

**Distribution Charging Methodology Forum (DCMF) Minutes**  
**Tuesday 27 January 2015**  
**at 31 Homer Road, Solihull B91 3LT**

**Attendees**

Les Jenkins (Chair)	(LJ)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Bernard Kellas	(BK)	SSE
Bethany Hanna	(BH)	Ofgem
Colette Baldwin	(CB)	E.ON
David Chalmers	(DC)	National Grid Distribution
Fabien LaRoche	(FL)	E.ON UK
George Moran*	(GM)	British Gas
Gemma Turan	(GT)	RWE npower
Joanne Parker	(JP)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Jonathan Trapps*	(JT)	Northern Gas Networks
Jon Lee*	(JL)	British Gas
Mike Lapper	(ML)	National Grid Distribution
Robert Wiggington	(RW)	Wales & West Utilities

\* via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dcmf/270115>

**1. Introduction and Status Review**

**1.1 Review of Minutes**

The minutes of the previous meeting (29 October 2014) were accepted.

**1.2 Review of Actions**

**DCMF 0506:** DNs to look to provide a similar ECN related presentation.

**Update:** DC advised that a presentation had been provided. Please refer to agenda item 3.1 below for more details. **Closed**

**DCMF 1001:** *Movement sheet/Table 6* – DNs to ascertain whether values (preferably maximum) could be provided across blank rows.

**Update:** DC reminded those present that this relates in part to the longer term Mod186 Reporting elements and advised that National Grid Distribution had populated the information within their report on a line-by-line basis.

GT commented that having some form of a timeline representation to support the reports would/could prove beneficial. Responding, JP indicated that this is an area that SGN are currently considering and that she expects to populate the blank cells in the report/presentation in due course (including consideration of the uncertainty aspects). However, it was noted that uncertainty elements by their nature should not be forecasted. **Closed**

**DCMF 1002:** *Consistency of notice of changes to charges – alignment of gas and electricity* - All parties to consider this issue for a discussion at the next meeting.

**Update:** When asked, those (non DN) parties present did not have any particular views to share on the matter.

JP pointed out that this relates to the 15 month notification aspects of the Mod186 Reports and changes to the methodology have helped to reduce the impacts of the 2 year time lag and instability related issues. BK also remarked that Price levels had stabilised in recent years, and that this could also have an impact on parties' views on the matter. **Closed**

**DCMF 1003: Meetings** – DNs to consider moving the January date to the first week in February and the October date to the first week in November, and advise dates to the Joint Office by 12 November 2014.

**Update:** LJ explained that after due consideration the DNs decided that it was best to leave the 2015 meeting schedule 'as-was' originally stated.

JT pointed out that as the DCMF dates are enshrined within Code, Northern Gas Networks are looking to raise a UNC Modification to address the timing. His intention is to raise the modification in time for submission to the February 2015 UNC Panel meeting – LJ suggested that hopefully this would take the form of a self-governance modification which could confirm the details through a relatively limited Workgroup assessment phase. **Closed**

## 2. Allowed and Collected DN Revenue (UNC0186 Reports)

Opening, LJ explained that whilst the main 0186 reports had been published and available on the Joint Office web site for some time, he remained disappointed that the bulk of the supporting documents for the meeting were only provided the day before, which in his opinion is wholly unfair on participants. Responding, the DN representatives present acknowledged the lateness and gave a commitment to provide meeting materials in a more timely manner in future.

### 2.1 National Grid Distribution

DC provided a brief overview of the presentation and explained the rationale behind the new form of summary by advising that it seeks to focus attention on the elements of the Mod186 Report that have changed since the October 2014 report was published. (i.e. only the movements between the October and January reports and not the circa 8.5k separate figures).

In looking at the East of England Network information, DC explained that the main driver for the changes relates to the impacts from the movement in the RPi figures. The 'pass through' figures of 4.2 and 4.3 for 2017/18 and 2018/19 reflect the increase in pension deficit related costs.

DC highlighted that the impact on Allowed Revenues would be subject to Ofgem allowing the proposed change to the shrinkage and leakage model.

The figures for the London, Northwest and West Midlands Networks display similar trends to the EofE figures.

DC explained that NGDs model takes the effects of the Tax Allowance into consideration. Both JP and JT indicated that their respective reports also take this into account. JE on the other hand indicated that he is awaiting a view from the WWU Finance Team before including within his reports.

When asked, those present indicated that they supported the summary presentation layout.

## 2.2 Wales & West Utilities

JE explained that in preparing this summary, WWU had been keen to adopt a different approach to trawling through the main Mod186 report(s).

In quickly running through the information, RW explained that he had deliberately split out the Exit Capacity related elements to add clarity.

In considering the 'Annual Price Change' table on the 'Exit Capacity Prices over time' slide, RW indicated that the 2016/17, 2017/18 and 2018/19 (positive) values reflected the impacts of sensitivity to NTS Exit prices.

When asked whether or not UNC Modification 0517/0517A/0517B 'Review of the Supply Matching Merit Order in Setting Capacity Charges' could be expected to have an impact on the 2018/19 figures, JE responded by explaining that the earliest it is expected that the modification could be implemented is October 2016 and that this would feed through to the 2018/19 figures and could be expected to result in an increase in charges, although no clear indication is available at this time.

LJ explained that 0517 is a transmission charging related modification which is proposing changes to the merit order for sources of supply, essentially to align mid-range storage and LNG storage to the same position in the hierarchy. LJ then went on to explain that Wales & West Utilities had raised alternative 0517A to delay the implementation by two years to take account of the lag built into the DN Price Control and which would also prevent a need to recover any revenues from this initial two-years period in the following two years (i.e. if 0517 was implemented in 2016, DN prices would not be amended until 2018 and then have to recover 2016 and 2017 in addition to the effects of the source change). More recently SSE have raised a second alternative in the form of 0517B which proposes a three year rolling pricing based solution (NTS prices only – although these are small in proportional terms, they have a significant impact on NTS Exit). He also pointed out that weighted average pricing is a huge issue with NTS revenue related impacts.

Recognising that these were primarily Transmission-related modifications but with potentially significant impacts for some DN charges, LJ encouraged parties to become involved in the 0517/0517A/0517B Workgroup assessment discussions and pointed out that the next meeting is scheduled to take place on 09 February 2015. He also suggested that the ongoing EU Tariff Code development might overtake the 0517 debate in due course.

## 2.3 Scotia Gas Networks

JP provided a brief overview of the SGN information. During discussion on the 'Scotland NTS Exit Capacity Charge – Key Movements' table, JP indicated that the 2015/16 5% ECN Charges Arithmetical April Price Change percentage relates to a circa £12k movement.

In looking at the equivalent table for the Southern area, JP advised that the information provided was the same as the Scotland data and that she would provide an update presentation with the corrected Southern data in due course.

## 2.4 Northern Gas Networks

JT provided a brief overview of the NGN summary figures indicating that there was no real change to the 2015/16 figures before then explaining that the pass through changes includes assumptions for shrinkage, NTS Exit and pensions deficit. Once again, RPi (reduction) is the major factor behind the majority of changes.

In looking to close discussions on this area of the meeting, parties indicated that they supported the new summary approach, but would prefer the more tabulated style as provided by three of the four DNs.

### 3. Any Other Business

#### 3.1 Ofgem view on Allowance Adjustments

DC explained that National Grid Distribution had approached Ofgem seeking clarification around potential adjustments to their revenue allowances – in essence this relates to the annual iteration processes and is reflected in the Mod186 Report and presentation by the ‘greyed out’ cells.

JP pointed out that the DNs would look to include in subsequent Mod186 Reports, supported by an industry wide email communication explaining the matter in more detail (i.e. outlining the new additional elements including NTS Exit aspects etc.).

#### 3.2 ECN Charge Setting

ML provided a detailed review of the National Grid process for setting ECN charges. Focusing how NG calculates the three main ECN elements, ML explained the following:

- ECN cost allowance for year  $t$

$AEX_t \times RPIF$

The allowance in our licence ( $AEX_t$ ) is in base 2009/10 prices, and needs to be multiplied by  $RPIF_t$  to convert the cost allowance in to today’s prices.

- ECN cost adjustment for  $t-2$

$[(ExC_{t-2} / RPIA_{t-2}) - AEX_{t-2}] \times PVF_{t-2} \times PVF_{t-1} \times RPIF_t$

The ECN cost revenue adjustment from 2 years before. This is the outturn of total payments made for flexible and flat capacity from  $t-2$  ( $ExC$ ), divided by  $RPIA$  from  $t-2$  to convert the payments back in to base 2009/10 prices, less the cost allowance ( $AEX_t$ ) from 2 years (already in 2009/10 prices). Any difference in cost is at base prices. The adjustment is then multiplied by  $NPV$  for  $t-2$  and  $t-1$  to account for 2 years WACC (cost of capital) and then converted back into today’s prices ( $RPIF$ ). For the purposes of charging methodology, this is broken out from the overall Exit Capacity Revenue Adjustment formula as prescribed in Special Condition 1D.3.

- ECN K from  $t-2$

Collected income  $t-2$  - ECN allowed revenue  $t-2$

The ECN K is the over-recovery or under-recovery from 2 years ago. It takes our collected ECN income less the allowed revenue. Any difference from  $t-2$  we either need to hand back or reclaim, and hence interest is added using the same interest adjustment as overall K.

In looking at Stage 3, on slide 9 ML pointed out that SOQ cannot be attributed at Offtake level.

When asked if the presentation provided users with sufficient information behind how prices are calculated, BK indicated that it did and thanks ML for providing the presentation.

#### 3.3 WWU DCMF Representative going forward

JE explained that this would be his final DCMF meeting as he is retiring at the end of March and handing over the reigns to RW as a consequence. He believes

that the Mod186 Reports had improved significantly, especially the information provided, over the years – he thanked everyone for their support.

LJ then thanks JE for his sterling work over the years and wished him the very best for his retirement.

#### 4. Diary Planning for Workgroup

*Details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary).*

The following meetings are scheduled to take place:

<b>Time/Date</b>	<b>Venue</b>	<b>Workgroup Programme</b>
10:30 Tuesday 28 April 2015	31 Homer Road, Solihull B91 3LT	<i>To be confirmed.</i>
10:30 Tuesday 28 July 2015	31 Homer Road, Solihull B91 3LT	<i>To be confirmed.</i>
10:30 Tuesday 24 November 2015	31 Homer Road, Solihull B91 3LT	<i>To be confirmed.</i>

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**Action Table**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
DCMF 0506	14/05/14	3.	To look to provide a similar ECN related presentation.	DNs	Update provided. <b>Closed</b>
DCMF 1001	29/10/14	2.2	<i>Movement sheet/Table 6</i> - DN's to ascertain whether values (preferably maximum) could be provided across the blank rows.	DNs	Update provided. <b>Closed</b>
DCMF 1002	29/10/14	3	<i>Consistency of notice of changes to charges - alignment of gas and electricity</i> - All parties to consider this issue for a discussion at the next meeting.	All parties	Update provided. <b>Closed</b>
DCMF 1003	29/10/14	4	<i>Meetings</i> - DN's to consider moving the January date to the first week in February and the October date to the first week in November, and advise dates to the Joint Office by 12 November 2014.	DNs	Update provided. <b>Closed</b>