

## Distribution Charging Methodology Forum Minutes

**Monday 31 January 2011**

Elexon, London NW1 3AW

### Attendees

Tim Davis (Chair)	(TD)	Joint Office
Andy Manning	(AM)	British Gas
Bernard Kellas	(BK)	SSE
Clare Cattle-Jones	(CCJ)	Energy Networks Association
Denis Aitchison	(DA)	Consultant (for Scotia Gas Networks)
Gareth Jones	(GJ)	Independent Pipelines Ltd
James Stone	(JS)	E.ON UK
Joanne Parker	(JP)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Malcolm Piper	(MP)	EDF Energy
Mandip Grewal	(MG)	Northern Gas Networks
Rachel Fowler	(RF)	RWE npower
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:** Data for each DN was published in 2010.

**Action: Closed**

**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:** To be considered when customer charge proposals are brought forward.**Action: Carried Forward**

**Action 0040:** Arrange a DCMF meeting for 24 January 2011, preferably at a London location.

**Update:** Arranged for 31 January 2011.

**Action: Closed**

## 2. Discussion Items

Copies of all materials are available at [www.gasgovernance.co.uk/dcmf/310111](http://www.gasgovernance.co.uk/dcmf/310111).

### 2.1 Allowed and Collected DN Revenue (UNC0186 Reports)

#### 2.1.1. National Grid

SA presented for National Grid Distribution. SA indicated that future years should be showing a 6% increase, based on 3% inflation and a 3% SOQ reduction, for all networks (this is different to the published spreadsheet due to a calculation error).

##### London

There had been little movement since the last report. However, SA noted that no allowance had been made for Traffic management Act (TMA) costs. National Grid anticipates submitting a request for a reopener to Ofgem during 2011, which is most likely to impact charges no earlier than April 2012. The scale of any increase is, however, difficult to predict with any confidence.

DA indicated that Scotia Gas Networks were in exactly the same position for TMA costs covering South London, and had (independently) adopted the same treatment as National Grid with no costs included in the UNC0186 reports at present.

AM questioned whether the TMA impact was restricted to London initially, which was confirmed as the biggest impact albeit with additional areas being incorporated over time.

SA confirmed that a 4.5% SOQ reduction had been seen in the last review across National Grid's networks. Coupled with under-recovery being taken forward, a significant April 2011 price rise had therefore been announced.

##### East of England

The indicated 2011/12 price increase of 8% was also little changed from the previous presentation.

##### North West

SA confirmed that the price increase for 2012/13 and beyond was based on the same assumptions as for the other National Grid 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 consequential impact of a lower 'k' under-recovery figure to carry forward.

#### 2.1.2. Wales & West Utilities

JE presented the WWU report indicating that inflation was higher than previously assumed, as were gas prices. Coupled with some incentive revenue movements, this had produced an indication of price changes increasing from 14% to 15.1% since the last presentation. A 4% SOQ reduction had been assumed for October 2011, following a 5.5% reduction last October. Looking forward, no further SOQ reductions had been included such that a 2% increase was shown initially, with 3% thereafter.

JE confirmed to AM that the under-recovery largely reflected the SOQ reduction relative to assumptions.

### 2.1.3. Northern Gas Networks

WG said a 5% increase had been projected, but this was now 6% for 2011/12. The main movement from the previous report reflected over-recovery this year, but a smaller over-recovery was now anticipated largely because of higher inflation assumptions and higher gas prices. A 12.4% raise was shown for 2012/13, little changed from the previous projection. In response to BK, WG said that changes to NTS exit capacity charging arrangements were impacting the 2012/13 figure as well as higher inflation. The other networks confirmed that they had not built this change into their 2012/13 figures, but would intend specifically showing the anticipated impact in the next Mod0186 reports.

### 2.1.4. Scotia Gas Networks

DA presented the SGN report.

#### Scotland

Scotland shows a 19.4% increase, which is unchanged from the previous report. Higher inflation had been offset by other movements, with the impact of SOQ reductions being slightly less than assumed. For the later years, 3.5% inflation increases had been assumed and no further SOQ reduction after a 3% reduction in the coming year. DA indicated that this was a wait and see attitude rather than a considered prediction of SOQ movements.

DA explained the change in allowed revenue accounted for 12% of the increase, with the remaining 7% driven by the 5.5% SOQ reduction recorded in the 2010 review.

#### Southern

DA said the 18.2% increase had moved to 19.3%, reflecting changes in inflation assumptions and an increase in under-recovery as a result of SOQ reductions that, at 6%, were well above the 3.5% assumed when charges were set.

AM indicated that a similar modification to 0186 had been incorporated within the DCUSA which built on the Mod0186 experience. In light of this, it was likely that some changes and improvements to the 0186 requirements could be identified. He offered to bring some thoughts on potential changes and developments to a future meeting.

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

## 2.2 April 2011 Charges

The DNs ran through the notices issued, or to be issued shortly, regarding charges from April 2011.

SA explained that the differences between actuals and the Mod0186 numbers were small changes in inflation assumptions plus better information on mains and service replacement work, which now imply lower levels than previously projected in the current year – which is consistent with the impact of the relatively severe winter weather. These changes reduce allowed revenue for the present year, but lead to higher allowed revenue in the next year because of an intention to “catch up”. The covering letter published with the notice of charges explains this impact.

DA indicated that Scotia Gas Networks had not formally finalised their charges for the following year, but expected the Southern increase to be between 18 and 19%, slightly below the Mod0186 level. In Scotland, the increase was likely to be between 17 and 18%. This was again below the Mod0186 numbers, and was primarily driven by reduced replacement work in the final quarter, in line with the National Grid explanation.

JE said the Wales & West increase of 15.1% had been published, exactly as in the Mod0186 report.

WG indicated that Northern Gas Network charges would be published shortly, and would be in line with the Mod0186 figures.

### **2.3 Pricing Consultations - DNPC07/08 updates**

#### **DNPC07**

Ofgem did not accept moving to 100% capacity charges as proposed in DNPC07. AM asked if this issue was likely to be reopened, but the DNs did not expect this to happen in the immediate future.

#### **DNPC08 – ‘Review of Standard LDZ System Charges’ presentation**

Ofgem had accepted the DNPC08 proposal. The DNs confirmed that they will therefore be implementing charges on this basis for 2011/12. The previous modelling had been based on capacity only functions and hence commodity functions will now need to be developed in light of the rejection of DNPC07. The DNs confirmed that this would be progressed as soon as possible, hopefully in the next two months such that it could be presented with the next quarterly Mod0186 reports.

AM questioned whether the indications of charges incorporating DNPC08 were still thought to be reliable. JE said the numbers could move significantly as the underlying revenue had moved forward, as well as the DNPC07 impact. AM questioned whether the parameters themselves would change. DA clarified that the shape of the published functions will not change – the level would move but not the relativities.

### **3. Date of next meeting and agenda items**

TD explained that meetings would be arranged if and when any UNC modifications are raised with respect to the DN charging methodology, which now forms part of the UNC. The intention was to hold the quarterly 0186 discussions at the same time as any such meeting. However, if only 0186 business was to be discussed, a teleconference in about three months time would seem appropriate.

### **4. Any Other Business**

The DNs confirmed that work on customer charge changes is being progressed and a modification is likely to be raised to take this forward. Similarly UNC modifications may be brought forward to accommodate biomethane entry into local networks, and to take forward any changes to prices as a result of discussions in Review Group 0329 – which is looking into SOQ/SHQ relationships and how best to ensure accurate data is generated.

AM suggested it would be useful, following the decision to implement DNPC08, to establish a structure for when parameters would be reviewed and potentially

develop an expected cycle for changes and updates. All Shippers believed this would help to avoid unexpected changes and generally to manage industry resources and expectations. RF emphasised that, for similar reasons, early information on other impacts would be appreciated, such as the possible range of TMA costs - avoiding surprises is a key Shipper objective.

GJ questioned why SOQs had reduced and whether any work had been undertaken to understand the drivers behind the changes which had been experienced. DA said the changes are driven by falling AQs under the AQ Review process. The networks had requested information about this from xoserve. AQs appeared to be declining as a result of improved energy efficiency and generally lower consumption was being witnessed. SA added that the networks would welcome information from Shipper and Suppliers on changing consumption patterns, which they were likely to be closer than the DNs.

AM accepted that Shippers could provide an understanding of AQs, but he was unclear about the way the AQ Review links to SOQ, with the load factors clearly also being important. DA explained that load factors are based on sample data, but suggested that he had been expecting load factors to be coming down more than has been seen. This leads to greater than anticipated SOQ reductions. It was clarified that the process for setting LFs is undertaken by xoserve, with DESC providing a route for Shipper input.

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**Action Log – Distribution Charging Methodology Forum – 25 October 2010**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
0036	13/09/10	2.0	Subject to confidentiality issues, DNs to publish the DNPC08 sample data	All DNs	<b>Closed</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	<b>Carried Forward</b>
0040	19/11/10	3.	Arrange a DCMF meeting for 24 January 2011, preferably at a London location.	Joint Office (MB)	<b>Closed</b>
0041	31/01/11	2.1.4	Present thoughts on developments of the 0186 information requirements	British Gas (AM)	To be presented at next meeting