

## Distribution Charging Methodology Forum (DCMF) Minutes

Wednesday 29 October 2014

31 Homer Road, Solihull B91 3LT

### Attendees

Les Jenkins (Chair)	(LJ)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Ben Tucker*	(BT)	EDF Energy
Bernard Kellas	(BK)	SSE
Colette Baldwin	(CB)	E.ON
David Chalmers	(DC)	National Grid Distribution
Fabien LaRoche*	(FL)	E.ON UK
George Moran*	(GM)	British Gas
Gemma Truran	(GT)	RWE npower
Joanne Parker	(JP)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Jonathan Trapps*	(JT)	Northern Gas Networks
Michael Lapper	(ML)	National Grid Distribution

\* via teleconference

Copies of all papers are available at: [www.gasgovernance.co.uk/DCMF/291014](http://www.gasgovernance.co.uk/DCMF/291014)

### 1. Introduction and Status Review

#### 1.1 Review of Minutes (29 July 2014)

The minutes were accepted.

#### 1.2 Review of Action

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

**Update:** As agreed at the July meeting, an update will be provided at the January 2015 meeting. **Carried forward**

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

#### 2.1 National Grid Distribution

DC confirmed that a second version had been published following the identification of an error. Observing that parties would have been reviewing the Mod186 Reports published in advance of the meeting, DC then explained he was trialling a new approach to delivering the key points in movements since the previous reports by means of a focused presentation. Feedback would be welcomed.

ML then gave a concise presentation highlighting the headline movements since the July reports, the main drivers for change in respect of Forecast Revenue, and then moved on to covering the key points relating to each of the National Grid Distribution networks.

Responding to a question from GM, DC observed that assumptions were reasonably fixed now and no change was envisaged between these and the indicatives; but in the interim

before the finals validation against the October invoices generated in November will take place, as well as a review of CSEPs and Unique Sites.

Responding to a question from BT relating to SOQ reductions, DC believed the weather has an impact but it was difficult to work out (related to years where there are different average temperatures and cold/warm springs). He believed the most robust approach was to take the historical average and use this as the basis for projections. JT added that Northern Gas Networks used the same approach.

At the end of the presentation BT commented that it had been a very good, clear presentation that had picked up the important points from the reports. He observed that the percentage change that Shippers focus on excludes the NTS, and suggested that exclusion of the NTS charges be considered.

FL referred to Table 6 - uncertain costs. DC explained this was based on the latest projections of costs for specific items and how these were arrived at, and how they inform National Grid's view, (i.e. the latest view of maximum impact of these 'uncertain costs'). FL drew attention to Streetworks costs, noting downwards movements since last July. DC indicated this was due to a better understanding and experience of permit schemes and their timings. In later years the expectation was for additional costs to be increased in these areas.

Following the presentation and positive feedback, it was agreed the DNs would adopt this approach for future meetings and deliver key information in presentation format. (They will also break out the NTS charges as suggested by BT.)

## 2.2 Wales & West Utilities

JE provided a brief review of the changes in the WWU report since the July 2014 version, Referring to the movement sheet (Oct 14 Report versus July 14 Report), adjustments of note across various entries were pointed out.

*Line 15* – The estimated cost of debt has been used to create part of the £7.9m (see Table 6, lines 77- 99, for breakdown). The final inflation figure will not be known until November. Forecast RPI will affect the revenue.

*Line 43* - The reduction figure was explained; the price change differences in 2015/16 reflect the higher allowed revenue and lower collected income before price adjustment.

*Line 40* - Allowed Revenue has increased; JE explained the differences for 2017/18 and 2018/19 reflect the inclusion of the mod adjustment in this report compared to the previous Mod 186 report. These represent the main differences to the July report.

*Line 68* - The small increase noted was explained by JE.

GT referred to Table 6 blank rows and asked if a maximum value of elements or timings could be provided by the DNs.

**Action DCMF1001: *Movement sheet/Table 6* - DNs to ascertain whether values (preferably maximum) could be provided across the blank rows.**

Referring to SOQ assumptions for 2014/15 and 2015/16, GM asked if these were finalised. JE explained the position. It will not get refined until the final notices in February (the figure might be available in January).

## 2.3 Northern Gas Networks

JT presented a brief overview of the changes made to the report since the July 2014 version and drew attention to the information underpinning the figures as appropriate.

He too had trialled a different approach to presenting the key information, providing a one page high-level summary sheet within the Mod186 report. JT outlined the key elements and explained the figures.

Referring to line 103 on the Mod186 report, BT queried the figures. JT explained that at this stage it was correct to say that a 1% movement in SOQ would have a 0.5% impact on prices. After discussion it was clarified that this was an inverse relationship, i.e a 1% reduction in SOQ would increase prices by 0.5%. It was suggested the statement might need clarification to show the inverse relationship.

GM referred to the IFRS item (line 70) and asked if there were any updates on how this will impact on allowances? JT indicated this was definitely happening and explained what would be included, what downward pressures would be exerted, and how this might be compensated for. There would be different timings for different networks; impacts would vary across years. The IFRS change will be adopted and allowances will be utilised.

GT referred to Modification 0428 and the splitting of multi meter points into single supply points- would this be integrated into the reports? DC indicated not yet; it will result in a slight upward movement in revenue and will work its way through the reports DC explained the current position, and the degrees of change that will occur as a result of disaggregation are deemed to be not very significant; in the Indicatives for 2015 there would be very small changes. Allowed revenue stays the same but it is how that is collected, i.e. a different way of accounting (distribution of charges will change very slightly over the charging bands).

## 2.4 Scotia Gas Networks

JP provided a brief review of the changes in the SGN reports since the July version, highlighting key points. The base revenue adjustments applied to Scotland and to Southern. The key movement was the mod variable, reflecting the updated cost of debt; the biggest movement was the inclusion of the totex adjustment. The August Treasury report was now reflected in the report.

### **Scotland**

JP commented on Pass Through and then Shrinkage, this reflected slightly higher prices.

*Rows 19 - 23* - Incorporates Stakeholder engagement (2 year lag incorporated); 'K' - updated reports had been received from Xoserve, which impacted on collected revenue.

*Row 23* - BT questioned the change from positive to negative and if there was any impact. JP explained the presentation changes made to the report as a result of feedback received, and confirmed there was no impact.

BK referred to the ECN forecast, observing it was very difficult for parties to do anything with this. The value is actually very small, but any minor movement gives the perception of a large difference.

### **Southern**

JP advised that the picture was very similar for Southern (same impacts on base revenue, totex adjustments, etc) and gave a brief overview.

*Row 12* - No significant movement.

*Shrinkage costs* - a revised forecast shows less has to be returned (the opposite to Scotland).

*NTS Exit Capacity Review Adjustment* - reflects October 2014 confirmed bookings and updated (May) NTS indicative prices 2017/18; looking as if increasing going forward.

*Incentives* - now includes Stakeholder Engagement award (as for Scotland)

BK commented on the problem of having the forecasted figure available at this point and then to be closely followed by the indicative figure next month.

Responding to a question from GM referring to information at row 41, JP confirmed pensions deficits reflected the mod adjustments, downward for Southern, but with no or little impact on Scotland prices. GM asked if other DNs were affected by the pension adjustment scheme. DC understood that a review was in progress and yet to be concluded. JOP explained the Scotia Gas Networks position.

**3. Any Other Business**

*Electricity industry - Consistency of notice of changes to charges*

BK noted that Ofgem was encouraging the electricity industry to give 15 months' notice of price changes; will the same be expected of the gas industry? This was unknown at present, though it was observed that Ofgem did seem to seek convergences; it could be a possibility and may require further thought for the future. DC believed there would be a need to consider predictability against less stability.

**Action DCMF1002: 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.**

**4. Diary Planning**

There was short discussion on the future format of the DCMF meeting and agreement that slide presentations would help to clarify the key points of each report. It was agreed that meetings would continue to be face-to-face with the option for parties to participate via teleconference.

The programme/timings of the meetings was considered, bearing in mind the Licence cycle and the need to meet the Licence requirements in respect of information; the publication of existing and additional information was discussed. It was suggested that a February and November date might be more useful, in terms of having final figures available.

**Action DCMF1003: 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.**

The following meetings are currently scheduled to take place after the DN Charging Methodology meetings:

Time/Date	Venue	Programme
Tuesday 27 January 2015	31 Homer Road, Solihull B91 3LT	To be confirmed
April 2015	31 Homer Road, Solihull B91 3LT	To be confirmed
July 2015	31 Homer Road, Solihull B91 3LT	To be confirmed
November 2015	31 Homer Road, Solihull B91 3LT	To be confirmed

**Action Table – Distribution Charging Methodology Forum (DCMF)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
<b>DCMF 0506</b>	14/05/14	3.	To look to provide a similar ECN related presentation.	DNs	<b>Update due 27 Jan 2015</b> <b>Carried forward</b>
<b>DCMF 1001</b>	29/10/14	2.2	<i>Movement sheet/Table 6</i> - DNs to ascertain whether values (preferably maximum) could be provided across the blank rows.	DNs	<b>Pending</b>
<b>DCMF 1002</b>	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	<b>Update due 27 Jan 2015</b> <b>Pending</b>
<b>DCMF 1003</b>	29/10/14	4	<i>Meetings</i> - 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.	DNs	<b>To Joint Office by 12 November</b> <b>Pending</b>