

Distribution Workstream Minutes
Energy Related Proposals
Tuesday 16 December 2008
Holiday Inn, 61 Homer Road, Solihull

Attendees

Bob Fletcher (Chair)	BF	Joint Office
Helen Cuin (Secretary)	HC	Joint Office
Alison Jennings	AJ	xoserve
Amrik Bal	AB	Shell
Anna Taylor	AT	Northern Gas Networks
Bali Dohel	BD	Scotia Gas Networks
Chris Warner	CW	National Grid Distribution
Denis Aitchison	DA	Scotia Gas Networks
Fiona Cottam	FC	xoserve
Gareth Evans	GE	Waterswye
James Crump	JC	Ofgem
Jemma Woolston	JW	Shell
Joanna Ferguson	JF	Northern Gas Networks
Linda Whitcroft	LW	xoserve
Mark Jones	MJ	SSE
Mitch Donnelly	MD	British Gas
Richard Dutton	RD	Total Gas and Power
Richard Street	RS	Corona Energy
Shelley Rouse	SR	Statoil
Simon Howe	SH	RWE npower
Simon Trivella	ST	Wales & West Utilities
Stefan Leedham	SL	EDF Energy

Apologies

Brian Durber	BD	E.ON UK
--------------	----	---------

1. Introduction and Status Review**1.1. Minutes from the previous meeting**

The minutes from the previous meeting were approved.

1.2. Review of actions from the previous meeting

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

Action Update: AB confirmed that a strawman is being developed it is currently a work in progress and he will provide an update at the next meeting. **Carried Forward.**

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

Action Update: CW provided presentation see item 2.3. **Complete.**

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

Action Update: CW provided presentation see item 2.3. **Complete.**

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

Action Update: MD confirmed that strawman had been produced however it was decided not to review this in light of the presentations provided. See item 2.3. **Carried Forward.**

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

Action Update: NGN (AT) provided a presentation see item 2.4. **Complete.**

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

Action Update: MD confirmed that British Gas have a range on contracts all having different re-openers, RD also confirmed Total individually negotiate contracts. It was recognised that this may want to be reconsidered, however it was agreed to close this action. **Closed.**

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

Action Update: RD provided a presentation see item 2.4. **Carried Forward.**

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

Action Update: RS has requested that this be discussed at the next meeting on 06 January 2008. **Carried Forward.**

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

Action Update: RS has requested that this be discussed at the next meeting on 06 January 2008. **Carried Forward.**

2. Modification Proposals

2.1. Proposal 0208: Information relating to Unallocated Energy

BF confirmed that this will be discussed at the 06 January 2009 meeting.

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

AB highlighted the main characteristics of the strawman, which gives a central role to Transporters. He confirmed that there are still considerations to be given in particular to funding and the Shippers central role.

AB stressed that it is crucial to try and make sure that the costs are attributed as accurately as possible. He confirmed a more formal piece of work will be provided and that he will provide this at the next meeting.

BF highlighted that the Workstream are due to report to the January panel. It was agreed that an extension is required for a further 3 months.

Action 0010: Joint office to request a three month extension for UNC0229 at the January Panel.

A discussion evolved on the use of an independent party to determine the correct allocation of energy.

LW questioned where the independent party would obtain its information from. AB suggested that this service could be provided by xoserve.

RS suggested that the independent party need not be xoserve and could be the agent of Shippers and/or Transporters. AB confirmed that this has been considered before and that there could be an alternative to xoserve.

LW believed that xoserve may still have to assist the independent party. RD believed that there are many consultants who could undertake this role but would need the information provision from xoserve.

MD questioned why xoserve would not be considered independent in this situation.

RS believed that as xoserve currently provide the calculations and supporting information, it may not be appropriate for the same party to challenge this data. He suggested that there may be a conflict in interest. MD suggested this could be overcome by the use of audits to ensure there is no conflict.

ST questioned what the perceived benefits were and suggested that there was a need to establish whether there's was a lack of independence for xoserve.

RS suggested an appointed expert by either an LSP or SSP Shipper could be argued to have a skewed result. MD suggested both could be done and Ofgem decides which the better solution is.

MD questioned how the debate on the choice of an independent party will assist with devising the correct methodology for costs and how this gets back into the pricing and actual allocation.

RS believed that it was important for the methodology to be right. AT suggested that the principles of what is required, needs to be established for the independent party to provide a charging mechanism.

RD wanted to ensure that the charging mechanism is fair and established by community agreement and not by an individual Shipper, he concluded that it would be more appropriate for an independent party to do this.

It was questioned if an independent party would have to be established each year. JC was unsure of the benefit of independent parties establishing the mechanism year on year. MD expressed concern of smaller Shippers not having the ability to be involved within a process which affects the pricing of their business.

SH explained the process of the RbD Audit process whereby an auditor is appointed on a three year basis. AB believed there would not be merit in having a year on year approval. However RS suggested that this would be required for the first year to ensure confidence.

AB agreed to develop the draft strawman further considering the comments made and provide an update in January. The draft strawman will be added to the website for comments to be provided

Action 0011: All to consider draft strawman to be published on the Joint Office website and provide any additional comments necessary to AB.

Action 0012: AB to update 0229 strawman and provide an update at January's meeting.

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

CW provided a presentation which highlighted the license conditions of the Reasonable Endeavours Scheme, the concerns and the way forward.

MD wanted to understand how the scheme can be amended in the short term and going forward, he also wanted to challenge the recovery of what is designated through the current scheme and that this process could exist within the UNC. He also questioned the level of payments.

JC questioned if the scheme and UNC would run in tandem.

MD confirmed that the intention of the Modification is to mitigate the recovery of costs for detecting theft.

AJ gave a presentation on the reasonable endeavours scheme within the Transporters licence, identifying the 7 claim areas and the values that could be claimed against each. However, in practice only claim type 1 or 3 or 1 & 3 were claimed, other types of claim were very rare.

RS expressed concern that smaller business may not have the ability to take the theft cases to court and give this process to debt collection agencies. MD wants the costs of the investigation to be recoverable up to £1,000. MD confirmed that he will examine the figures provided by xoserve and build these into the proposal.

MD asked for views on the £1,000 limit suggested for investigation. For the avoidance of doubt it was confirmed that this would not include the recovery of any debt.

Ofgem was asked if they could provide a view on the ability to recover the costs of theft investigation and consider if the scheme should be reviewed as it has been operating unchanged since 1997.

MD confirmed that he will further develop the strawman.

Action 0013: All to consider UNC0231's £1,000 limit and provide views.

Action 0014: Ofgem to provide a view on licence amendments to allow the reasonable endeavours scheme to be governed within UNC.

Action 0015: MD to update 0229 strawman and provide an update at 15 January's meeting.

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

RD provided a presentation suggesting the use of a mechanism that is already in place to allocate the costs of unallocated gas. ST questioned if the definition of Shrinkage is being re-defined or is this mechanism is to be kept separate. RD confirmed he was open minded and that the mechanism was for debate.

ST expressed that a separate mechanism would be preferred by Transporters as not to complicate the current Shrinkage Regime. He expressed concern that Shrinkage is Transporter's own use gas, inclusion of unallocated gas would need the Shrinkage definition to be re-defined. AT explained how the Shrinkage mechanism is controlled with incentives, she believed that it would be better to duplicate the mechanism and keep it separate. DA explained that Shrinkage is a Transporter Cost where as unallocated gas is an adjustment to allowed revenue.

ST suggested that both options could be considered and the benefits of both presented.

RD asked how the proposed methodology for charging misallocated energy could be applied using transportation charges.

Action 0016: Transporters to review how the proposed methodology for charging misallocated energy could be applied using transportation charges.

DA expressed concern that the charging methodology needs to be cost reflective and required license changes.

RS acknowledged the need for licence changes and explained that Shippers are not able to make license changes. The only route Shippers have is to develop a UNC change which may result in a licence condition change.

ST expressed that significant changes would need to be made to mechanisms and license changes.

JC suggested that the Transporter could write to Ofgem with any preliminary concerns. However CW believed that it may be too early for Transporters to do this at this stage.

SL asked about the intention of using a new or adapting an existing charging methodology. RS believed charges can be targeting to SSP and LSP, through the Transportation Charging Methodology.

RD explained that the cost of reallocating unidentified energy needs to be passed on to customers. If it is included as a Transportation charge current contracts allow the cost to be passed on to customers. RS believed Shippers do not have the mechanisms in place to pass through the costs to their customers if the charge is not transportation.

DA highlighted that the proposal needs to develop an understanding of the costs and that clarification will be required. ST believed that the industry ought to agree the allocation of unidentified gas despite the proposal suggesting this should be undertaken by the Transporters.

CW believed it would be beneficial to consider the benefits and disadvantages of both solutions at the next meeting.

AT stressed that the DNs do not have the knowledge the Shippers have on Shipper portfolios and customer activity and would therefore have difficulty calculating the cost allocation.

CW believed it would be beneficial to consider the benefits and disadvantages of both solutions discussed and consider further at the next meeting.

RS believed that the methodology ought to be considered first rather than considering the values at this stage.

AT provided a presentation highlighting the areas which needed to be considered for example licence changes, and licence mechanisms.

JC believed the current proposal requires a licence change; however he was unaware of the hurdles.

Action 0017: Ofgem to provide a view on the proposal and how changes licence would be managed.

Action 0018: Transporters to consider the potential impacts on their licence for charging misallocated energy via transportation charges and consider raising these issues with Ofgem.

RS thought the difference was between SAP prices and shrinkage purchasing prices, though was unsure how this would impact the domestic and non domestic markets.

SH asked if information from the RbD Sub Group would be of use to this group. FC explained that the group still meets however there are varying interpretations on the data available so was unsure if the RbD Sub Group could help.

It was questioned how the group will derive the value of "misallocated energy". SL suggested that 0229 and 0232 are considered simultaneously and the mechanism be considered. RS suggested that the group

concentrate on methodology for charging as 0229 would provide a methodology for allocation against market type.

FC also suggested that energy balancing and seasonality is also considered.

ST asked if at the year end consideration is undertaken based on throughput.

RS wished to understand if there is an impact of seasonal data and if this material or not, he suggested he would undertake some analysis. However this could only be done after the proposal is made clear.

MD suggested that a workplan is derived to ensure that all areas of work are captured for the January meeting to ensure all elements are covered.

Action 0019: RD to review Modification Proposal 0232 following comments received in the meeting and develop a strawman for the 15 January meeting.

Action 0020: Joint Office to record key points discussed to enable a workplan to be formulated.

Action Points for work plans

1. RD to develop proposal based on comments received;
2. RS to review the proposal to understand if there is an impact from seasonal data;
3. SWOT analysis to be undertaken based on:
 - i) using transportation charges
 - ii) using a third party to develop allocation methodology
4. Impacts of licence changes.

BF highlighted that the Workstream are due to report to the January panel. It was agreed that an extension is required for a further 3 months.

Action 0021: Joint office to request a three month extension for UNC0232 at the January Panel.

3. AOB

MD confirmed that the alternative algebra for UNC0228 has been provided by British Gas for information. BF confirmed that this will be published with the minutes of this meeting.

JC confirmed that Ofgem are currently drafting an open letter for circulation on 0194/0194A, he confirmed that Ofgem are minded to consider as many issues as possible and would like delay to making a decision until February, to ensure a thorough analysis.

4. Diary Planning for Workstream

06 January 2009, 10:00, Elexon, 350 Euston Road, London (0208, 0224, 0227)

15 January 2009, 10:00, Holiday Inn, 61 Homer Road, Solihull (0229, 0231, 0232)

29 January 2009, 11:00, 31 Homer Road, Solihull (0229, 0231 and 0232)

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)	Carried Forward
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)	Completed
ERP 0003	07.11.08	3.3	CW to establish how the existing payments are funded	NG Distribution (CW)	Completed
ERP 0004	07.11.08	3.3	MD to provide a strawman to expand Proposal 0231.	British Gas (MD)	Carried Forward
ERP 0005	07.11.08	3.4	DNs to identify any major concerns which would need to be addressed in developing Proposal 0232.	DNs	Completed
ERP 0006	07.11.08	3.4	Shippers to clarify the existence or otherwise of re-openers in supply contracts.	Shippers	Closed
ERP 0007	07.11.08	3.4	Total to provide a strawman to expand Proposal 0232.	Total (RD)	Carried Forward
ERP 0008	07.11.08	3.5	Corona to provide some suggested drafting for inclusion in the 0208 Review Group Report.	Corona (RS)	To be discussed at DWS 06/01/09 Carried Forward
ERP 0009	07.11.08	3.5	Consider the draft 0208 Review Group Report.	All	To be discussed at DWS 06/01/09 Carried Forward
ERP 0010	16.12.08	2.2	Joint office to request a three month extension for UNC0229 at the January Panel.	Joint Office (BF)	Pending
ERP 0011	16.12.08	2.2	All to consider draft strawman to be published on the Joint Office website and provide any additional comments necessary to AB.	All	Pending
ERP 0012	16.12.08	2.2	AB to update 0229 strawman and provide an update at January's meeting.	Shell (AB)	Pending
ERP 0013	16.12.08	2.3	All to consider UNC0231's £1,000 limit and provide views.	All	Pending

Formatted Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
ERP 0014	16.12.08	2.3	Ofgem to provide a view on licence amendments to allow the reasonable endeavours scheme to be governed within UNC.	Ofgem (JC)	Pending
ERP 0015	16.12.08	2.3	MD to update 0229 strawman and provide an update at 15 January's meeting.	British Gas (MD)	Pending
ERP 0016	16.12.08	2.4	Transporters to review how the proposed methodology for charging misallocated energy could be applied using transportation charges.	All Transporters	Pending
ERP 0017	16.12.08	2.4	Ofgem to provide a view on the proposal and how licence changes would be managed.	Ofgem (JC)	Pending
ERP 0018	16.12.08	2.4	Transporters to consider the potential impacts on their licence for charging misallocated energy via transportation charges and consider raising these issues with Ofgem.	All Transporters	Pending
ERP 0019	16.12.08	2.4	RD to review Modification Proposal 0232 following comments received in the meeting and develop a strawman for the 15 th January meeting.	Total (RD)	Pending
ERP 0020	16.12.08	2.4	Joint Office to record key points discussed to enable a workplan to be formulated.	Joint Office (BF)	Pending
ERP 0021	16.12.08	2.4	Joint office to request a three month extension for UNC0232 at the January Panel.	Joint Office (BF)	Pending

Formatted Table