

## UNC DNCMF Workgroup Minutes

### Tuesday 22 June 2021

### via Microsoft Teams

#### Attendees

Eric Fowler (Chair)	(EF)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Daniel Wilkinson	(DW)	EDF Energy
Drew Sambridge	(DS)	Cadent
George Moran	(GM)	British Gas
Jackie McHendry	(JM)	ScottishPower
Jonathan Trapps	(JT)	Northern Gas Networks
Matthew Atkinson	(MA)	Gazprom Energy
Nicholas Pollard	(NP)	Northern Gas Networks
Nitin Prajapati	(NPr)	Cadent
Paul Whitton	(PW)	SGN
Smitha Coughlan	(SC)	Wales & West Utilities
Stephen Cross	(SCr)	SGN
Thomas Paul	(TP)	E.ON Energy

Copies of all papers are available at: <https://www.gasgovernance.co.uk/dncmf/220621>

#### 1. Introduction and Status Review

Eric Fowler (EF) welcomed all to the meeting and confirmed the meeting to be quorate.

##### 1.1. Approval of Minutes (23 March 2021)

The minutes from the previous meeting were approved.

##### 1.2. Review of Outstanding Actions

**Action 0105:** All GDNs to look to consider provision of more granular Exit Zone related charging information (especially as to NTS charges would flow through into the ECN Charges) going forwards.

**Update:** Paul Whitton (PW) proposed that this area had been previously addressed within the GDNs own Charging Statements that had been published at the end of March 2021. All agreed and the action was subsequently closed. **Closed.**

**Action 0301:** *Reference GDNs Net Zero Scenario proposals* – All parties to consider the GDN proposals and provide views at the June 2021 meeting.

**Update:** Smitha Coughlan (SC) recalled that when this topic was discussed previously it had been agreed that that the DNCMF was not the right group for this discussion to take place in. She added that all the views would be subsequently supplied via the formal consultation process. The action was then closed. **Closed.**

**Action 0302:** *Reference RIIO-GD1 to RIIO-GD2 Revenue Allowance uncertainties* - Supplier Representatives to look to identify what specific areas of concern they would like more information and clarification from the GDNs on, and thereafter GDNs to consider how best to respond to the requirements.

**Update:** George Moran (GM) explained that this action was in relation to the areas of uncertainty regarding the revenue allowance for RIIO-GD2 and that a granular explanation by the GDNs would be very helpful. The GDNs said that this information had been supplied within the presentations referred to in Section 2 below, (please see comments in that section

for further information and the presentations in respect of this matter can viewed at: <https://www.gasgovernance.co.uk/dncmf/220621>) The action was then closed. **Closed.**

**Action 0303:** Reference RII0-GD1 to RII0-GD2 Revenue Allowance uncertainties – GDNs to look to provide a draft version (similar in style to the current 0186 reports) of the new GD2 reporting provisions for consideration at the June 2021 meeting including a summary presentation outlining the key differences between the GD1 and GD2 reports.

**Update:** Eric Fowler (EF) proposed that this action could be closed as the new GD2 report was covered within the GDNs presentation as described in Section 2, all agreed. **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/dnrevenue-reports>

### 2.1. SGN

Paul Whitton (PW) provided an overview of the summary revenue report presentation during which the discussion focused mainly on the ‘Key Revenue Changes’ slides, with the following points being noted with some further explanation in specific areas:

- GD1 Updates - PW explained that the GD1 updates had been shoehorned into the presentation and he noted that this was not ideal from a transparency perspective.
- RPIA finalised for 2020/21 - PW said there had been a reduction in forecast from an actual inflation perspective.
- PTt updated pass through reflecting final 2020/21 position; - PW said that the PTt had been finalised as part of the RRP and he did not expect movement for 2020/21.
- EEIt & SHRAt reflects final 2020/21 position: GD2 updates.
- Tax super deductions excluded from Ofgem’s June PCFM. Impact to be included in September MOD186 once the methodology is finalised with Ofgem; - PW explained that SGN were having meetings with Ofgem in August to discuss the super deductions and that a few adjustments had been made for 2020/21 with £8m from an SGN level with a bit of a drop off for subsequent years of £6m.
- Ofgem’s June PCFM aligned to final 2021/22 tariff position.
- GD2 figures include updated NTS and Shrinkage costs; - PW explained that Shrinkage costs had risen and so this had been reflected in the GD2 November figures and that SGN had gone with Ofgem’s inflation forecast. Although the actual forecast was volatile and suggests an upward movement in September 2021 due to higher inflation. George Moran (GM) asked if SGN had based their price notice on the NTS Price Notice, PW confirmed this was the correct.
- GD2 figures include corporation tax increase from 2023/24.
- Inflation used consistent with Ofgem’s June PCFM.

George Moran (GM) requested greater clarity regarding the super deductions and asked if these had been incorporated in the September 2021 figures. He explained that clarity was required on this area as soon as was practically possible, due to the fact he was having to set customer pricing regimes.

PW said he appreciated that GM needed this information and he explained that the Networks worked on the Tax claw back process and that the Networks did Tax forecasts on a two-year lag. He said the materiality depended on the Networks. GM said the Tax payments being potentially lower this year and next year was concerning, as that would impact his forecasting. He added that it was his understanding that the GD2 would take effect in the next year. PW said that that the Tax Trigger event was with a lag of two years and that this was agreed and formed part of the

PCM Handbook that was published in June 2021. He further added that it was in the GD2 forecast and aligned to the tariff.

Thomas Paul (TP) wanted to know the time duration for the super deductions, as they were likely to have an impact in relation to the forecasting. PW said that it covered the period of March 2021 through to April 2023 so would not run on endlessly, he added that he was not at liberty to supply a definite figure presently in respect of capital expenditure, as this was still under discussion with Ofgem. TP said he understood this could be a sizable amount and this was the reason this needed to be confirmed in an expedient manner as there were risks attached.

## 2.2. Wales & West Utilities

Smitha Coughlan (SC) provided an overview of the summary revenue report presentation during which the discussion focused mainly on the 'Additional Comments' slide, with the following points being noted:

- Base revenue changes  
An updated PCFM was published on 28 May 2021 following the end of the consultation on Modifications to the RIIO-2 licence conditions. The updated PCFM included a change to corporation tax rates from 2023/24 onwards from 19% to 25%. These increases allowed revenue by c. £9m per year.
- Under collection and correction factor  
Forecast collections for 2021/22 has decreased by £4.7m following the implementation of the 2021/22 price change on 01 April 21. This increases the positive correction factor included in the 2022/23 allowed revenue calculation.
- NTS Price Notice  
NTS costs (and therefore base allowances) have been updated to reflect the latest NTS price notice which was published on 28 May 2021. This included final prices from 01 October 2021 and indicative prices in each subsequent year.
- Capital allowance Changes  
As part of the Spring 2021 Budget, HM Treasury announced that they were enabling a "super-deduction" for any eligible capital expenditure from 01 April 2021 – 31 March 2023. Following consultation, Ofgem propose to treat the super deduction changes as a Tax Trigger event under the process set out in the Price Control Financial Handbook. Ofgem are currently working with networks to determine an appropriate calculation methodology. The September 2021 forecast will include any related adjustments.

SC noted that this information was submitted in fulfilment of the UNC in that forecast allowed revenue must be shared. No representation as to the accuracy of forecast information or any other information was made in this report. These forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forecasts. This document should not be relied on as a guide to future performance and should not be relied on in deciding whether to undertake future investment. It should be noted that auditors have not reviewed the information in this document.

Furthermore, certain information presented was done so to maintain consistency between networks, most notably RPI forecasts which reflect the latest published view by HM Treasury and consequently can be different from the expected outturn internally which may use other information to inform forecasting.

Thomas Paul (TP) questioned why the WWU NTS charges had decreased when others seemed to have increased for the year. SC confirmed this was due to a change in the volume forecast of bookings for 2024/2025 in relation to the Exit Capacity Charge, which had resulted in the decrease. She added that for all other rates they were the same as the other GDNs.

### 2.3. Cadent

Nitin Prajapati (NPr) explained that he would be leaving Cadent in September and he thanked all the participants for their support and time during his interactions during the various DNCMF meetings and explained that Drew Sambridge (DS) would be attending the meetings from September onwards.

NPr and Drew Sambridge (DS) then provided a combined overview of the summary revenue report presentation during which the discussion focused mainly on the 'Key Updates' with the following points being noted:

- The June MOD0186 provided a refreshed RIIO-GD2 Allowed Revenue view and the final collected revenue for 2020/21.
- Key updates include:
  - An updated forecast for RIIO-GD2 Allowed Revenue. Changes from the previous MOD186 are largely due to changes in inflation.
  - Updated NTS Exit Capacity costs following on from National Grid's publication on Exit Capacity prices in May 2021.
  - Final collected revenues values for 2020/21.

NPr explained that it was the intention to move to the new format as detailed in the appendix with the presentation: <https://www.gasgovernance.co.uk/dncmf/220621> in relation to the consolidated view of the new RIIO-GD2 specific Modification 0186 format.

DS provided a high-level of overview of this table and explained that they were moving to the new format and Licence Terms for RIIO-GD2. He explained the table was a blend of 2020/21 prices and that RIIO-GD2 was more detailed and tailored, although 'passthrough' would have its own table. He noted other than this change the format was very similar in nature to the previous table, albeit this one was more user friendly and would provide more detail at a granular level.

George Moran (GM) said the new format looked good, although he did question the lines on output delivery and adjustment term, as he felt this might in fact provide less detail than was in the present format. DS agreed and said there were fewer outputs in RIIO-GD2 than in RIIO-1 as the values were relatively small and so it was felt the need to break those down was trivial moving forward, especially as this information was detailed within the PCM.

GM said that a follow up was important as there was still so much uncertainty in respect of RIIO-GD2 and it would be helpful to understand the assumptions the GDNs were proposing regarding the uncertainty of the mechanisms, especially in relation to the materiality perspective, for base revenue, and increases and decreases. DS said he would investigate providing a table to show the Base Revenue Walk-Through.

<b>New Action 0601:</b> Drew Sambridge (DS), Cadent, to provide a Base Revenue Walk-Through Table to be issued alongside the Supplementary Table for September 2021.
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GM said that previously NPr had incorporated the super deduction and he believed this had not been incorporated this time. NPr said it had been included in March 0816 Report and it had been incorporated in the latest view as well. DS agreed that this had been included presently, but that this may change once Ofgem have confirmed the inflation figure. He added that this would only be for the month of April 2021 and that there would be very little material impact.

NPr then drew attention to the next steps as detailed below:

The September 2021 MOD0186 will include updates for:

- Updated collected revenue values for 2021/22
- Usual updates for Gas prices and inflation
- Updates based on submitted RIIO1 RRP files and first AIP dry run submission for RIIO-2
- Move to new MOD0186 format as per appendix

## 2.4. Northern Gas Networks

Nicholas Pollard (NP) provided an overview of the summary revenue report presentation noting that:

- New PCFM published 28 May 2021. Included a change in Tax allowance to account for amendment to corporation tax rates (19% to 25%). Including the inflation element, the value of the adjustment is circa £9.2m, from 2023/24 onwards
- Using the new financial model Northern Gas Networks had re-based allowances to account for the following:
  - National Grid have issued new exit capacity charging rates on the 28 May 2021. Drives £3.1m in formula year 2022/23
  - Changes to shrinkage costs reflect wholesale spot price movements as at 30 April 2021.
  - Over collection, currently forecast at £2.4m, in formula year 2021/22 to be given back in 2022/23.
  - The following will be updated in September 2021.
  - Inflation assumptions remain as per the PCFM published on the 28 May 2021.
  - The impact of the super tax deduction on 2021/22 & 2022/23 capital allowances will be included in the revised allowances

GM said the sooner the inflation updates were completed the better, as he would be setting prices for suppliers from now until 2023.

## 3. Supplier of Last Resort (SoLR) Modification 0687 Update

EF explained that the *Modification 0687 - Creation of new charge to recover Last Resort Supply Payments* was still with Ofgem awaiting a decision, as per the Ofgem Current View document and that no 'minded to' position was likely until October 2021. He added that he believed Ofgem were also considering an alternative solution under the Faster Switching Retail Energy Code.

Jonathan Trapps (JT) noted that even if an Ofgem decision were forthcoming in October 2021 from actual implementation date would be driven by Xoserve, as there were system changes for consideration, so realistically that may mean 2022/23 for implementation.

## 4. New Issues

No new issues raised.

## 5. Any Other Business

### 5.1. New Format of Table for Modification 0186

TP asked whether the new format table which will be live from September 2021 could be made available prior to the September meeting, so shippers can understand how the data/figures will be incorporated into it. DS said that he would email the template table and it was also agreed that the Joint Office would add this to the website for the September meeting, when it was supplied by DS.

**New Action 0602:** Drew Sambridge (DS), Cadent to provide the new table format to DNCFM participants and the Joint Office prior to the September 2021 meeting and for this to be an agenda item.

JT agreed this would be helpful as this was a different way of working for RIIO-GD2 and was an evolving process.

## 6. Next Steps

EF said that he expected to be the Chair of DNCFM for the next meeting and that the standard agenda would be published in due course. He noted that the next meeting would be held via Microsoft Teams on the 21 September 2021 starting at 10.00am.

## 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 21 September 2021	Teleconference 0203 443 9666, Conference ID 565 115 535# <a href="#">Join Microsoft Teams Meeting</a>	Allowed and Collected DN Revenue
10:00 - 12:30 Monday 10 January 2022	Teleconference 0203 443 9666, Conference ID 565 115 535# <a href="#">Join Microsoft Teams Meeting</a>	Allowed and Collected DN Revenue

### Action Table (as at 22 June 2021)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0105	11/01/21	2.	To look to consider provision of more granular Exit Zone related charging information (especially as to NTS charges would flow through into the ECN Charges) going forwards.	All GDNs	<b>Closed</b>
0301	23/03/21	1.2	<i>Reference GDNs Net Zero Scenario proposals</i> – All parties to consider the GDN proposals and provide views at the June 2021 meeting.	All parties	<b>Closed</b>
0302	23/03/21	1.2	<i>Reference RIIO-GD1 to RIIO-GD2 Revenue Allowance uncertainties</i> - Supplier Representatives to look to identify what specific areas of concern they would like more information and clarification from the GDNs on, and thereafter GDNs to consider how best to respond to the requirements.	Supplier Representatives	<b>Closed</b>
0303	23/03/21	1.2	<i>Reference RIIO-GD1 to RIIO-GD2 Revenue Allowance uncertainties</i> – GDNs to look to provide a draft version (similar in style to the current 0186 reports) of the new GD2 reporting provisions for consideration at the June 2021 meeting including a summary presentation outlining the key differences between the GD1 and GD2 reports.	GDNs	<b>Closed</b>
0601	22/06/21	2.3	Drew Sambridge (DS), Cadent, to provide a Base Revenue Walk-Through Table to be issued alongside the Supplementary Table for September 2021.	Drew Sambridge (DS) Cadent	<b>Pending</b>

**Action Table (as at 22 June 2021)**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
0602	22/06/21	5.1	Drew Sambridge (DS), Cadent to provide the new table format to DNCFM participants and the Joint Office prior to the September 2021 meeting and for this to be an agenda item.	Drew Sambridge (DS) Cadent	<b>Pending</b>