

DN Charging Methodology Forum (DNCFM) Minutes
Monday 09 January 2017
Consort House, 6 Homer Road, Solihull, B91 3QQ

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Bridget Roberts	(BR)	EON
Colette Baldwin	(CB)	EON
Craig Neilson	(CN)	National Grid Gas Distribution
George Moran*	(GM)	British Gas
Gregory Edwards*	(GE)	British Gas
Joanne Parker	(JP)	Scotia Gas Networks
Jonathan Trapps*	(JT)	Northern Gas Networks
Paul Whitton	(PW)	Scotia Gas Networks
Robert Wigginton	(RW)	Wales & West Utilities
Shazia Akhtar	(SA)	National Grid Gas Distribution
Simon Vicary	(SV)	EDF Energy

**via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dncmf/090117>

1. Introduction and Status Review

1.1 Review of Minutes (27 September 2016)

The minutes of the previous meeting were approved

1.2 Pre-Modification Discussions

None.

2. Issues

2.1 New Issues

No new issues raised.

3. Allowed and Collected DN Revenue (MOD0186) Reports

Copies available at: <http://www.gasgovernance.co.uk/0186reports/2016December>

3.1 Wales & West Utilities

RW presented a summary presentation of the main points of movement for WWU's 0186 Reports with essentially three items affecting allowed and collected revenue. These were MODt changes, RPI and Collection. RW explained that the new SOQ and load factors were put in place working on an average assumption and there was quite a big swing in the domestic forecast. RW also highlighted that the previous Mod186 report required some minor amendments to the reported information for AEx, this has since been corrected.

The presentation provided further commentary relating to Shrinkage, Business rates, Reopeners, the Annual Iteration Process and NTS Exit Charges.

RW explained that WWU are expecting some significant changes from NTS charges and continued volatility with EU Tariff work. He confirmed that WWU would continue to report changes by exit zone.

BR queried a percentage change within the Mod0186 Reports published in December 2016 within the Comparison tab for Years 2020/21. RW agreed to review the reported percentage change to ensure the figure reported was correct.

3.2 Scotia Gas Networks

PW presented the key movements for SGNs 0186 Reports. These were Treasury Updates, Business base rates, the Collected Position, updates on the SOQ impacts in October, the MODt (FGO costs), NTS Exit, and higher Shrinkage costs going forwards.

3.3 Northern Gas Networks

JT provided a presentation highlighting the four key areas of changes for NGN. These were the FGO allowance, inflation, business rates and the finalisation of the SOQ rates.

3.4 National Grid Gas Distribution

CN provided an overview of the headline movements, which included the materialisation for the business rates, the swing in the RPI forecast, the FGO allowance reductions, the deferral on Smart Metering Autumn 2017 revenue impact by one year, and the pension deficit liabilities from the separation/sale of National Grid Gas Distribution Networks.

A number of graphs were provided to illustrate the changes.

The risks and uncertainties were summarised with a focus on the pension deficit. CN explained that the Pension deficit liability has been sectionalised, in effect there will be a movement in directly funded deficits and the amounts transferred via NTS, there will be a residual true up and this will continue for the next two years. The pension deficit allowance will have a 2-year impact but this should be fully restored by the end of the price control period. There will also need to be a licence change requirement to allow NGGD to reflect the changes from National Grid NTS.

CN also noted within the 0186 Reports, there is currently a row for the October SOQ percentage change, he suggested that given Nexus implementation this may need to be amended to an annual SOQ change. The Workgroup considered whether this would be a stepped change or a rolling view. It was agreed that the DN pricing managers would consider the current reporting of SOQ and provide a model going forward for further consideration.

Action 0101: DNs to consider the future reporting of SOQ changes and provide a model for consideration.

4. Review of Actions

0901: DNs to provide a further update on the assumptions with fixed SOQs (Project Nexus Implementation) to provide clarity on the October stepped change.

Update: See item 5.1. **Closed.**

0902: DNs to consider and provide a consistent assumption approach as a sensitivity measure for Project Nexus transitional arrangements.

Update: JT explained that NGN are using a different assumption approach until better indications on implementation are available from Project Nexus. For further information see item 5.1. The Workgroup requested a post-meeting note from NGN to confirm any change in the approach. **Closed.**

Post Meeting Note: NGN will be updating their next publication of prices for 2017/18 at the end of January to incorporate the fixed SOQ charging principles under Project Nexus. This will mean all GDNs will be in sync.

Xoserve have updated the pricing manager group on the current delivery status of Project Nexus on 09 January 2017 to confirm all key industry checkpoints were green

for a June go-live. As such NGN will reflect the new methodology in their unit rates for 17/18. The detail of the unit rates will be in their 60-day notice.

0903: DNOs to consider and provide an explanation of the Demand Estimation Models and their impact on pricing.

Update: CN confirmed the impact of SOQ changes, AQ drivers and load factors. He explained that conversations are being held with Xoserve to see if the load factor changes can be more predictable. JP explained that GDNs have looked at historical data and working out if they can give line of site changes and predict future change. CN has considered with Xoserve if the DESC can share early views of load factor changes particularly if there is likely to be an impact on pricing to share this with the DNCFM. BF confirmed that the DESC have an action from the UNCC to consider and report key industry messages, particularly those that might impact charging. HC confirmed that DESC have a standard Agenda item to consider what information needs to be shared with the industry. **Closed.**

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

Update: RW confirmed as a group the DNs have discussed the forecasting and different Network assumptions. However, a number of matters can come to a simple broad agreement for a clear line of sight for assumptions. The assumptions will be to continue: using RPI; incentive regime to continue in Year 1; the Network Innovation (incentive adjustment) to continue in its current form, and the cost true ups (i.e. pensions) to continue. CN hoped to put together a draft view and dedicate some time to walk through what the assumptions are. RW explained that the profiling and assumptions are different for each Network and not appropriate to fix. **Carried Forward.**

5. Any Other Business

5.1 SOQ assumption for 2017/18 tariff setting (the impact of Project Nexus)

JP provided a presentation on the Fixed SOQ Impact on GDN Charges based on Project Nexus, explaining the SOQ charging timeline. The Workgroup considered the AQ Review process and GDN snapshot process. CB questioned if there would be an element of over recovery for a period of time. CN explained the timing and visibility of the timeline and that a bigger volatility for 2017/18 was expected.

CB believed there would be a consequence of transitioning from an Annual AQ Review and a possibility that too high AQs could be used from the GDN snapshot when moving into rolling AQs.

JP summarised that the Project Implementation should give increased transparency of process and improve predictability of charges going forward.

GM enquired about the go-live date and the assumptions and that NGN have made expressing a concern about potential over recovery. JT confirmed that NGN had considered 4 difference scenarios, delivering Project Nexus on time, delivery 6 months late, and business as usual for the unit rate (with a further separation of delivery on time and delayed). JT confirmed that for revenue collection purposes there would be an initial element of over collection. JT explained that as Nexus had been fluid GDNs are using best endeavours to use an approach and that NGN have made on assumption that Project Nexus will not be delivered on time with an assumed 6-month delay until October. However, JT agreed to take the points away made regarding over collection.

CN suggested a useful topic for discussion in March would be NTS Exit capacity pricing. The Workgroup agreed.

5.2 Demand Estimation Model Presentation (Xoserve)

See Action 0903. Remove from the next Agenda.

5.3 Revenue forecasting beyond RIIO GD-1 update (All DN's)

See the presentation provided under item 5.1 for the assumptions.

5.4 Extending the Notification Period of Charges update (npower)

Item deferred.

5.5 GB Energy Supplier of Last Resort (NGGDL)

CN asked for parties to keep a watching brief on the Supplier of Last Report, which can result in within Year Price changes.

The Workgroup considered the securities in place and the recovery of credit balances for the recent supplier insolvency. The scale of recovery is not yet known.

There were a number of questions within the process and the options the Supplier of Last Resort can utilise particularly the supplier the last resort payment. SA explained that if an application is made within 60 days or more before the end of the price formula year the price changes will be implemented within that formula year if its less than 60 days the process changes will be implemented in the next year. The supplier then has 6 months to request a last report payment.

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

5.6 Charging issues/topic register (NGGDL)

CN suggested that it would be worthwhile having a Charging Topic/Issue Log to capture items parties have or would like to discuss. He suggested the Topic/Issue log would record and track what issues/topic there are concerns with, record a history of discussions. He suggested this mike like to be limited to high priority interests.

BF asked the Workgroup to be mindful of the risk that a Topic Log could extend the scope of the DNCMF beyond its UNC obligations and reminded the Workgroup that the primarily focus for items on the log would need to be within the remit of the UNC. BF also noted that there is a current UNC Issues log available for parties to log issues that needed consideration but not necessarily being addressed through the UNC Modification process.

CN wished to avoid any duplication but believed there would be still be value in having a tracker/log for the Workgroup.

Action 0103: DNs to provide a sample topic tracker.

6. Diary Planning for Workgroup

Details of planned meetings are available at: www.gasgovernance.co.uk/Diary.

The following meetings are scheduled to take place:

Time/Date	Venue	Workgroup Programme
10:30, Wednesday 22 March 2017	Consort House, 6 Homer Road, Solihull, B91 3QQ	Revenue (MOD0186) Reports NTS Exit capacity pricing Future reporting of SOQ changes Revenue forecasting (RIIO GD-2) Project Nexus assumption approach for 2017/18 tariff setting (NGN)

		Supplier of Last Resort Process Extending the Notification Period of Charges (npower) Topic Tracker (NGGD)
10:30, Tuesday 20 June 2017	Consort House, 6 Homer Road, Solihull, B91 3QQ	Revenue (MOD0186) Reports
10:30, Tuesday 19 September 2017	Consort House, 6 Homer Road, Solihull, B91 3QQ	Revenue (MOD0186) Reports

Action Table (09 January 2017)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0901	27/09/16	3.1	DNs to provide a further update on the assumptions with fixed SOQs (Project Nexus Implementation) to provide clarity on the October stepped change.	All DNs	Closed
0902	27/09/16	3.2	DNs to consider and provide a consistent assumption approach as a sensitivity measure for Project Nexus transitional arrangements.	All DNs	Closed
0903	27/09/16	5.1	DNOs to consider and provide an explanation of the Demand Estimation Models and their impact on pricing.	All DNs	Carried Forward
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	Carried Forward
0101	09/01/17	3.4	DNs to consider the future reporting of SOQ changes and provide a model for consideration.	All DNs	Pending
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	Pending
0103	09/01/17	5.7	DNs to provide a sample topic tracker.	NGGD (CN)	Pending

