

Distribution Charging Methodology Forum Minutes

Monday 25 October 2010

Energy Network Association, London SW1P 2AF

Attendees

Tim Davis (Chair)	(TD) Joint Office
Mike Berrisford (Secretary)	(MB) Joint Office
Anna Taylor	(AT) Northern Gas Networks
Bernard Kellas	(BK) SSE
Chris Smith	(CS) British Gas
Dave Chalmers	(DC) National Grid Distribution
Denis Aitchison	(DA) Scotia Gas Networks
Glenn Sheern	(GS) E.ON Energy
Helen Inwood	(HI) RWE npower
Ian Foster	(IF) Fulcrum
James Stone	(JS) E.ON UK
Joanna Ferguson	(JF) Northern Gas Networks
John Edwards	(JE) Wales & West Utilities
Malcolm Piper	(MP) EDF Energy
Richard Street	(RS) Corona Energy
Simon Trivella	(ST) Wales & West Utilities
Steve Armstrong	(SA) National Grid Distribution
Will Guest	(WG) Northern Gas Networks

1. Introduction

TD welcomed all to the meeting.

1.1 Minutes of Previous Meeting

Minutes for the previous meetings were accepted.

1.2 Review of Actions

Action 0036: Subject to confidentiality issues, DNs to publish the DNPC08 sample data.

Update: SA explained the DNs had considered confidentiality issues and proposed providing a summary of the sample data (by load band and tier connection levels). The action will be reviewed once this has been published.

Action: Carried Forward

Action 0037: DNs to provide a paper on the implementation timeline for outstanding proposals for the next DCMF.

Update: SA advised there have been some difficulties in clearly indentifying the actual timing of delivery of the proposal reports. However, the proposed way forward was covered during the meeting.

Action: Closed

2. Discussion Items

Copies of all materials are available at www.gasgovernance.co.uk/dcmf/251010.

2.1 Allowed and Collected DN Revenue (UNC0186 Reports)

2.1.1. Wales & West Utilities

JE presented the WWU report. The 2009/10 Final Allowed Revenue, £301m, is £1.5m above the level reported in July. 2011/12 Forecast Collected Revenue, £303m, is £2.4m below the July level. This reflects a greater than anticipated reduction in SOQs, and results in anticipated under-recovery of £2.7m. Additionally, the 2011/12 incentive forecast is down slightly since July, mainly due to a change in interest rates.

The resulting April 2011 price increase is therefore in the region of 14% (although this may vary slightly in due course), compared to 11% quoted in July. JE and the other DNs confirmed indicative charges to apply from April 2011 would be issued shortly.

2.1.2. National Grid

SA presented for National Grid.

East of England

The indicated 2011/12 price increase of 7% reflects higher inflation and lower AQ/SOQ figures allied to an under-recovery of £2.9 million.

In response to CS, SA confirmed that SOQ figures remain estimates at this stage, and final values will not be available until after the release of indicative charges. SA added that, going forward the figures are based upon a 3% pa SOQ reduction. He emphasised that the DNs remain keen to fully understand the year-on-year SOQ changes, and would welcome any insights in this area from Shippers.

London

Similar to the EoE figures, the 2011/12 price increase of 16% reflects inflation, lower SOQs and under-recovery of £18.5. The figures do not include a TMA allowance due to uncertainty over the level. However, there is likely to be a TMA re-opener for 2010, although the actual level is the subject of ongoing discussions with Ofgem.

SA acknowledged that the projected rise is large, but a short notice October 2010 price increase had been ruled out partly in response to Shipper views that this would be undesirable.

North West

The 3% price increase for 2011/12 was based on the same assumptions as for the other networks.

West Midlands

SA explained that the 12% projected price increase is due in large part to reversing the effect of the 4% price reduction in October 2010, and the impact of a lower 'k'.

2.1.3. Scotia Gas Networks

DA presented the SGN report. In-line with the other DNs, SGN's figures reflect higher inflation and lower SOQs.

Southern

DA said the latest xoserve figures indicate a further reduction in SOQ for 2010/11, which leads to lower revenue and an increased 'k' for 2011/12.

Asked about the SOQ decrease, DA said this had grown to 5% from the previous prediction of 3.5%. This has a greater impact on revenue due to a higher domestic market bias in the southern area portfolio.

Scotland

The projected 19% increase, up from 15% in July, again reflects the impacts of higher inflation allied to SOQ changes.

2.1.4. Northern Gas Networks

AT said the indicated 5% price increase in April 2011, up from 4% in July, reflects a pessimistic approach when compiling the July figures. In deciding not to opt for an October 2010 price change, NGN had taken into account the predicted SOQ reduction, but the outcome was 2.8% over-recovery for 2010/11. AT added that, whilst final SOQ figures are unknown, the figures are relatively up to date as they were provided by xoserve in the previous week.

RS requested that the DNs provide more detailed explanations of the average level of price change in their respective covering letters announcing indicative charges, especially when increases are greater than, say, 5% - for example, what is the impact of underlying price control allowance changes, inflation, SOQ changes, incentives etc. DA suggested that it was difficult to observe a pattern in the core allowed revenue. Other attendees agreed with RS that provision of additional detail and clarity would be beneficial.

2.2 Current Consultations – inc DNPC06/07/08 updates

DNPC06

The consultation report relating to the pass-through of NTS exit capacity charges from the NTS has been sent to the Authority, who have 28 days in which to consider their verdict. The report proposes implementation in October 2012.

DNPC07

This proposes a move to 100% Capacity charges and is awaiting submission to Ofgem.

DNPC08 – 'Review of Standard LDZ System Charges' presentation

SA advised that Ofgem has requested that the DNPC07, 08 and any Customer Charge proposals are presented at the same time, supporting a holistic decision as to what should be implemented in April 2012. However, it is expected that as a result of Ofgem's Codes Governance Review, any Customer Charge change will be taken forward as a UNC Modification Proposal. The DNs therefore anticipate approaching Ofgem to seek a view as to whether the DNPC07 and 08 proposals should be delayed until the Customer Charge process is complete.

2.3 Customer Charge Methodology

AT presented on behalf of the DNs.

When asked if the fixed historical charge related to the meter type, SA indicated that the charge was based on a 'best fit' of the data available at that time and was not specific to the meter installed.

AT advised that the DNs proposed working towards an Ofgem decision in April 2011, and implementation in April 2012 - although any delay in the timeline could result in a reduction in the time between a decision and subsequent implementation. Shipper representatives indicated that 12 months notice should be given, thereby allowing for changes to systems and processes.

AT suggested mirroring the UNC governance process and hence arranging DCMF meetings in November and December to develop a proposal. This was agreed as a way forward. However, HI observed that this is a large area of work, especially when trying to achieve 2012 implementation. AT responded that charging changes can only be made once per year and, rather than aim for a 2013 implementation, the DNs believe 2012 is achievable. Whilst welcoming the DNs desire to engage, RS was concerned about Shippers' ability to resource this additional work area (smart metering is already causing resourcing difficulties).

Action 0038: Joint Office (MB) to arrange DCMF meetings in November and December.

2.4 Code Governance Review – *inc the future of DCMF*

TD provided a brief update on aspects of the Codes Governance Review that have a direct bearing on the DCMF.

3. Topics Register

3.1 Review of Topics

TD confirmed that the topics register would be revised in light of the meeting.

3.2 New Topics

None.

4. Date of next meeting and agenda items

Meetings in November and December are to be arranged by the Joint Office and invitations issued when details are known.

5. Any Other Business

None.

Action Log – Distribution Charging Methodology Forum – 25 October 2010

Action Ref	Meeting Date	Minute Ref	Action	Owner*	Status Update
0036	13/09/10	2.0	Subject to confidentiality issues, DNs to publish the DNPC08 sample data	All DNs	Carried Forward
0037	13/09/10	2.0	Provide a paper on the implementation timeline for outstanding proposals for the next DCMF	All DNs	Closed
0038	25/10/10	2.4	Arrange additional DCMF meetings in November and December	Joint Office (MB)	