

Distribution Workstream Minutes
Energy Related Proposals
Friday 07 November 2008
Elexon, 350 Euston Road, London

Attendees

Bob Fletcher (Chair)	BF	Joint Office
Amrik Bal	AB	Shell
Anna Taylor	AT	Northern Gas Networks
Bali Dohel	BD	Scotia Gas Networks
Brian Durber	BD	E.ON UK
Chris Warner	CW	National Grid Distribution
Erika Melen	EM	E.ON UK
Fiona Cottam	FC	xoserve
Jemma Woolston	JW	Shell
Joanna Ferguson	JF	Northern Gas Networks
Jon Dixon	JD	Ofgem
Linda Whitcroft	LW	xoserve
Mitch Donnelly	MD	British Gas
Richard Street	RS	Corona Energy
Simon Howe	SH	RWE npower
Simon Trivella	ST	Wales & West Utilities
Stefan Leedham	SL	EDF Energy
Tim Davis (Secretary)	TC	Joint Office

Apologies

Richard Dutton	RD	Total Gas and Power
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1. Introduction

BF welcomed all to the meeting.

2. Terms of Reference

Terms of Reference for the Workstream, as published on the JO website were discussed.

MD emphasised that consideration of Proposal 0228 had been deferred by the Modification Panel and hence should not be in the list of Proposals to be considered at this stage. He also felt Proposal 0231 was different to the others and that a different forum may be appropriate.

Subject to changing the timetable for the Workstream to complete its work to three months, the Terms of Reference were agreed.

3. Modification Proposals

3.1. Proposal 0228: Correct Apportionment of NDM Error – Energy

This Proposal had been discussed at the previous Distribution Workstream meeting, and MD believed it was fully developed. He did, however, indicate that he anticipated amending the Proposal to incorporate all of the elements of Proposal 0194, and would be requesting that the Panel issue the Proposal for consultation.

3.2. Proposal 0229: Mechanism for Correct Apportionment of Unidentified Gas

AB introduced the Proposal. The key difference to 0194A was that the involvement of an independent third party was envisaged, although the detail of how this might be implemented remained to be developed. For example, details of the timing of any external involvement needed to be established and how any appeals process might work.

MD asked if the intention was to put the role out to tender rather than involve the GTs or xoserve. AB did not see any difficulty with xoserve being the third party, but felt that it was important for an annual review to be involved. MD felt there would be advantages of the GTs being obligated to provide the envisaged service as this provided a route for funding (User Pays), an established governance process, and they were comparatively independent.

CW said funding needed to be considered. AB agreed that this and the potential Ofgem role would be important areas for development.

CW felt that involvement of outside parties could create difficulties regarding access to data. RS suggested that existing audits provided an example of when data held by xoserve is independently considered, suggesting that this should not be an insurmountable barrier.

MD presumed that the process would result in numbers each year which would then need to be incorporated into the UNC, and so a separate annual Modification Proposal might be needed. An alternative would be to introduce a UNC related document, with change to the document subject to approval by the UNC Committee. MD also recalled that there had been some discussion within Development Work Group 0224 about how the numbers could be updated without needing regular Modification Proposals, and his recollection was that Ofgem would support a form of self governance in this respect.

ST suggested that perhaps what was needed was a methodology for how numbers were to be calculated and that this was preferable to putting hard numbers into the UNC. SH felt ST was absolutely right and this approach was consistent with other areas – the numbers could be published in the charging statement, for example, rather than being specified in the UNC.

FC felt any methodology would be mathematical and that this is what you would expect the third party to develop. However RS felt a comparatively high level methodology would be worthwhile, specifying principles to be followed and leaving an element of discretion for consideration by the third party.

AB's initial view was that the independent expert might be asked to consider how an established methodology could be developed and potentially to audit its implementation in terms of how final numbers were calculated and implemented. In addition, the expert might be asked to consider and recommend an initial methodology.

SH wondered if the RbD Audit approach provided a model, with independent parties undertaking work but guided by a group with Shipper membership. LW was concerned that the RbD Audit was a clear process to look at - known numbers and their application - whereas unidentified gas involved, by definition, dealing with unknowns and uncertainty. SH accepted this, but felt that the governance model still justified consideration in order to create a binding outcome which all parties would accept.

In terms of an appeals process, JD did not feel Ofgem would be able to provide a view on the appropriateness or otherwise of technical assumptions and details. However, they may be able to consider whether the process had been followed correctly. AB confirmed that his view had

been that this was precisely what Ofgem might be asked to assess on appeal – had the methodology been implemented correctly. The consensus of attendees was that any such appeal to Ofgem was unlikely – given that a methodology had been established through an appropriate governance process, challenging the outcome of the methodology should not be a frequent occurrence.

Funding of the expert and whether this could be through User Pays was debated, and whether xoserve could be the independent expert since they necessarily held much of the data necessary to establish the values to be applied each year. All were confident that xoserve would correctly implement a methodology in mathematical terms, but it was recognised that it may not be appropriate to appoint xoserve as the independent expert which decided (made recommendations on) the way in which the methodology itself was written and developed.

SL questioned whether it was appropriate to restrict any methodology to the four areas identified in the table in the Proposal. RS felt that the methodology should not, and would not, be restricted to these areas.

SL asked whether the application of a flat profile would be reopened under the Proposal, as set out in Ofgem's initial GDPCR proposals regarding shrinkage. RS said that, in proposing 0194A, he did not feel a summer winter differential was justified given the materiality involved. AB confirmed that he would be happy for this to be considered as part of developing the methodology and its implementation – he would be happy with either a monthly or annual process.

ST questioned if any reconciliation would be involved. FC added that there could be a lag, with the data being looked at being historic, such that agreement would be needed as to how this would be applied – as a fixed amount going forwards or effectively back dated to the data period.

AB agreed to provide a strawman for the next meeting, adding a further level of detail to the Proposal. SL suggested that there would be merit in looking at existing governance models which could be appropriate for this Proposal.

Action 0001: AB to provide a strawman to expand Proposal 0229

3.3. Proposal 0231: Changes to the Reasonable Endeavours Scheme to better Incentivise the Detection of Theft

MD introduced the Proposal and explained the background.

RS asked how part collection was envisaged to work when a debt was passed to a debt collection agency at a discount. MD agreed this needed to be considered.

MD questioned to what extent the process should include LSPs. He suggested that it would be useful if xoserve provided an overview of the current process in order to help identify any existing issues which might be addressed when moving the obligations into the UNC. CW agreed to commission an overview from xoserve.

Action 0002: CW to ask xoserve to present an overview of current experience with the existing Reasonable Endeavours scheme

RS asked what impact was anticipated were the Proposal to be implemented – i.e. how many people are impacted by the present cap and whether changing it would change behaviours. SL said that EDF did not use the scheme to a great extent because the administrative cost exceeded the compensation. Hence even if more investigation was not incentivised,

improved reporting might be seen which would be of value. MD felt BGT were in a similar position.

MD questioned funding and how the existing scheme was paid for. CW agreed to confirm this.

Action 0003: CW to establish how the existing payments are funded.

TD suggested it may be helpful to have a strawman for how the Proposal might be implemented, for example if a new UNC related document would be introduced. MD agreed to develop a strawman.

Action 0004: MD to provide a strawman to expand Proposal 0231

3.4. **Proposal 0232: Allocation of Unidentified Gas via the Distribution Networks Charges**

RS introduced the Proposal on behalf of Total which amounted to treating gas lost from the network in the same way whether it was lost before or after the meter. By linking the cost to transportation charges, it would be easier for Suppliers to pass any additional charges through to the customer without needing to modify existing supply contracts. MD saw this as potentially being a convoluted method for dealing with a relatively small number of contracts, and wondered if there were other benefits. RS suggested there would be merit in working up the Proposal and looking to establish both the costs and benefits.

AT suggested that making this part of the transportation charging methodology may not be appropriate since it was not a DN cost, and not a cost about which the DNs could be expected to understand the drivers.

SL questioned whether a licence change would be needed to create an ability to recover additional revenue associated with this Proposal. AT said that the charging methodology could be modified if this was felt appropriate to increase cost reflectivity – but was not convinced this was the best way forward. This would, however, only change who revenue was collected from, not the total amount collected.

ST felt that it was inappropriate to pass the costs to the GTs and did not understand the benefits of the Proposal relative to the others. In particular any suggestion that shrinkage had to be redefined would be very difficult.

FC saw it as a big issue if energy costs were treated as transportation costs, breaching the established situation and having potential implications for energy balancing. BD was similarly concerned as to why large users should be funding this cost through their transportation charges.

SL asked if the Transporters could clarify the issues they saw with this Proposal, and Ofgem to give a view on the possibility of this being a price control re-opener – which EDF would not wish to see. Also he felt Shippers might usefully confirm whether or not their contracts included re-openers. Others felt it was too early to approach Ofgem before the Proposal was clarified.

Action 0005: DNs to identify any major concerns which would need to be addressed in developing Proposal 0232

Action 0006: Shippers to clarify the existence or otherwise of re-openers in their supply contracts

Action 0007: Total to provide a strawman to expand Proposal 0232

3.5. **Proposal 0208: Information relating to Unallocated Energy**

RS felt section 4 of the draft Review Group Report, Recommendations, needed to be beefed up and offered to provide appropriate wording for

consideration at a subsequent meeting. SL suggested the recommendation should be a voluntary, not mandated, best practice document. BD recognised that the inappropriateness of a UNC group mandating actions by non-code parties, but did not see that any party was likely to have any difficulty signing up to such guidance. RS indicated that his intention was to mandate that such guidance should exist rather than mandating that parties sign it.

JD emphasised that any recommendations to Ofgem should be clear in terms of what was being asked for and that they went beyond existing provisions. RS indicated that when issues went beyond the UNC, Ofgem was the overarching body which could address issues and was potentially the only body that could effectively provide leadership and move issues forward.

Action 0008: RS to provide some suggested drafting for inclusion in the 0208 Review Group Report

Action 0009: All to consider the draft Review Group Report for consideration at the 16 December Workstream meeting.

4. AOB

SL asked if Ofgem could update progress on their actions looking at theft. JD confirmed that work was ongoing within Ofgem, but that any output was not imminent.

5. Diary Planning for Workstream

Distribution Workstream Meetings are booked as follows:

27 November 2008 Elexon.

16 December 2008, 10:00 at a Solihull venue to be confirmed.

06 January 2009, 10:00 Elexon

29 January 2009, 31 Homer Road, Solihull

Action Table (Appendix 1)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
ERP 0001	07.11.08	3.2	AB to provide a strawman to expand Proposal 0229	Shell (AB)	To be published ahead of 16 December meeting
ERP 0002	07.11.08	3.3	CW to ask xoserve to present an overview of current experience with the existing Reasonable Endeavours scheme	NG Distribution (CW)	To be presented on 16 December
ERP 0003	07.11.08	3.3	CW to establish how the existing payments are funded	NG Distribution (CW)	For consideration on 16 December
ERP 0004	07.11.08	3.3	MD to provide a strawman to expand Proposal 0231	British Gas (MD)	To be published ahead of 16 December meeting
ERP 0005	07.11.08	3.4	DNs to identify any major concerns which would need to be addressed in developing Proposal 0232	DNs	To be published ahead of 16 December meeting
ERP 0006	07.11.08	3.4	Shippers to clarify the existence or otherwise of re-openers in supply contracts	Shippers	For consideration on 16 December
ERP 0007	07.11.08	3.4	Total to provide a strawman to expand Proposal 0232	Total (RD)	To be developed in light of Action 005
ERP 0008	07.11.08		Corona to provide some suggested drafting for inclusion in the 0208 Review Group Report	Corona (RS)	To be published ahead of 16 December meeting
ERP 0008	07.11.08		Consider the draft 0208 Review Group Report	All	For consideration on 16 December