

UNC DNCMF Workgroup Minutes

Tuesday 20 September 2022

via Microsoft Teams

Attendees

Yvonne Reid-Healy (Chair)	(YRH)	Joint Office
Karen Visgarda (Secretary)	(KV)	Joint Office
Clare Caple	(CC)	E.ON
Daniel Wilkinson	(DW)	EDF Energy
Drew Sambridge	(DS)	Cadent
James Harris	(JH)	Wales & West Utilities
Jenny Schofield	(JS)	Northern Gas Networks
Jonathan Trapps	(JT)	Northern Gas Networks
Murugan Babumohanam	(MB)	National Grid
Paul Whitton	(PW)	SGN
Shonalee Maurya	(SM)	Cadent
Stephen Cross	(SC)	SGN
Tom Breckwoldt	(TB)	SEFE Energy
Veri Li	(VL)	Joint Office

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

For a copy of the specific detailed presentations please refer to the published slides on the meeting page at: <https://www.gasgovernance.co.uk/dncmf/200922>

1.0 Introduction and Status Review

Yvonne Reid-Healy (YRH) welcomed parties to the meeting.

1.1. Approval of Minutes (20 June 2022)

The minutes of the previous meeting were approved.

1.2. Review of Outstanding Actions

No outstanding actions.

2.0 Allowed and Collected DN Revenue Reports

All presentations referred to in these minutes may be found here: <https://www.gasgovernance.co.uk/dncmf/200922>

2.1. Wales and West Utilities (Presented first)

James Harris (JH) provided an overview of the 'September 2022 MOD186' presentation, during which the following key points were noted, (by exception), as follows:

Movement Since June 2022 – slide 2

PCFM Template

JH noted the PCFM Template had been amended by Ofgem to remove transportation bad debt (BDt) from pass through costs and to include amounts as an adjustment to Recovered Revenue (RRt) on a cash basis

Shrinkage

JH advised the shrinkage gas price of 05 July 2022 was updated to reflect the forecast shrinkage costs, that were included in Wales and West Utilities (WWU) Regulatory Reporting Pack (RRP).

Inflation

JH noted that inflation rates have been updated to reflect the actual monthly inflation up to 30 June 2022 and the annual OBR forecasts per the latest published PCFM issued by Ofgem on 22 2022.

Claire Caple (CC) asked if the correction factor which was considerably higher than normal was being included in the forecast. JH confirmed this was correct. JH added that the figure was large due to the under recovery during 2022/23 and that this had been discussed with Ofgem as whether this could be corrected, which had been rejected and so would subsequently be fed into 2023/24 figures.

Additional Comments – slide 3

JH noted that shrinkage and Inflation are the two main drivers that reflect the movement since the June 2022 report.

JH advised that there had been several updates to the September forecasts in respect of the Variable Values updated as part of the 2021/22 RRP, which included Totex, pass-through costs, incentives and ORAs and tax allowances.

JH noted in relation to shrinkage, the forecasts had been updated to reflect price movements from 01 June 2022 to July 2022, this was in view of the Ukraine volatile situation. JH added the current forecast reflected prices as of 05 July 2022 as reflected in WWUs 2021/22 RRP.

2.2. Cadent (Presented second)

Shonalee Maurya (SM) provided an overview of the ‘September 2022 MOD186’ presentation, during which the following key points were noted, (by exception), as follows:

Key Updates for September 2022 MOD186 – slide 2

SM advised the key updates since September 2022 included:

- Publication of the Cadent RRP and RFPR which included the updated Totex projections and updates for the actual costs incurred in the year to 2022/23. SM added that the actual costs and forecast data, in relation to the shrinkage costs and inflation remained volatile.
- SM noted that due to the constant volatility Cadent continued to update their forecasts and work with Ofgem to ensure the Latest Best Estimates were included prior to agreeing the levels to use for charge setting.
- SM said with regards to the updated UK gas price information and adjustment in relation to Supplier of Last Resort (SoLR) to account for income now being received direct from Independent Gas Transporters. SM added that this aspect has no impact on revenue forecasts, as Cadent have assumed the SoLR related income remains neutral to their pricing overall.

A brief general discussion took place surrounding when updates would be supplied. SM confirmed more information would be available in November 2022. Drew Sambridge (DS) noted that the Shrinkage figures would not be too different to what had already been forecast.

Claire Caple (CC) asked what dates had been used specifically for these shrinkage numbers and DS advised that he did not have the exact dates, but noted they were from the beginning of September 2022.

DS also noted that discussions were taking place with Xoserve regarding the demand prices and that there were presently still indicative at this stage, but that these would be assessed more thoroughly for the final numbers. DS advised that in relation to Modification 186, the demand figures would be left unchanged.

Murugan Babumohanan (MB) noted that the National Grid Demand Forecasters were concerned about the rise in prices and the associated forecast in relation to demand.

MB asked if there was any extra work being carried out within the DNCFM regarding this area. DS and Jonathan Trapps (JT) both explained that the reviewing of data continued to be a holistic internal process and the supply, demand, and cost of living issues were not investigated within the DNCFM presently. JT concurred with this statement and added that the demand and capacity was historically investigated on 01 December annually and at present, this was zero.

CC asked about the process that is undertaken with Xoserve in relation to AQ's and forecasting and whether they provided a snapshot of the capacity data for forecasting. JT confirmed this was correct and that it was at a point in time with rolling SOQs and AQs on the 01 December each year, and this data was then used in the following years charges.

Movement in forecast Allowed Revenue for the year 23/24 – slide 3

SM advised the movement in the forecast for Allowed Revenue for the year 2023/24 is notably due to Inflation; Base revenues and the under recovery together with adjustments to Totex actual spend and reforecast following the RRP process completed in July 2022.

Next Steps – slide 4

SM advised the next steps would be to:

- Update of the December Modification 186 report following the November Annual Iteration Process and submission of indicative charges.
- The main update expected would be resulting from the continued changes to the volatile gas price and inflation levels expected.
- Updates from Ofgem in relation to revenue parameters including real price effects and the regulated return and provisional close out items.

Appendix

SM advised the appendix provides more detailed numbers against the high-level detail shown in previous slides.

2.3. Northern Gas Networks (Presented third)

Jonathan Trapps (JT) provided an overview of the '*NGN Mod186 Pricing Statement – Movement from June to September 2022*' presentation, during which the following key points were noted, (by exception), as follows:

Summary of updates June to September 2022 – largest movements - slide 2

JT noted that the largest movements between June 2022 and September 2022 were to the RRP was due to the Totex mechanism which was estimated at £22m and this amount would be returned to the customers in 2023/24. JT also advised that several other factors impacted including the high inflation rate, the shrinkage together with the SoLR impacts.

Movements from June 2022 to September – slide 4

JT provided an overview of the timeline and stated that the overall impact of changes could have an impact on the 2023/24 price change, especially as shrinkage was presently so volatile.

Pipeline of re-opener applications – slide 5

JT provided a summary of the two largest re-opener applications which were, HSE Policy for working time directive Re-opener and Specified Street works Costs Re-opener.

CC said that she was impressed with the format and style of the Northern Gas Networks presentation, as it was very clear and concise, adding that it would be helpful if other presentations could adopt this style.

2.4. SGN (presented fourth)

Paul Whitton (PW) provided an overview of the 'SGN September 2022 Mod186 Summary' presentation, during which the following key points were noted, (by exception), as follows:

Key Revenue Changes – slide 2

PW advised the forecast shows movement from the actuals reported in June 2022 to this Mod 186 Report publication.

RRP

2021/22 includes final RRP position

Inflation

Updated inflation forecast reflect June actuals for 2022, Mach OBR forecast for future years

Shrinkage costs

Updated shrinkage cost reflected 16 September position of wholesale gas prices. These show an average price per therm of 404p for 2022/23 compared to 236p included in the tariffs.

Totex

Actuals for 2021/22 and re-profiles forecast for remaining years of GD2, as pre RRP submissions.

Risks and Sensitivities

PW noted in relation to SoLR, SGN had currently forecasted circa £50m for SoLR costs relating to 2023/24 tariffs, and this was based on Ofgem's view as of December 2021 and was subject to change when valid claims were received from suppliers. PW advised that this would then be amended in November 2022.

Southern Gas Network movements and price update – slide 3

PW confirmed that no re-openers had been submitted and he added if any were subsequently submitted, they would be updated for the next meeting.

PW provided a high-level summary of the Southern Gas Network movements and price update table and noted that shrinkage was having the main impact.

Scotland Gas Network movements and price update – slide 4

PW provided a high-level summary of the Scotland Gas Network movements and price update table and noted that shrinkage was having the main impact.

Tom Breckwoldt (TB) asked if the shrinkage volumes were flat throughout the year and PW confirmed that this was correct. PW added that the forecast would be updated in

November 2022 and that it was mainly the gas price that was increasing the shrinkage volumes.

3.0 New Issues

None.

4.0 Any Other Business

4.1. Cadent re-openers

CC enquired if Cadent envisaged any re-openers in the future and SM said that they did not have coming up between now and the final prices submission.

4.2. Shared Demand information

MB reiterated if there was any available information on the Domestic and Industrial Demand Consumption data that could be shared to assist the National Grid Demand Forecasters.

PW explained that they only get a snapshot of time with regards to the bulk revenue that comes from the domestic market and so they are not privy to any information from Xoserve before December.

PW also noted that Xoserve adhered to the defined estimation demand process. PW added that National Grid held the meter read information at a domestic level and DS advised that in essence, National Grid were the experts in that area.

MB asked if there was any greater data information split at a domestic and industrial level and DS advised that this data was not that dynamic and that the demand took time to flow through, to be able to do any analysis on the data in question.

5.0 Next Steps

YRH confirmed that next steps as being:

- Consideration of the Allowed and Collected DN Revenue Reports

6.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Monday 09 January 2022	17:00 Thursday 29 December 2022	Teams Meeting	Standard Workgroup Agenda

Action Table (as at 21 September 2022)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
No outstanding actions.					