UNC DNCMF Workgroup Minutes

Tuesday 26 March 2019

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

Attendees

Chris Shanley (Chair)	(CS)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Craig Neilson	(CN)	Cadent
Gareth Evans	(GE)	Waters Wye Associates
John Costa*	(JC)	EDF Energy
Jonathan Trapps*	(JT)	Northern Gas Networks
Julie Cox*	(JCo)	Energy UK
Megan Coventry*	(MC)	SSE
Niall Coyle	(NC)	E.ON UK
Nitin Prajapati	(NP)	Cadent
Paul Whitton*	(PW)	SGN
Penny Jackson	(PJ)	npower
Smitha Coughlan	(SC)	Wales & West Utilities
Stephen Cross*	(SCr)	SGN

**via teleconference*

Copies of all papers are available at: https://www.gasgovernance.co.uk/dncmf/260319

1. Introduction and Status Review

CS welcomed all to the meeting.

1.1. Approval of Minutes (14 January 2019)

The minutes from the previous meeting were accepted.

1.2. Review of Outstanding Actions

None to consider.

1.3. Pre-Modification discussions

1.3.1. Allocation of SOLR Costs to Appropriate Market Sectors

In introducing the *'SoLR Cost Allocation Changes'* presentation, GE provided a brief outline of his role as the Chair of ICoSS and the fact that he is raising this item on behalf of an ICoSS party.

In examining the *'SoLR Events 2018/19'* table GE pointed out that the portfolio of the numerous suppliers impacted varied and illustrated this by noting that National Gas and Power Limited portfolio was mainly comprised of non-domestic supply points, whilst the Extra Energy portfolio comprised a mix of domestic and non-domestic supply points.

When considering the 'Electricity Cost Recovery' slide, it was noted that parties should be mindful that the current (gas) licence definitions are vague, and as a consequence, some parties believed that it might be preferable to 'tighten up' the licence before any modification is developed – highlighting the modification's purpose to Ofgem could also prove beneficial.

It was also suggested that there could be a clear value in 'dovetailing' development of the modification with Ofgem's SoLR processes, whilst also obtaining a better understanding of any potential downstream related impacts.

A brief assessment of the two potential solutions was undertaken during which GE confirmed that it is not the intention of the modification to look to rebuild the current charging provisions.

In examining solution option 1, it was noted that care would be needed in assessing the potential cost splits as work in this area could easily become an onerous task.

Moving on to consider solution option 2, the following key points were noted:

- Current SoLR claims are apportioned on the basis that the domestic supply points pick up circa 80% and non-domestic 20% of the charges – although there are some Network variances the process is perceived as being a relatively stable process;
- Transporters maybe required to undertake significant number crunching exercises to introduce a change;
- Differences between system and customer charges reflected in whether CSEPs are included or not;
  - Manual recalculation of charges is an option;
  - Creation of a new 'Charge Type' could potentially deliver a better solution in the end, even if it is initially a more complex option to set up;
- The timing of any claims could be an issue, especially when the claim itself is raised (i.e. involving a Charging Methodology 'lag' effect);
- Careful consideration of how any changes are incorporated into the Charging Methodology (i.e. through a licence determination process or modification) would need careful consideration;
  - Setting up the pass through and new Charge Type aspects via the licence route, could be expected to deliver a more robust solution;
  - A 'capacity' or fixed charge' based solution might be preferable as it would potentially reduce the over/under recovery risk aspects;
- It was noted that 'Credit Balances' claim type applies to circa 85% of domestic supply points and include capital, transitional and communications related elements – the actual apportionment aspects would need to be carefully considered;
  - Use of the Market Sector Flag to 'target' charges is one preferred option on the grounds that it is an easier piece of (existing) data to utilise;
  - Market Sector Flags need to be an accepted data item for this potential option to work successfully;
  - Could link in with the current EUC Band developments to improve the quality of Market Sector Flags;
  - It was felt that the current approach is unreasonable and the solutions would allow better cost targeting;
- Some parties are of the opinion that Ofgem should be managing the process better, especially in terms of what are the true benefits of following a modification route to make the suggested changes;
- Whilst currently there are no obvious market indicators that suggest another company is close to going bust, it was noted that there might be some 'knock on' impacts from the current band of SoLRs and that an 'Enron' style of collapse is also unlikely (i.e. involving one of the larger companies);

- It was noted that solution 2 also aligns better to the equivalent electricity model.

In concluding discussions, GE thanked parties for their constructive feedback before explaining that he would now look to raise a single modification incorporating both potential solution options which could then be refined down to one preferred solution during Workgroup development (including utilisation of existing system functionality where possible).

GE also explained that he would consider whether it would be appropriate to request self-governance status for the modification or not. Furthermore, he very much hopes that Ofgem would be keen to support the modification and be involved in the Workgroup discussions.

When asked, GE explained that his major concern remains, insofar as should a non-domestic supplier go bust, potentially 80% of the charges would be applied to the domestic sector which he feels is fundamentally unfair.

Following further (high-level) discussions with Xoserve, GE anticipates formally raising the new UNC Modification for consideration at the 18 April 2019 Panel meeting.

2. Allowed and Collected DN Revenue (MOD0186) Reports

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

2.1. Cadent

Nitin Prajapati (NP) provided a detailed walkthrough of the Cadent DN revenue presentation during which the following key points were discussed and captured (by exception):

Inflation slide

CN explained that as far as the *'HMT RPI Forecast for 2019'* was concerned, this is where HMT believe that the UK Market is going, which not only represents a significant downward movement, but one which could be impacted further post Brexit.

Gas Prices slide – Gas Price Reference Costs graph

When asked, NP confirmed that the left hand scale should read as *'GWh'* rather than *'Pence Per kWh'*, NP went on to advise that Cadent would be monitoring this area closely going forwards.

CN also pointed out that the underlying trend displayed by the graph would suggest a seasonal pattern.

Business Rates slide

CN advised that a re-evaluation process is starting now, and an Energy Networks Association (ENA) Workgroup is looking into this matter.

Collected Revenue Forecast slide

CN advised that the forecasted £3.7m over recovery for 2018/19 (at a Cadent level) is mainly driven by supply point growth, which whilst a good thing is in reality hard to predict in practice.

NP also pointed out that Xoserve have indicated that there have been some AQ data fix related issues, which it is hoped would be resolved by the end of April 2019.

CS also pointed out that the DSC Change Management Committee have also been considering the impacts to the AQ and formula year AQ issues.

Final Supplier of Last Resort Impact slide

In outlining the unit price mathematical calculation constraints, CN explained how these can cause small under/over recovery events.

Network Innovation Allowance Reforecast slide

NP explained that the long standing risk item referred to within previous MOD0186 Reports had now been removed.

GD-2 Allowed Revenue Forecast slide

In relation to the GDNs business plan submissions to Ofgem in July and December, CN explained that the July submission would be a paired down view due to the fact that it contains some (TOTEX) commercially sensitive information.

Risks and Sensitivities slide

CN provided a brief overview of the rationale behind the smart metering settlement risk approach (i.e. timing and cost risk elements). For the NTS exit capacity forecast, CN is proposing to adopt a hybrid solution based on the latest FCC model and his own views.

CN went on to suggest that in his opinion the latest version of UNC Modification 0678 proposals do not look to be delivering a solution that provides sufficient clarity around the charging requirements going forwards, hence the need for the aforementioned risk. In noting that further discussions would be taking place on this matter in due course within the 0678 Workgroup arena, CN provided a brief outline of the 0678 postage stamp aspects before pointing out that what concerns him is the apparent 'disjoint' between UNC 0621 and 0678 proposals.

When it was suggested that perhaps the main difference between the two modifications relates in part to the revenue recovery aspects, CN pointed out that the geographical (CWD) aspects seem less apparent (prevalent) under the proposed 0678 provisions.

CS highlighted that the 'key element' here is that Cadent would continue monitoring 0678 developments going forwards and updating impacts as required.

When concerns were voiced around the increased revenue recovery figures and their potential relationship to UNC Modification 0678 proposals and CN explained that there is an element of extra cost involved and a 2 year lag in the recovery of these costs).

2.2. Wales & West Utilities

In providing a brief overview of the Wales & West Utilities summary presentation, SC explained that this follows a similar theme to the previous Cadent presentation.

SC went on to advise that as far as the *'2019/20 inflation forecast change'* (3.2% down to 2.9%) was concerned, whilst this is based on the February HMT MT forecast, it relates to the formula, rather than calendar year in this instance.

In referring to the *'Special rate pool allowance'* reduction (8% down to 6%) and the estimated 2020/21 £4m allowed revenue flow through figure, SC explained that the exact figure would be provided at the next meeting.

SC also pointed out that currently no UNC Modification 0678 related information has been included within this set of data, but as developments crystallise further, the appropriate information would be included within the next forecast.

2.3. Northern Gas Networks

JT provided a brief overview of the NGN summary presentation pointing out that the *'Tax trigger'* included the special rate tax pool reduction of 8% to 6%, reflected in the year 2020/21 figure.

Similar to WWU's viewpoint, UNC Modification 0678 related information would be provided in the next report – in short, the monetary impact could range from circa a £13m to £29m difference should 0678 be implemented.

2.4. Scotia Gas Networks

PW provided a brief overview of the SGN summary presentation, during which attention was initially focused on the *Scotland* information at which point CN remarked that the potential impact of additional Offtakes seems a valuable piece of information which Cadent would take a closer look at after the meeting.

In making reference to the potential DN presentation to be given at the 04 April 2019 UNC Workgroup 0678 meeting, PW explained that it is anticipated that there would be a circa

12% increase in the first years costs for 0678 compared to the UNC Modification 0621 enduring solution.

PW then went on to suggest that the predicted RIIO GD2 costs are in the region of circa £14m climbing to circa £60m over time – the £2 - £3m difference in costs between UNC Modifications 0621 and 0678 solutions reflects the additional 12 offtakes involved.

Moving on next to consider the *Southern* information, a general discussion was undertaken relating to the proposed DN presentation at the 0678 Workgroup meeting.

When discussions strayed on to whether there would be benefit in leaving the existing contract revenues in the charging models, CN highlighted that they were only looking to assess the impacts that were being proposed. At this point, CS pointed out that the Joint Office (P Garner and R Hailes) have already requested that DNs provide written views for inclusion in the Workgroup Report.

PW explained that in the case of the Southern area, it is anticipated that there would be a circa 25% decrease in the first years' costs for 0678 compared to the UNC Modification 0621 enduring solution.

When asked, PW confirmed that whilst a mechanism exists to change allowances, the opportunity to change the GD1 allowances has passed.

When CN pointed out that the DNCMF has previously discussed the increases / decreases in Network charges from a 'holistic' perspective, PW added that the longer term cost profiles remain a concern.

In suggesting that a October 2019 or mid-year (April 2020) implementation for UNC Modification remains questionable, JCo felt that an October 2020 date would be more likely. When asked whether the DNs had highlighted their concerns to Ofgem, CN explained that this has been taking place since the time of UNC Modification 0621.

When JC suggested that perhaps the DNs should look to change their charging methodology, especially the capacity booking related elements, CN responding by asking why?, when the DNs would not deliberately put themselves in potential breach of their 1:20 (capacity) licence obligations – in short, the DNs would only be booking capacity they actually need.

SCr provided a brief explanation around how SGN books its capacity, especially from a 1:20 perspective and that this includes an element of zero price booking that will no longer be available. CN went on to remind parties that it is important to separate the UNC Modification 0678 costs and DN capacity booking aspects.

Summing up the discussion, CS suggested that industry concerns would be captured within the Workgroup 0678 developments and thereafter be reflected within the MOD186 reports, where appropriate.

3. Supplier of Last Resort Process Update

It was agreed that this item had been sufficiently debated under consideration of agenda items 1.3 and 2. above.

4. UIG Task Force Update

When asked when the DNs expect to have a clearer view on the EUC Band related changes for inclusion within their future MOD186 reports, CN pointed out that they (the DNs) are currently awaiting provision of the AQ information from Xoserve – the current expectation is that the information would be available in time for the DNs to consider at their forthcoming Managers forum meeting.

CN asked parties to note that the downstream aspects would potentially impact volumes.

A further update is to be provided at the June DNCMF meeting.

5. NTS Charging Modification Update

When asked for a progress update on the DN to National Grid NTS discussions around using Y-1 (for the GDNs) and Y-2 (for 'other' points) numbers in the FCC Methodology, CN responded by explaining that the DNs are attempting to achieve a better prediction of future booking, reducing their under/over allocation.

When challenged as to why the DNs believe that utilising Y-1 data halfway through the year is acceptable, CN pointed out that from a materiality perspective, it is mainly annual capacity that the DNs book, rather than short term capacity. Concurring, JCo advised that her initial investigations into the matter also suggest that the DNs had previously booked some short term capacity.

When CN observed that having more reflective reserve price information at the first pass stage is beneficial, JCo recognised that as 'custodians' it is up to National Grid at the end of the day to devise the FCC Methodology.

CN reminded those present that other options such as using actual flows or obligated capacity levels s both have different pro's and con's to the current approach.

6. RIIO-GD2 Update

It was agreed that this item had been sufficiently debated under consideration of agenda item 2. above.

7. New Issues

7.1. RIIO2 Customer Engagement Feedback on Billing Transparency

In introducing this item, CN explained that the feedback provided at the recent RIIO2 customer engagement exercise centred on concerns around customer billing transparency, especially around clarity on network capacity related costs – in short, it is recognised that it is difficult for domestic customers to view their network related cost elements.

PJ highlighted that the customers bills were mainly commodity, whereas the DN charges were mainly capacity. After a discussion it was agreed that the crux of the issue relates to the question around whether improvements to customers billing as a whole, could be provided.

When PJ pointed out that Ofgem already provides a 'Energy Bill' understanding guidance on its website, NC suggested that provision of a simple indicative view might prove beneficial. PJ then went on to suggest that as there are multiple items that go into providing the standing charge element within the customer bills, it is doubtful a meaningful breakdown could be provided.

In noting that perhaps this is something that Ofgem needs to consider this issue in more depth, CS suggested that care is needed in order to avoid over complicating the information provided to customers.

8. Any Other Business

None.

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 to 13:30 Tuesday 25 June 2019	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	• Standard agenda items