

DNO/IDNO Steering group minutes 14 July

Notes from the IDNO/DNO steering group meeting on 14 July

From

Mark Askew

17 July 2009

1. Present

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

2. Update on Interim mods

2.1 MA gave an update on the status of interim modifications received. He recapped that Ofgem had received proposals from WPD (not vetoed) and ENW (consultation ongoing) and that on the 18 June Rachel Fletcher wrote to all those DNOs who had failed to submit either a draft or formal interim modifications. Since then Ofgem had been in contact with all these DNOs and had recently received formal proposals from CE, EDF and CN. Ofgem was still in discussion with EDF and CN over the wording contained in their modification reports but this should be ironed out in the next couple of days. Ofgem had seen evidence of work from the remaining DNOs (SSE & SP). MS stated that SSE should be submitting next week.

3. CMG consultation

3.1 AN gave an update on behalf of the DNOs. On 12 June the ENA published a consultation based on the CDCM (Common Distribution Charging Methodology) they had been modelling to date. DNOs are required by a new licence obligation to submit a methodology which was likely to be acceptable to Ofgem by 1 September 2009. On 3 July the DNOs received a 'minded to' decision from Ofgem that they were unlikely to accept a model which gave such a high value to replacement costs and that one option open to DNOs would be to remove these costs. AN explained that removing these costs has a dramatic impact on IDNO margins and so the DNOs decided that it was fair to allow IDNOs and other stakeholders a chance to comment on the new outputs of the model when replacement costs are removed. Consequently, the DNOs published a new appendix to their consultation on 8 July.

3.2 MH asked Ofgem what drove them to take the 'minded to' decision on replacement costs. MC stated that the weighting given to replacement costs appeared to distort the

economic signals generated by an incremental model. He said that these signals were crucial in promoting an efficient use of the system by users of the network. PT stated that the context of Ofgem's decision should be seen from an end user view point and that Ofgem were not saying that replacement costs should not be included in an IDNO charging methodology. He explained that the impact on IDNO margins was a consequence of the DNOs using the same model for both end user and IDNO charges. He said that Ofgem had never specified that the same model should be used for both IDNOs and end users.

3.3 ML stated that the DNOs had considered that by using a methodology which included all costs they could demonstrate which costs were relevant to IDNOs and which were not. She said that there were now 3 options open to the DNOs; 1) have a version of the methodology which includes replacement costs for IDNOs and a version which doesn't for end users; 2) move to a completely separate model for IDNO charging along the line of one of the interim modifications – possibly WPD's; or 3) Apply for a derogation against the licence obligation to submit a common IDNO charging methodology by 1 September. ML stated that there was no certainty that the 1st option could indeed be modelled or that the 2nd option would be agreeable to all DNOs.

3.4 MC asked DNOs for clarification that there wasn't a 4th option – to use the CDCM with replacement costs removed for both IDNOs and end users. ML stated that this did not seem an option that SP would be comfortable with. MS supported this view but did say that there were still some refinements which needed to be made to the model and subsequently the margins for IDNOs were likely to change from those seen in the 8 July appendix.

3.5 PT enquired what the DNOs next steps were for IDNO charging and what the steering group could do to assist. ML stated that the DNOs were looking to Ofgem for guidance as they were currently stuck between complying with their licence obligation to submit a methodology by 1 September which Ofgem is likely to accept and also to comply with competition law. She requested Ofgem to provide a steer as to whether there was any merit in retaining a version of the CDCM for IDNOs which included replacement costs given that the CDCM was based on an incremental model.

Action: Ofgem to consider DNO's request for guidance.

4. Portfolio billing arrangements

4.1 MA stated that Ofgem had previously said it was considering a review of the need for boundary metering and who should pay for boundary equipment. Ofgem was looking for more information from DNOs and IDNOs to inform this consultation. To this end an information request would shortly be circulated to the group asking parties what boundary equipment was installed under different circumstances and why. This request would also ask what the cost of procuring this equipment was and the annual maintenance cost. MA also stated that Ofgem would be looking for any quantitative data illustrating the benefits of boundary metering over other solutions.

4.2 RW asked how long parties would have to respond to the request and when the consultation would be likely to go out. MA replied that parties would have 2 weeks to respond and that Ofgem were aiming for the consultation to go out in middle to late August.

4.3 FL gave an update on portfolio billing arrangements in WS2. He stated that the group would shortly be publishing a consultation outlining the arrangements for portfolio billing and urged IDNOs to respond to this. ML stated that two IDNOs were now fully integrated into WS2 and contributing to the consultation. FL stated that on Monday 20 July WS2 would be walking through the data flows and reconciliation associated with portfolio billing and this may be a useful background for parties to have prior to responding to the consultation.

4.4 PT invited those IDNOs who hadn't been involved in WS2 to comment on the process. MH said that he had some concerns with the direction of the group. He stated that if boundary metering was to be required in all circumstances then it may not be economically efficient to have a complicated system of data flows, requiring a 3rd party agent. SB replied that he agreed with this view but that WS2 was not the place to decide whether boundary metering was required and they had to develop a system in a short space of time which would work with or without boundary metering.

4.5 FL expressed some concern that Ofgem were not happy with the proposals for portfolio billing which were being proposed. MA replied that Ofgem's comments in WS2 had merely been to ensure that the consultation included all background material on how DNOs had developed the proposals and what benefits this proposal has over other options which have been discussed. MC stated that it seemed important for the consultation to include the costs and benefits of different options and that it would also seem sensible to consult on who should fund the 3rd party agent required by the proposal.

5. A.O.B.

5.1 CL raised the fact that from April 2010, IDNOs were being asked to pay network rates which would become a fixed cost of operating a network. He asked that DNOs should bear this in mind in developing IDNO charging proposals.