

UNC DNCMF Workgroup Minutes

Tuesday 25 June 2019

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

Attendees

Rebecca Hailes (Chair)	(RHa)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
George Moran*	(GM)	Centrica
James Knight*	(JK)	Centrica
Jon Trapps	(JT)	Northern Gas Networks
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/250619>

1. Introduction and Status Review

RHa welcomed all to the meeting.

1.1. Approval of Minutes (26 March 2019)

The minutes from the previous meeting were approved.

1.2. Review of Outstanding Actions

None to consider.

1.3. Pre-Modification discussions

None raised.

2. Allowed and Collected DN Revenue (MOD0186) Reports

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

Copies of the presentation slides are available at: <https://www.gasgovernance.co.uk/dncmf/250619>

2.1. Northern Gas Networks (NGN)

JT provided an overview of NGN's revenue report. He explained that there are only light changes from the previous report, he confirmed the update had been finalised with the 2018/19 values, and that NGN are not expecting any material number changes in the September version.

A summary of the updates included:

- Change in inflation, reduced £4m (with a reduction in inflation and RPI true up)
- Shrinkage and Leakage Incentive Changes
- Pass through, including Rates, Exit Capacity, Shrinkage pass through (gas pricing impacts)
- Overall £5.3m reduction.

JT alerted the group to some unexpected results on recent invoices and that NGN have seen some volatility in capacity over 6 months, therefore there is a potential for a price change to avoid over recovery. This is currently being monitored. If the current trend

continues NGN may have to request via Ofgem for a price reduction. More will be known about this possibility in September. Without a price reduction, it's possible that NGN would over collect.

PJ expressed concern about the risks to Suppliers with price reductions and the Ofgem price model. She was particularly concerned about the consequential capacity impacts. JT explained at this stage a price change is not definite. It is only anticipated if the current trends continue.

2.2. Wales & West Utilities (WWU)

SC provided an overview of WWU's revenue report.

The summary of updates included:

- Updates to the 2019/20 collected revenue forecast
- Updated gas prices, with a decrease in long term price forecasts
- Adjustments for change in the special pool rate and reflection of historic tax error
- Change in the inflation forecast, updated for May 2019 HM Treasury Medium term forecast which shows a further decrease in forecast inflation.

SC provided a further explanation on the Special Rate Pool Allowance and Adjustment for historic error on tax losses.

Special Rate Pool Allowance

The special rate pool allowance has been reduced from 8% to 6%. This will be reflected in the AIP November 2019 which calculates base revenue adjustment for 2020/21, therefore 2019/20 and 2020/21 effect will flow into 2020/21 Allowed Revenue through the MODt adjustment. The change has the effect of reducing base revenue by circa £4m.

Adjustment for historic error on tax losses

In 2013/14 the calculation of interest costs for tax purposes did not adjust for costs associated with swaps. These losses not reflected will be brought into the November 2019 AIP and will therefore impact 2020/21 base revenue. The effect of these losses is to reduce the tax allowance in 2020/21 and therefore increase the negative MODt adjustment (i.e. a reduction to base revenue in 2020/21).

2.3. Cadent

NP provided a presentation of Cadent's key updates for the revenue position. The main sources of change for June 2019 were RPI revised forecasts for the UK economy (inflation), gas prices, NTS Exit Capacity Costs adjustments and final Network Innovation Allowance (NIA) spend for 2018/19.

The full summary of updates included:

- Inflation impacts showing another significant downward movement
- Further decline of gas prices and the effect on shrinkage costs
- Movements associated with the indicative NTS exit capacity costs published in May 2019 by National Grid and a refresh of NTS exit capacity volumes expected for the 2019 Gas Year
- Low level reforecast for Licence Fees for 2019/20
- Network Innovation Allowance (NIA) expenditure for 2018/19 and reforecast for 2020/21 and 2021/22
- Small changes for the Cost of debt aligned to Ofgem's RIIO2 Sector Specific Methodology Decision in May 2019
- Final collected revenues values for 2018/19 and the first forecast for 2019/20.

NP provided some illustrative graphs and tables to provide further detail on the positions. This included collectable allowed revenue, inflation, gas price reductions (impacting collectable revenue for 2021/22, NTS Exit Capacity Costs, Licence Fees, Collected Revenue Forecast, NIA Spend, Cost of Debt, and GD-2 Allowed Revenue Forecasts.

NP noted that for NTS Exit Capacity Costs, reductions could potentially be impacted by the forthcoming Ofgem decision for Modification 0678.

The Collected Revenue reforecast for NIA spend was signposting that NIA expenditure is lower as there was more focus on new smaller projects.

GD-2 Base Revenue Forecast, included an extra year of forecast for UNC requirements, and the tax allowances had been re-set based on the current expectation for a reduction to Corporation Tax rates of 17%.

NP provided an update on the Risk and Sensitivities, taking into account a review of Modification 0678 (but none of the alternatives). Assuming Modification 0678 is implemented on 01 October 2019 there would be a cost reduction in 2021/22 and a small impact on 2022/23 with a potential allowance re-set. Two scenarios were considered to illustrate the potential impact. Scenario 1, assumed Modification 0678 is implemented using the prices in the National Grid Sensitivity Tool. Scenario 2, included a +20% risk margin on each offtake.

NP provided the anticipated updates for September, these were:

- 2018/19 actual Totex performance and updated RIIO-GD1 forecast aligned to the 2019 RRP submission to Ofgem
- Uncertainty mechanism updates in respect of Smart metering costs and Tier 2 Repex actual position
- Output Incentive performance updates for: Shrinkage, Leakage, customer satisfaction (CSAT) and Stakeholder Engagement
- Inflation
- Gas Prices for the purposes of updated Shrinkage values
- Collected Revenue positions
- And if available, the effect of changes to EUC code definitions on 2020/21 prices (normally released in June from Xoserve).

NP provided summary tables to provide a breakdown for each LDZ.

PJ enquired which areas were at more risk of changing or fluctuation. NP confirmed there was nothing in particular to pinpoint however Cadent are monitoring Inflation and Gas Prices.

2.4. Scotia Gas Networks (SGN)

PW provided a brief overview of the SGN's revenue report.

The summary of updates included:

- Updated inflation for 2019/20 onwards in line with May 2019 Treasury forecast
- Updated cost adjustment to reflect April 2019 final prices
- Final view 2018/19 collected revenue
- Shrinkage gas price 2018/19 onwards as per market forecast report 31 May 2019
- Final NIA spend for 2018/19 (may be some movement when submitted to Ofgem).

PW provided a table to illustrate the key revenue movements and the related figures. This was broken down by region: Southern and Scotland.

3. Supplier of Last Resort Process Update

JT acknowledged there are two Modifications being considered at present:

- Modification [0687](#) - Creation of new charge to recover Last Resort Supply Payments and
- Modification [0688](#) - Recovery of Shipper Losses incurred in Supplier of Last Resort events).

There was no further update at this stage.

4. UIG Task Force Update

No update available.

5. NTS Charging Modification Update

It was questioned if there was any indication from Ofgem on the likely implementation date for Modification 0678 (or an alternatives). RHa confirmed that there is no formal update from Ofgem at this stage.

6. RIIO-GD2 Update

The forum briefly considered RIIO-GD2. Clarification was requested as to whether the 2019 Business Planning would be made public by the Transporters. JT agreed to take this request away and confirm what the intention will be for sharing information. It was confirmed that work is still being undertaken on the Licence Model.

7. New Issues

PJ wished to raise awareness regarding the Proposed Load Factors for New EUC Bands and the impact of Ofgem's Price Cap. PJ provided an illustrative table.

PJ understood that the Demand Estimation Sub-Committee (DESC) separate out pre-payment meters as they are considered to be less weather sensitive. As a result, the load factors would expect to be higher and the SOQ lower. However, PJ believed in reality, depending on the LDZ the result is different. PJ has therefore raised a concern with Xoserve. She explained that she was comfortable with the expectation that pre-payment meters would pay less, but the results are not as expected.

PJ confirmed that the pre-payment market had been analysed with the Ofgem Price Cap Model to understand the likely impact on the Gas Network Cost Allowance, noting there is quite a difference for some of the areas. As a result of the analysis npower wish to challenge whether the load factors can be aligned, where pre-payment turns out to be more expensive. Or whether the model needs to be reconsidered. It was anticipated with new obligations that larger sample sizes are expected which could improve the model.

PJ asked if there were any concerns from other parties, noting that this would impact charging.

SC reported that Mark Perry from Xoserve is intending to publish some data on load factors for consideration at the next DESC meeting and was aware that DESC intend to look at load factors in more detail.

8. Any Other Business

None raised.

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 - 14:00 Tuesday 24 September 2019	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> Standard agenda items
2020 Meeting dates to be agreed at the September Meeting.		
Early January 2020	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> Standard agenda items
March 2020	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> Standard agenda items

June 2020	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none">• Standard agenda items
September 2020	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none">• Standard agenda items