

UNC Workgroup 0368
- Smoothing of Distribution Charge Variation -
Minutes
Monday 16 May 2011
ENA, 52 Horseferry Road, London SW1P 2AF

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Bob Fletcher (Secretary)	(LD)	Joint Office
Andy Manning	(AM)	British Gas
Bernard Kellas	(BK)	SSE
Chris Warner	(CW)	National Grid Distribution
Clare Cattle-Jones	(CC)	ENA
Denis Aitchison	(DA)	Scotia Gas Networks
Gareth Evans	(GE)	Waters Wye
James Stone	(JS)	E.ON UK
Joanna Ferguson	(JF)	Northern Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Julia Haughey	(JH)	EDF Energy
Malcolm Piper	(MP)	EDF Energy
Neil Johnson	(NJ)	RWE npower
Simon Trivella	(ST)	Wales & West Utilities
Steve Armstrong	(SA)	National Grid Distribution
Will Guest	(WG)	Northern Gas Networks

1.0 Introduction

TD welcomed all to the meeting.

1.1 Review of minutes and actions

The minutes of the previous meeting were approved.

Actions:

WG0368/0401: Consider and develop a model based on percentages.

Update: The DNs indicated they had not completed this action. DA requested clarification regarding what would be helpful. GE clarified that he had anticipated the DNs bringing forward a model where a tolerance (cap and collar) was applied so that prices did not fluctuate significantly – he was aware that a licence change may be desirable to enable the Transporters to set charges in this way.

Carried Forward

WG0368/0402: Look more closely at and develop a model based on revenue.

Update: GE indicated that the proposer had received no further feedback and considered the model as set out provided benefits. At this stage, no change to the modification is proposed.

Carried Forward

WG0368/0403: Provide a presentation on the Licence Conditions and the Price Control arrangements, and the ability to under or over recover.

Update: DA advised he was still working on the presentation. **Carried Forward**

WG0368/0404: Model K and replicate for all networks, and include 'smoothing'.

Update: See discussion in item 2.0 below. NGN had completed the analysis and the other DNs wished to see if this was helpful prior to producing the equivalent analysis.

Carried Forward

G0368/0405: Consider how shrinkage alone affects volatility and establish how much of allowed revenue is down to shrinkage.

Update: The DNs indicated that they had not prepared this information. JE advised that shrinkage can vary as much as 2 percentage points, between 3 and 5%, between years.

Carried Forward

2.0 Review of Options

GE advised that further progress of the modification is dependant on the provision of further information from Transporters, as set out in the actions.

WG then presented the level of charge increases over the present price control under a number of different scenarios relating to smoothing of 'k' and incentives. This lead him to conclude that Modification 0368 did not deliver a significant improvement in price stability nor predictability, addressing only a small part of the change in charge levels. Over half of increases in charge levels are due to movements in the underlying price control allowance and RPI uprating .

GE did not agree with this and, while reluctant to draw conclusions based on just two numbers, suggested that the analysis showed there would be a considerable narrowing of the range of price changes had the modification been in place over the last price control period. This would have assisted Shippers in predicting the level of price change and would therefore support the competitive market. NJ added that notice of changes was paramount as currently notifications are too close to the implementation date, which prevents their proper reflection in charges to customers. AM was similarly concerned at the lack of notice for rate changes as they wished to ensure consumer billing is accurate.

GE suggested further analysis would be helpful, extending the current reports to include additional explanations and future years as well as covering the other DNs. This would allow examples to be updated based on new analysis. WG confirmed that the example provided includes the level of smoothing proposed in Modification 0368.

JE emphasised that 2008/09 was a difficult period as we experienced negative inflation due to the nature of the economic recession. This produced unexpected changes in price levels and tended to distort comparisons between years.

The workgroup agreed that it would be of benefit if all Distribution Networks provided analysis on the smoothing of 'k' and their views on this and any alternative. Action 0404 was therefore carried forward on the basis that the other DNs would replicate the NGN analysis, and consider extending this as outlined during the preceding discussions.

SA suggested there might be an option to freeze SOQs in order to reduce volatility in charges. ST recognised that SOQ changes contribute to volatility in charge rates. However, while a reduction of, say, 4% in SOQs might be expected to lead to about a 4% increase in unit rates, the level of invoices would be unchanged. He questioned, therefore, whether there is an issue with the level of charges as opposed to the way in which they are expressed. If invoices are relatively stable and predictable, does this address the issue?

WG then presented Northern Gas Networks performance against predictions for price changes as published in the Modification 0186 reports. He considered these to be

accurate forecasts. GE agreed some of the forecasts were accurate, although he would like to see the information from all networks before concluding.

Action WG0368 0501: DNs to provide the equivalent of NGN's analysis of 0186 forecast accuracy.

3.0 Review of any Alternative Modifications

No alternative approach has been suggested.

4.0 Any other business

None raised.

5.0 Diary Planning for Workgroup

The workgroup agreed to meet on 28 June 2011, subject to completion of actions and provision of materials 5 business days ahead of the meeting.

Action Log

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
WG0368/0401	13/04/11	4.	Consider and develop a model based on percentages.	All DNs	To be presented on 28 June 2011
WG0368/0402	13/04/11	4.	Look more closely at and develop a model based on revenue.	Total (RD/GE)	To be presented on 28 June 2011
WG0368/0403	13/04/11	4.	Provide a presentation on the Licence Conditions and the Price Control arrangements, and the ability to under or over recover.	Scotia Gas Networks (DA)	To be presented on 28 June 2011
WG0368/0404	13/04/11	4.	Model K and replicate for all networks, and include 'smoothing'.	Northern Gas Networks and Wales & West Utilities (WG and JE)	To be presented on 28 June 2011
WG0368/0405	13/04/11	4.	Consider how shrinkage alone affects volatility and establish how much of allowed revenue is down to shrinkage.	All DNs	To be presented on 28 June 2011
WG0368/0501	16/05/11	2.	Provide the equivalent of NGN's analysis of 0186 forecast accuracy	All DNs except NGN	To be presented on 28 June 2011