Distribution Charging Methodology Forum
Minutes
Tuesday 10 October 2006
Elexon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Lorna Dupont (Secretary)	LD	Joint Office of Gas Transporters
Dennis Timmins	DT	RWE Npower
Richard Fairholme	RF	E.On UK
Gareth Evans	GE	Total Gas & Power
John McNamara	JM	Ofgem
Stefan Leedham	SL	EDF Energy
Duncan Willey	DW	National Grid Distribution
Steve Armstrong	SA	National Grid Distribution
Yasmin Sufi	YS	ENI UK
Julie Cox	JC	Association of Electricity Producers
Phil Broom	PB	Gaz de France
Shelley Rouse	SR	Statoil
Denis Aitchison	DA	Scotia Gas Networks
Damien Cox	DC	Hall Associates
Danny Murphy	DM	Hall Associates
Lorraine Goodall	LG	Scotia Gas Networks
Lewis Hodgart	LH	Ofgem
Jeff Chandler	JCh	Scottish and Southern Energy
Chris Wright	CW	BGT
John Bradley	JB	Joint Office of Gas Transporters
Joel Viala	JV	Glencore
Robert Cameron-Higgs	RCH	Northern Gas Networks

Apologies

None received.

1. Introduction

TD gave an introduction and explained the purpose and focus of the meeting.

2. Presentation and Discussion

2.1 DNPC01: Customer Charge Structure for the 0-73MWh Load Band

Having explained that this was the first jointly produced pricing consultation paper, LG gave a presentation on behalf of all DNs. The presentation set out the context and reasons for the change, together with its recommended implementation date (01 April 2007). Responses to the proposed change were sought by 30 October 2006.

Responding to the presentation PB accepted the principle but voiced concern relating to the proposed implementation date and the impact that this would have on Shippers' pricing and settlement systems, the seriousness of which had not been considered. DA evinced surprise at this view as usually 150 days' notice is given and the notice period for this particular change exceeded that. PB accepted this but observed that Shippers have other priorities to deal with. TD asked if other Shippers also had concerns, however those Shippers present were not yet in a position to confirm the nature or severity of any internal impacts. DA requested that all such concerns be included in the responses to this paper so that these can be taken into account.

DT questioned the capacity/commodity split and Ofgem's suggestion that the capacity element should be larger. DA stated the proposed change was consistent with Ofgem's position, but it did not address the capacity/commodity split in LDZ charges which needed to be aligned with Interruption Reform. DA confirmed that the DNs did not expect to propose any changes independently of Interruption Reform. Ofgem's said the proposed change was positive and a movement in the right direction.

DT observed that the customer charge has a specific code when invoiced from the DNs – would this change? SA stated that xoserve were looking at functionality and implementation options and were confident this could be done for April. DT would welcome communications on any progress, as systems will be affected by changes. GE asked if the xoserve changes would be part of a bundled release. TD advised that this was not feasible for the February 2007 UK Link changes as the require date for notice had already passed.

JMc confirmed that Ofgem would support structural changes to charges in April, in response to TD's request for an indication as to whether Ofgem would allow a move away form the once a year change permitted by GT Licences.

2.2 PDDN01: Interruption Charging Methodology Options for UNC Mod 0090

SA gave the presentation on behalf of all DNs, and advised that, although the closing date for responses had been set at 11 October, responses to this paper would be accepted up to the end of the week.

SA stated that the methodology was based on payments to Shippers and not on transportation charges.

Feedback was being sought on the issues set out on Slide 9 (*Issues for any pricing method*), in particular the degree of flexibility and complexity that might be useful to Shippers and their customers.

SA went on to describe and explain the three options under consideration. A summary of the views being sought was presented on Slide 15, and in the discussion that followed the observation was made that a 5 year offer should be considered differently from a 1 year offer, and may have a different value attributed to it by the DNs.

It was recognised that the level of sophistication of a customer affected the customer's viewpoint on Interruption. Larger customers were likely to favour the open tender approach whereas smaller customers were more likely to prefer Firm status. It was acknowledged that complexity was definitely an issue, but also that perhaps there was an onus on DNs to educate larger customers. It was thought that an administered price could be better for smaller customers.

SA recognised that there were different types of customer with differing levels of sophistication, but was trying to take a wider perspective to deliver a more efficient and economic system, and was looking for feedback from Shippers and Consumers so that the best option could be established. LG commented that currently Shippers and customers must consider what the value of Interruption is to them before making a business decision, and it may not need that much more work to bring customers to a more sophisticated viewpoint as to the benefit of being Interruptible.

TD advised that in other industry meetings at various levels, a widely held view had been expressed that customers would not employ extra resources/time to work out the benefits of Interruption, and would therefore go Firm.

SA reiterated that views were sought on all options to ascertain the appropriate pricing structure and which approach would be of most benefit to customers.

There was a further discussion on the hybrid option, which appeared to militate against full price discovery. An upper limit may be determined by the cost of pipeline investment, but this may be the level at which bids will come in.

Consumers and Shippers were concerned at DNs being protected in the case of NSLs' wielding market power – arguing there should be no protection other than investment. Ofgem commented that incentive structures and allowance would encourage DNs to minimise the costs.

TD asked for an indication (high level) of the meeting's views on points set out on Slide 15. SL thought that an open tender was the 'least bad', the others being flawed. It was thought that certain customers could develop a full tender, but others would not enter the process but instead go firm. SA wondered if Shippers could help their customers to develop bids etc.

In response to a question on the potential use of more than one approach SA was of the view that a single approach was to be preferred, and in answer to questions relating to selection, SA advised that selection was likely to be based on operational requirements.

TD asked the meeting if tenders would require significantly more work than the administered price approach. There was a view that given that the current status of customers could be seen to be the result of economic irrationality and inertia, a commencement of a reassessment of their position would quickly discourage them as it would it soon become clear it would be too much work to quantify any benefits.

JC asked how much less Interruption is going to be needed? Were there some areas in which Interruption would no longer be required? DA commented that analysis was being done, but Interruption would still be required in various areas. SA asked if it was thought that there was less reason in the future for being Interruptible? JC thought that in practice the loss of Interruptible customers at this point in time may mean that the customers never wish to revert to Interruptible status again. SA thought that this would depend on area and could be offset by any future new customers' business decisions, etc.

TD questioned which was more important to a site - the Exercise or the Option fee PB thought that probably the Option fee was more important.

GE was concerned that there may be too many variables in the tender process, and wondered how the DNs were going to balance this out? SA said this would be driven by operational requirements, and the cheapest way of achieving that. An administered approach would help this, but did not allow for much price discovery. GE observed that given there may be a movement away from an administered approach, it may be better to change only one or two variables at a time. RCH agreed that fewer variables would be better.

It was also observed that inexperience and the provision of very few guidelines will not help the bid process.

TD asked for the meeting's views on frequency of tenders - once a year or every five years? SA advised 5 year contracts were preferred. It was observed that price discovery or learning experience would not be very useful if the occurrence was limited to once every 5 years. SA thought that from a consumer point of view a 5 year period would give more stability. TD commented that most businesses would find it hard to commit to anything 5 years out.

If there was a poor response to tenders SA agreed that alternative ways would be considered – build pipes, use other tools, repeat the process, etc.

TD requested clarity on next steps from SA:

- **Action 0001:** SA to send out note extending the deadline for responses to end of week. JO or SA to receive responses.
- Summary produced for Modification Panel meeting next Thursday, informing decisions on Mod 0090
- Formal consultation paper to be issued following Modification Panel Decision.

3. Any Other Business

JC asked how NTS charges would be passed through to DN connected customers – they would appreciate some indication sooner rather than later.

SA agreed to consider this.

Action 0002: SA to consider how DNs will pass-through NTS charges

Action Table (Appendix 1)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0001	10/10/06	2.2	SA to send out note extending the deadline for responses to end of week. (JO to receive responses.)	SA	
0002	10/10/06	3	DNs to consider how DNs will pass-through NTS charges	SA	