

UNC DNCMF Workgroup Minutes

Tuesday 22 September 2020

Via Microsoft Teams

Attendees

Lorraine O'Shaughnessy (Chair)	(LOS)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Daniel Wilkinson	(DW)	EDF
Drew Sambridge	(DS)	Cadent
George Moran	(GM)	Centrica
Jonathan Trapps	(JT)	Northern Gas Networks
Laura Waldron	(LW)	Engie
Matthew Atkinson	(MA)	Gazprom Energy
Niall Coyle	(NC)	E.ON
Nic Horsfield	(NH)	Mercatis Law
Nitin Prajapati	(NP)	Cadent
Paul Whitton	(PW)	SGN
Smitha Coughlan	(SC)	Wales & West Utilities
Thomas Paul	(TP)	E.ON Energy
Tom Breckwoldt	(TB)	Gazprom Energy
Tom Stacker	(TS)	Cadent
Vladislav Zuevskiy	(VZ)	Northern Gas Networks

Copies of all papers are available at: <https://www.gasgovernance.co.uk/dncmf/220920>

1. Introduction and Status Review

Lorraine O'Shaughnessy (LOS) welcomed all to the meeting and confirmed the meeting to be quorate.

1.1. Approval of Minutes (23 June 2020)

The minutes from the previous meeting were approved.

1.2. Review of Outstanding Actions

0601: Cadent (NP) to provide a Postage Stamp Charges update, for publication alongside the DN Revenue Reports.

Update: Nitin Prajapati (NP) confirmed that Cadent's DN Revenue Report was updated to provide a forecast for the impact of Modification 0678A for the 5-year period to 2021/25. The updated presentation is available here: <https://www.gasgovernance.co.uk/DNRevenueReports/2020June>
Closed.

1.3. Pre-Modification discussions

None to consider.

2. Allowed and Collected DN Revenue (MOD0186) Reports

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

Copies of the presentation slides are available at: <https://www.gasgovernance.co.uk/dncmf/220920>

2.1. Wales & West Utilities (WWU)

Smitha Coughlan (SC) provided an overview of WWU's revenue report, highlighting the key changes and summarising the movements since June 2020.

SC provided an overview on the:

- RRP 2019/20 updates with an increase due to NIA expenditure, stakeholder engagement customer scores, shrinkage volumes and theft of gas.
- Collected Revenue, and the under recovery expected in 2021/22.
- Updated Gas Price with an increase in forecast for the remainder of 2020/21.
- Updated reduction in pass through cost forecast to reflect business rates and licence fee forecasts for 2022/23.

SC also reported on RIIO GD2 stating that WWC are concerned about the draft determinations issued by Ofgem in July and consider that the package risks the safety and integrity of the network and believe that it is not in the interests of their customers or investors. A copy of the full response is published on their website:

<https://www.wvutilities.co.uk/media/3846/wales-west-utilities-draft-determination-response.pdf>

In addition, SC indicated that the figures included in the MOD 186 report are based on WWU's RIIO GD2 Business Plan submission published in December 2019 and available here:

<https://www.wvutilities.co.uk/about-us/stakeholder-engagement/your-plan/>.

She suggested that these numbers may change significantly once the final determinations are known in December 2020. WWU will be attending an open meeting on 20 October 2020 with Ofgem.

In response to a question from Tom Breckwoldt (TB) she confirmed that the forecast provides the highest figures and changes are likely to lead to a reduction not an increase.

TB also asked about charges relating to capacity. SC indicated that there is an assumption that there will be a small year on year reduction. The Xoserve AQ and SOQ snapshots which will be provided to DNs in October and December will be used indicative and final charges.

2.2. Cadent

Nitin Prajapati (NP) provided an overview of Cadent's revenue report. The key updates highlighted by NP for September 2020 were:

- An updated 2020/21 revenue forecast to refresh information based on a further three months of invoices and advised that when the results of Xoserve's data cleansing become available this may impact collections this financial year.
- It is assumed all cash impacted by the liquidity relief scheme as a result of Modification 0726 will be recovered this financial year
- An updated forecast was provided for RIIO-GD2.

NP also provided a breakdown of the Summary Position and Collected Revenue forecast for 2020/21 which takes into consideration May to July invoices. He explained that the downward movement was predominantly driven by lower commodity income in May and June due to lower network usage

Drew Sambridge (DS) provided an update on Cadent's RIIO-GD2 revenue forecast from that provided in June. He highlighted that due to Ofgem's approach to setting cost allowances and their impact on revenue forecasting, Cadent have continued to use their December 2019 business plan cost forecasts. He added that Cadent also anticipate that there will be changes to their revenue forecast arising from outturn inflation, COVID-19 and Ofgem's approach to allowance setting.

DS provided a timetable from now to the start of RIIO-GD2 highlighting the key dates when information will be available.

In terms of the RIIO-GD2 key financial parameters, DS indicated that Cadent have updated their revenue forecast for the latest inflation forecast from HMT and the cost of capital assessment is included in Ofgem's draft determinations. However, Cadent do not agree with Ofgem's assessment of the cost of capital including the outperformance wedge; but have aligned their forecast to Ofgem's draft determinations assessment.

DS concluded his presentation with an update on the key movements in revenue since the June report and an analysis of revenue through RIIO-GD2.

Niall Coyle (NC) asked if the RIIO-GD2 final determinations will be factored into the MOD-186 December reports.

DS suggested it was too early to confirm this as it was not clear when Ofgem will provide the final determinations and said that Cadent would endeavour to provide the most up to date information that was available.

A number of Shipper participants indicated their support for delaying publication of the December Mod-186 reports to allow more time for DNs to include the impact of the final determinations on their charges and forecasts. LOS asked when in December the draft determinations would be expected and the 9th December was provided as an indicative date.

George Moran (GM) asked whether the pension deficit funding is as expected and what the driver was for this. DS clarified that the pension deficit funding is expected to cease by 2022/23 and an update will be provided in November when the next pensions triennial submission is agreed with Ofgem. He added that Cadent expects to see a deficit in the final couple of years of the scheme.

2.3. Northern Gas Networks (NGN)

Jonathan Trapps (JT) provided a brief overview of NGN's revenue reporting the key movements from June to September, confirming that NGN have:

- Included the draft determination data published by Ofgem in July.
- Two further adjustments have been made to reflect a) the latest NTS unit rates for the purposes of calculating exit capacity allowances under Modification 678. Ofgem will update this when they publish final proposals in December and b) NGN's expectation that repex workload and costs will increase when final proposals are published.
- GD2 years base revenues are inflated because they use CPI rather than RPI data.
- Finalised actuals from 2019/20 RRP tables have been included within revenue allowance true ups with only minimal change from June figures.
- Shrinkage cost true ups reflect actual Heren prices to August 2020 and the latest long-range forecast thereafter. Prices have increased by approximately 9% from June.

NGN are aware of a proposed move to a rolling revenue forecasting process which will be a change from the current 2-year lag methodology. JT stated that Ofgem are due to consult on this in September as part of the wider licence change exercise.

JT concluded his presentation with a summary of the allowed revenue stating that this is the best assessment that can be made at the moment and NGN expects this will change in December.

2.4. Scotia Gas Networks (SGN)

Paul Whitton (PW) provided a brief overview of SGN's revenue report focusing on the key revenue changes.

PW confirmed that SGN have:

- Updated inflation in line with August 2020 Treasury forecast.
- Updated Exit Capacity bookings to reflect the latest view October 2020 capacity bookings.
- Updated the Shrinkage Gas incentive reflecting the 2020/21 latest gas price forecast as at 31 August 2020.
- Broad measure of customer satisfaction updated with 2019/20 scores and forecast for 2020/21.
- GD2 base revenue prices also included Ofgem draft determinations.

PW noted that the GD2 base revenue figures included withing MOD186, reflect those published in December 2019 business plan. And concluded his presentation with a summary of the key revenue movements between June and September for Southern and Scotland. He highlighted NTS exit capacity, shrinkage revenue, and the broad measure of customer satisfaction revenue adjustment.

3. NTS Charging Modification 0678 Update

LOS provided a brief update stating that Ofgem are conducting an Impact Assessment and when they have reached a minded-to-decision they will consult on that.

Workgroup agreed to no longer receive updates on this topic.

4. Supplier of Last Resort (SoLR) Modification 0687 Update

LOS stated that Modification 0687 - Creation of new charge to recover Last Resort Supply Payments, remains with Ofgem for a decision and that there were no further updates at this moment.

5. New Issues

No new issues raised.

6. Any Other Business

6.1. Modification 0730 - COVID-19 Capacity Retention Process

6.1.1. Choice of Isolation Flag and how the Isolation Flag can be identified from a COVID-19 perspective

SC informed Workgroup that Xoserve will be writing to Shippers to remind them to amend the isolation flag for those sites that have used the isolated flag but are now no longer closed and consuming gas.

Post Meeting update from the Distribution Workgroup (24 September 2020)

Distribution Workgroup discussed Modification 0730 - COVID-19 Capacity Retention Process which is due for review at October's Panel meeting. The key issues discussed were:

- Whether this modification has a positive impact on the relevant objectives due to it allowing for 100% retention of capacity (but paying only 50% of the capacity charge) resulting in other Users being unable to utilise capacity as it is being retained by the registered Shipper. Therefore, it was deemed to have a negative effect on relevant objectives – inefficient use of the network.
- The solution will require a short-term manual process but there are no identified central system impacts.
- Legal text to be revised as there was a challenge around the current wording "Registered User shall only be required to pay fifty per cent (50%) of the LDZ Capacity Charge" as the solution will be to charge 100% of the capacity charge and then provide a 50% rebate which may not happen in the same invoice month.

A revised Modification and legal text is required and an extraordinary 0730 Workgroup meeting will take place on 01 October 2020 to ensure the October Panel deadline can be met. Further details are available here: <https://www.gasgovernance.co.uk/0730/011020>.

6.1.2. Consider IGT impacts

No impacts were identified.

6.2. December MOD-186 Reports

A brief discussion took place on the December MOD-186 reports to be provided by DNs and whether they can be delayed to enable DNs to include information on the RIIO-GD2 final determinations.

LOS requested if NP could confirm and check the UNC obligation in relation to the publication of the reports.

Shippers reiterated their earlier support for delaying the report and also suggested the reports could be published by the 10th working day and then updated when the information becomes available.

7. Diary Planning

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

Time / Date	Venue	Workgroup Programme
10:00-12:30 Tuesday 11 January 2021	Teleconference 0203 443 9666, Conference ID 565 115 535# Join Microsoft Teams Meeting	Allowed and Collected DN Revenue
March June September	Teleconference 0203 443 9666, Conference ID 565 115 535# Join Microsoft Teams Meeting	Allowed and Collected DN Revenue

Action Table (as at 22 September 2020)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0601	26/06/20	2.3	Cadent (NP) to provide a Postage Stamp Charges update, for publication alongside the DN Revenue Reports.	Cadent (NP)	Closed