

## UNC DNCMF Workgroup Minutes

Monday 14 January 2019

at Ramada Birmingham Solihull Hotel, The Square, Solihull, B91 3RF

### Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Craig Neilson	(CN)	Cadent
George Moran*	(GM)	British Gas
Jon Trapps	(JT)	Northern Gas Networks
Niall Coyle	(NC)	E.ON
Nicky White	(NW)	npower
Nitin Prajapati	(NP)	Cadent
Paul Whitton*	(PW)	SGN
Smitha Coughlan	(SCo)	Wales & West Utilities
Stephen Cross*	(SC)	SGN

\*via teleconference

Copies of all papers are available at: <https://www.gasgovernance.co.uk/dncmf/140119>

### 1. Introduction and Status Review

Bob Fletcher (BF) welcomed all to the meeting.

#### 1.1. Approval of Minutes (25 September 2018)

The minutes from the previous meeting were accepted.

#### 1.2. Review of Outstanding Actions

0901: DNs to provide an update on their consideration at the next DNCMF in January.

**Update:** Craig Neilson (CN) shared Cadent's view saying that this was related to a question from Nicky White (NW) in relation to the impact of the RIIO -GD2 Business plan. He reported that there are 2 business planning submission windows in July and December, but he did not anticipate that there would be anything to share publicly following the July submission until Ofgem were in a position to provide an update. CN suggested that internal discussions will consider the timeline for releasing information taking into consideration commerciality and confidentiality of the release of information based on current assumptions. He also highlighted that there are a number of uncertainties which make it difficult to quantify and forecast with certainty at this stage. However, he recognised the importance of being able to communicate the impact but the lack of having a GD2 financial model from Ofgem makes it difficult to make robust interpretations.

CN also mentioned that the Ofgem consultation document mentions Cash Flow Floor to support credit worthiness which could lead to a short-range impact on revenue and prices.

NW mentioned the new Ofgem Customer Engagement Groups suggesting that they would be good groups from which DNCMF Workgroup could seek more information. CN mentioned that there are published minutes from the RIIO – GD2 Challenge Groups which colleagues can subscribe to. However, he indicated that he had found the minutes difficult to engage with.

George Moran (GM) commented that whilst he understands that it is difficult for Cadent to produce a revenue forecast until there was more certainty, he was surprised that Cadent will not be sharing the first set of business plans. In response, CN confirmed that this is the current view, but he will feedback the view from British Gas.

It was agreed that this action be closed. **Closed**

### 1.3. Pre-Modification discussions

None.

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

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

### 2.1 Cadent

Nitin Prajapati (NP) provided a detailed walkthrough of the Cadent DN revenue presentation during which he provided a high-level description on the approach for December 2018, Modification 0186 reports. He explained that it will be used as the initial basis for the Final Charge setting process with a locked down view on inflation and cost of debt for 2019/20. He explained that the main updates made since the last Report relate to:

- Inflation impacts including HM Treasury November 18 Forecast for the UK economy which now sets the basis for next year, and standard monthly RPI
- Crystallised view of Cost of Debt following on from the 2018 Annual Iteration Process (AIP)
- Gas prices, the latest view impacting Shrinkage
- Ofgem's recent decision on the Discretionary Reward Scheme
- Retrospective amendment to Guaranteed Standards Payments (GSOPs) which were previously included in Totex
- Government proposal to reduce Special Rate Capital Allowance from 8% to 6%
- Network Innovation Allowance re-forecast
- Collected revenue positions reflecting our current expectation for 2018/19 recovery
- The provisional impact of the Supplier of Last Resort process for Iresa Limited and the associated 'last resort supply payment'.

CN explained that the high-level summary position is stable and that with the exception of the final December demand snapshot, all major revenue drivers have been confirmed and the main updates have been made

NP explained that the high-level summary position is a very small percentage movement overall for 2018/19 with the key drivers being inflation and the Cost of Debt. He then proceeded to give the summary position at Network level and a detailed description of the Collectable Revenue Trace (slides 4 and 5).

In explaining, the inflation figures (slide 6) he highlighted that the positions shown are relative to the September forecast and the change in inflation is 0.1% for 2019/20 and 0.2% for 2020/21.

When considering Gas Prices (slide 7), CN suggested that as the prices are constantly changing it would be worth reviewing the prices each quarter. An illustrative chart showing the difference between the September and December forecast highlighted a softening of gas prices from October 2018 to March 2019 before an upturn in 2019/20 onwards. CN emphasised that the data is externally sourced from ICIS.

NP explained that the Special Rate Pool Allowance is moving to 6% from 8% following the Budget announcement and this is expected to impact collectable revenue from 2020/21.

He then gave details of the Cost of Debt changes which are based on 10-year trailing average (iBox) forecast and impacted by market movement. The table at the bottom of slide 10 illustrates the year on year changes from 2019/20 to 2022/23.

Cumulative amendments of GSOP payments (Slide 11) – NP reported that an issue had been identified with the regulatory reporting of GSOPs. The cumulative GSOPs to 2017/18 should have been excluded from Totex and so an adjustment will be made in the next Annual Iteration Process in 2019.

In relation to collected revenue forecast (slide 13), CN stated that the low level of under recovery in 2018/19 was due to the growth in CSEPs.

NP provided a brief update on the draft Iresa Supplier of Last Report Claim highlighting that the values provided are an initial view provided by Ofgem and that Cadent have also carried out their own impact assessment which for 2019/20 is £4.3m. CN added to this by saying that there are a number of smaller Supplier failures being observed at the moment which is making it difficult to predict the full impact. He indicated that Cadent have contacted Lesley Nugent at Ofgem to understand when Ofgem are likely to make a direction on these cases. Workgroup participants agreed that more information on the timeline and visibility of these cases was needed to understand the impacts.

NP highlighted to the Workgroup the Risks and Sensitivities for the December forecast:

- Reduction to Network innovation costs
- SMART Metering UM: Timing of determination
- NTS Exit Capacity cost: Indicative impact of Modification 0621 (lagged GD-1 impact)
- NTS Exit Capacity cost: Indicative impact of Modification 0621 (Allowance reset)

In relation to Modification 0621 CN indicated that it was difficult to quantify the future impact following the Ofgem decision letter to reject these modifications and so this needs to be kept under review. He expects to see a new Modification aimed at addressing Ofgem's concerns from National Grid towards the end of January along with a revised price model so that the impacts can be understood. He highlighted that previously National Grid had developed the pricing models very late in the process.

Finally, NP updated Workgroup on the updates expected to be included in the March report:

- Final demand positions which will be utilised for the final charge setting process
- Gas Prices for the purposes of updated Shrinkage values
- Collected Revenue positions
- The final impact of the SoLR announcement.

CN provided a quick update on the final 2019/20 charges (slide 19) stating that the final demand snapshots for December have now been received from Xoserve and that impact of this would be an additional 0.2%. Cadent are also seeking additional assurances from Xoserve on the outstanding AQ issues as previously there was a commitment to include them in the price. He indicated that this will be important to monitor as some AQs may not get fixed or some may end up with a different number attaching to them and the outcome may impact the price decision.

For more detail please refer to the presentation published at:

<http://www.gasgovernance.co.uk/dncmf/140119>

## **2.2 Northern Gas Networks (NGN)**

Focusing attention on the changes since the previous report, Jon Trapps (JT) provided a brief overview of the Modification 0186 pricing statement providing an update on the movement since September 2018. He explained that the update is inclusive of the Ofgem Annual Iteration Process with the previous figure being broadly in line with the final figure (£0.4 m different).

He summarised the position as showing little movement (0.4% reduction) between September and December.

In relation to allowed revenues year on year for 2019/20 there is an increase by 6.5% but NGNs current price change is 8.1%. The assumptions in the update provided have not changed in that peak day capacity requirements will fall by 2%. He explained that NGN will continue to monitor the Xoserve snapshot data and will review these again during January prior to finalising the price changes for 2019/20. He also mentioned that the Iresa claims have been taken into account as well as other claims that have been recently notified (Economy Energy).

JT said that an update on the Special Rate Capital Allowance and Guaranteed Standards Payments (GSOPs) will be provided at the next meeting.

For more detail please refer to the statement published at:

<http://www.gasgovernance.co.uk/dncmf/14019>

## **2.3 Scotia Gas Networks (SGN)**

Paul Whitton (PW) provided a brief overview of the SGN presentation, during which he confirmed the key revenue changes:

- RPIFt - Updated inflation for 2019/20 onwards in line with November 2018 Treasury forecast;
- MODt - 2019/20 values now confirmed as per Ofgem November 2018
- CDE – As part of November 2018 AIP 2019/20 cost of debt figure confirmed as 1.58%, internal forecast used for future years
- SHRt – Shrinkage gas price 2018/19 onwards as per market forecast report 30 November 2018
- SoLR – Sensitivity 0.2% for 2019/20 Octopus claim in relation to Iresa Ltd.

He briefly explained the key revenue movements between September and December 2018 for both Southern and Scotland Distribution Networks stating that both have the Iresa claim built in.

For more detail please refer to the presentation published at:

<http://www.gasgovernance.co.uk/dncmf/140119>

## **2.4 Wales & West Utilities (WWU)**

Smitha Coughlan (SCo) provided a brief overview of the WWU presentation, during which she confirmed that the information provides a very similar message to that given by the other DNOs presentations highlighting the key movements since September 2018. In relation to collected revenue she stated that this reflects the December 2018 price reduction in Exit Capacity as well as a forecast under recovery on Exit capacity allowed revenue in 2019/20. The impact of under recovery in 2018/19 and 2019/20 is a positive correction factor in 2020/21 and 2021/22.

She also explained the 2021 adjustment to the base allowance correction.

SCo mad some additional comments in relation to:

- GD2 balances to say that base revenue balances in GD2 have been removed as the information was considered to be misleading and
- Theft of Gas Direction 2017/18 – stating that a value of £0.3m will be deducted from the 2017/18 allowed revenue which will impact the correction factor in 2019/20.

For more detail please refer to the presentation published at:

<http://www.gasgovernance.co.uk/dncmf/140119>

## **3. Supplier of Last Resort Process Update**

In addition to the update provided as part of the Cadent presentation under agenda item 2.1, CN suggested that the process seems reactive and a general discussion with Ofgem on the process may be helpful to provide more timely information on line of sight whilst maintaining neutrality until the process is complete.

## **4. Topic Tracker Update**

CN provided a brief update on the Topic Tracker confirming that Supplier of Last Resort, RIIO GD2, TAR Code / Modification 0621 and Unidentified Gas are all on the tracker. A brief discussion took place on whether Workgroup wanted to identify any areas for a deep dive discussion and also if the topic tracker is still relevant and appropriate.

NW suggested consideration of how DNO NTS charges are impacted based on location of the network and charging methodology applied.

In relation to TAR Code / Modification 0621, GM stated that it is likely to lead to DNOs needing to re-baseline and suggested it would be helpful if all DNOs take an aligned approach to minimise overall disturbance in the industry. In addition, to this JT suggested that it would be helpful to know the timelines for the impact of the new charging Modification for November 2019. A brief discussion took place on what impact assessment there might be post-May 2019 suggesting that NTS pricing will be a key driver.

BF also mentioned the outcome of Brexit as being another risk to NTS and DNO charging methodologies.

**5. UIG Task Force Update**

BF provided a brief update confirming that the UIG Task Force is due to present their views and recommendations at a meeting to be held on 28 January 2019 in Solihull. Further details are available here: <http://www.gasgovernance.co.uk/uig/280119>.

CN said that there was confusion in relation to End User Category (EUC) code definitions and whether the changes were going to be made through UNC Modifications or Xoserve change proposals. In response, BF said this would depend on what was being impacted and what the appropriate governance route/method was to implement the change.

**6. Modification 0621 Update**

BF provided a brief update on the suite of 0621 Modifications - Amendments to Gas Transmission Charging Regime, stating that Ofgem have now rejected Modification 0621 and all of the alternatives. The decision letter has been published and can be accessed here: <http://www.gasgovernance.co.uk/0621>.

**7. New Issues**

None.

**8. Any Other Business**

**8.1. Impact of Decarbonisation**

CN made a general point in relation to RIIO GD2 uncertainties and the future shape of Networks in the context of the impact of decarbonisation and the possible implications for the charging methodology. He asked if there should be a wider review to confirm if there is anything inherently wrong with the current methodology and if it is considered to still be fit for purpose. He indicated that lessons learned from the electricity sector indicate the need to be more proactive and not reactive to future changes. He also suggested that it was difficult to assess industry view as the attendance of the Workgroup by Shippers is low and therefore, sought views on how more engagement with Shippers could be achieved.

**9. Diary Planning**

The next DNCFM Workgroup meeting will be held 26 March 2019

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

Workgroup meetings will take place as follows:

Time / Date	Venue	Workgroup Programme
10:30 to 13:30 Tuesday 26 March 2019	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> <li>• Standard agenda items</li> <li>• Supplier of Last Resort Process Update</li> <li>• UIG Task Force Update</li> <li>• NTS Charging Modification Update</li> <li>• RIIO-GD2 Update</li> </ul>

**Action Table (as at 14 January 2019)**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
0901	25/09/18	7.1	DNs to provide an update on their consideration at the next DNCFM in January on the Business Plan Revenue Reporting.	All DNs	<b>Closed</b>