

## UNC DNCMF Workgroup Minutes

Thursday 11 January 2018

at Pure Offices, Lake View House, Tournament Fields, Warwick, CV34  
6RG

### Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Kully Jones (Secretary)	(HB)	Joint Office
Beth Handford*	(BH)	First Utility
Craig Neilson*	(CN)	Cadent
Gregory Edwards	(GE)	British Gas
Joanne Parker*	(JP)	SGN
Jon Trapps	(JT)	NGN
Leteria Beccano	(LB)	Wales & West Utilities
Neil Brinkley*	(NB)	BUUK
Nicky White	(NW)	npower
Paul Whitton	(PW)	SGN
Penny Jackson	(PJ)	npower
Robert Wigginton	(RW)	Wales & West Utilities
Shazia Ahktar	(SA)	Cadent
Will Jago	(WJ)	npower

\*via teleconference

Copies of all papers are available at <https://www.gasgovernance.co.uk/dncmf/110118>

## 1. Introduction and Status Review

### 1.1. Approval of Minutes (19 September 2017)

The minutes from the previous meeting were accepted with a minor amendment to the second paragraph under agenda item 6.0 Topic Tracker – RIO GB1 replaced by RIIO GD1.

There were no outstanding actions.

### 1.2. Pre-Modification discussions

None.

## 2. Allowed and Collected DN Revenue (MOD0186) Reports

Copies available at: <https://www.gasgovernance.co.uk/dnrevenue-reports>

### 2.1. Wales & West Utilities

RW provided a summary of the key revenue changes and explained that the actual figures are similar to that predicted. Overall there was small movement in trade between quarters.

In relation to, Supplier of Last Resort Claim he reported that the September forecast had not included the claim as it was not known. Ofgem are currently consulting which is likely to result in a direction from April 2018 to increase prices to recover the costs.

In relation to Exit Capacity he explained that WWU charges remain volatile following the cost shock imposed by NTS from October 2016. In addition, he expressed uncertainty about the implications of UNC Modification 0621 *Amendments to Gas Transmission Charging Regime* on current forecasts as they may not be reflective of actual costs incurred in the future. He also stated that there was a lot of uncertainty in NTS charges due to the methodology review.

In response to a question from PJ about the reduction of supply at Milford Haven, he provided a brief background to the Supply Merit Order which resulted in changes in supply from 22 to 40m, with suppliers protected by T +2. In addition, the model did not take account of the closure of the Rough field. He suggested that Modification 0621 might address the issue.

WJ asked if Ofgem have a drop-dead date for derogation? RW advised that the workgroup is set to conclude in March and that he encouraged all downstream Shippers to participate as the aim is to rebalance capacity charges.

RW also pointed out that they would be submitting a request for approximately £10m under the licence term IAEEPs.

The presentation concluded with another brief discussion on Modification 0621, RW confirmed that all the figures are based on NTS indicative figures. In response to a question from GP does the revenue profile take effect of consequential impact from exit capacity, RW confirmed that it would impact in the first year of GD2.

## **2.2. Scotia Gas Networks**

PW provided a summary of the key revenue charges as follows:

RPIf<sub>t</sub> – increase in inflation 2019/20 onwards in line with revised 28 November 2017 treasury forecasts.

RB<sub>t</sub> – change in business rate costs arising from November budget not included.

PD<sub>t</sub> – reflects latest NTS statement 28 October 2017. Slightly lower than previous forecasts.

CDE – revised 2018/19 figure to 2.03% due to the Bank of England only publishing data up to 4 May 2017. Previous forecast 1.94%.

Supplier of last Resort Claim – confirmation that DN apportionment of the claim will be a 50:50 split.

Xoserve December 2017 snapshot – update received from Xoserve on 4 December 2017 confirming 0.5 impact in Scotland and 0.6 in Southern area. In addition, an error in the Xoserve report due to missing meter points has been identified which is likely to result in a further impact on prices by 0.5%.

UNC Modification 0621 – PW reiterated that this modification may have a material outcome on the out-turn values. He explained that SGN has been engaging directly with NTS to understand the impact on NTS exit capacity cost and charge levels. He suggested that prices would increase in Scotland due to the capacity weighted distance factor that would be applied.

In addition, JP explained that within the transitional arrangements there would be a redistribution of costs in a different way but the model does not take account of Offtake capabilities and location. At this stage, no indicative figures have been provided by NTS.

BF asked if the alternate modification proposals would have a similar impact? CN stated that DNs are trying to work with NTS to develop sub-analysis of the changes. It would be helpful to describe the transition in terms of a) absorption of commodity charges and b) CDW approach. It was suggested that the regional impact also be factored in to this analysis.

## **2.3. Northern Gas Networks**

JT provided a brief summary as the previous presentations had covered some areas already. He, therefore, focussed on changes over £0.5m.

Tax trigger – restated 1920/21 to reflect Corporation Tax rates at 17% instead of 18%.

Impact on change in inflation – inflated by CPI not RPI

Supplier of Last Resort Claim – included a figure of NGN share based on 50:50 split between gas and electric.

He reiterated previous presentations to say that the key risks are the impact of UNC Modification 0621 and the Supplier of Last Resort claim.

## 2.4. Cadent

SA provided a brief summary of the key headlines:

Downward movement in 2018/19 prices due to movements in AQs and SOQs.

Supplier of Last Resort Claim – assumed 25% of the total across as Cadents' share across its networks.

Network Innovation Allowance – reduced level of activity in 2018/19 by £3.1m

Biggest overall change to the forecast beyond next year is assumed deferral of the Smart Metering Uncertainty Mechanism settlement to GD-2. Cost forecast assumption is aligned to last RRP submission. The risk could reduce but will not become clear until July 2018.

Pension Deficit – finalisation of the triennial pension review was slightly higher than October indicative figures due to higher administration costs.

## 3. Supplier of Last Resort Process Update

Covered within agenda item 2.0.

JP reiterated that final notices would include as much clarification as possible.

## 4. Base Revenue Allowance Overview

Not covered.

## 5. Topic Tracker Update

### 5.1. Allowed Revenue Breakdown

BF introduced a late presentation provided by JT to raise awareness of how the opening base revenue allowance figure provided in DNs Mod186 statements is made up. JT provided a walkthrough of the NGNs Allowed Base Revenue for 2018/19 and the 12 building blocks used to calculate the £333.5m.

BF thanked JT for the presentation which was well received.

## 6. New Issues

CN raised the issue of Unidentified Gas (UIG) work on the demand dataset and the potential impact on unit prices (AQ and SOQ). He suggested that there is a gap in the scoping of the analysis as it does not include the impact on pricing and the impact on Shippers. BF explained that if there is an impact on Shippers this should be assessed by the Workgroup. CN stated that there might be an impact on revenue collection and pricing.

RW pointed out that post-Nexus there was an expectation that a number of factors that impact K would be eliminated but this has not happened due probably because of the impact of UIG and the industry looking to reintroduce scaling factors.

PJ suggested that you would expect more capacity to be identified than is chargeable as UIG becomes clearer.

BF suggested that the next meeting include an update on the progress of UNC Modifications 0642 (Urgent) 0642A - *Changes to settlement regime to address Unidentified Gas issues* and 0643 (Urgent) *Changes to settlement regime to address Unidentified Gas issues including retrospective correction*.

**New Action 0101:** RW to invite Xoserve to provide a presentation at the next meeting on UIG process and impacts on revenue.

## 7. Any Other Business

RW informed the Workgroup that this would be his last meeting as he was moving to a new role. BF thanked RW for his contributions to the Workgroup and to the UNC process.

## 8. Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 Tuesday 27 March	Solihull	<ul style="list-style-type: none"> <li>Standard agenda items</li> <li>Update on progress and impacts of Modifications 0642(Urgent) 0642A and 0643 (Urgent)</li> </ul>
10:30 Tuesday 26 June	Solihull	<ul style="list-style-type: none"> <li>Standard agenda items</li> </ul>
10:30 Tuesday 25 September	Solihull	<ul style="list-style-type: none"> <li>Standard agenda items</li> </ul>

**Action Table (as at 11 January 2018)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0101	11/01/18	6.0	RW to invite Xoserve to provide a presentation at the next meeting on UIG process and impacts on revenue.	WWU (RW)	<b>Pending</b>