
DN Charging Methodology Forum (DNCF) Minutes
Tuesday 28 June 2016
Consort House, 6 Homer Road, Solihull, B91 3QQ

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Craig Neilson	(CN)	National Grid Distribution
Fabien LaRoche	(FR)	E.ON Energy
Fiona Cottam	(FC)	Xoserve
Gemma Truran	(GT)	REW npower
George Moran*	(GM)	British Gas
Joanne Parker	(JP)	Scotia Gas Networks
Jonathan Trapps	(JT)	Northern Gas Networks
Karen Visgarda (Secretary)	(KV)	Joint Office
Robert Wigginton	(RW)	Wales & West Utilities

**via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dncmf/280616>

1. Introduction and Status Review

1.1 Review of Minutes

The minutes of the previous meeting held on 22 March 2016 of DCMF were approved (It was agreed that the March meeting was the last DCMF meeting, as these two meetings had now been combined).

The minutes of the DNCF meeting on 22 March 2016 were also approved.

1.2 Pre-Modification Discussions

CN explained that he had reviewed the legal text implemented for Modification 0186 and identified it needed to be updated as there were a number of missing footnotes and references. He felt it was merely a 'housekeeping' exercise. It was agreed a Fast Track Self-Governance modification would be suitable.

2. Discussion

BF explained the purpose of today's DNCF was to discuss and consider the Mod0186 Reports provided by the DN's.

3. Issues

3.1 New Issues

No new issues raised.

4. Allowed and Collected DN Revenue (MOD0186) Reports

4.1 National Grid Distribution

CN provided an overview for the June updates for Mod0186 reporting, in relation to forecasts and revenue. He explained the headline changes to collectable revenue and talked through the NTS indicative rates on the schematics pointing out there was a degree of change from the impact to Exit capacity pass through costs. He also overviewed the high-level change drivers and the inflation impacts information.

Regarding the Smart Metering Uncertainty measure, he explained this had been scheduled to be submitted in May, however, it would now be submitted later in the year, as the cost plan was still in the development stage, and was expected to be finalised in September. The impact of the deferred submission had meant that revenue had been reduced for 2017/2018 and increased for 2018/2019.

CN moved on to overview the Formula Rates, explaining the liability was subject to a cyclical review and the next review would be the period commencing April 2017. He explained there were two notable uncertainties at this stage that would affect the ultimate financial outcome, these were:-

1. The pence in the pound decision;
2. Whether transitional (tapering) arrangements would apply which could limit the size of year-on-year step changes in the rates bill.

He explained that should this cost risk materialise, then the impact to the allowed revenue would hit in 2019/20 (due to a 2 year lag of cost pass through and true up). A general discussion took place surrounding the range of the forecasts and if the figures included a 25% increase in rates in all of the DN revenue forecasts. GT said it was helpful to get an early warning of the potential rate increases and that specific commentary and a sensitivity table were very useful. CN then overviewed the anticipated updates for September 2016.

4.2 Scotia Gas Networks

JP overviewed the Key Revenue Changes from Scotia Gas Networks in relation to Mod0186 reporting and she also explained the business rates were presently being reviewed, which would have an impact on the revenue in 2019/20. She then moved on to overview the Scotland Key Revenue movements in relation to all charges and explained there was no material impact on the forecast.

4.3 Wales & West Utilities

RW presented the Mod0186 reporting commentary and overviewed the 'Allowed Revenue Trace' schematic, explaining the only difference was the Exit Capacity for the modification, as that had already been forecasted previously. He overviewed the NTS Exit Capacity Costs and explained these had increased significantly between May 2015 indicatives and the January 2016 indicative, with the final prices published in 29th April 2016, crystallising these forecast increases. He explained these showed a small benefit compared to indicatives however, that it still represented a c£20m annual increase on current costs.

RW then explained that Wales & West Utilities were price takers from NTS with a limited scope for reducing flat capacity bookings required to meet their 1:20 obligation. In view of this, Wales & West Utilities had been in discussion with both NTS and Ofgem on how to reduce the volatility these price swings caused to Exit Capacity Prices, that they then levied on their customers. He explained they were engaged with NTS and the industry in reviewing NTS pricing to adhere to the requirements of the EU Tariff code. He drew attention the next NTSCMF meeting on 05 July 2016 when this matter would be further discussed and he said that Wales & West Utilities were discussing the option of raising a new modification to prevent such volatility on pricing.

GM sought clarification from RW in relation to some of the figures that had been presented in relation to Exit Capacity and he also enquired if the GDN's were going to speak to Ofgem regarding the flows and the increasing associated costs. Both RW and JP said this matter had been discussed, but nothing had been decided at the present time.

4.4 Northern Gas Networks

JT presented the June Pricing Statement for Mod0186 reporting and overviewed the allowed revenue figures and he too explained the Exit Capacity figures had increased. FR asked in relation to the SOQ's, which following the review may change in September, what new information would be available? CN said the Demand Forecasts from Xoserve would provide information on the SOQ's and JP said the AQ's review would also provide additional detail.

5. Review of Actions

No outstanding actions to consider and no new actions raised.

6. Any Other Business

6.1 Changes to calculation of Large NDM Peak Load factors – (update from DESC)

FC overviewed the Large NDM Load Factors Presentation, explaining that following the Project Nexus implementation some changes to the Load Factor formula used for Large NDM EUCs needed changing. She stated the changes would be implemented in October 2016, regardless of the Project Nexus implementation date. She provided an overview to specific jargon used in the presentation and also explained the role and responsibility of the Demand Estimation Sub-Committee (DESC).

FC then moved on to explain the formulas used regarding NDM Peak Load Factors, and how these were used in the calculations, together with the reasoning for the change, which was due to there currently being two inconsistent approaches. The main reason for the change being that post Project Nexus the NDM LDZ Aggregate Demand Model, would no longer be required for any other processes post Nexus and increased processing capacity was now readily available, so Large NDM's could also be calculated by individual EUC simulation.

FC explained the planned change to the Peak Load Factor (PLF) calculation had been proposed and supported at the DESC Technical Workgroup meeting in January 2016 and had been approved by DESC in February 2016. This had subsequently been incorporated into the Spring Approach to NDM Algorithms for the Gas Year 2016 and has been communicated to the interested parties.

FC overviewed the summary and impacts of this change and how it would affect the PLF's for the Large NDM EUC's, stating the Small NDM EUC's would not be affected. She said the overall Large NDM currently represented 12% of the market by volume and that the Network Pricing Managers estimated that the overall NDM LDZ total SOQ's would increase by between 0.1% and 0.2%, and made reference to the Distribution of Load Factor differences schematic.

General discussion took place on the topic of SOQ's and Load Factors, as these have such an impact on the pricing forecasts. JT and JP asked FC if a simple report could be produced to give clarity on this matter, even if it was just giving detail on the Domestic market. FC said as there were a significant number of variables and sample points in each End User Categories, it was not possible to undertake analysis on each one, as this would take too long from a time line perspective, however, she said coaching and guidance could be given as to where on the website the data was stored. RW asked what would happen if the UKLink replacement system did not go live in October, as planned and was subsequently delayed until February 2017 or later. FC said that fixed pricing would be established from the date Nexus goes live and CN asked if that was on current data, as Nexus drove the SOQ's and if that would be a snapshot. FC said she was not close enough to this area but she would make some enquiries and see if a table could be produced to provide clarity.

FC overviewed the benefits of this change and where more information could be accessed on the website and via the NDM Algorithm Booklet. GM wanted more information on the 3 year smoothing data and FC explained the Composite Weather Variable (CWV) intercept was in the booklet, where it showed specific schematics and graphs on this topic and she explained the 3 year smoothing had been the process for the last 20 years.

CN enquired when the snapshot of AQ/SOQ would be taken for Formula Year billing for an October 01 implementation of Project Nexus and for the other possible implementation dates.

Post-meeting note: as of 30 June 2016

Xoserve had provided the following table of dates in response to this question:

Following today's announcement by Ofgem in favour of Implementation Option C, we have focused on comparing October 2016 with the range of dates envisaged under Option C.

PN Implementation Date	Snapshot date for Formula Year AQ/SOQ (for billing purposes) with effect from PNID	Date next snapshot taken (date)	Date next snapshot effective
1 st October 2016	1 st October 2016	1 st December 2016	1 st April 2017
1 st February 2017	1 st October 2016	1 st December 2017	1 st April 2018
1 st March 2017	1 st October 2016	1 st December 2017	1 st April 2018
1 st April 2017	1 st October 2016	1 st December 2017	1 st April 2018

Note, due to the transitional removal of an AQ Appeal facility post-October 2016, individual site AQs will be the same at October 2016 and December 2016.

6.2 Notification of Changes to Charges from 2 Months to 14 Months

BF asked what was the process for resolving the matter of changing advanced notification of changes to charges from 2 months to 14 months, which had once again been raised by a consumer representative via email. RW said this had been discussed previously and had been captured in the minutes from November 2015. JP said more detailed was need as to what the exact pricing issue was and more clarity was required from consumers/Shippers. BF said the consumer representative had said it was in relation to pricing negotiation for new gas contracts which were to be established for April each year – why couldn't the transportation changes be notified 14 months in advance, as in electricity? CN advised that if the price was set a year or more ahead, this would result in a later true up by increasing costs at a later date to ensure revenues were recovered.

A general discussion then ensued and FR said the consumer should explain in detail the issue, in line with the electricity perspective. GT said it could have an impact on consumers, even if it meant the 'K' was being swung out and CN said he did not see the value of it as it was 'tuned up' for a 2 year period. BF said if any Shipper wanted to make a case regarding any changes, then it would be in the next price control and not the current one. BF confirmed he would contact the consumer in question and provide the feedback from the DNCMF discussion.

7. Any Other Business

7.1 A New Standing Agenda Item at all DNCMF Meetings

RW wanted to explore the reasons why only 3 Shipper representatives were in attendance at the meeting, when compared to NTSCMF meetings? FR said from his perspective the DNCMF was a valuable information source, as it was useful for gaining information on forecasts from a modelling aspect. He added possibly the NTSCMF, was better attended by Up-Stream Shippers and that the tariff Code review could be increasing attendance.

RW said he would like to propose a new standing agenda item, to help demystify Pricing and at each meeting, a separate topic could be presented. He suggested for the next meeting in September, DN Entry could be a good place to start and he would produce a presentation. FR said that was a good idea and he said he would speak with the Pricing Managers and Pricing Analysts within E.ON, to see if they wanted to attend to help broaden the exposure. RW said that he would appreciate the Forum attendees, thinking of who could be invited and also for everyone to think of future topics to be added to the agenda.

7.2 Forecasting in the Final Year Price Control

GT explained that forecasting in the final year price control was difficult as only estimates could be used, as there was no firm allowance information available. JT and JP both explained that this had been discussed with Ofgem and to date, they were not inclined to change the process. RW said he understood from a GT's perspective that it was very difficult to work on a 5 year forecast, and JP said she could not release any figures in relation to base revenues, no matter how they were caveated. GT said this matter was going to be raised formally, as working to a 5 year forecast with estimates and assumptions only, was causing considerable difficulties. It was agreed that all the DN's consider this issue and consider options ahead of the meeting in September.

8. 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 27 September 2016	Consort House, 6 Homer Road, Solihull, B91 3QQ	DN Entry Presentation <i>To be confirmed</i>
10:30, Tuesday 10 January 2017	Consort House, 6 Homer Road, Solihull, B91 3QQ	<i>To be confirmed</i>