
DN Charging Methodology Forum (DNCMF) Minutes
Wednesday 22 March 2017
Consort House, 6 Homer Road, Solihull, B91 3QQ

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Bridget Roberts	(BR)	EON
Colette Baldwin	(CB)	EON
Craig Neilson	(CN)	National Grid Gas Distribution
Daniel Hickman	(DH)	Npower
Danishtah Parker	(DP)	National Grid Gas Distribution
Dave Chalmers	(DC)	National Grid Gas Distribution
George Moran*	(GM)	British Gas
James Knight*	(GK)	British Gas
Joanne Parker	(JP)	Scotia Gas Networks
Jonathan Trapps	(JT)	Northern Gas Networks
Nicky White	(NW)	Npower
Paul Whitton	(PW)	Scotia Gas Networks
Robert Wigginton	(RW)	Wales & West Utilities
Shazia Akhtar	(SA)	National Grid Gas Distribution
Simon Vicary	(SV)	EDF Energy

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dncmf/220317>

1. Introduction and Status Review

1.1 Review of Minutes (09 January 2017)

DH referred to section 5.5 of the previous minutes: *“SA explained that if an application is made within 60 days or more before the end of the price formula year the price changes will be implemented within that formula year if its less than 60 days the process changes will be implemented in the next year. The supplier then has 6 months to request a last report payment.”*

He enquired about the application within 60 days and if price changes would be implemented within the same formula year. DH highlighted that the minutes of the previous meeting implied that a within year price change would be required if a claim was received more than 60 days before the end of that formula year.

CN believed from memory that the minutes reflected the wording detailed within the Transporters licence, however he would double check the wording and provide the DNCMF with a post meeting communication.

Action 0301: NGGD (CN) to confirm the licence requirements for the Energy Supplier of Last Resort and the treatment of application made within 60 days or more before the end of the price formula year.

The minutes of the previous meeting were approved.

Post Meeting Note:

DH has confirmed that Condition 48 Last Resort Supply: Payment Claim, paragraph 15 states:

“relevant year” means, in relation to any valid claim -

- (i) where the claim was received by the licensee at least 60 days before the beginning of a year, that year; or*
- (ii) where the claim was received by the licensee less than 60 days before the beginning of a year, the next year.*

“year” means a period of 12 months beginning with 1st April.

He has therefore suggested this would preclude within year price changes. However, he believes confirmation should be sought from Ofgem that within year price changes would not be required.

CN has concurred that the 60 days would, theoretically, allow the claim to be priced for with notice ahead of implementation, otherwise deferred to the following year. He has agreed it would be worth clarifying this with Ofgem, and keeping the DNCMF informed.

1.2 Pre-Modification Discussions

None.

2. Allowed and Collected DN Revenue (MOD0186) Reports

Copies available at: <http://www.gasgovernance.co.uk/DNRevenueReports/2017Mar>

2.1 Northern Gas Networks

JT provided a presentation slide/table highlighting the key movements since September 2016 for NGN.

He summarised that the key movements included a Change in Inflation, True Up and Shrinkage. He also confirmed that NGN had updated the long-term view of the cost of debt index and that this will move more over time. He confirmed that currently there were no plans for re-openers.

2.2 Scotia Gas Networks

PW presented the key movements for SGN. These included: a Treasury forecast from February, higher cost of debt forecast, higher Shrinkage cost forecast for 2016/17 onwards and a Southern Collected position update.

2.3 National Grid Gas Distribution

SA provided an overview of the headline movements in collectable revenue. SA reported that the biggest increases were as a result of inflation, increasing allowed revenue by £34.3, the Gas Price Reference Cost, and a small reduction via the Broad Measure Incentive and NIA cost forecast.

CN highlighted the Pension Deficit continued to be an at-risk item and that NGGD are waiting for Ofgem to clarify any licence changes for the Pension deficit.

2.4 Wales & West Utilities

RW provided a presentation detailing the main points of movement for WWUs. These included the 2018/19 Price Drivers, Exit Capacity Forecast and some key risks and uncertainties. He confirmed the RPI, Movement and latest view of gas prices have reduced the amount that can be passed through in 2 year's time.

RW explained that the overall Price Change was minimal but when looking at the individual lines there have been some big positives and some big negatives that have in effect cancelled each other out.

RW summarised the 2018/19 Price Drivers for Transportation and provided a summary of the 2018/19 Exit Capacity Forecast. He highlighted that 2019 onwards remains speculative based on the NTS EU Tariff Code review currently being discussed at NTSCMF.

RW provided a table summarising the key risk and uncertainties, which included: enhanced Physical Site Security Re-opener, Smart Metering and Exit Capacity post 2019/20.

He highlighted to Shippers the discussions taking place at the NTSCMF and that Large I&C Shippers seem well represented but that there aren't many domestic shippers presenting their views. He emphasised the importance of domestic Shippers being represented as their views may not be portrayed as clearly without their engagement and he welcomed more voices around the industry at the NTSCMF.

3. NTS Exit capacity pricing

CN provided a presentation on the LDZ Exit Capacity (NTS) Charges and explained the purpose and the scope of the review.

He provided a slide on the UNC Charging Methodology with a statement from the UNC: *"The level of the LDZ ECN charges for any Exit Zone is set each year to reflect the forecast average unit NTS charges for capacity at the NTS/LDZ Offtakes which make up that Exit Zone".*

CN explained what this meant in practise and that there is no licence definition of specific ECN allowed revenue but a construct for the purpose of charge setting. He confirmed it is comprised of an NTS exit cost allowance, uplifted to current prices; a 2-year lagged variance of actual cost to allowance (uplifted to current prices and inclusive of WACC adjustment); and a 2 year lagged over / under collection of ECN revenue (uplifted to current prices and inclusive of interest adjustment).

He provided two Process flow diagrams to illustrate the setting of unit prices.

CN provided a number of observations, however, from a charging methodology perspective and in the general scheme of things, he explained as the levels of over/under recovery are low, and should reduce further after Project Nexus Implementation, there wasn't significant value in trying to fix known issues as it wouldn't have much of an impact.

CN explained that from a Distribution charge perspective there is suitability in the ECN Charging Methodology. He highlighted that Flat charging was appropriate because exit capacity cost is attributable to all loads regardless of size, and Locational charging is reflective of the way NTS charge.

CN reported that the direction of travel for the NTS Charging Methodology Review seems to have an increased emphasis on capacity charging and a move away from commodity for both entry and exit regimes. Given that NTS commodity charges don't have a significant impact on GDNs he explained it would be reasonable to assume that NTS offtake prices might pick up some of the allocation. At the same time capacity, based charging might drive a more stable platform.

CN highlighted that the GDNs will work with National Grid NTS to understand the impacts of the NTS Charging Methodology Review at the earliest opportunity and he encouraged Shipper engagement in the UNC modification process. He asked Shippers to be aware that discussions are taking place within the NTSCMF.

CN concluded the presentation and asked the group if they had any particular topics the Shippers would like at future DNCF meetings. BR suggested it would be useful for the industry to have a run through of the Modification 0186 Reports; what each of the term means, what the influences are, etc.. CB also suggested promoting the run-through to help everybody's understanding. It was suggested in addition to the normal meeting

invitation a further email could be circulated to promote the review to parties that would not normally attend.

It was suggested upon the next publication of reports a statement could be added to the webpage to highlight the insight presentation and not limit the publication of the material solely to the meeting pages.

CN suggested that the slide dec could also be provided on the home page for the Revenue Reports (<http://www.gasgovernance.co.uk/DNRevenueReports>) to aid understanding.

BF advised that the website is currently being considered for upgrade and that representations on its style and formatting were sought and he encouraged participants to provide their views.

4. Future reporting of SOQ changes

CN provided a model of the Proposed 0186 Update comparing the current to the proposed format. There were no objections to the suggested changes.

DH asked about the split between the capacity and commodity to highlight more clearly any movement / disparity. CN explained that when setting prices there wouldn't normally be a disparity between the capacity and commodity price difference. It is expected they would move in parity. It was agreed that the situation would be monitored and when there is a disparity this would be highlighted in the GDN presentations.

The group also considered which elements the Shippers may not be using that are currently reported but not be required. The GDNs requested that Shippers provide feedback on what elements could be removed.

BR also asked if all parties would be adding in the Risk Sensitivity. It was agreed this is a useful section.

Action 0302: Shippers to provide feedback on the Future Reporting proposal.

5. Revenue forecasting (RIIO GD-2)

JP confirmed that a roll-over of the two-year lag had been agreed, however discussions are still taking place on the open base revenues as the negotiation process has not started.

CN also highlighted the need to take into account Ofgem's views and the current price control review. It was accepted that GDNs may have different views however as long it is sufficiently clear, this would be acceptable.

JP highlighted that the price forecasting would not be complete for the next meeting and suggested the related action is deferred until September.

6. Supplier of Last Resort Process

Standing agenda item - no further update at present.

7. Extending the Notification Period of Charges (npower)

DH highlighted that there had been a presentation on extending the notice period to 15 months. He explained that this would be helpful for customers when setting prices and would remove risk. It was recognised there would need be a change to the licence condition to allow a modification within the UNC.

DH agreed to liaise with Ofgem to ascertain the possibility of a licence change.

It was agreed a further update would be provided at the next DNCMF and if a licence change was possible a draft modification would be provided to either the DNCMF or Distribution Workgroup depending on the dates of planned Workgroup meetings.

JT suggested with the implementation of Project Nexus and a move to fixed SOQs this should reduce any movement and suggested the industry ought to wait and review the outcomes from Project Nexus before further changes are considered.

It was agreed that the Agenda could be removed.

8. Future Billing Methodology

DC provided a presentation on the Future of Gas Innovations. He provided an overview of the exploratory project, subject to a 'stage gate' approval in late Summer 2017.

DC wished to engage with the industry and highlighted the current consultation and encouraged parties to participate.

DC provided a graph illustrating the gas and electricity demand for domestic customers'. He highlighted that the industry would need to consider (with gas fired central heating) the natural gas demand and the ability for the electricity market to support this.

DC highlighted the potential alternatives such as bio-methane, which could be used to support future gas demand, however any gas would have to meet the Gas Safety Management Regulations – GS(M)R.

DC provided details of the trials taking place and the project timelines. The benefits of the project will enable the use GS(M)R compliant gases without processing and provides an affordable way forward for customers.

DC encouraged parties to read the consultation, and join the planned webinars. Further details are available on the Future Billing Methodology Project Website:

<http://futurebillingmethodology.com>. (E-mail enquiries: FAO David Chalmers or Andy Lewis via: box.gd.innovation@nationalgrid.com)

9. Topic Tracker (NGGD)

CN confirmed work is in progress.

10. Issues

No new issues raised.

11. Review of Outstanding Actions

0904: Networks to consider and provide a suggested opening base revenue approach for revenue forecasting beyond RIIO GD-2, with an outline of the key assumptions.

Update: Item deferred until September. See item 5.0. **Carried Forward.**

0101: DNs to consider the future reporting of SOQ changes and provide a model for consideration.

Update: See item 4.0. **Closed.**

0102: DNs to seek from Ofgem an overview of the Supplier of Last Resort process.

Update: See item 6.0. **Carried Forward.**

0103: DNs to provide a sample topic tracker.

Update: Work in progress. **Carried Forward.**

12. Any Other Business

12.1 Charging Calculator

SM asked if the calculator could be published in a spreadsheet format. CN explained that there is an extractable unit within the Charge Calculator tool which will be published at: <http://www.gasgovernance.co.uk/DNcharges>

13. Diary Planning for Workgroup

Details of planned meetings are available at: www.gasgovernance.co.uk/Diary.

The following meetings are scheduled to take place:

Time/Date	Venue	Workgroup Programme
10:30, Tuesday 20 June 2017	Consort House, 6 Homer Road, Solihull, B91 3QQ or other location as notified.	Revenue (MOD0186) Reports DN Revenue Report Support Slides Future reporting of SOQ changes Supplier of Last Resort Process
10:30, Tuesday 19 September 2017	Consort House, 6 Homer Road, Solihull, B91 3QQ or other location as notified.	Revenue (MOD0186) Reports Future reporting of SOQ changes Supplier of Last Resort Process Revenue forecasting (RIIO GD-2)

Action Table (22 March 2017)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0904	27/09/16	5.2	Networks to consider and provide a suggested opening base revenue approach for revenue forecasting beyond RIIO GD-2, with an outline of the key assumptions.	All DNs	Carried Forward
0101	09/01/17	3.4	DNs to consider the future reporting of SOQ changes and provide a model for consideration.	All DNs	Closed
0102	09/01/17	5.6	DNs to seek from Ofgem an overview of the Supplier of Last Resort process (for March 2017 meeting).	All DNs	Carried Forward
0103	09/01/17	5.7	DNs to provide a sample topic tracker.	NGGD (CN)	Carried Forward
0301	22/03/17	1.1	NGGD (CN) to confirm the licence requirements for the Energy Supplier of Last Resort and the treatment of application made within 60 days or more before the end of the price formula year.	NGGD (CN)	Pending
0302	22/03/17	4.0	Shippers to provide feedback on the Future Reporting proposal.	All Shippers	Pending