE advised that the 6.2% included errors in the arithmetic behind Ofgem's proposals – it was noted that these errors impacted all DNs.

In this latest report the 'Total % Increase Excluding Exit Capacity' for 2013/14' figure increases to 14%. JE believes that the latest set of NTS Exit Capacity prices would result in a reduction of around 16%.

A 3% SOQ reduction has been assumed for 2013/14. 2014/15 is now showing a small price increase, with IFRS impacts creeping into 2015/16, although a bigger impact is anticipated during 2016/17.

2.4 Northern Gas Networks

WG focused attention on the 2012/13 figures and explained that these are broadly similar to the October report figures apart from a (£3.6m) downward MRSA movement.

The 2012/13 'Collected Revenue' figure (inc. Exit Capacity) of £382.1m reduces to a 'Final Allowed Revenue (exc. Exit Capacity) figure of £374.7m, equating to a £2.4m over recovery.

The 2013/14 'Arithmetic April Price % needed for Collected Revenue to equal Final Allowed Revenue (exc. Exit Capacity) is 4.8%. The Price Change value has been calculated excluding ECN elements.

As far as the RPI assumptions are concerned, NGN has based their 2017 figure on the HM Treasury projections. SOQ is assumed to be reducing by 3% year on year.

WG advised that NGN's actual charges would reflect the figures presented in this report, subject to any changes imposed by the proposed Ofgem Allowance Changes. With respect to the figures quoted in NGN's final models, Ofgem have requested that NGN go with the lower value figures. WG then pointed out that if the latest allowance figures were to be utilised, this would potentially result in a 37% reduction – a reflection of the ECN changes.

3. **Managing Charging Volatility Consultation Update**

The Ofgem conclusions document had been published after the October 2012 DCMF meeting, and it was agreed that this matter had been sufficiently debated.

4. **RIIO Implications for Charges**

Shippers questioned whether the RIIO changes would have an impact on future 0186 Reports. SA suggested the DNs would need to consider how the final proposals might impact on granularity aspects.

5. **Allowances for NTS Exit Capacity**

This had been covered under discussions on the 0186 reports.

When asked when the Ofgem final proposal decision might be forthcoming, LH responded by advising that whilst the NTS Exit Charges change remains 'on track', he is unsure as to the progress being made on the Allowance Change proposals which is due in part, to the ongoing discussions between Ofgem and National Grid NTS. Several concerns were voiced over the scale of the proposed changes and a request was made to Ofgem to provide an open letter in support of any decision – LH agreed to update his colleagues within Ofgem.

6. **Any Other Business**

None.

7. **Workgroup process**

7.1 **Agree actions to be completed ahead of the next meeting**

The following action was agreed:

Action DCMF 01/01: Tariff Model: RWE npower (JW) to gather views on what specification may be required (including identification of any priorities) and bring forward a strawman for consideration.

8. **Diary Planning for Workgroup**

Details of planned meetings are available at: www.gasgovernance.co.uk/Diary.

It was agreed that the meetings should be on a quarterly basis (and also to seek to align with the 0418 Workgroup) with the next meeting scheduled to take place on or around the end of March, beginning of April 2013.

Action Log

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
DCMF 07/02	23/07/12	3.	DNs to consider providing a calculation model to assist understanding how tariffs are calculated.	All DNs	Carried Forward
DCMF 10/01	23/10/12	2.1	Illustrate assumptions used to move from Initial Proposals to allowed revenue in 0186 reports.	All DNs	Closed
DCMF 10/02	23/10/12	2.1	Consider providing a view of SOQ changes by AQ band and the potential impact on charges.	All DNs	Closed
DCMF 10/03	23/10/12	2.1	Update SGN 0186 Report to include figures based on Initial Proposals.	Scotia Gas Networks (JP)	Closed
DCMF 10/04	23/10/12	3.	Ascertain whether an innovations update would be included as part of the RIIO Licence consultation and, if not, what timescale is involved.	Ofgem (JC)	Carried Forward
DCMF 01/01	21/01/13	1.2	Tariff Model: Gather views on what specification may be required (including identification of any priorities) and bring forward a strawman for consideration.	RWE npower (JW)	Update to be provided in due course.