

Distribution Charging Methodology Forum (DCMF) Minutes
Tuesday 28 July 2015
31 Homer Road, Solihull B91 3LT

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Craig Neilson	(CN)	National Grid Distribution
Fabien LaRoche	(FL)	E.ON UK
Gemma Truran	(GT)	RWE Power
Greg Edwards*	(GE)	British Gas
David Carroll*	(DC)	Gazprom
Fabian LaRoche	(FL)	E.ON UK
Joanne Parker	(JP)	Scotia Gas Networks
Jonathan Trapps	(JT)	Northern Gas Networks
Julia Haughey*	(JH)	EDF Energy
Mike Lapper	(ML)	National Grid Distribution
Robert Wigginton	(RW)	Wales & West Utilities

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dcmf/280715>

1. Introduction and Status Review

1.1 Review of Minutes

The minutes of the previous meeting (28 April 2015) were accepted.

1.2 Review of Actions

0401: All parties to investigate the area of Predicting Charges In Advance for the next meeting.

Update: JP reported on how the DNs had examined this. They had looked at the EDI position but were struggling to see how moving to that for the gas side would benefit the customer. JH indicated it would provide stability in charges (not changing mid-year) and would reduce any inherent risk premium for a Shipper (premium added because of an inability to forecast). The Shippers present were unable to comment if all Shippers practised this. CB commented that not all Shippers have pass through arrangements, and briefly explained how Shippers might make assessments and set charges, trying not to over/under recover; more certainty over a longer period of time assists Shippers to more accurately set fairer charges for customers.

JP queried was it seen to be a problem with the process or the charging. JH observed that Shippers should not be competing on regulated charges. JP commented that prices were now more predictable under this Price Control and explained how more certainty and cost reflectivity was being provided, noting that the accuracy of charges was improving and there was very little movement each Quarter in what was controllable by the DNs. JT suggested that Shippers might consider tracking these MOD0186 reports against what the tariffs were going to be to assess what the actual risk was likely to be when forecasting.

BF suggested that interim analysis could be done to justify whether a modification was needed to change the reports. RW noted the existing steady state, and suggested a

maintaining a watching brief on RPI where most of the movement is occurring, taking a further view next March/April.

RW asked Shippers what was the upside for the customer as he understood that customers were usually on 12 month duration contracts; JH reiterated the customer gets more certainty and explained in more detail. There were contracts/products of varying lengths; the longer the contract the more likely the need to amend charges which impact the consumer directly.

JP referred to reopener windows and would like to understand how price certainty would work in such a situation as there would need to be a mechanism to amend charges; JH referred to issues of materiality and tests required by Ofgem in such circumstances and suggested the DNs speak to someone on the electricity side to see how it works in practice as they had adopted such mechanisms.

JT observed the DNs needed to understand the practicalities of how a process might fit with the existing timelines. CN referred to the end of the next Price Control and forecasting into the next regime - would that cause any difficulties and the impacts of any changed regime might not be fully understood at the time the forecast is made? LH explained what had been discussed/agreed with Ofgem and how it operated in the electricity side.

JT added that forecasting was now even longer than 5 years, going out to 2020/21 now, with everything factored in that could possibly be included. JP suggested looking at the electricity reports to gain a better idea of their forecasting, and JH pointed out that they had been devised based on the gas reports used currently and then subtly adapted.

JH reiterated that she was not pushing for change for change's sake, but because there was a need to improve the position for the customer. Shippers need to take account of many factors when pricing for a customer, for example Transmission charges change every 6 months, and more visibility/advance notice would help in the predictability of greater change (to see any volatility that might be coming and to try to reduce the impact of risk premiums).

JT commented that major factors were SOQ and RPI - these were the two pinch points. Incentives can be forecast with greater accuracy. JP added that the basis is now good for projecting forward and that any movements is generally in relation to items outside a DN's control. **Closed**

NEW Action 0701: DNs to produce information/analysis for adopting charging forecasts/predictions for a longer period of time (set out by company) for the November meeting.

0402: All DNs to consider adopting a uniform approach for all reports and table formatting.

Update: JP advised that two new lines (67 and 68) had been added this month; the tables have been updated to reflect a uniform approach. **Closed**

2. Allowed and Collected DN Revenue (MOD0186 Reports)

Summaries of individual positions were given by each DN.

2.1 Wales & West Utilities (WWU)

RW gave a brief presentation, pointing out the changes made since the last report and explaining the figures in more detail. The NTS prices reflected the recently published May rates.

It was noted that the industry consultation on Modification 0517 was now closed and that a Final Modification Report was to be submitted to the August UNC Modification Panel.

2.2 National Grid Distribution (NGD)

ML gave a short presentation on the approach taken for the July report and drawing attention to the main drivers for change in relation to RPIF, RPIA and NTS Exit Capacity Allowance Adjustment, before moving on to give an overview of the figures for East of England, London, North West and West Midlands, explaining the changes in more detail. These were all very similar.

It was noted that 2014/15 pass through costs have been updated to reflect small movements. Shrinkage is very likely moving to 0.2million across all networks. The domestic customer bill profiles indicated an expected drop in each network. The majority of movement was in relation to RPI.

Outlining the current view of the AQ Review, ML believed that the previous forecast of a 2.5% reduction remained valid and the decline was continuing (there was a slightly greater decline in NW network but that was as expected).

2.3 Scotia Gas Networks (SGN)

JP gave a short presentation on the key revenue changes since the last report. Following discussions with Ofgem CNI has been included and SGN has made a 'reopener' submission for Scotland.

JP outlined and explained the movements related to HM Treasury Medium Term RPI forecast. CNI was discussed and FL suggested putting this in Table 6 to provide an earlier sight. JP thought this might be difficult, bearing in mind it was a new process in Price Control and required a lot of information gathering to provide sufficient certainty to support the submission. CB observed there was a timelag between attaining sufficient certainty and when the position was shared with the Shippers and this did have an impact on Shippers. JP indicated she would look to provide more information as it became known that Ofgem was going to amend the full value or not. FL understood the difficulties and would look out for the information. Noting that this was a very new process and once it had been gone through the first time, JP believed it will become easier to understand what is required to improve the experience for the next time.

An overview of the key revenue movements for both the Southern and Scotland networks was given, with JP giving further detail as needed. Responding to a question from CB on the ECN Charges Arithmetical April Price Change (%) for Scotland, JP confirmed that though the Price Change (%) was significant, the actual financial value was very small.

For SE and SO there had been a 1.1% change in Load Factor (LF). An increase in SOQs by 3.9% for Southern was noted with an LF increase of 0.4%, as against a forecasted 2.5% reduction). For Scotland there was an increase in SOQs of 6.3%, as against a forecasted 1.5% reduction. JP confirmed the impact was fairly significant and that this had been discussed by the DNs; a meeting had been requested with Xoserve to try to better comprehend why such significant movements are being seen, how the LFs are affecting this, and before they become final, to see what is driving these outcomes. It was noted that there had been recent changes to weather data, demand, and models all of which could have had an impact. CB agreed the swings were of concern and any big step changes needed to be more clearly understood. RW suggested that, in theory, this is a 'one off' event as the model is reviewed every 5 years, noting that the Meteorological Office had also been involved in a recent model change, in the continuing efforts to improve and increase reliability. BF confirmed that the recent consultation issued by DESC had closed, with no adverse representations received.

2.4 Northern Gas Networks (NGN)

JT gave a brief presentation on the key movements from April, noting that these were very similar to those presented by the other DNs. Information relating to corporation tax, stakeholder incentives and DRS scheme will be included in the next MOD0186 report. Referring to SOQs, JT indicated that NGN had experienced a big reduction, by about 6.5%, and will under recover (to be clawed back two years later). AQ has dropped around 2%.

3. Any Other Business

None raised.

4. Diary Planning for Workgroup

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

The following meetings are scheduled to take place:

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

Action Table (28 July 2015)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
DCMF 0401	28/04/15	3.	To investigate the area of Predicting Charges In Advance for the next meeting.	All	Closed
DCMF 0402	28/04/15	3.	To consider adopting a uniform approach for all reports and table formatting.	DNs	Closed
DCMF 0701	28/07/15	1.2	DNs to produce information/ analysis for adopting charging forecasts/predictions for a longer period of time (set out by company) for the November meeting.	DNs	Pending