

UNC DNCMF Workgroup Minutes

Friday 21 March 2022

via Microsoft Teams

Attendees

Alan Raper (Chair)	(AR)	Joint Office
Mike Berrisford (Secretary)	(MiB)	Joint Office
Clare Caple	(CC)	E.ON
Daniel Wilkinson	(DW)	EDF Energy
Drew Sambridge	(DS)	Cadent
George Moran	(GM)	British Gas
James Doyle	(JD)	Out Fox the Market
Nicholas Pollard	(NP)	Northern Gas Networks
Paul Whitton	(PW)	SGN
Rebecca Band	(RB)	Wales & West Utilities
Rhys Jones	(RJ)	Wales & West Utilities
Shonalee Maurya	(SM)	Cadent
Stephen Cross	(SC)	SGN

Copies of the full reports are available at: <https://www.gasgovernance.co.uk/DNRevenueReports>

For a copy of the specific detailed presentations please refer to the published slides on the meeting page at: <https://www.gasgovernance.co.uk/dncmf/210322>

1.0 Introduction and Status Review

Alan Raper (AR) welcomed parties to the meeting.

1.1. Approval of Minutes (10 January 2022)

The minutes of the previous meeting were approved.

1.2. Review of Outstanding Actions

Action 0101: All GDNs to investigate the inclusion of an indicative charge within each MOD186 Report to reflect future 2023/24 charges for all bandings and the different charges within that period.

Update: When Nicholas Pollard (NP) advised that he had included a heavily caveated view on the indicative charge within the NGN report, due largely to the extremely long lead time and current market volatility aspects, both Paul Whitton (PW) on behalf of SGN and Drew Sambridge (DS) on behalf of Cadent advised that they had also provided high-level views which are again subject to a similar caveat as the NGN information.

Rhys Jones (RJ) on behalf of Wales & West Utilities then went on to explain that WWU had considered providing the requested information but decided that due to the long lead time involved and the high level of market volatility currently being witnessed, it would probably be prudent to wait a while before looking to provide the information nearer to the time.

When asked, Daniel Wilkinson (DW) confirmed that the responses provided by the GDNs had successfully met his expectation. Thereafter, Workgroup participants in attendance agreed the action could now be closed. **Closed**

Action 0201: Networks to consider how best to present their best view of what they are likely to spend as part of the annual iteration process.

Update: It was noted that this action relates to the Price Control Financial Modelling (PCFN) which 'drives' the DN Tariffs whilst also feeding into the Mod186 Reports.

A detailed discussion ensued around the DNs potentially providing a 'best view' on the more uncertain aspects of their financial adjustment predictions, and in particular whether an indication on the November 2022 PCFM could be provided, as this would be helpful to Shippers and ultimately, consumers.

When asked whether parties believe a view on any potential re-openers would be beneficial, the consensus of Shipper parties in attendance at the meeting was that it would. In noting the request, NP advised that he would try to provide a more holistic view on the 'what might happen aspects', (including potential variables), within his June 2022 presentation, although the provision of such information would be heavily caveated.

In acknowledging this positive step, George Moran (GM) thanked NP before reiterating that his preference would be to have the (additional) information incorporated within the main 'baseline' report table. In his view this would be a far more preferable a solution than Shippers having to individually undertake their own sensitivity analysis, as the GDNs are best placed to provide a view in the first instance – Shippers would then be able to take this baseline and build their own sensitivity assessments on top.

When asked for confirmation, GM suggested that the approach undertaken within the NGN presentation for this meeting, in respect of the '*Pipeline of re-opener applications*' and '*Forecast revenue impact of re-opener applications*' on slide 4, is almost perfect.

Thereafter, Workgroup participants in attendance agreed the action could now be closed. **Closed**

2.0 Allowed and Collected DN Revenue Reports

2.1. Northern Gas Networks

NP provided an overview of the '*NGN Mod186 Pricing Statement – Movement from December 2021 to March 2022*' presentation, during which the following key points were noted, (by exception), as follows:

Summary of updates December 2021 to March 2022 – slide 2

Focusing attention on the 'Known future changes to revenue' statements, NP pointed out that the £2.88m value is based around a wholesale market price assessment, whilst the £1.7m Business Rate reduction relates to the 2023/24 financial year.

In acknowledging the helpful provision of more detailed information, GM reiterated the fact that he would prefer to see this type of information incorporated into the 'base case' assessment, in order to enable any additional 'sensitivity' related impacts to be applied as well thereafter. In noting that slide 4 of the presentation provides the information he requires, GM suggested that all that is needed now is to tweak how and where it is presented – a point acknowledged by NP.

Movements from December 2021 to March 2022 – slide 4

NP advised that the GD2 Total of £8.9m for Shrinkage reflects the fact that Ofgem approved the re-forecast, whilst the GD2 Total of £3.3m for Bad Debt reflects the impact from the insolvency of Contract Natural Gas. The GD2 Total of (£8.5m) for the SOLR claims reduction is based on claim letter figures.

Pipeline of re-opener applications – slide 4

In noting that the information could be incorporated within the June 2022 report and presentation, NP pointed out that this item relates to how his network expenditure is expected to increase.

Forecast revenue impact of re-opener applications – slide 4

In noting that for the purposes of the PCFM the values are treated as 100% REPEX (based on Ofgem's definitions for CAPEX, REPEX and OPEX), NP explained that in reality this leaves little scope to further expand on these values.

As far as the HSE policy figures are concerned, these are predominately REPEX related in nature.

Concluding the discussion, DW thanked NP for providing the additional information which would prove extremely helpful to Shippers in achieving a better understanding of the various sensitivities impacting the market.

2.2. Scotia Gas Networks

PW provided an overview of the 'SGN Mar 2022 Mod 186 Summary' presentation, during which the following key points were noted, (by exception), as follows:

Key Revenue Changes – slide 2

In providing the background rationale for the three 'Risks and Sensitivities' bullet points, PW pointed out that in respect of the second bullet point, the March forecast figures have been extremely erratic, and as a consequence SGN has decided to keep them 'as-is' for the time being.

PW explained that the investment programme had been slower than expected largely due to Covid related impacts.

Southern Gas Network movements and price update – slide 3

PW highlighted that the light grey figures denote set values.

Scotland Gas Network movements and price update – slide 4

In considering the 'Total LDZ & customer charges arithmetical price change' data, GM requested, and PW agreed to look to strip out the SOLR elements for the June 2022 report.

Whilst referencing the known shrinkage volatility aspects, GM requested a view on what the 'current' prices were based on, (i.e. the underlying gas price assumptions), to which PW responded by advising that he would look to provide a more detailed summary in due course. When asked, GM confirmed that inclusion of this additional information, (for transparency purposes), in the June 2022 would be fine.

When asked what the additional information request is for, GM replied by stating that British Gas utilises information of this nature when reviewing its pricing models – as they undertake these exercises on a more frequent basis than the DNs information such as this is invaluable. Supporting the request, DW also pointed out that it eliminates the Shippers having to largely second guess the DNs levels of variability and thereby protect their consumers as much as possible in the process.

2.3. Wales & West Utilities

RJ provided an overview of the 'March 2022 MOD 186' presentation, during which the following key points were noted, (by exception), as follows:

Movement Since January 2022 – slide 2

RJ drew attention to the 'Legacy Adjustment', 'SOLR claims' and 'Shrinkage and other pass through' figures and in particular the £12.8m 2022/23 Legacy Tax Claw Back and RIIO-1 close out discussions.

Additional Comments – slide 3

RJ confirmed that he would look to continue to provide shrinkage related predictions going forward.

Important Notice – slide 4

RJ pointed out that there had not been a significant number of unexpected movements witnessed.

2.4. Cadent

DS provided an overview of the 'March 2022 MOD0186' presentation, during which the following key points were noted, (by exception), as follows:

Key Updates for March 2022 MOD0186 – slide 2

DS focused attention on the second statement in respect of the Independent Gas Transporter (IGT) charges review uncertainties in relation to SOLR costs which involve potential impacts on the 2022/23 and 2023/24 cost predictions.

Movement in Allowed Revenue – slide 3

DS drew attention to the uncertainty over SOLR claims for 2023/24 statement.

Next Steps – slide 4

When AR enquired as to what the potential problem might be in respect of the 'Further consideration on IGT SoLR costs' bullet, DS explained that the issue stems from considering how best to represent these costs and that perhaps one option would be to simply allow them to 'payout'.

When asked if this could involve a re-opener for the 2022/23 figures, DS responded by indicating that this is a possibility and is currently being considered by Cadent. On the grounds that should a re-opener be requested a consultation would be required, DS doubts that any definitive information would be available in time for inclusion within the June 2022 report.

3.0 New Issues

None.

4.0 Any Other Business

None.

5.0 Next Steps

AR confirmed that next steps as being:

- Consideration of the Allowed and Collected DN Revenue Reports

6.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Monday 20 June 2022	17:00, Thursday 09 June 2022	Teams Meeting	Standard Workgroup Agenda

Action Table (as at 21 March 2022)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0101	10/01/22	2.1	All GDNs to investigate the inclusion of an indicative charge within each MOD186 Report to reflect future 2023/24 charges for all bandings and the different charges within that period.	All GDNs	Update provided. Closed
0201	10/01/22	4.1	Networks to consider how best to present their best view of what they are likely to spend as part of the annual iteration process.	All GDNs	Update provided. Closed