Distribution Charging Methodology Forum Minutes
Friday 19 November 2010

at the Holiday Inn

61 Homer Road, Solihull, West Midlands. B91 3QD

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Andy Manning	(AM)	British Gas
Bernard Kellas	(BK)	SSE
Brian Durber	(BD)	E.ON UK
Denis Aitchison	(DA)	Scotia Gas Networks
Ivalene Bramble	(IB)	British Gas
John Edwards	(JE)	Wales & West Utilities
Malcolm Piper	(MP)	EDF Energy
Mathieu Pearson	(MPe)	Ofgem
Rachel Fowler	(RF)	RWE npower
Steve Armstrong	(SA)	National Grid Distribution
Stuart Heggarty	(SH)	xoserve
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 apologised for the delay and advised that publication of the DNPC08 sample data is imminent. **Action: Carried Forward**

Action 0038: Joint Office (MiB) to arrange additional DCMF meetings in November and December

Update: TD advised that this had been completed with the next meeting scheduled for 17/12/10. **Action: Closed**

2. Discussion Items

*Copies of all materials are available at: **http://www.gasgovernance.co.uk/dcmf/191110**.*

2.1 Timing of DNPC07 and DNPC08 Consultation Report

See 2.2 below.

2.2 Customer Charge Review

2.2.1 DNs Customer Charge presentation

WG presented on behalf of the DNs.

When considering the background to customer charges which generate 30% of collected revenue, SA advised that a breakdown of what goes into the figure was included within the original consultation documentation.

In considering SPs with an AQ between 73.2MWh and 732MWh, SA confirmed that the rationale behind utilising fixed costs for this band within the current charging structure was based on a decision that it would be more appropriate to use a 'linear function'. The fixed charges did not reflect a particular category of cost.

In looking to rebase charges on a network basis, WG confirmed that the Networks would be utilising common structures.

Moving on to examine the various charging options, WG pointed out that both a single and two-rate daily fixed charge had been detailed in a previously published Impact Assessment. SA also pointed out that whilst other options such as a 3, 4 or 5 rate charges had not been discounted, the complexity could outweigh the benefits – furthermore, capacity based considerations potentially impact on these as well. With regard to the derived capacity charge option, SA suggested that this would be subject to obtaining sufficient information but could work with some form of charge rationalisation, although it could remain difficult to actually achieve. TD pointed out that this option has the potential to avoid discontinuities.

Considering the first two options in more detail, the following points were raised:

<u>A single fixed daily charge per supply point for each network</u>

Currently the available data does not indicate a correlation between cost and supply point size. It was also noted that 'making safe' was included in emergency costs, but repairs were not. Furthermore, linking making safe and temporary repairs into the emergency costs is not being considered as the Customer Charge relates to services not provided to CSEPs.

SA suggested that further consideration of this option is required.

<u>A two-rate fixed daily charge for SSPs and LSPs for each network</u>

When asked, SA confirmed that this is a proxy for a domestic/non domestic split. TD advised that WWU (S Trivella) is currently considering raising a UNC modification to consider market sector flags, which could be utilised if ever it was decided that a domestic/non domestic split type approach was more suitable.

In considering the "10 metre allowance", SA advised that a large proportion of service costs fall within this limit and how this could possibly be applied in a domestic/non domestic solution would need consideration.

Moving on to discuss the 'Next Steps' slide, SA enquired if xoserve had any issues with the proposed timescales. In response, SH advised that in his view the proposed April 2012 target date is not achievable for the Customer Charging element in light of the fact that xoserve have a possible 45 week delivery constraint, comprising a 10 week start up governance time lapse to get from the analysis to proposal stage, followed by up to 35 week development lead time. Add to this potential project resourcing issues (within xoserve) and he cannot see an April 2012 delivery as being a viable option with a March 2011 decision date. He went on to point out that industry system integration testing could also be a major concern and the 35 week timeline does not contain any real contingency allowance either. Additionally, should we wait for a three pronged 2013 implementation the ‘world’ we analysed for LDZ will have significantly changed and will have to be re-visited, meaning any analysis work done to date (approximately £150k) could be rendered obsolete.

SH went on to suggest that from an xoserve perspective, delivery of the three packages (DNPC07, DNPC08 and Customer Charges) separately would be beneficial and believes that waiting on the CC element, could jeopardise delivery of DNPC07 & 08. When asked, SH confirmed that their (xoserve’s) preference would be to seek a 2012 delivery date for the LDZ and Zero Commodity Charge elements (DNPC07 & 08) and a 2013 delivery date for the Customer Charging element. On behalf of Ofgem, MPe pointed out that they would prefer to see the three elements ‘bundled’ together and delivered at the same time. He asked those Shipper representatives present if, in light of these discussions, they would prefer a 2013 implementation to which the answer was yes. When asked if early decisions on DNPC07 & 08 would alter their views on a 2012 implementation, no clear position was reached especially in the absence of any I&C representatives, as it would very much depend on the scope of the proposed changes involved.

Asked if a phased approach, whereby just the LDZ change elements (DNPC07 & 08) would be implemented in 2012 with the Customer Charge following in 2013, the consensus of those present indicated they remained concerned about various uncertainties and the impact on the cost of systems changes, with a preference from a systems perspective of implementing a single change. They reiterated their preference for a ‘bundled’ delivery, which would have to be 2013 given 2012 was not an option. When asked if a ‘staggered’ delivery would potentially incur additional costs, SH confirmed that there are additional costs associated with the delivery of all options. However, it is the preference of xoserve to stagger the delivery thus reducing the amount of further analysis required on the LDZ element and consequently the cost associated with re-commissioning full analysis (as would be required with a three pronged 2013 option).

In moving on to consider the potential impact of changes in the UNC governance arrangements upon delivery of the three packages, various options were discussed including continuing with submission of the DNPC07 & 08 reports (under the current governance regime) within the next few weeks, seeking a delayed implementation date of 2013 and follow this up with the Customer Charges report sometime in the future, under whatever new governance regime is in place.

In closing, TD requested that Shippers take a new action to consider the impact of the proposed charging options on their operation (i.e. system impacts, the adoption of multiple bands etc.).

New Action 0039: Shippers to 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.

2.2.2 Potential Customer Charge Impact Assessment

In presenting the presentation, WG pointed out that the information provided is based on NGN's data.

In considering the table on page 1, and more specifically the 0 – 73.2 Variance of 0.7%, WG pointed out that this factor would be applied across all the load bands thereby reducing its potential impact. JE pointed out that his WWU figures are broadly similar in this respect being >1%.

Moving on to page 2, SA suggested that with regard to the 'two-rate' table the 0 – 73.2 loadband variance figure of 0.1% reflected a lower fixed customer cost (service depreciation allocation) for domestic supply points. However, it should be noted that this would be higher for LSPs. He went on to suggest that it may be worthwhile investigating the impact of depreciation costs and how you would allocate these on a domestic/non domestic basis.

TD pointed out that the LSPs may argue for depreciation to be allocated on a band basis to potentially maximise their % reductions. In response, DA indicated that this may be difficult as information is 'sketchy' and would be difficult to model accurately. Furthermore, he would question whether or not this was a sound basis on which to undertake the calculations.

When asked about the customer charge options review process, SA indicated that views are still being sought on the proposed options before being rationalised to focus attention. When asked, those present suggested retention of the two-rate option for further consideration in due course.

When considering whether or not to split the domestic load bands down further still, AM voiced concern that this could potentially impact upon his billing processes and incur additional system change costs. SA supported this view suggesting that the changes should be about simplification and retaining the twin-rate option is preferable to splitting the domestic bands down further.

3 Date of next meeting and agenda items

TD suggested that the agenda for the next meeting should include items such as the consideration of a possible draft UNC customer charge modification proposal and more detail surrounding the various customer charge options.

It was then decided to defer the December DCMF meeting until January 2011, with a date of the 24th being requested, preferably at a London location.

New Action 0040: Joint Office (MB) to arrange a DCMF meeting for 24 January 2011, preferably at a London location.

4 Any Other Business

Indicative Charges (SOQ Assumptions & Impacts)

DN representatives provided a brief verbal overview of their respective positions, the notable point being that, National Grid Distribution's figures will need further consideration as it is looking highly likely that they will under recover in 2010. In part, this is the result of a variation between figures provided by xoserve and the actual figures involved. However, it should be noted that these changes are not just down to SOQ related impacts, but also reflect efficiency gains and the impact of other economic factors. In summary, there will be some changes in their final January charge proposals.

Action Log – Distribution Charging Methodology Forum – 19 November 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**
0038	25/10/10	2.4	Arrange additional DCMF meetings in November and December	Joint Office (MB)	**Closed**
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 to be provided.
0040	19/11/10	3.	Arrange a DCMF meeting for 24 January 2011, preferably at a London location.	Joint Office (MB)	Update to be provided.