Distribution Charging Methodology Forum Minutes
Monday 30 April 2012
at 31 Homer Road, Solihull B91 3LT

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Adrian McConnell*	(AMc)	Energy Networks Association
Andy Manning	(AM)	British Gas
Bernard Kellas	(BK)	SSE
Jens Martin*	(JMa)	E.ON
Joel Martin	(JM)	Scotia Gas Networks
Joanne Parker	(JP)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Jonathan Wisdom	(JW)	RWE npower
Lesley Ferrando	(LF)	Ofgem
Marie Clark*	(MC)	ScottishPower
Peter McKnight*	(PM)	GDF Suez
Richard Dutton	(RD)	Total
Russell Reading*	(RR)	GDF Suez
Steve Armstrong	(SA)	National Grid Distribution
Will Guest	(WG)	Northern Gas Networks

** via teleconference*

1. Introduction

Copies of all papers are available at: www.gasgovernance.co.uk/dcmf/300412.

2. Review of Minutes and Actions from the previous meeting

2.1 Minutes

The minutes of the previous meeting (27/01/12) were accepted.

2.2 Actions

No outstanding actions to review.

3. Allowed and Collected DN Revenue (UNC0186 Reports)

3.1 Wales & West Utilities

JE opened by providing a brief overview of the main changes since the 27/01/12 report. In short, there has been a small reduction in the Final Allowed Revenue for 2012/13 down from £354.4 to £352.8 million with the corresponding Forecast Collected Revenue falling from £354.4 to £353.2 million (due in part to the effects of warmer weather). It is now predicted that a small over recovery would take place for 2012/13.

Asked whether or not the price control figures presented include tax change impacts, JE advised that they do not as these only really 'kick in' from 2015/16 onwards and the DNs are currently waiting on the Authority for a view on these. He then pointed out that SMART and Exit allowances are excluded from years 2013/14, 2014/15 and 2015/16 in this current report.

JE moved on to advise that WWU would be resubmitting their report to the Authority later in the day (to be published on their web site in due course) and that the updated price control figures within the revised report would include shrinkage, but would exclude SMART, EXIT and Tax allowances.

When asked if the (RIIO) RPI changes applied across all the DNs, JE confirmed that they do, before going on to explain that from 2013/14 onwards the RPI is based upon Treasury figures and not the previous 6 monthly averaged out mechanism.

BK believed that following the last price control review, there were several carry-over issues, which were reflected in higher WWU charges. In responding JE observed that prices had fluctuated in recent years.

When asked, JE confirmed that WWU utilize the HEREN report for calculating their shrinkage allowances, before pointing out that these have also been relatively stable in recent times.

3.2 Scotia Gas Networks

JP provided a very brief overview of the changes since the 27/01/12 report.

Scotland

JP advised that for 2012/13 the report indicated an over recovery of £0.3 million which equates to a 0.2% price change.

Southern

JP informed parties that work has been ongoing within SGN to try to adjust their workload to take into account the various impacts associated to the Olympic games being held in the Southern area during 2012.

When asked if the figures contained within this current report are based upon SGN's proposed resubmission to the Authority, JP confirmed that these figures are based on their original plan. A revised 0186 report to align with their (SGN's) resubmission would be provided in due course and would include 2013/14 and 2014/15 predictions.

3.3 Northern Gas Networks

WG provided a brief outline of the main changes since the 27/01/12 report, focusing attention on a slight under recovery difference in the 2012/13 figures, reflecting the effects of the warmer weather.

He went on to advise that the figures provided were extracted from NGNs business plan and excluded any incentive mechanism impacts. Additionally, he expects that a revised business plan would be published towards the end of the week and that this would include 2014/15 figures incorporating a significant NGN pension deficit impact. He went on to point out that the 2013/14 predictions are up to the tune of around £3 million, whilst the 2014/15 predictions are down an equivalent amount.

Asked how NGN fixes its shrinkage costs, WG confirmed that these are set using the 'buy at day ahead price' with no hedging.

When asked, WG indicated that he hoped to be in a position to provide a revised 0186 report by the end of the week.

A brief discussion around how best to make these 0186 reports more readily accessible to interested parties, resulted in TD creating a new dedicated page entitled 'DN Revenue Reports' on the Joint Office web site at: www.gasgovernance.co.uk/0186reports.

3.3 National Grid Distribution

Opening, SA advised that the information is provided on the same understanding as the other DNs figures provided today, before drawing attention to the fact that the figures for 2013/14 onwards are currently based on potentially out of date information.

East of England

SA highlighted the reduction in the 2011/12 'Incentive Revenue and Other Adjustments Forecast (D)' from the 27/01/12 figures – down from £23.5 to £21.6 million before going on to suggest that the uncertainties surrounding the MSRA and shrinkage would / could result in a potential under recovery for the year.

London

SA pointed out that the over recovery of £2.2 million for 2012/13, reflected a slight reduction in the incentive revenue position from the previous £26 million down to £25.2 million.

Similar to the other DNs, the collected revenue is impacted by the warmer weather experienced of late which results in a slight under recovery.

North West

SA highlighted a under recovery of £2.9 million for 2012/13.

When examining the figures in more detail it was apparent something was not quite right and as a result SA agreed to review the figures in all regions.

SA reminded everyone that the 2013/14 figures onwards are based on potentially out of date information.

West Midlands

In light of the identified anomalies in the figures presented SA provided a high-level summary.

Moving on to discuss more general aspects to his 0186 reports, SA advised parties that he is considering providing a 'range' style guide for his price changes in future price control periods, such as domestic, I&C (small and large) etc., and may even be able to provide year ahead AQ reflected figures.

RD believed that 'k' assessments would change with the new price control, whilst AM acknowledged that the 0186 reports had improved over time, although he feels there is still scope for further improvement and remains of the view that UNC amendments may be required. Responding, the DNs acknowledged that the 0186 reports would possibly require reviewing post any price control review changes. SA pointed out that post 2013/14 there is currently no provision of price control mechanism.

RD felt that provision of better information relating to the DNs various assumptions (i.e. SOQ) would prove beneficial. Responding, SA suggested that as far as SOQ is concerned, it is really a 'best guess' and the DNs would welcome any feedback on matters such as these. JW believed that in future it could be the Shippers who are best placed to assess SOQ forecasts, along with the subsequent tariff impacts.

When asked, SA confirmed that the incentive mechanisms are a reflection of the respective DNs licence requirements.

In considering the provision of more detailed information in future, those Shipper representatives present acknowledged that obtaining information relating to items such as pensions deficits could be difficult. SA confirmed that as far as National Grid pensions are concerned, these are a mix of the traditional final salary and newer alternative schemes – there is no passthrough of costs involved. At the same time, JM pointed out that the NTS element covers legacy pension provisions.

When asked for comment on the Authority consultation on price predictability, LF indicated that whilst she did not have a specific update to provide, she had taken note of the various discussion points and would relay these back to her colleagues in Ofgem.

SA expects that the higher percentage penalisation level for breaches of the 3% over / under recovery ceiling would be reviewed in due course – it was acknowledged that this is an inflexible solution.

JE remained unsure whether or not the aim behind the price predictability consultation is price predictability or stability. He observed that had National Grid's SOQ related modification been approved, this could have had an adverse effect on price stability. SA advised that important matters such as these are currently being considered within the ongoing Project Nexus work area.

RD believes that there is further scope to reduce price volatility and improve predictability. JM noted that the proposed rolling AQ regime changes could help to reduce volatility issues.

TD suggested that if the DNs believe that their (0186 report) indicative figures are relatively stable, then perhaps they would consider moving to a 5 month, rather than the current 2 month, lead-time. Responding, WG suggested that a balance would need to be found. RD believed that the real fault lies more with the mechanisms involved, suggesting that other gas procurement methods should / could be considered to reduce shrinkage impacts etc.

4. Any Other Business

None.

5. Diary Planning for Workgroup

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

In the absence of related business at the appropriate time that might justify a physical meeting, it was agreed to meet again by teleconference in three months time to discuss the next set of revenue reports.

Suggested agenda items for future meetings would be welcome.