

**UNC DNCF Workgroup Minutes**  
**Tuesday 10 January 2022**  
**via Microsoft Teams**

<b>Attendees</b>		
Alan Raper (Chair)	(AR)	Joint Office
Helen Bennett (Secretary)	(HB)	Joint Office
Daniel Wilkinson	(DW)	EDF Energy
Drew Sambridge	(DS)	Cadent
George Moran	(GM)	British Gas
Mark Field	(MF)	Sembcorp Energy UK
Nicholas Pollard	(NP)	Northern Gas Networks
Paul Bedford	(PB)	Drax
Rhys Jones	(RJ)	Wales & West Utilities
Shonalee Maurya	SM)	Cadent
Smitha Coughlan	(SC)	Wales & West Utilities
Stephen Cross	(SCr)	SGN
Vladislav Zeuvskiy	(VZ)	Northern Gas Networks

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

For the full detailed presentations please refer to the published slides on the meeting page at: <https://www.gasgovernance.co.uk/dncmf/100122>

**1. Introduction and Status Review**

Alan Raper (AR) welcomed all to the meeting and confirmed the meeting to be quorate.

**1.1. Approval of Minutes (22 June 2021)**

The minutes from the previous meeting were approved.

**1.2. Review of Outstanding Actions**

**Action 0601:** Drew Sambridge (DS), Cadent, to provide a Base Revenue Walk-Through Table to be issued alongside the Supplementary Table for September 2021 .

**Update:** See AOB agenda item 4.1 **Closed.**

**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.

**Update:** See AOB agenda item 4.1 **Closed.**

**1.3. Pre-Modification discussions**

None to consider.

**2. Allowed and Collected DN Revenue (MOD0186) Reports**

**2.1. Wales & West Utilities (WU)**

Smitha Coughlan (SC) provided an overview of the summary revenue report presentation focussing on the following points:

Movement Since September 2021

**Competition and Markets Authority, (CMA) Updates:** Some increase being seen to TOTEX allowances and Cost of Equity due to the removal of the 0.25% outperformance rate.

**Ofgem updates to Finance inputs:** this includes Ofgem amendments to Real Price Effects (RPE) growth rate; cost of debt and Sterling Overnight Index Average (SONIA), (the Bank of England's preferred measure of Risk-Free Rate (RFR)), and as a result of this the Weighted Average Cost of Capital (WACC) and return on Regulatory Asset Value (RAV) increases.

**Gas price:** Increases are being seen due to gas price volatility in the cost of Shrinkage

**SOLR claims:** SC explained the increase shown for 2022/23:

Supplier of Last Resort (SoLR) claims were included in the latest revenue forecast within miscellaneous pass-through costs, being £104.6m in 2022/23 and £26.1m in 2023/24, reflecting Ofgem's approach (these are indicative values). However, this treatment is currently potentially non-compliant with SSC A48 of the Gas Transporter licence and Wales & West Utilities have advised Ofgem of this. In response, Ofgem are seeking Licence amendments to remove this potential non-compliance.

The forecast assumes that valid SOLR claims will be received by WWU from 31 October 2021 to 31 December 2021 and that appropriate Modifications to the Licence will be implemented to ensure the correct treatment of these claims. Discussions with Ofgem and Distribution Networks on this matter are ongoing.

SoLR charging methodology will be dependent on Ofgem's decision regarding three outstanding Modifications that are being considered by UNC Panel on Wednesday 12 January 2022:

0687V - Creation of new charge to recover Last Resort Supply Payments

0797 (Urgent) - Last Resort Supply Payments Volumetric Charges

0791 (Urgent) - Contingency Gas Procurement Arrangements when a Supplier acts under a Deed of Undertaking

An Ofgem decision is expected before the 20 January 2022.

**Exit and other pass-through:** Slight decrease is shown due to small updates made to the Exit volumes from October 2021.

**Super Deductions:** A large decrease is being seen due to the introduction of new legislation resulting in Super Deduction Capital Allowances for qualifying plant and machinery. The methodology was agreed with Ofgem in September 2021.

**Inflation:** Significant movement is seen in forecast inflation as per the October 2021 Office for Budget Responsibility (OBR) inflation forecast.

#### Additional Comments

SC advised that WWU have submitted a request to Ofgem for republication of the GD2 Price Control Financial Model. The differences between the MOD186 report published in December 2021 and the requested updates are as follows:

- £4.5m of bad debt pass through, (as a result of CNG failure), added to 2022/23 allowed revenues (included as a risk / sensitivity in December MOD 186)
- £16.4m additional pass-through allowance in 2022/23 as a result of updated Shrinkage forecast for 2021/22 and 2022/23
- SoLR claims have been provisionally removed until Licence Modifications are finalised.

When George Moran (GM) sought clarification for the January PCFN republication timescales, SC advised she is unsure of a specific and Drew Sambridge (DS (Cadent)) suggested it should be between 28 and 31 January 2022.

GM asked if the extra allowances for bad debt and pass-through costs are expected to be relatively close to the indicative forecast. SC advised the forecast for 2022/23 will be a lot higher, in the region of SoLR £4m plus another £20-25m.

Dan Wilkinson (DW) asked if it would be helpful, for the MOD186 report, to add at the bottom of table an indication of what the actual charges might be.

**New Action 0101:** All GDNs to investigate the inclusion of an indicative charge within each MOD186 Report to reflect future 2023/24 charges for all bandings and the different charges within that period.

## 2.2. SGN

Stephen Cross (SCr) provided an overview of the summary revenue report presentation, with the following points being noted:

### Key Revenue Changes

- The updated inflation forecast reflects the October 2021 OBR forecast.
- A decrease can be seen as a result of the updated Exit capacity bookings.
- The updated Shrinkage costs are reflected in the November wholesale gas prices.
- The forecast that has been included in respect of SoLR claims is based on preliminary figures provided by Ofgem based on initial estimates of claims received prior to 31 December 2021.

Discussions with Ofgem in relation to the processing of SoLR claims are ongoing, therefore the final amount and timing of these claims is yet to be determined. SGN have included these preliminary SoLR forecasts in their MOD186 report and await formal direction from Ofgem in relation to any SoLR claims for revenue charging within 2022/23;

- The December 2021 report reflects the impact of the CMA appeal.

### Risks and Sensitivities

SCr advised that the inflation forecast impacting 2022/23 tariffs will not change ahead of the publication of the tariffs in January, however forecasts issued since November AIP indicate inflation will likely increase in future years tariffs.

SGN noted that SGN continue to see large increases in wholesale gas prices, therefore pass-through costs may be subject to further increases ahead of the final 2022/23 tariffs;

### SGN GD2 Latest View Price Movements

SCr advised the information on this slide provides the latest view on price movements:

Network	2021/22	2022/23	2023/24	2024/25	2025/26
Southern	-11.1%	36.7%	-13.9%	-3.2%	2.2%
Scotland	-7.8%	42.0%	-17.0%	-3.0%	1.5%

When GM asked if the incremental costs for Shrinkage can be shared with the group, SCr confirmed he will provide the information for Joint Office to publish.

## 2.3. Cadent

Drew Sambridge (DS) provided an overview of the summary revenue report and highlighted the SoLR Statement at the beginning of the presentation:

*The forecast that has been included in respect of SoLR claims is based on preliminary figures provided by Ofgem based on initial estimates of claims that they expect to receive between now and the end of the calendar year. Discussions with Ofgem in relation to the processing of SoLR claims are ongoing so the final amount and timing of these claims is yet to be determined. We await formal direction from Ofgem in relation to any SoLR claims for revenue charging within 2022/23.*

DS continued then to focus on the following points:

### Key Updates for December 2021 MOD0186

- DS advised that the information provided within the presentation is in line with the final annual iteration process. He explained that discussions with Ofgem regarding the processing of SoLR claims are ongoing, therefore, the final amount and timing of these claims is yet to be determined.
- Cadent are awaiting formal direction from Ofgem in relation to any SOLR claims for revenue charging within 2022/23.

- DS noted the Modifications that relate to SoLR, Modification 0687V; 0796 (Urgent) and 0791 (Urgent) remain awaiting Ofgem decision pending UNC Panel consideration on Wednesday 12 January 2021.
- DS added, in relation to the outstanding actions, the format of the excel tables has been amended slightly to improve accessibility.

#### Timeline for the year 2021/22

DS noted the Ofgem announcement for Modification 0687V was expected towards the end of December 2021, which has now been delayed and he is hoping to be able to include that information in his final PCFM submission.

#### Summary Position of Movement in Allowed Revenue

DS presented a view of the current position for Allowed Revenue and advised the table shows nominal changes, however, he was unable to update the table as he is unsure of what the impact might be pending the outcome of the outstanding SoLR Modifications. He did, however, note that the change would not make a big difference.

DS advised that the Inflation Rate movement includes Bad Debt and CMA.

#### Next Steps

DS noted the next steps as being:

- With respect to SoLR, dependent upon Ofgem's direction and receipt of updated figures, Cadent will look to reflect the updated position in a new set of December MOD0186 slides and Revenue numbers and re-issue this pack in advance of the January DNCMF meeting.
- Pricing methodology for Final Charges potentially dependent upon UNC modification 0687
- Final Charges for 2022/23 to be published on 31 January 2022.
- Final Charges and March MOD0186 will include an update for the impact of SOLR as well as any other changes following the re-opening of the PCFM for final adjustments such as:
  - Inclusion of Bad Debt costs
  - Updates to other Pass-through cost items for any new cost information such as gas price impacts on shrinkage costs

DS confirmed Cadent are waiting for Ofgem direction on Bad Debt and Pass-through changes

When GM sought clarification in relation to further updates expected in the published PCFN and the expected Collected Revenue Forecast shown on the table on slide 4, that the cost could fluctuate from 2,671 to 2,677, DS confirmed this to be correct provided Ofgem accept all of the changes submitted.

### **2.4. Northern Gas Networks (NGN)**

Nicholas Pollard (NP) provided a summary of updates for September to December noting that the MOD186 Report – September to December is a very similar layout to Wales & West in terms of both layout and numbers. He highlighted that £137m is moving to allowed revenue in 2022/23, as shown on Slide 3 of his presentation.

Slide 4 of the presentation shows a breakdown of movements for the £137m which is based on their indicative view from Ofgem. This value has been submitted to Ofgem for their agreement.

NP noted that for the TOTEX allowance, NGN have submitted a reopener application for cyber costs which has been accepted by Ofgem and is now included.

A forecast for Bad Debt (£3.3m) has been submitted to Ofgem which has not yet been factored into the report. Additional Bad Debt will be a new line in the report.

GM commented that he finds this table very helpful and asked what the amount will be for Shrinkage. NP agreed to provide the information which will be published on the Joint Office website.

### **3. New Issues**

No new issues raised.

#### 4. Any Other Business

##### 4.1. Review of new format of table for Modification 0186 (Action 0602)

**Action 0601:** Drew Sambridge (DS), Cadent, to provide a Base Revenue Walk-Through Table to be issued alongside the Supplementary Table for September 2021.

DS clarified that this has been considered and concluded that the additional requirements that this would establish are marginal and would not yield much information or provide much further clarity.

##### **Action 0601 Closed**

GM clarified that he was happy to close the action for now adding that, with RIIO 2, there is a degree of uncertainty as Networks are able to request more allowances within certain elements within the price control. Having it as a single line of base revenue, does not give very much information, however, when glancing at the reports he noted that they are largely aligned to the Price Control Financial Model (PCFM) published by Ofgem at the end of November 2021 where GDNs are obliged to provide their best view.

GM advised he has a slight concern that the information in the PCFM only gets updated once a year whereas the DNCMF reviews the MOD186 report every quarter. He added that if GDNs are giving their best view in the PCFM, then that reduces the concern, but it needs to be clear.

GM noted that Networks should be able to provide an indication of how much is going to be submitted, forecasts need to be realistic based on what is likely to happen over the next 4 years.

AR summarised that GM would like to see a realistic estimate of what additional revenue requests are likely and the degree of uncertainty this could create. Estimated amounts of what Networks can claim for would be most useful in terms of forecasts.

GM said that the PCFM iteration process does allow Networks to include forecasts. This is a new obligation to provide their best view. GDNs should be including their best view of what they are likely to spend as part of the annual iteration process.

**New Action 0201:** Networks to consider how best to present their best view of what they are likely to spend as part of the annual iteration process.

##### **Action 0602**

It was confirmed that the MOD186 reporting should now be harmonised in terms the layout of what is being reported.

##### **Action 0602 closed**

##### 4.2. Future meeting attendance

SC highlighted to the forum that this was her last DNCMF meeting, and that Rhys Jones will continue to attend on behalf of Wales & West Utilities.

#### 5. Next Steps

AR advised the group will reconvene in around 3 months and confirmed the date of the next meeting as 21 March 2022.

#### 6. Diary Planning

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

Time / Date	Paper Publication Deadline	Venue	Programme
10:00 - 12:30 Monday 21 March 2022	5pm 10 March 2022	Microsoft Teams	Allowed and Collected DN Revenue

**Action Table (as at 10 January 2022)**

<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</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>Closed</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>Closed</b>
0101	10/01/21	2.1	All GDNs to investigate the inclusion of an indicative charge within each MOD186 Report to reflect future 2023/24 charges for all bandings and the different charges within that period.	All GDNs	<b>Pending</b>
0201	10/01/21	4.1	Networks to consider how best to present their best view of what they are likely to spend as part of the annual iteration process.	All GDNs	<b>Pending</b>