DN Charging Methodology Forum
Minutes
Wednesday 13 April 2011
ENA, 52 Horseferry Road, London SW1P 2AF

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Bernard Kellas	(BK)	SSE
Bill Bullen	(BB)	Utilita
Chris Warner	(CW)	National Grid Distribution
Denis Aitchison	(DA)	Scotia Gas Networks
Gareth Evans	(GE)	Waters Wye
Jo Parker	(JP)	Scotia Gas Networks
John Edwards	(JE)	Wales & West Utilities
Malcolm Piper	(MP)	EDF Energy
Patrick Taylor	(PT)	CEPA
Rachel Fowler	(RF)	RWE npower
Richard Dutton	(RD)	Total
Rochelle Hudson	(RH)	British Gas
Will Guest	(WG)	Northern Gas Networks

1. Introduction and Explanation of Forum Operation

Copies of all papers are available at www.gasgovernance.co.uk/dncmf/130411.

TD welcomed attendees to the first meeting of the DN Charging Methodology Forum, and explained that charging methodologies have been brought within the UNC. The purpose of the DN Charging Methodology Forum, as set out in the Modification Rules, is to consider any proposed modification in relation to the DN charging methodologies. This is distinct from the Distribution Charging Methodology Forum (DCMF), which the Joint Office has managed in recent years on behalf of the DNs, at which issues such as the 0186 Revenue Reports have been discussed. Separate DCMF meetings will be arranged to continue this, but efforts will be made to combine related meetings within a single day.

2. New Issue – Capacity : Commodity Split

BB gave a presentation highlighting the problems being faced, particularly by smaller domestic suppliers, as a result of the present DN charging structure. Moving the capacity: commodity split from 50:50 to 95:5 has transferred a cashflow issue to small suppliers, who tend to have a relatively high cost of capital. It also creates competition and discrimination issues.

The charging structure effectively increases costs in summer and lowers them in winter, with network charges accounting for a far higher proportion of summer revenue and potentially making operations loss making. BB added that the AQ review process exacerbates the problem, with no close relationship between AQ and usage and also an inability to adjust for changes in consumption patterns - the 20% dead band being a particular barrier to accurate pricing signals. With the advent of smart meters, he believed there was a need to get away from AQ as the driver for the settlement process

In the short term, there is a need to address the potential for negative margins in the summer, and BB suggested that, for example, this could be done by moving back to 50:50, or through an adjustment mechanism for the timing of cash collection, eg the same annual bill but weighted towards collection in the winter period.

DA pointed out that the Licence prevents the exercise of undue discrimination and explained the reasons for changing from 50:50 to 95:5. The analysis indicated that no more than 5% of DN costs could be deemed commodity related, and the Licence requires cost reflectivity. While a return to 50:50 would be seen as a retrograde step, but it may be possible to look at other mechanisms.

JE suggested that a modification would have to be raised to put forward other options. WG pointed out that securities may have to change, which could also impact cash flow. However, it was not the intention to create an incentive to operate in the market for 6 months of the year only.

It was suggested that consideration could be given to looking at changes in cash collection and the possibility of offering a summer relief option, or perhaps extended credit terms, to Shippers that met appropriate criteria. The DNs agreed to consider differing approaches and form a view on the most practical way forward should such a change be deemed desirable.

Action DN0401: DNs to identify the most practical means for increasing the proportion of revenue collected during the winter months.

3. Modifications Update

TD explained that a request had been received for the DNs to illustrate the anticipated impact as a result of the forthcoming changes to the charging methodology. The DNs had therefore provided a paper on “Updated LDZ System Charge Functions following DNPC07 and DNPC08 Decisions by Ofgem”, on which questions were invited.

JE confirmed that the analysis was based on 2010/11 allowed revenue. It was designed to show charges if collecting the same level of revenue, thereby highlighting the relativities between the present and future structure.

DA confirmed to RD that the underlying way in which the functions are derived is not changing. Up to date and DN specific data had been used to derive different functions in each area, but using the same approach with different parameters.

4. Any Other Business

4.1 0186 Reports

SGN and WWU offered to present their reports, and this was accepted. It was agreed that a teleconference should also be arranged to allow all the reports to be considered. *Post meeting note: teleconference booked for 27 April.*

4.1.1 Scotia Gas Networks (SGN)

Southern
DA reported that for 2011/12 the 19.3% increase in April has been brought down to 18.9%. There had been other changes since January, and the report was now

showing an over recovery of £11.2m (previously expected £30m under recovery). A reassessment of the REPEX allowance has led to changes. Shrinkage is expected to go up and it was by no means certain that Southern would remain in an over recovery position. Bearing in mind that 2013/14 will be under a new Price Control regime and the rules are as yet unknown, only inflation can be applied; by the time of the July 0186 Reports there may be a better indication of revenue for 2013/14 and 2014/15.

RH requested that SGN add to their reports what has been assumed for SOQs.

Action DN0402: Add to the 0186 Reports what has been assumed for SOQs.

Scotland

The January Report showed a 19.6% increase; this had been reassessed to 17.5% and, based on this, was showing a small under recovery of £2.3m. The change is well within the margins of error and further changes to K were expected. A small under recovery was carried forward so there could possibly be a 6% price change in 2012/13, but it was early days yet.

4.1.2 Wales & West Utilities

JE reported there had not been a great deal of movement for 2010/11 compared to the previous January Report; an under recovery of £5.3m had been projected and this was now £4.7m. For 2011/12 the allowed revenue was now £338.8m; shrinkage had increased by £1.8m; and there was a very small K adjustment.

For 2012/13, inflation had been revised to 4.2% (previously nearer 3%) and contributes to a bigger increase in allowed revenues and increased shrinkage costs. The two main factors driving increases are shrinkage and inflation. Capacity reductions for October 2011/12 had not been forecast. In 2013/14 and 2014/15 and the next Price Control there will be significant movements in allowed revenue (figures are simply inflated by 3% at present); there would perhaps be more certainty about this in July.

Responding to a question from RD on REPEX, JE said that 50% is included in allowed revenue; a different approach was expected for the next Price Control with all expenditure being capitalised, so a large movement downwards was predicted.

5. Diary Planning for Workgroup

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

The next meeting is scheduled for Monday 16 May 2011, commencing at 13:00 at ENA, 52 Horseferry Road, London SW1P 2AF (following the UNC (AUGE) meeting).

Suggested agenda items for future DNCMF meetings would be welcome.

DN Charging Methodology Forum Action Log: 13 April 2011

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
DN 0401	13/04/11	2.0	Identify the most practical means for increasing the proportion of revenue collected during the winter months	All DNs	
DN 0402	13/04/11	4.1.1	Add to the 0186 Reports what has been assumed for SOQs.	SGN (JP/DA)	