

## Distribution Charging Methodology Forum

### Minutes

Wednesday 27 April 2011

via teleconference

#### Attendees

Tim Davis (Chair)	(TD)	Joint Office of Gas Transporters
Mike Berrisford (Secretary)	(MB)	Joint Office of Gas Transporters
James Stone	(JS)	E.ON UK
Joanne Parker	(JP)	Scotia Gas Networks
Malcolm Piper	(MP)	EDF Energy
Rachel Fowler	(RF)	RWE npower
Richard Street	(RS)	Corona Energy
Rochelle Hudson	(RH)	British Gas
Steve Armstrong	(SA)	National Grid Distribution
Will Guest	(WG)	Northern Gas Networks
Zoe Rivers	(ZR)	RWE npower

#### 1.0 Introduction

*Copies of all materials are available at [www.gasgovernance.co.uk/dcmf/270411](http://www.gasgovernance.co.uk/dcmf/270411).*

TD welcomed all to the meeting pointing out that it was established following a request to review the National Grid and Northern Gas Networks 0186 reports at the recent DNCFM meeting.

#### 2.0 Review of Minutes and Actions from the previous meeting

##### 2.1 Minutes

The minutes of the previous meeting were accepted.

##### 2.2 Review of Actions

**Action 0039:** Consider the impact of the proposed charging options on their operations (i.e. system impacts, the adoption of multiple bands etc.) in time for consideration at the next meeting.

**Update:** TD suggested that this action should be closed and reconsidered when customer charge proposals are brought forward. WG advised that the networks are currently working on this and will propose a way forward.

**Closed**

**Action 0041:** British Gas (AM) to present thoughts on developments of the 0186 information requirements.

**Update:** RH proposed covering this item at the next face-to-face meeting.

**Carried Forward**

### **3.0 Allowed and Collected DN Revenue (UNC0186 Reports)**

#### **3.1 Northern Gas Networks**

Looking at 2010/11 figures, WG advised that the Final Allowed Revenue Latest Forecast figure of £330.3 million is down from the £331.7 January figure due in part to a REPEX reduction as a consequence of the adverse weather experienced during the winter period. The 2011/12 figures show an increase from £344.8 million in the January report, to £348.8 in the latest report.

Moving on to examine the 2012/13 Arithmetical April Price level change needed for Collected to equal Allowed percentage figure of 11.2%, WG suggested that the 'base' figure would be nearer to 6% but the impact of NTS Exit charges (approximately £8 million in October 2012) inflates this to the current figure. When asked if identification of the detail behind the impact of the NTS Exit charges could be added in the commentary section of the report, WG agreed to add the information in future reports.

#### **3.2 National Grid**

SA advised that National Grid's figures do not include an allowance for the impact of the NTS Exit charges due in 2012/13. However, this will be clarified in due course.

On a general note, comparing today's figures with the January report witnesses an RPI change in 2012/13 that potentially impacts on indicative price levels. Furthermore, the figures for 2011/12 and 2012/13 include updated mains replacement work, although there remains an element of uncertainty at this present time. When asked how significant the changes in mains replacement were, SA suggested that they could be viewed as being of a re-profiling nature.

##### East of England

No significant indicative price changes between the January and April reports with a small rise from 6% to 7%, whilst the mains replacement element displays a small reduction – more or less on target for 2011/12.

##### London

SA expected significant changes associated with a potential 2012/13 Traffic Management Act (TMA) allowance in the region of £20-30 million (actual figures are yet to be determined). National Grid anticipates submitting an Income Adjusting Event application (reopener) to Ofgem in 2011. This reflects a trend whereby various London Boroughs are increasing existing/applying new TMA charges. The net result of these proposed changes sees an Arithmetical April/October Price level change needed for Collected to equal Allowed percentage figure of 16%. RS expressed concern regarding the scale of projected increase and its impact on customers. His belief was that the TMA charges were designed to encourage efficient working, which would be nullified if the costs were simply passed through. The indication of an 18% price rise in the next two years is unreasonable. In response, SA disagreed, arguing that the suggested increases accurately (and fairly) reflect the additional costs associated with operating in the London area.

Moving on, SA advised that the figures display an under recovery for 2010/11. National Grid is therefore currently considering whether or not to

change charges in October and if so, an Indicative Price Statement (notice) will be issued shortly (next week). This would produce a smoother profile of charges compared to waiting to change charges in April 2012. When asked if this proposed price change had been discussed with customers, SA confirmed that, as yet, it had not been - this would be triggered by the issuing of an indicative pricing notice, providing an opportunity for views to be expressed.

In discussing price change frequencies, RS suggested that customers would prefer a set (capped) annual increase, rather than several smaller incremental changes, as this aids both price stability and transparency. He would be discussing the matter in more detail with his colleagues in due course. TD noted that a view had been expressed in discussions on Modification 0368 that a single price change per year was preferable. SA indicated that he would be happy to consider the options. He pointed out that, whilst the magnitude of the figures is still being investigated, SOQ reductions are also having a bearing on uncertainty surrounding the proposed 2012/13 price level.

TD suggested that, should an Indicative Notice be issued shortly, the matter could be further discussed during the DNCMF and 0368 meeting scheduled for 16 May 2011.

#### North West

No significant changes - although there may be a possible under recovery (circa £7 million) that may require a higher change in 2012/13. Similar to London, National Grid could opt for an earlier price change in order to increase price stability.

#### West Midlands

Again, no significant change to the January figures except for a small under recovery in 2011/12 due in part to shrinkage and REPEX changes.

### **3.3 Scotia Gas Networks**

JP confirmed that TMA costs had been included in the 2012/13 figures.

### **3.4 Wales & West Utilities**

No further issues raised.

## **4.0 Any Other Business**

None.

## **5.0 Date of next meeting and agenda items**

TD explained that, if practical, future DNCMF meetings would be arranged to coincide with other charging related meetings. If only 0186 business was to be discussed, a teleconference in about three months time would seem appropriate. This was supported, and attendees confirmed the teleconference format had proved effective.

**Action Log – Distribution Charging Methodology Forum – 27 April 2011**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
0039	19/11/10	2.2.1	Consider the impact of the proposed charging options on their operations (i.e. system impacts, the adoption of multiple bands etc.) in time for consideration at the next meeting.	All Shippers	Update provided. <b>Closed</b>
0041	31/01/11	2.1.4	Present thoughts on developments of the 0186 information requirements	British Gas (AM)	Update due at next meeting