

## Distribution Charging Methodology Forum Minutes

Monday 23 July 2012

31 Homer Road, Solihull, B91 3LT

### Attendees

Tim Davis (Chair)	(TD)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Bernard Kellas	(BK)	SSE
Binoy Dharsi	(BD)	EDF Energy
James Thomson*	(JT)	Ofgem
Jens Martin	(JM)	E.ON UK
Joanne Parker	(JP)	Scotia Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Jonathan Wisdom	(JW)	RWE npower
Lewis Hodgart*	(LH)	Ofgem
Rochelle Harrison	(RH)	British Gas
Steve Armstrong	(SA)	National Grid Distribution
Steve McKnight*	(SM)	GDF Suez
Will Guest	(WG)	Northern Gas Networks

\* via teleconference

Copies of all papers are available at: [www.gasgovernance.co.uk/dcmf/230712](http://www.gasgovernance.co.uk/dcmf/230712) and [www.gasgovernance.co.uk/0186july2012](http://www.gasgovernance.co.uk/0186july2012)

## 1. Introduction and Status Review

### 1.1 Review of Minutes

Having noted that they were dated 30 May 2012, the minutes of the meeting on 30 April 2012 were accepted.

### 1.2 Review of Actions

No outstanding actions to review.

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

### 2.1 Scotia Gas Networks

JP presented the [Scotia Gas Networks DN Revenue Report](#).

#### Scotland

JP confirmed that the Scotland 2011/12 figures are now finalized: allowed revenue is down by £1.2m mainly due to RepEx.

BK enquired about the difference to other DN reports that show the potential impact of IFRS tax changes. SA explained that the tax adjustment has been included in National grid projections of allowed revenue in line with an Ofgem request. However, this is necessarily speculative at this stage and uncertain regarding any implementation date. However, if the suggested change is introduced, being a taxation change it will impact all DNs.

RH enquired about the business plan numbers and asked if these could be broken down by year. JP agreed these could be added where sufficient granularity in the figures is available.

RH also asked if a top line could be added based on Ofgem's Initial Proposals. This would take values from the Initial Proposals for each Network's maximum allowed revenue for each year. If this was not

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possible, some early indication of when the information could be available would be helpful. RH asked if DNs could consider publishing and announcing the availability of this information as soon as possible, due to the tight timescales for tariff setting.

**Action 0701: DNs to consider the inclusion of each Network's maximum allowed revenue for each year.**

#### Southern

JP pointed out a £1m movement in the allowed revenue. She confirmed that the RepEx workloads have now been finalized: the changes were predominantly due to the perceived restrictions with the Olympics, but more work has been able to be planned than originally expected.

## **2.2 National Grid Distribution**

SA presented the [National Grid Distribution DN Revenue Report](#).

#### East of England

SA highlighted that not many changes had been made from the April report. He confirmed that the figures for 2011/12 had yet to be finalised in terms of RepEx. The incentive adjustments will therefore be very similar. It is expected these will be finalised towards the end of July. An update was requested once any changes are known.

SA explained that the allowed revenue has hardly changed from April. The main cause around the lower forecast was due to the assumption of a 2% reduction in SOQ. Based on the interim information from Xoserve, the assumed 2% reduction is expected to be an under estimate. There was still come uncertainty around the level of reduction but the aggregate reductions were more likely to be around 4%. The current report still assumes a 2% reduction - the reference to a 3% reduction had not been built in due to the uncertainty.

RH enquired if NTS exit capacity charges were included. SA explained that this is identified separately. The initial expectation was to keep this item separate, and all DNs except NGN have adopted this approach. Shippers requested that all DNs treat this item in the same way.

#### London

SA explained that the points to note are the same as for the East of England. London will have the most uncertainty in terms of RepEx, which is reflected in the range provided.

#### North West

SA explained that the points to note are the same as for the East of England.

#### West Midlands

SA explained that the points to note are the same as for the East of England.

RH enquired about Traffic Management Act costs other than in London, and particularly in the North West. SA confirmed an update could be provided in the reports. However this remains uncertain and he didn't expect a 2012/13 impact. If any change is expected a comment will be added to the report.

### 2.3 Wales & West Utilities

JE presented the [Wales & West Utilities DN Revenue Report](#).

JE explained that the figures were not finalised but would be in the next few days. He confirmed that the final figure for NSRA was outstanding, and so the allowed revenue was subject to change.

In terms of the 2013 figures, these are unchanged from the last report, due to the decrease in allowed revenue and increase in Shrinkage. An assumed 3% reduction in SOQ had been made.

### 2.4 Northern Gas Networks

WG presented the [Northern Gas Networks DN Revenue Report](#).

He advised that the 2011/12 figures would be finalised by the end of this week, and that the main difference is the movement in NSRA reducing the allowed revenue. He confirmed that NGN have built in a 3% reduction in SOQs.

A request was made to strip out the NTS Exit Capacity charge in order to bring the NGN report inline with how the other DNS had treated this item.

## 3. Any Other Business

### Incentive Data

Shippers asked if DNs could separately identify each incentive to provide more information. The DNs were concerned about the commercial sensitivity of the data, if it was separated and pointed out the incentive scope and structure may also change in the near future as part of RIIO. WG enquired if the Joint Office is able to provide a level of security on the website to allow sensitive information to be provided to Shippers only. It was agreed this could be examined in the future if it was deemed necessary.

### Charging Volatility

WG asked if there was an update from Ofgem on volatility. LH explained that the next stage following responses to the consultation on volatility would be announced at the end of August.

### Common Distribution Charging Methodology

JW enquired about the price calculation models used to convert allowed revenue to tariffs. He explained that within the Electricity market a common charging model has been adopted and is published on the DCUSA website at <http://www.energynetworks.org/electricity/regulation/commercial-operations-group/charging-structure/pricing.html>. He enquired if this approach could be considered by the DNs for the gas industry whereby either a common model is developed and published, or each DNs model is published. The group looked at the models available on the DCUSA website and briefly discussed the implications for a gas equivalent.

**Action 0702: Each DN to consider providing a calculation model to assist understanding how tariffs are calculated.**

## 4. Diary Planning for Workgroup

*Details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary).*

Monday, 10 September 2012, 31 Homer Road, Solihull, B91 3LT.

**Action Log**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
0701	23/07/12	2.2	DNs to consider the inclusion of each Network's maximum allowed revenue for each year.	All DNs	Pending
0702	23/07/12	3.0	DNs to consider providing a calculation model to assist understanding how tariffs are calculated.	All DNs	Pending