

UNC DNCMF Workgroup Minutes

Tuesday 26 June 2018

at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(HB)	Joint Office
Beth Handford*	(BH)	First Utility
Craig Neilson	(CN)	Cadent
Fiona Cottam	(FC)	Xoserve
Irina Bertrand*	(IB)	Brook Green Supply
James Knight*	(JK)	British Gas
Jon Trapps*	(JT)	NGN
Niall Coyle	(NC)	E.ON
Paul Whitton*	(PW)	SGN
Penny Jackson	(PJ)	npower
Smitha Coughlan*	(SC)	Wales & West Utilities

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/dncmf/260618>

1. Introduction and Status Review

BF welcomed all to the meeting.

1.1. Approval of Minutes (27 March 2018)

The minutes from the previous meeting were accepted.

1.2. Review of Outstanding Actions

Action 0101: Joint Office (BF) to invite Xoserve to provide a presentation at the next meeting on UIG process and impacts on revenue.

Update: FC provided an overview of the Xoserve presentation during which she provided more detail behind the UIG balancing figure bullet on the 'Background' slide 3. When asked whether the information matches expectations, those in attendance indicated that it did.

Following quite a detailed explanation of the 'Recap: Post-Nexus Allocation and Reconciliation' examples on slide 5 from FC, those in attendance indicated that they were comfortable with the information provided.

Discussions then focused on the 'Observed volatility – Gas Year to date' slide 7, during which FC advised that not only did the D+1 percentage rise to a value of circa 30% at one point but at the same time the NDM calculations failed, thereby compounding the issues.

FC explained that October / November represent the 'shoulder months' period and thereafter the values settled back down to circa 4 – 5% for the remainder of the winter period. Furthermore, whilst there were no major 'Beast from the East' (early March) related swings observed, the same could not be said for the 'Mini Beast from the East' (late March) swings (due in the most part to significant temperature fluctuations across a short time period) – such conditions are difficult for the CWV calculation to cope with, over the course of a short period (of a day).

When asked whether or not the Easter Monday impacts get reconciled out over a period of time, FC advised that in essence they do, especially now the reconciliation calculations are broken down into months. However, parties are asked to note that there is a lot of background smearing from month to month going on.

Moving on to consider the *'Impact of UIG on Revenue'* slide 9, FC explained that the independent experts prediction (latest view of) of 0.7% (UIG) of LDZ throughput figure, is based on the most recent analysis of historical data. When asked what happened in the pre-Nexus days, FC explained that essentially reconciliation was balancing out in the small supply point sector, whilst attracting the higher unit rate. Meanwhile, the energy transfer was moved out and spread across the larger supply points. When asked, parties indicated that the information provided was very useful in enabling them to have a better understanding of the post Nexus UIG related environment.

In quickly reviewing the *'Industry initiatives to address UIG'* slide 10, FC pointed out a typographical error whereby the Product Class 3 / 4 read performance reference should actually read as Product Class 2 / 3. Additionally, FC explained that the correction of erroneous AQs involves data fixes undertaken across the December / January period.

Focusing on the *'Summary of other UIG Related Mods'* slide 12, FC advised that Modification 0658 (Urgent) has a DSC Change Proposal raised which is currently progressing through the DSC Change Management Committee process. In noting that the modification only partially satisfies the urgency criteria, BF suggested that parties should read the Ofgem decision letter on urgency for a better view.¹

It was noted that the Workgroup Reporting dates for UNC Modifications 0644, 0652, 0654 have been extended (at the 21 June 2018 Panel meeting) through to 16 August 2018 Panel meeting and that 0659 has also been extended through to the 15 November 2018 Panel meeting. BF also pointed out that it is highly likely that Modification 0644 would be withdrawn by the Proposer (E.ON), in the coming weeks once the Transporters have provided clarification as to whether or not, UNC legal text is actually required as the changes might be able to be effected by amendments to the Demand Estimation Methodology documents which does not require a modification.

In thanking FC for the extremely helpful and comprehensive information, it was agreed that the action is now completed. **Closed**

1.3. Pre-Modification discussions

None.

2. Allowed and Collected DN Revenue (MOD0186) Reports

Copies available at: <https://www.gasgovernance.co.uk/dnrevenueports>

2.1. Cadent

CN provided an overview of the Cadent DN revenue presentation during which he provided a high level assessment of the information presented on slides 2 through to (and including) slide 8, at which point, PW indicated that SGN have witnessed similar gas price spikes, which at the moment appear to be limited to this year.

In examining the data provided on the *'NTS Unit Prices'* slide 9, CN advised that Cadent believe that there are some rather large movements behind these figures which they will be looking at in more detail and to then follow this up with a discussion with National Grid NTS (circa July / August), in order to also incorporate UNC Modification 0621 related potential impacts – the initial view is that the 'real swings' feel in the region of 10% plus or minus.

In reviewing the *'Revenue Collection'* slide 11, CN advised that more network and load band level analysis, is expected to be undertaken in due course.

¹ A copy of the Ofgem decision letter on urgency for UNC Modification 0658 can be viewed and or downloaded from the Joint Office web site at: <https://www.gasgovernance.co.uk/0658>

CN then explained that the *'RIIO GD-2 Base Revenue Forecast'* slide 12, is now included as a new tab within the Cadent Mod0186 Report.

During a review of the *'Ofgem RIIO-2 Timelines'* slide 14, CN suggested that until more clarity is provided by Ofgem the information provided remains on a 'reasonable endeavours' basis – there were no comments from those in attendance.

Moving on next to consider the *'Risks and Sensitivities'* slide 15, CN explained that the current forecast for the Smart Metering UM aspects are based on last years cost forecast submitted to Ofgem. When asked, CN confirmed that this relates to the cost of delivering Smart, which is reflected within Cadent's revenue reports, with a potential to impact the final year of RIIO-GD1.

Furthermore, whilst the indications are that the figures appear to be reducing, when these actually get determined is in question as it is subject to when Ofgem have resources available to support the changes.

CN went on to explain that there are some concerns around the potential price control (opening allowance) impacts associated with the NTS Exit Capacity Cost aspects.

When PJ advised that she is relatively comfortable with the potential RIIO-GD2 uncertainties, but less so with the RIIO-GD1 uncertainties, CN explained that Ofgem may well defer their decision on the grounds that indications are that costs do look to be reducing. When asked when Cadent could possibly provide a more informed view, CN responded by suggesting that perhaps this could be undertaken as part of Cadent's current revenue review.

Attention now moved on to the *'Demand Impact on 2019/20 prices'* slide 17² and specifically the new EUC code definitions as per UNC Modification 0644 'Improvements to nomination and reconciliation through the introduction of new EUC bands and improvements for the ALP and DAF' bullet point.

An extensive discussion took place upon a request from CN for Xoserve to provide AQ / Rolling AQ related information in order to assist the GDN's to model more accurately. FC explained that Xoserve might be able to provide 'snapshot' information only (i.e. such as AQ / rolling AQ; load factors and pre-payment and market sector flags (neither of which are billable)) from the core system rather than more detailed information.

When asked, FC explained that in short the (current) domestic supply points become EUC Band 1 and I&C ones become Band 2 going forwards. It was noted that this could potentially reveal a drastic difference for the small domestic market that could impact on tariffs in future. FC highlighted that the implementation of a change to profiles is being managed through the DSC Change Management Committee, and once this has gone through the process, a clearer view around the matter should be available.

When asked whether or not DESC could undertake a yearly assessment of the potential impacts on the tariffs, which could provide an early 'heads up', FC responded by explaining that whilst this is possible in theory, any view around rolling AQ would / could still be a concern. When FC agreed to feedback the AQ to load factor request to DESC after the meeting, BF cautioned parties by pointing out that DESC is a technical committee and therefore makes its recommendations accordingly, it is NOT a charging related committee.

PJ suggested that if an aggregate view of AQ v's aggregate rolling AQ positions could be provided, parties could then have a better 'feel' for any potential load factor impacts. Responding, FC pointed out that DESC are currently in their 'decision making' phase whereupon it would then be looking into load factor modelling and then enquired whether Workgroup participants believe this to be a 'consultation' phase related matter, or simply a 'for information only' requirement.

² Please note: the information provided on this slide (17) is mainly in response to B Handford's concerns / points from the 27 March 2018 meeting.

When CN explained that visibility of potential impacts would be of benefit in order that customers could be guided, BF pointed out that the DESC consultation remit is given by the Uniform Network Code Committee (UNCC) and suggested therefore that it is better for parties to liaise with their respective DESC representatives to better understand any potential invoicing related impacts – in short, (the DNCF) should not countenance any potential changes that could potentially undermine DESC consideration of their models.

CN then provided a brief explanation of the timelines and how an early view around load factors at this time of the year would assist the GDNs to take this into account in their respective revenue predictions that then flow through to the reports later in the year. He reiterated his belief that DESC feels like the ‘natural’ place in which to consider SOQ related aspects. FC explained that Xoserve are currently considering CN’s email request and are of the initial view that this is a CDSP, rather than DESC specific output matter. When JT indicated his support for CN’s position, FC once again suggested that the best place to address this request is via the Xoserve Service Forum (i.e. a new service schedule delivery item) – it was agreed that this provides a suitable solution. FC then went on to suggest that Xoserve could provide a 01 June / 01 July ‘snapshot’ upon receipt of a formal request from the GDNs. FC explained that she would let her Xoserve colleagues know what has been discussed and thereafter respond formally to CN’s email, in order to better clarify requirements going forwards.

FC explained that she (Xoserve) would require guidance on what is required for this year and clarification on the expected yearly output thereafter (i.e. actual service schedule requirements), in order to progress matters in a timely manner.

FC then advised those parties present that DESC proactively try to consider any potential impacts on other forums and how best to communicate these and educate the industry on key issues etc.

CN advised that subject to the (new) Xoserve provisions, the GDNs would be looking to provide the aggregate SOQ by Network information as soon as practicably possible.

It was also noted that Suppliers would also need to consider any post EU band splits in due course.

Attention then returned to the ‘*Movement in Aggregate Rolling AQs*’ slide 18, whereupon CN explained that for this month the information excludes unique sites / CSEPs.

Moving on to consider the ‘*Movement in Aggregate Rolling SOQs*’ slide 19, CN explained that the differences witnessed between the AQs and SOQs reflect data fix aspects, whilst FC provided a brief overview of how site size changes potentially impact upon the AQs (i.e. pre and post Nexus impacts).

2.2. Northern Gas Networks

Focusing attention on the changes since the previous report, JT provided a brief overview of the presentation explaining that the majority of what he has to say has already been covered off during discussions on item 2.1 above.

JT summarised the information provided as showing little movement since the March positions.

JT went on to advise that he is currently working with Matt Smith of Xoserve to investigate SOQ data in order to better analyse (k factor) information going forwards – in short, the provided analysis was based on earlier (Xoserve provided) SOQ assumptions and data, hence the potential under recovery.

2.3. Scotia Gas Networks

In providing an overview of the SGN presentation, PW explained that the main message is very similar to the two previous presentations.

Focusing on the ‘*Key Revenue Changes*’ slide first, PW highlighted that the ‘MPt’ area represents the main difference between SGNs figures and that of the other GDNs.

Furthermore, the 'MODt' information has so far not been provided in previous Mod186 reports, but would now be provided on a regular basis going forwards.

Moving on to briefly consider the '*Sensitivities*' slide, PW explained that just the apportionment of the Scotland to Southern split remains to be completed.

Focusing on the '*Southern Distribution Network – Key Revenue Movements March 18 to June 18*' slide, PW explained that the shrinkage information is similar to previous (March) presentations, whilst NIA related figures have not been incorporated into the summary at this time although he does not anticipate any material movements – the message is very similar for the following '*Scotland Distribution Network – Key Revenue Movements March 18 to June 18*'.

Moving on to the '*Mod 0621 – Amendments to Gas Transmission Charging Regime*' slide, PW advised that the information provided has been extracted from the previous joint GDN presentation provided in May. PW went on to advise that more information is available within SGNs formal consultation response for the modification.³

2.4. Wales & West Utilities

SC 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 GDN presentations.

In reviewing the both the '*2021/22 and 2022/23*' and '*Exit Capacity*' slides, SC explained that there are no major changes since the previous March presentation.

In looking to conclude discussions, CN made reference to all GDN observations to the NTS pricing potential timing related issues and explained how the Exit Capacity information is fed through to the GDNs. He went on to suggest that perhaps one option would be to look to have both an April and October view – further discussions with National Grid NTS and the NTSCMF Workgroup will be undertaken especially around the various uncertainties in due course.

3. Supplier of Last Resort Process Update

When BF explained that there had been no specific update provided prior to the meeting, CN advised that he is aware that Ofgem does have a team looking into the SoLR area, although it does not seem that there is one single team leading their considerations. CN has also pointed out to Ofgem that the gas market side is more transparent than the equivalent electricity side.

4. Base Revenue Allowance Overview

After a brief discussion, it was agreed by those in attendance that this item could now be removed from future DNCMF agendas going forwards, on the grounds that the requested information had been provided at the January 2018 meeting.

5. Topic Tracker Update

When asked, those parties in attendance indicated that at this moment in time, they did not have any new items that they would like the GDNs to provide an update on at the September 2018 Workgroup meeting.

6. UIG

6.1. UIG Process and how it impacts revenue – Xoserve

When asked, parties agreed that items 6.1 and 6.2 could now be removed from future agendas to be replaced by a more global 'UIG Task Force update'.

6.2. Update on UIG Modifications (0642, 0642A and 0643)

See item 6.1 above.

³ A copy of all consultation responses for UNC Modification 0621 can be found on the Joint Office web site at: <https://www.gasgovernance.co.uk/0621/Reps>

7. New Issues

7.1. Workgroup 0621 Update

It was agreed that this item should remain on forthcoming agendas for the time being.

8. Any Other Business

8.1. UNC Modification 0636/A/B/C/D Final Modification Report Clarification

When PJ raised a concern relating to the potential (mis)use of references to shorthaul, DM User and NTS OCC, a short debate was undertaken that concluded that the references are probably correct in the context of the Final Modification Report.⁴

9. Diary Planning

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 Tuesday 25 September	The Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> Standard agenda items

Action Table (as at 26 June 2018)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0101	11/01/18	6.0	BF to invite Xoserve to provide a presentation at the next meeting on UIG process and impacts on revenue.	Joint Office (BF)	Update provided. Closed

⁴ A copy of the Final Modification Report for UNC Modification 0636/A/B/C/D can be viewed and or downloaded from the Joint Office web site at: <https://www.gasgovernance.co.uk/0636>