

UNC DNCMF Workgroup Minutes
Tuesday 23 June 2020
Via Microsoft Teams

Attendees

Lorraine O'Shaughnessy (Chair)	(LOS)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Barney Gilmore	(BG)	EDF Energy
Brandon Rodrigues	(BR)	ESP Pipelines
Carlos Aguirre	(CA)	Pavilion Energy
Cristian Nitsch	(CN)	Pavilion Energy
David Mitchell	(DM)	SGN
Drew Sambridge	(DS)	Cadent
George Moran	(GM)	Centrica
Ingrid Manson	(IP)	Pavilion Energy
Jonathan Trapps	(JT)	Northern Gas Networks
Mark Jones	(MJ)	SSE
Matthew Atkinson	(MA)	Gazprom
Megan Coventry	(MC)	SSE
Nelly Tcheeko	(NT)	Engie Global Markets
Niall Coyle	(NC)	E.ON
Nic Horsfield	(NH)	Mercatis Law
Nicky White	(NW)	Npower
Nitin Prajapati	(NP)	Cadent
Paul Whitton	(PW)	SGN
Paul Youngman	(PY)	Drax Power
Smitha Coughlan	(SC)	Wales & West Utilities
Stephen Cross	(SC)	SGN
Tom Breckwoldt	(TB)	Gazprom

Copies of all papers are available at: <https://www.gasgovernance.co.uk/dncmf/230620>

1. Introduction and Status Review

Lorraine O'Shaughnessy (LOS) welcomed all to the meeting and confirmed the meeting to be quorate.

1.1. Approval of Minutes (24 March 2020)

The minutes from the previous meeting were approved.

1.2. Review of Outstanding Actions

0301: All DNs to provide an update on the re-organised open hearing for GDNs.

Update: Smith Coughlan (SC) confirmed the rescheduled dates for open hearings have not yet been confirmed by Ofgem. The latest expectation was that hearings would be held in July / August. LOS encouraged parties to monitor the information on the Ofgem website at: <https://www.ofgem.gov.uk/regulating-energy-networks/network-price-controls-2021-riio-2>.

Closed.

1.3. Pre-Modification discussions

None to consider.

2. Allowed and Collected DN Revenue (MOD0186) Reports

Copies of the full reports are available at: <http://www.gasgovernance.co.uk/dnrevenue-reports>

Copies of the presentation slides are available at: <https://www.gasgovernance.co.uk/dncmf/230620>

2.1. Scotia Gas Networks (SGN)

Paul Whitton (PW) provided a brief overview of SGN's revenue report focusing on the key revenue changes. These were an updated inflation forecast, an updated forecast on Exit Capacity bookings, Shrinkage gas prices, a revised forecast for 2019/20 and the latest view of the 2019/20 collected revenue.

PW confirmed that SGN have:

- Updated inflation in line with May 2020 Treasury forecast.
- Updated Exit Capacity bookings to reflect Modification 0678A prices.
- Updated the Shrinkage Gas incentive reflecting the 2020/21 latest gas price forecast and the final 2019/20 position showing a reduction in incentive from the previous forecast.
- Revised the Final view of 2019/20 collected revenue,

Paul Youngman (PY) enquired about the NTS Exit Capacity Revenue Cost adjustment and the impacts on costs for 2022/23 due to the change in methodology. PY wished to understand why there was a smaller impact for Southern compared to Scotland. PW explained the update to the Capacity bookings for the year for both Southern and Scotland and the in-year adjustment.

2.2. Wales & West Utilities (WWU)

Smitha Coughlan (SC) provided an overview of WWU's revenue report, highlighting the key changes with the provision of a spreadsheet and summarising the movements since March 2020.

SC provided an overview on the:

- Collected Revenue, and the over collection to be handed back 2021/22, relating to AQ changes.
- Updated Gas Price forecasts, with a decrease in the long-term forecast.
- Updated Theft of Gas forecast to reflect revenue recovered 2019/20.
- NTS Exit Capacity costs to reflect the NTS final postage stamp methodology forecast.
- Interest Rate decrease of 0.1%

PY enquired about the 2021-22 NTS costs and what these related to. SC explained that the base allowance increased due to the cost forecast increasing.

SC also reported:

- Following Ofgem's approval of Modification 0678A, the NTS price notice had been published. This had resulted in some large movements with prices increasing around 14% for the period October 2020 - September 2021, compared with the prices generated by the National Grid sensitivity tool published in March 2019 as part of the 0678A Workgroup. The price increase reflects an NTS revenue under collection in the period April to September 2020.
- An update to the 2020/21 Collected Revenue following price changes and a number of AQ errors that had been corrected in June.
- That Gas price forecasts continue to decrease, increasing negative cost true up.
- That no dates had been scheduled for the RIIO-GD2 open hearings, however the draft determinations were due in July.

2.3. Cadent

Nitin Prajapati (NP) provided an overview of Cadent's revenue report. The key updates NP wished to note for June 2020 were:

- An updated 2020/21 revenue forecast to refresh information on the first set of invoices for the formula year and the impact of a Shipper moving part of their portfolio to another Shipper, reducing Aqs and Peak Day Capacity Requirements (SOQs)
- There was no change to the RIIO-GD2 forecast previously provided.

NP provided a breakdown of the Summary Position and Collected Revenue, explaining the changes from the March forecast. NP explained as a result of COVID-19, Cadent were aware of a reduction in demand from I&C customers and were working on better understanding the impact of this. NP explained that the Commodity Revenue was lower than forecasted due to warmer weather in April and lower I&C usage as a result of COVID-19.

PY enquired about Cadent not providing an update relating to Modification 0678A and a view of costs to reflect the NTS final postage stamp methodology forecast. NP explained that Cadent are not changing the forecasts for RIIO-GD2 at this time however they plan to update the forecast when they have a better view of how the forecast will change. PY expressed concern about the inconsistency between network reporting

Drew Sambridge (DS) explained this is highly speculative at the moment, there are lots of variables changing, and Cadent are awaiting feedback on the draft determinations. PY explained the need to undertake an assessment of risk and was concerned that other DNs were providing information. NP clarified that Cadent have provided a breakdown for RIIO within the Revenue Report (published at: <https://www.gasgovernance.co.uk/DNRevenueReports/2020June>).

Niall Coyle (NC) enquired if this reflects the postage stamp methodology. It was confirmed that Cadent had not updated postage stamp for RIIO-GD2. It was suggested that Cadent should publish the information as soon as possible on the cost impacts

New Action 0601: Cadent (NP) to provide a Postage Stamp Charges update, for publication alongside the DN Revenue Reports.

Tom Breckwoldt (TB) asked for more information on the Shipper Portfolio change, and how this came about. NP explained that one Shipper had set a part of their portfolio to another Shipper and reviewed the portfolio's SOQ reducing the peak day capacity requirements. NP confirmed that Cadent are working with Xoserve to understand the changes in demand, to better understand the impacts.

George Moran (GM) enquired if there had been any discussions with Ofgem about setting the 1st Year Revenue allowance. GM referred to the Electricity market and that Ofgem had agreed to fix the 1st Year in the draft determinations and for the residual difference to be smoothed over the 2 to 8 Years to give the industry some certainty over price. NP explained there is a draft determination with collective dialogue, the actual draft determination and material is expected to be released on 6th July. However, no discussions have taken place as of yet, as the industry need final dialogue on the determinations.

Jonathan Trapps (JT) confirmed that he had emailed Ofgem raising a number of questions about the certainty on key areas. DS and NP agreed that more clarity is required

2.4. Northern Gas Networks (NGN)

Jon Trapps (JT) provided an overview of NGN's revenue reporting the key movements from March to June, confirming from the supporting notes that NGN have:

- Continued to include all the GD2 years in the DN Revenue Reports and that the Bid Proposal submission (Appendix A33) now includes an estimate of additional allowances to match the latest NTS prices published for the new Exit Capacity methodology.
- For the purposes of the presentation, discounted the plan numbers submitted in 2018/19 prices back to the 2009/10 prices for the DN Revenue methodology and comparison to GD1.
- Included the Customer bill data within the business plan submission, to include the effects of Exit Capacity charges to highlight the total customer bill, noting that the Revenue Report/ statement per current methodology always excludes Exit).
- Noted that GD2 years base revenues are inflated using CPI which is around 1% lower than RPI data.
- Updated the long-term gas prices, which was lower than the assumed values in the GD2 business plan, presenting a 2-year true up. It was anticipated that the final data maybe rebased to reflect latest prices.
- Noted that the implementation of Modification 0678A will result in NGN incurring additional costs of around £15m during October 2020 and March 2021, (Compared against March)

and will result on a revenue catch up of 2 years later in 2022/23 (assuming Ofgem will continue with the 2 year lag licence methodology).

JT asked parties to note that NGN will not finalise all 2019/20 true ups that feed 2021/22 revenue until RRP is completed which is now due by 31 August. The next update should also be inclusive of Initial Proposals which are published on 09 July.

3. NTS Charging Modification Update

LOS provided a brief update on the progress of Modification 0678 - Amendments to Gas Transmission Charging Regime, which was approved for implementation with an effective date of 01 October 2020. LOS advised of a further 5 Urgent Modifications (Modifications 0728/A/B/C/D - Introduction of a Conditional Discount for Avoiding Inefficient Bypass of the NTS) which are currently out for consultation ending at 5pm on 26 June.

PY also noted Modification 0727 (Urgent) - Increasing the Storage Transmission Capacity Charge Discount to 80%.

TB asked if there were any comments on the Networks in regard to recovering charges for postage stamp and enquired if all the exits zone should have similar if not the same Charges. Paul Whitton (PW) explained that the calculation of demand at each offtake (LDZ zones) and that these may not align.

4. Supplier of Last Resort (SoLR) Modification 0687 Update

LOS noted that Modification 0687 - Creation of new charge to recover Last Resort Supply Payments, remains with Ofgem for a decision following the UNC Panel's recommendation to implement and asked if anyone had any further questions to raise relating to this Modification. No further comments were provided

5. New Issues

No new issues raised.

6. Any Other Business

None raised.

7. Diary Planning

Further details of planned meetings are available at: <https://www.gasgovernance.co.uk/events-calendar/month>

Time / Date	Venue	Workgroup Programme
10:00-12:30 Tuesday 22 September 2020	Teleconference 0203 443 9666, Conference ID 565 115 535# Join Microsoft Teams Meeting	Allowed and Collected DN Revenue
10:30-12:30 Tuesday 11 January 2021	Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	Allowed and Collected DN Revenue

Action Table (as at 26 June 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0301	24/03/20	3.0	All DNs to provide an update on the re-organised open hearing for GDNs.	All DNs	Closed

Action Table (as at 26 June 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0601	26/06/20	2.3	Cadent (NP) to provide a Postage Stamp Charges update, for publication alongside the DN Revenue Reports.	Cadent (NP)	Pending