

## IDNO/DNO Steering group minutes 2 June

IDNO/DNO 'without prejudice' Steering group meeting to progress the development of enduring IDNO UoS charging methodology.	From Date and time of Meeting Location	Mark Askew 2 June 2009, 2pm Millbank	5 June 2009
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### 1. Present

Mike Harding	ENC
Robert Wallace	ESP Electricity
Mo Sukumaran	SSE
Harvey Jones	CE Electric
Peter Collinson	CE Electric
Oliver Day	EDF
Maria Liendo	Scottish Power
Andrew Neves	Central Networks
Simon Brooke	ENW
Peter Trafford	Ofgem
Mathieu Pearson	Ofgem
Mark Askew	Ofgem
Gareth Jones	IPNL
Franck Latremoliere	Reckon LLP

### 2. Summary of actions from last meeting

2.1. MA ran through the minutes of the previous meeting highlighting the actions. Ofgem had taken an action to contact parties who had expressed reservations over moving the meeting to a more open format. These parties had been contacted with a proposal that the agenda and minutes of the meeting were published on Ofgem's website. No party had objected and the agenda for this meeting was now available on Ofgem's website.  
<http://www.ofgem.gov.uk/NETWORKS/ELECDIST/POLICY/IDNOS/Pages/IDNOs.aspx>

2.2. Ofgem also agreed to consider CE's request for an Ofgem legal advisor to attend the Steering group meetings and advise if conversation risked being perceived as contravening the Competition Act (1998). MA confirmed that Ofgem did not have the resources to provide such a legal advisor. If parties felt that they were exposing themselves to a potential breach of competition law then they should take their own legal advice and Ofgem will also endeavour to provide feedback to the group on any such issues.

2.3. ML had circulated a brief outline paper and MH a more substantial paper, to be discussed later in the meeting to fulfil the action to develop a straw man for portfolio billing.

2.4. Ofgem had completed their action to circulate questions on Portfolio Vs Banding and that all DNOs had responded to these questions.

2.5. The final action from the previous meeting rested with DNOs and IDNOs to submit their thoughts on LV boundary metering to Ofgem. No comments had been received, but Ofgem felt well informed over the opinions parties held. However, if any party wanted to

formally submit their views on LV boundary metering to Ofgem, they would be gratefully received.

### 3. Ofgem slides on Portfolio Vs Banding

3.1. MA ran through the slides which Ofgem had previously circulated around the group. He summarised that there were arguments for both approaches but on balance Ofgem was minded to state that portfolio tariffs were more appropriate. This was due to their ability to match an average end user charge with an average boundary charge and mimic the tariff structure of the all the way charge in the boundary charge. MA also stated that under a portfolio approach the IDNO is guaranteed a certain gross margin per plot. The certainty that this provides is likely to encourage competition to develop in distribution.

3.2. Ofgem considered that IDNOs should still make some contribution to the LV costs in the same way that an end customer would. As such IDNOs should pay for their average use of the LV network which in reality relates to the average use of the LV main.

3.3. MA outlined that there were three different methods which had been proposed to calculate the proportion of the LV main for which the IDNO should pay. These were capacity, distance and distance per end user. In order to maintain the same principle of sharing LV costs between all end users, Ofgem considered that the distance of LV main per end user appeared to be the most appropriate method. This method would be based on the average length of LV mains provided by the DNO per IDNO end user as a proportion of average length of LV mains per DNO end user.

3.4. MA added that this method was identical to the one being developed by DNOs for the enduring solution but stated that Ofgem would be looking for all DNOs (supported by IDNOs where data was required) to submit the results of the above method to them in order to check that it produces sensible results across all DNOs.

3.5. MH stated that the proportion of LV main per end user could vary between different DNO areas affecting IDNO margins. ML stated her preference for a GB wide average figure to be used. SB and OD stated that they could see the arguments for a GB wide figure, but they were content that they had enough information within their own DSAs to produce a sensible, reliable result. PT stated that Ofgem had not undertaken extensive thinking on this matter but his initial thoughts were that DNOs should use their own specific data to calculate tariffs. Arrangements may need to be made for those DSA areas where there were too few IDNOs to make as sensible calculation. DNOs agreed to send individual DNO calculations to Ofgem so that the range of results could be seen.

**Action: DNOs to submit to Ofgem their individual calculations of average length of LV mains provided by DNO per IDNO end user as a proportion of the average length of LV main per DNO end user. IDNOs to provide data as required.**

3.6. OD enquired as to Ofgem's stance on calculating the proportion of HV costs which IDNOs should pay. PT stated that WPD had a method of calculating this in their interim modification report and suggested that would be a good starting point for further discussion.

### 4. Update from WS2 – cost allocation developments

4.1. ML stated that work was continuing in WS2 on the development of enduring IDNO charges and that this work was following the same timeframe as the work on end user charges since the two were interdependent. She thanked Ofgem for their feedback on the portfolio vs banding issue. She stated that the DNOs would be issuing a four week consultation on 12 June which would include IDNO tariffs for each DNO area. She also stated that there would be a workshop on 25 June where the common methodology

(including IDNO charges) would be explained to stakeholders and where there would be a chance to ask questions.

4.2. PT enquired if the group felt it would be useful to have a presentation of the DNO proposals, at the next steering group meeting, as it was midway through the consultation period. ML replied that it didn't seem to be an efficient use of time as the planned workshop for all stakeholders was two days later which covered the same issues. PT stated that it may be useful to have an IDNO specific charging session at the steering group. MH expressed some concern that insufficient attention would be given to IDNO issues in a full stakeholder session.

**Action: Ofgem to consider whether Steering group meeting on 23 June is required given Common methodology workshop on 25 June**

4.3. GJ enquired whether the DNOs consultation document would include cost data so that IDNOs could calculate the difference between different methods of allocation. ML said she could see the merits in doing this and that the DNOs would try to publish as much data as possible in the consultation.

## **5. Discussion of strawmen portfolio billing arrangements**

5.1. MH briefly ran over his paper which he had circulated to the group and outlined how he felt the governance for a portfolio billing system should be covered within DCUSA and a code of practice referenced in DCUSA. The group agreed **that DCUSA would be the best place to detail the governance and that the process needed to be agreed before drafting amendments** to DCUSA could be proposed.

5.2. ML stated that her paper outlined the separate issues which needed to be addressed for a portfolio based system to operate. The DNOs would deal with these issues in WS2 whilst the common methodology was out for consultation. She stated that DNOs would need IDNO representation to assist them with this work. All other DNOs concurred and stated that a progress report would still be provided to the Steering group and decisions could be taken by the Steering group but the detailed discussions had to take place in WS2.

5.3. IDNOs agreed to participate in WS2 discussions on portfolio billing provided that updates are given to the Steering group and decisions are taken with the agreement of the Steering group.

**Action: IDNOs to attend WS2 to advance portfolio billing arrangements**

5.4. The DNOs also stated that they would like someone from Ofgem to attend the WS2 meetings on portfolio billing. PT stated that he would have to consider this request.

**Action: Ofgem to consider request to attend WS2 meetings on portfolio billing**

## **6. A.O.B.**

6.1. MH raised the topic of EHV IDNO charges and stated that whilst the common methodology work was dealing with HV/LV IDNOs there should be some consideration given to EHV IDNO charges at some point in the future.

6.2. SB replied that Ofgem were giving a presentation to DCMF on 4 June concerning the way forward with EHV charges and it may be best to raise these points at that meeting. MH agreed but stated that this group was the place to address IDNO concerns over charges and that there remained some concerns over EHV charges which, at present, were not being dealt with.

6.3. PT then stated that Ofgem had received interim modifications from WPD and ENW and were aware of CE's situation. He asked the other DNOs to state when they would be submitting. SSE said that they were still going through internal processes but hoped to submit in the next week or so. EDF stated that they would be submitting after 12 June, CN stated end of the week and SP that they still wished to submit at the end of June.

6.4. PT stated that Ofgem was concerned that some DNOs had yet to submit their interim modifications which were supposed to be implemented in April. Rachel Fletcher had attended the Steering group in April and given a clear message that this work should be a priority for DNOs and yet we are now in June and most DNOs have still failed to submit their interim mods.

### **Dates of future meetings**

23 June pm

7 July pm

28 July pm

18 August pm