

UNC Workgroup 0857
Revision to the Determination of Non-Transmission Services Gas
Year Target Revenue
Tuesday 05 December 2023
Via Microsoft Teams

Attendees		
Eric Fowler (Chair)	(HC)	Joint Office
Tanaka Tizirai (Secretary)	(TT)	Joint Office
Alex Nield	(AN)	Storengy
Alistair Craig	(AC)	Ofgem
Amy Howarth	(AH)	Storengy
Anna Shrigley	(AS)	Eni
Anthony Miller	(AM)	South Hook Gas
Ash Adams	(AA)	National Gas Transmission
Brian McGlinchey	(BM)	Pavilion Energy
Carlos Aguirre	(CA)	Pavilion Energy
Chris Wright	(CWr)	Exxon Mobil
Colin Williams	(CWl)	National Gas Transmission
David Bayliss	(DB)	National Gas Transmission
Daniel Wilkinson	(DW)	EDF
Emma Robinson	(ER)	E.ON
Joseph Glews	(JG)	Ofgem
Julie Cox	(JCx)	Energy UK
Karen Cashio	(KC)	Ofgem
Kieran McGoldrick	(KM)	National Gas Transmission
Lauren Jauss	(LJ)	RWE
Nathan Li	(LN)	Engie UK Power Ltd
Mariachiara Zennaro	(MZ)	Centrica
Marion Joste	(MJ)	Eni
Nick Wye	(NW)	Waters Wye Associates
Nigel Sisman	(NS)	Sisman Consult
Oliver Weston	(OW)	Ofgem
Oreoluwa Ogundipe	(OO)	Interconnector
Richard Fairholme	(RF)	Uniper
Richard Hewitt	(RH)	Observer Hewitt Home and Energy Solutions
<p><i>Please note that NTSCMF meetings will be quorate where there are at least six participants attending, of which at least two shall be Shipper Users and one Transporter is in attendance.</i></p> <p><i>Please note these minutes do not replicate/include detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of all papers are available at: https://www.gasgovernance.co.uk/0857/051223</i></p>		

1. Introduction and Status Review

Eric Fowler (EF) welcomed delegates to the meeting.

1.1. Approval of Minutes (07 November 2023)

The minutes from the 7th of November 2023 meeting were amended following Ash Adams (AA) of National Gas Transmission providing clarificatory amendments. The Workgroup considered and approved the amended minutes.

1.2. Approval of Late Papers

None

1.3. Review of Outstanding Actions

Action 1101: NGT (CWi) to provide an explanation of transparency and how to track values to give confidence in the process.

Update: Ash Adams (AA) presented an overview of the published General Non-Transmission Charge Model excel spreadsheet. The main purposes of the presentation was to provide clarity and transparency on how the proposed methodology would work under MOD0857. AA pointed out that the format will allow people to play around with the document and test for sensitivities themselves. He explained that the aim of the model is to show how the key inputs follow through to determine the gas year target revenue and the general non-transmission services price.

AA mentioned that in order for the iterative process which determines “K” to work automatically, individuals should enable iterative calculations in excel. To do so, you will need to go to ‘file’> ‘options’> ‘formulas’ and tick the ‘iterative calculations box’ to enable.

AA explained that the numbers relating to the revenues do not match exactly the figures in the PCFM on Ofgem’s webpage because the figures in the model take into account the updated forecasts and shrinkage costs. He further noted that they publish those values as part of charge setting every year and they can be found in the notice of charges on NGT’s transmission charging webpage.

For a specific link to the webpage, please see: [Transmission system charges | National Gas](#)

Julie Cox (JC) raised a question regarding the timings of the final notices on the NGT’s transmission system charges webpage. She noted that the latest final notice is dated July 2023 and provides two months of changes to be applied in October 2023. JC sought clarification as to when NGT would update their shrinkage forecasts year-on-year.

AA confirmed that for the years beyond the current formula year, they would also include an updated forecast for shrinkage costs.

JC asked whether for the year starting in October, the values might be known before July?

AA explained that for the current year, the values set out within the PCFM would be those used by NGT i.e. year T. However, for the indicative years they would use the updated values which are based on the best available information at the time.

JC asked whether it is correct that the PCFM would be released by NGT around the month of December.

AA confirmed that the first submission would be in December, but there is a facility to do a re-submission in May, subject to there being material reasons for change.

JC stated that Shippers seeking to undertake tariff settings for October would have the revenue figures by the end of May, but not the shrinkage figures or the adjustment to the revenue figures. JC highlight that the sort of transparency needed, is to understand where the figures come from; when they will be available; whether they may subsequently change; and when do NGT have confidence in them.

Colin Williams (CWi) explained that there is a mixture between certainty and confidence. He noted that when NGT set the prices, they are tied to the latest PCFM and for the futures years NGT has the scope to adjust (e.g. shrinkage) and indication of this would be given within the non-transmission tariffs. He further explained that with respect to the PCFMs for this year, the timings have been slightly adjusted i.e. the submission will be made this December and published January 2024 by Ofgem. If no materiality thresholds are met between now and 6th May 2024; then the values published in January 2024 would be those which NGT will use to set the tariffs. However, if materiality thresholds are met, NGT will have an opportunity to request a re-publication by 6 May 2024, and Ofgem will have until the end of May to republish if they agree.

JC asked what the materiality thresholds are.

CWi explained that the materiality test has changed this year, it used to be a financial number (e.g. £10 million) but now is 3% of the allowed revenue (i.e. 3% of TO or 3% of SO). If the total value of each changes by more than 3%, NGT will have an opportunity to request a re-publication.

JC enquired whether industry has been informed about these changes. CWi believed that those changes likely would have been published on Ofgem's website. CWi elaborated that NGT will not know with absolute certainty until May in respect of the revenues to be used. However, NGT will know whether NGT is seeking re-publication or not. By the end of May, we would know what those exact value would be for the immediate year.

JC asked whether that would also include the shrinkage / adjustment values?

CWi explained that shrinkage would form part of the re-publication consideration. However, for the future years, NGT has the scope to change those values.

JC asked, if NGT is aware of this by the end of May, why can they not set the tariffs in June alongside the capacity charges which they set at the beginning of June. Doing so would provide industry more notice, allowing them to better set their tariffs.

David Bayliss (DB) explained that NGT would only have the revenue values at the end of May, whilst the through-put and the other supporting data would not be available until the end of June. He noted that there are significant benefits of NGT using the very latest data at the time when they set the tariff charges. Although, he appreciates that the advantages for the shippers and suppliers obtaining the data at the earliest point possible.

JC suggested that it would be beneficial to consider the process being carried out earlier than the status-quo. She noted that it would be interesting to understand Ofgem's point of view on this aspect, considering the impact on consumers.

Lauren Jauss (LJ) articulated whether it is better to wait until later to ensure that the charges are as accurate as possible or to fix the charges earlier but the increased risk of over or under recovery. She identified that if the difference between setting the charges earlier or later is a certain value; users have to price that amount into their trading and enterprise due to the uncertainty. She noted that when considering whole end-to-end cost efficiency, it may be best for rates to be fixed earlier.

EF paraphrased the point that if there is uncertainty, then Users have to price in the risk, and that risk premium gets paid for by customers. An earlier price setting will reduce the risk premium and provide better certainty for the consumer but may then result in any cost changes that have to flow through NGT's mechanism, adding to the problem that this Mod is trying to solve.

Nigel Sisman (NS) supported the comments made by JC, and added that it is good to see an explanation of how the process works, as it allows for the gaps in the process to be observed. NS highlighted that the values for the SO MAR value for Formula Year t will be reconcilable against a published PCFM but that for FY t+1 and later years will not be. What is important that there is transparency about both the numbers NGT uses and both qualitative and quantitative assumptions for the NG forecasts are made available.

NS further highlighted another major input to the calculation, that relating to the demand projections on six monthly basis. He noted that NGT indicated that if they were to go backwards they would have to use an earlier forecast. However, NS highlighted that there is an earlier forecast of demand which is feeding into the FCC, and this influences the transmission service charging. Therefore, he noted that there is an inconsistency between the two charge setting processes. He acknowledged that there is a reason for NGT's approach, as they are trying to carry out the calculations for the non-transmission later, on the basis of better information. However, industry needs to consider whether that is a sensible approach or whether it is best to bring the process forward.

CWi confirmed that as far as the revenues, the PCFM process is strict, and they must use that. However, for subsequent years, it is not as prescriptive and they would have a degree of flexibility, but typically they would only change the shrinkage values.

NS sought clarity as to whether it would make more sense to undertake the projections and thus have the consistency and forecasting base for both the immediate and subsequent years.

CWi explained that the PCFM concludes at the end of May in respect of NGT. However, for future years NGT can use its discretion and not be limited to the timescales prescribed by the PCFM.

AA continued with the provision of the presentation and running through the calculations/data.

NS noted that the published model had inconsistent values for meter maintenance adjustment and NTS Metering Revenue Expected (Annual). NG was asked if there was a reason for the apparent disparity.

DB indicated that it was undertaking an internal review of the spreadsheet model and acknowledged the errors would be corrected.

NS further accepted that NG did not wish to change its proposal but again raised the issue about whether the iterative nature of the derived k approach had sufficient merit to warrant inclusion given the "black box" nature of the calculation. He also repeated his suggestion that a better Seasonal Allocation Factor could be defined by reference to Formula Year t+1 rather than G y. He noted that he endorsed the approach drafted by Charles Wood in the context of UNC0796 and which had only been changed on the morning of the final UNC0796 Workgroup meeting.

2. Conclusion of Workgroup Report

The Chair presented the current version of the Workgroup report and ran through each section with the Workgroup for their consideration and comments.

The Workgroup agreed that the securing of effective competition between relevant shippers was the best relevant objective for this modification. However, they do not think that the impact/improvements provided by this modification are beyond marginal, however, there are no negative impacts arising from the modification was raised.

NS further noted that we all know that the proposed modification is far from the best one but that it delivers on the intent and is helpful for regime function. However, it is far from clear whether it enhances the prospect of competition between shippers. He noted that the Workgroup members never connected the benefits of the proposal with the RO in a convincing manner.

Next Steps

The Workgroup Report will be published and submitted to the December Modification Panel meeting.

3. Any Other Business

None.

4. Diary Planning

No further meetings

0857 Action Table						
Action Ref	Meeting Date	Min Ref	Action	Reporting Month	Owner	Status Update
1101	07/11/23	5.0	NGT (CWi) to provide an explanation of transparency and how to track values to give confidence in the process	December 2023	NGT (CWi)	Closed