

# DN Charging Methodology Forum (DNCMF) Minutes

## Tuesday 20 June 2017

### Lansdowne Gate, 65 New Road, Solihull, B91 3DL

#### Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Bridget Roberts	(BR)	EON
Colette Baldwin	(CB)	EON
Craig Neilson	(CN)	Cadent
Daniel Hickman	(DH)	Npower
Danishtah Parker	(DP)	Cadent
Gregory Edwards	(GE)	British Gas
Joanne Parker*	(JP)	Scotia Gas Networks
Jonathan Trapps*	(JT)	Northern Gas Networks
Nicky White	(NW)	Npower
Naomi Silver*	(NS)	First-Utility
Paul Whitton*	(PW)	Scotia Gas Networks
Robert Wigginton	(RW)	Wales & West Utilities
Shazia Akhtar	(SA)	Cadent
Simon Vicary	(SV)	EDF Energy

\*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dncmf/200617>

## 1. Introduction and Status Review

### 1.1 Review of Minutes (22 March 2017)

The minutes of the previous meeting were approved.

### 1.2 Pre-Modification Discussions

None.

## 2. DNCMF Terms of Reference

BF provided an initial draft of the DNCMF Terms of Reference (TOR) for consideration.

RW enquired about the openness of meetings and if non-Code parties can attend. Bob suggested that interested parties may wish to attend such as Trade Associations, Consumer Representatives or MAMs for example. CB asked about exclusions and if the press would be allowed to attend. BF confirmed that the chair can challenge a party's interest and normally the press are discouraged from attending as it can stifle discussions. CB enquired if there ought to be a clear statement about the ability to exclude parties. BF believed there was suitable text within the UNC Modifications Rules that allows the Code Administrator to challenge interested parties attendance for meetings and would prefer to avoid duplicating the text or going beyond the Modification Rules definitions.

RB enquired about the difference between the DNCMF and the DCMF. BF explained that the DCMF was an informal forum which was used to consider the UNC 0186 Revenue Reports, however the DNCMF is established as a requirement under the UNC to consider charging related UNC Modifications. As there are very few UNC Modifications it was agreed the required quarterly meetings would incorporate the Revenue Reports.

RW enquired about the standard agenda items, in particular - issues and the topic tracker. BF explained what could be deemed as an issue and the general management of issues. He clarified that an issue could identify a need for a UNC Modification and trigger pre-modification discussions. CN clarified that the intent of the Topic Tracker is for items of interest to be logged, these may not lead to a change but could be a topic the group would like to be briefed on, or keep sight of. BF explained that the intent of having a standard agenda is to set the minimum required agenda items, however this would not prevent additional items being added as and when required.

The Workgroup agreed the TOR and BF confirmed that these would be provided to Panel for approval.

### **3. Allowed and Collected DN Revenue (MOD0186) Reports**

Copies available at: <http://www.gasgovernance.co.uk/DNRevenueReports/2017Jun>

#### **3.1 Cadent**

SA provided an overview of the headline movements in collectable revenue.

The forecast for business rates had reduced resulting in reductions to revenue of £20m. The updates in the final and indicative NTS Exit Capacity prices had caused a £3.6m increase in collectable revenue in 2019/20, but a £12.4m decrease in collectable revenue in 2020/21. The final NIA costs for 2016/17 were £3.4m lower than previously forecasted, creating an over recovery which will be repaid in 2018/19. The final licence fee outturn for 2016/17 was £2.1m lower than the position indicated by Ofgem's Forward work plan, resulting in reductions to revenue in 2018/19. There was a continuing trend of increasing inflation, which has resulted in a £14m increase in collectable revenue across the final 3 years of RIIO GD1.

GE enquired if there are any areas of concern with regards to movement across networks. CN clarified there was no physical change to the network and this was relatively the same to the previous forecast split of the network. Overall the rates bill had not changed.

BR enquired about the 2016/17 tax year and business rates. CN confirmed that he expected the business rates to hold in terms of regulatory impact and that Cadent are waiting for the final determination of the traceable value per network. The slides illustrate the whole profile and there shouldn't be any further fluctuations.

SA provided Cadent's Risks and Uncertainties, she reported that the anticipated revenue impact of the pension deficit had been held, pending clarification of whether Ofgem intend to amend the licence in respect of NTS pass through allowances. She expected this position to fully crystallise through the 2017 annual iteration process.

CN confirmed that Smart Metering had been deferred for another year and the forecast into RIIO GD-2- set base revenue would have some adjustments.

CN summarised the approach for base revenue, the future investment programme and the cost of capital. Cadent are looking at the composition of base revenue for 2020/21 and the items they are able to reasonably predict (ie. business rates, exit capacity, shrinkage volumes). Where they have got a better view, the assumptions will be added to the finals, items can then be re-visited as they get deeper into the price control process.

CN provided an early view of the Draft Load factors provided by Xoserve and the impact to the closing 2016 AQ Review. The early view indicated that there was less volatility than in recent years.

#### **3.2 Northern Gas Networks**

JT provided a presentation slide/table highlighting the key movements since March 2017 for NGN. She summarised the key movements were the Cost of debt, RPI actuals, updated Exit Capacity prices based on the latest NTS process, and long term Shrinkage. JT confirmed there has been very little movement from March to June.

JT clarified that the Assumption for 2021/22 assumed flat base revenues going forward, that there are a lot of moving parts but NGN are assuming flat base revenues for now. The areas on a two-year lag have been rolled forward to GD2.

September's view will include; actuals on the TOpex incentive for actual costs; final costs for pass through; the incentives; and it will look at the impact of the draft load factors to see if there is any movement from the previous assumption.

JT also provided advance warning in relation to a Pension deficit and that the valuation is expected to impact the allowance in the annual reiteration process. He explained that the funded contribution is changing slightly and moving to an asset based scheme. NGN are working with Ofgem with the profiling and when this will be recovered. An update will be provided in September.

### **3.3 Scotia Gas Networks**

JP presented the key movements for SGN. There was no HM treasury update since the election however the key movements were; the final 2016/17 business rate position; updated NTS Exit Capacity (indicative prices); lower shrinkage cost forecasts for 2017/18 onwards; an updated 2016/17 NIA forecast; an updated position for the 2016/17 collected revenue; and an update to include the 2021/22 forecast items.

The final 2016/17 position will be confirmed in the September report.

### **3.4 Wales & West Utilities**

RW provided a presentation detailing the main points of movement for WWUs. The content of the presentation included the inclusion of the 2021/22 first year of RIIO GD2, the Exit Capacity forecast, and the key risks and uncertainties.

The movements since March, were Inflation, the Price Control Financial Model (PCFM) forecast, Gas Price Change, and the NTS Exit Price Changes.

BR enquired about the volatility of NTS exit prices. RW confirmed that the current exit regime has some volatility in certain locations, he suggested that moving to a different model may remove some of the geographical differences.

RW explained a lot of good work has been undertaken to control controllable costs, however uncontrollable cost and cost true up has resulted in a significant increase. By 2020/21 non-controllable costs are forecast to be £102.5m. As a comparison, the directly controllable costs for WWU were c£210m therefore the non-controllable represented almost half the value of controllable spend.

RW presented the Exit Capacity Forecast. He explained that there is a high degree of uncertainty given that bookings are made in advance. He confirmed that for 2019 onwards the forecast remains speculative based on the NTS EU Tariff Code review.

RW went on to provide WWU's Key Risks and Uncertainties. These included; Enhanced Physical Site Security Reopeners, Smart Metering and Exit Capacity post 2019/20.

RW provided the 2021/22 Simplified Assumptions, with a graph to illustrate the forecasting view. He confirmed that the P<sub>U</sub> will be known following agreement of the costs to deliver the outcomes as set out in the Final Proposals for GD2.

BR enquired if the Fleetwood NTS Entry points is affecting capacity or if this is just affecting exit commodity. RW explained that if the longer-term development statement forecast is different this would change the forecast. The allowed revenue is a 50/50 exit/entry split, if reducing the allowance with a possible smaller pot to be collected, this could see a reduction in charges collected. This was expected to impact exit commodity charges for 2018. RW clarified if there is an amendment in the allowance he would expect a consequential change.

#### 4. DN Revenue Support Slides

RW provided a set of DN Revenue Support Slides to help parties better understand the Revenue Reports and provide an overview of how the Network Price Control is arrived at.

RW provided an overview of Price Controlled Revenues and the four areas explaining how each area impacts the allowed revenue. RW explained that the forecast allowed revenue is split into two distinct pots of Transportation and Exit Capacity and incentives are set to encourage good performance.

RW went on to explain the elements that make up the base revenue. These included P<sub>Ut</sub>, +/- MoDt, +/- TR<sub>Ut</sub>, and RPI.

Items not under the full control of the network are badged under two terms - Pass Through (Pt)) and True Up. RW explained that there is a two year cash flow exposure for networks.

RW explained each of the Network incentive payments and what each incentive is, what the exit capacity costs are, the allowances and the terms used.

RW provided an illustration of how the Networks set prices and the different elements that feed into this. He also illustrated how the Networks collect their income.

On concluding the presentation BR asked about the materiality thresholds and if these may change in the next price control. RW did not have a view on this at the moment.

#### 5. Future reporting of SOQ changes

CN confirmed that at the last meeting he provided a model of the Proposed 0186 Revenue Reports comparing the current to the proposed format. There were no objections on the suggested changes prior to this meeting, however it was agreed that Shippers should have the opportunity to provide their feedback/views (see Action 0302). No further views had been provided or were expressed and it was hoped that this format could be used for the September reporting model. There were no objections to using the new model.

JT enquired about the domestic customer calculation. CN explained that Ofgem have a preferred methodology with assumptions and a simplified view, he asked if this was a particularly valuable addition to the report for Shippers. It was agreed that Shippers would consider this as a further change to the report with a view to removing this element from the report.

**Action 0601: Shippers to provide feedback on whether to maintain the average domestic customer charge item, if a view is not provided it was agreed this could be removed from the report.**

CB enquired if it would be worthwhile for September providing the old style and new style report formats. BR stressed that she would like all the Networks to move to the new proposed format at the same time. It was agreed that the Networks need only supply the new style format for August/September as the extent of change was minimal.

BR also expressed a preference for the Networks not to continually tweak reports for stability of reporting and consistency. CN acknowledged the request but didn't want this

to restrict future developments by agreeing not to change the format of the report going forward and reporting future items that may be required.

CB enquired about SOQ changes with different portfolio classes and if the Networks expected more volatility with customers setting their own SOQ to avoid future costs or parties not understanding how to set their own SOQs. CN suggested that this is a possibility but it wasn't clear how this could be quantified.

## 6. Supplier of Last Resort Process

CN suggested that action 0102 could be closed as Ofgem have nothing to share at this stage and action 0301 should be amended.

It was agreed to close both actions and create a new action. See item 9.0.

## 7. Topic Tracker (Cadent)

CN confirmed work was in progress and he anticipated there being 5 items for the Topic Tracker. He hoped to provide an overview of these items at the September meeting. It was hoped Action 0103 could be closed at the next meeting.

## 8. Issues

No new issues raised.

## 9. Review of Outstanding Actions

**0904:** Networks to consider and provide a suggested opening base revenue approach for revenue forecasting beyond RIIO GD-2, with an outline of the key assumptions.

**Update:** See item 5.0. **Closed.**

**0102:** DNs to seek from Ofgem an overview of the Supplier of Last Resort process.

**Update:** See item 6.0. **Closed**

**0103:** DNs to provide a sample topic tracker.

**Update:** It was anticipated that 5 items would be expected on the tracker and these will be provided at the September meeting. **Carried Forward.**

**0301:** ~~Cadent NGGD~~ (CN) to confirm the licence requirements for the Energy Supplier of Last Resort and the treatment of application made within 60 days or more before the end of the price formula year.

**Update:** See item 6.0. It was agreed to close this action and replace with an amended action. **Closed.**

**New Action 0602: Cadent (CN) to confirm the licence requirements for the Energy Supplier of Last Resort and a position view from Ofgem.**

**0302:** Shippers to provide feedback on the Future Reporting proposal.

**Update:** See item 5.0. **Closed**

## 10. Any Other Business

None raised.

## 11. Diary Planning for Workgroup

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

The following meetings are scheduled to take place:

Time/Date	Venue	Workgroup Programme
10:30, Tuesday 19 September 2017	Venue to be confirmed	Revenue (MOD0186) Reports Future reporting of SOQ changes Supplier of Last Resort Process Revenue forecasting (RIIO GD-2)
Jan 2018		

**Action Table (as at 20 June 2017)**

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0904	27/09/16	5.2	Networks to consider and provide a suggested opening base revenue approach for revenue forecasting beyond RIIO GD-2, with an outline of the key assumptions.	All DNs	Closed
0102	09/01/17	5.6	DNs to seek from Ofgem an overview of the Supplier of Last Resort process (for March 2017 meeting).	All DNs	Closed
0103	09/01/17	5.7	DNs to provide a sample topic tracker.	NGGD (CN)	Carried Forward
0301	22/03/17	1.1	NGGD (CN) to confirm the licence requirements for the Energy Supplier of Last Resort and the treatment of application made within 60 days or more before the end of the price formula year.	NGGD (CN)	Closed
0302	22/03/17	4.0	Shippers to provide feedback on the Future Reporting proposal.	All Shippers	Closed
0601	20/06/17	5.0	Shippers to provide feedback on whether to maintain the average domestic customer charge item, if a view is not provided it was agreed this could be removed from the report.	All Shippers	Pending
0602	20/06/17	9.0	Cadent (CN) to confirm the licence requirements for the Energy Supplier of Last Resort and a position view from Ofgem.		Pending