

UNC DNCMF Workgroup Minutes
Tuesday 10 January 2023
via Microsoft Teams

Attendees

Helen Bennett (Chair)	(HB)	Joint Office
Vera Li (Secretary)	(VL)	Joint Office
Clare Caple	(CC)	E.ON
Daniel Wilkinson	(DW)	EDF Energy
Dimuthu Wijetunga	(DW)	Shell Energy
Drew Sambridge	(DS)	Cadent Gas
George Moran	(GM)	British Gas
James Harris	(JH)	Wales & West Utilities
Jenny Schofield	(JS)	Northern Gas Networks
Kate Elleman	(KE)	Joint Office
Mark Fletcher	(MF)	Shell Energy
Matt Atkinson	(MA)	SEFE Energy
Paul Whitton	(PW)	SGN
Rhys Jones	(RJ)	Wales & West Utilities
Shonalee Maurya	(SM)	Cadent Gas
Stephen Cross	(SC)	SGN

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/100123>

1.0 Introduction and Status Review

Helen Bennett (HB) welcomed parties to the meeting.

1.1. Approval of Minutes (20 September 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/100123>

2.1. Cadent

Drew Sambridge (DS) stated that Shonalee Maurya (SM) would provide the overview of the 'December 2022 MOD186' presentation and suggested that we add SM to the distribution for future meetings. SM presented the MOD186 report during which the following key points were noted, (by exception), as follows:

Key Updates for December 2022 MOD186 – slide 2

SM advised the key update for the December MOD186 report is mainly due to the publishing of the November 2022 Office for Budget Responsibility (OBR) economic forecast and the key changes since September included in the analysis:

- High Inflation rate impact on revenue and also impacted the returns thus the higher interest rates;
- Lower base rateable value impact on business rates;
- The rise facing the Rating Agency and following negotiation with the Rating Agency, there has been an impact of the closing out of RIIO-1 value which is mainly for the gas holder disposals;
- The Shrinkage cost remains volatile so Cadent has started with the best estimate to include in the charge setting;
- Ofgem has released the Supplier of Last Resort (SoLR) 2023/24 value and with the approval of recent MOD0809 allowing the recovery of Last Resort Supply Payment (LRSP) charges to include all supply points;
- Also updated the demand picture for Supply Offtake Quantity (SOQ)

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

SM explained the Key movement are shown for:

- Inflation forecast update based on the November 2022 OBR
- Cost of capital increased due to high interest rates
- Shrinkage cost updated with the last information available, which is, generally lower than September 2022
- Business rates are lower due to the reduction on the base rateable value
- SoLR is considerably lower than 2022/23 with around £120 m for Cadent

Matt Atkinson (MA) noted the Shrinkage calculation was based on the latest UK gas price inflation and asked if there is a specific date the value was taken from and used for the calculation. SM stated that as the Report was submitted by the end of December 2022, the figures were taken around the middle of December.

When MA further queried what the dates and rate will be used for the April 2023 final charges, DS explained the Final Charges will be based on a series of external reports, and he will liaise with the GDNS to ensure consistency.

Claire Caple (CC) suggested that it would be useful to provide the exact date the price is taken, and prices used in the future commentary relating to Shrinkage as this will help with Shippers' internal forecasting. DS agreed to provide figures in future MOD186 reports.

When CC asked if there is any change in the demand with the rise in the ECN/LDZ section in the Excel analysis as prices are being influenced by the movements of various factors, and suggested that it would be useful to understand the figures used by GDNs on the demand change for internal costings, DS advised that they would not provide demand updates in the MOD Reports as this is only used for their own inductive and final charges calculations. CC further stressed it would be helpful if the demand changes information is provided.

George Moran (GM) supported CC's suggestions on the provision of the Shrinkage calculation.

GM questioned all GDNs if there will be any further Ofgem publication update on the price model for the finalisation of the April 2023 Final forecast; and if there is, what data would be changing and what the magnitude of the changes might be.

DS stated there will be a new report published at the end of January 2023 that the final changes will be linked to that report.

Next Steps – slide 4

SM advised they are expecting Ofgem to release the latest Price Control Financial Model (PCFM) that will reflect the changes in Shrinkage; Inflation and Business Rates and the Final Charges Notice will be completed by 31 January 2023.

CC asked if there is any correlation between LDZ and ECN aggregate demand changes, and if not, why does this vary so much.

New Action 0101: All GDNs to advise if there is any correlation between LDZ and ECN aggregate demand changes and why this varies so much amongst GDNs.

GM further requested if GDNs should change the Report to include the total assumption rather than movements, as with each factor, it would be updated but it is the total SOQ to be used for charges for next year and if necessary, split by the balance of LDZ settlement.

New Action 0102: All GDNs to consider a change to the reporting to include the total assumption used rather than movements.

2.2. Northern Gas Networks

Jenny Schofield (JS) provided an overview of the 'NGN Mod186 Pricing Statement – Movement from October to December 2022' presentation, during which the following key points were noted, (by exception), as follows:

Summary of updates October to December 2022 – largest movements - slide 2

JS noted the largest movements between October 2022 and December 2022:

Inflation remains high at 8.8% including the latest OBR updated in November 2022, this still contributed to the largest movement in the pricing structure.

The Shrinkage rate used is similar to that Cadent has used. For NGN's January pricing statement, they will be averaging the 4 weeks of December 2022 and first week of January to tease out some of the volatility. This is not reflected in the December 2022 MOD186 report as this is a prediction carried out in the last week of December.

The reduction of business rates based on the rateable value and the fixing of the UBR at year 21/22 prices.

There was a minded to decision included in the SoLR estimate and with the final Ofgem decision, JS stated that there will be a slight movement and a shift in the final SoLR position.

Weighted Average Cost of Capital (WACC) changes and Real Price effects are all driven out from the Ofgem model.

Ofgem is due to publish their final model and the NGN Price Change will be aligned with the Ofgem report.

JS explained that WACC is the cost of debt and the cost of equity. The standard Ofgem model uses these rates based on the Treasury Guild.

Timeline between now and 23/24 60-day Notice – slide 3

JS explained the Report was published in the third week of December 2022, and between now and the end of January 2023 there will be further changes in the gas price, but NGN is hoping to fix the price with the 4 week average of December 2022 prices.

There will not be a further change in the SoLR. The NGN SoLR allowance in the model with the nominal price of £22.9m and when it is published by the end of January 2023, it will be £26m.

Regarding Capacity, NGN has liaised with Cadent, there will be a reduction of 5.3% SOQ and by the end of January 2023 it will be 7.4% which will drive the price increase.

JS stated the allowed revenue for 2022/23 is £600.7m and for 2023/24, current prediction is £570m.

The analysis of the MOD186 reports is presented on slide 4&5.

2.3. SGN

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

Key Revenue Changes – slide 2

PW noted the updated inflation reflects the November OBR from Ofgem.

The Shrinkage cost for the SGN MOD186 report was taken from 08 December 2022 wholesale gas price and has shown a significant drop from the September price, which has brought them back to the tariff included in 2022/23.

There will be a reduction in the Business Rate from April 2023 following the revaluation.

The impact on Base Revenue includes re-profiling the Totex forecast for the remaining years of GD2.

Risks and Sensitivities

PW noted in relation to SoLR, SGN had currently forecasted circa £52m for SoLR costs relating to 2023/24 tariffs. This is based on Ofgem's "minded to" position published in November 2022.

Since the MOD186 Report was published, SGN has received Ofgem's final indicative claims of c£60m.

Southern Gas Network movements and price update – slide 3

PW provided a summary of the Southern Gas Network movements and price update table.

The key movements are largely on Business Rates, Wholesale Gas Price and Shrinkage.

PW stated the Distribution charges price change rate of 1.1% for 2023/24 should be the final number broadly aligned with the Ofgem report for Southern Gas Networks; and looking at Scotland Gas Network (slide 4), the rate is 5% and likely to be at 4.8%

Scotland Gas Network movements and price update – slide 4

PW provided a summary of the Scotland Gas Network movements and price update table and noted the similar impact as Southern Gas Network.

2.4. Wales and West Utilities

James Harris (JH) advised they have submitted the latest MOD186 report based on the republished PCFM approval and final price statement of January 2023.

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

Movement Since September 2022 – slide 3

JH noted that the data in this report was updated as of 10 January 2023.

JH noted the Shrinkage forecast is based on 4 weeks average of December 2022 to tease out the volatility similar to other GDNs. However, the volatility in wholesale gas price remains the key impact.

There has been a reduction due to the change of Exit Capacity which reflects the latest rate per NTS.

SoLR claims in December include the increased revenue of £22m published by Ofgem in December.

As for the business rate, there has been a reduction which is the same as other GDNs, which impacted revenue.

Similar, the biggest movement is the Inflation rate. The rate has been updated to reflect the November 2022 OBR published.

Additional Comment – slide 4

JH provided a recap of the movements with slide 4.

In addition, Ofgem has provided an updated WACC allowance and RPE which has been updated.

3.0 New Issues

None raised.

4.0 Any Other Business

4.1. GM raised a comment/query to all GDNs as per below caption:

“George Moran commented with regards to the use of outdated information (old inflation forecasts) being used for the indicative charges (or the Mod 186 reports) rather than a best view. To be of most use to participants I believe the networks should be providing their best view of what charges will be in the indicatives (the clue is in the name!). I know some things will remain uncertain, but in the case of this year’s indicatives, using an inflation forecast from March 22 means GDNs will have knowingly understated indicative charges for inflation (irrespective of wherever they source their internal view of inflation).”

JS commented that all GDNs are governed by code and the PCFM is the bible, therefore it is the consistent model used by all GDNs. JS stated they cannot have a situation whereby the different GDNs are using differing assumptions over inflation etc. As PW also pointed out the last 18 months or so have hardly been typical and such large shifts in inflation and interest rates have not been seen for over a decade.

PW stated that they do have internal forecasts but there is a lot of volatility and that they need to be in conversation with Ofgem around the AIP process and the PCFM.

PW mentioned that a discussion has been held regarding the timing of indictive notices and whether it is right for the indicative notice to be published at end of October.

JH also stressed that the reason behind using Ofgem OBR as Inflation has such an important impact and to use different sources and different projections could have different impacts on the algorithm on different Networks.

GM remarked on PW’s comment on the timing. He noted that discussion being held with Ofgem on issues regarding the implication of less notice instead of more.

JS explained the 150 days’ notice was shifted to 120 days as requested by the GDNs. They would have the October OBR forecast in the 120 days’ notice and there would be fewer movements between the 120 days and the 60 days’ notices, than there currently are between 150 and 60.

4.2. Meeting Invitation

Drew Sambridge (DS) asked the Joint Office to add Shonalee Maurya to the Meeting invitation for future DNCFM meetings.

PW advised Joint Office to add Stephen Cross to the Meeting invitation for future DNCFM meetings.

5.0 Next Steps

HB confirmed that next steps as being:

- All GDNs to advise on any correlation between LDZ and ECN aggregate demand changes and why this varies so much amongst GDNs.
- Joint Office to add Shonalee Maurya, Stephen Cross to the DNCFM Meeting invite for all future meetings.

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 Tuesday 28 March 2023	17:00 Thursday 16 March 2022	Teams Meeting	Standard Workgroup Agenda
10:00 Tuesday 20 June 2023	17:00 Thursday 08 June 2023	Teams Meeting	Standard Workgroup Agenda
10:00 Tuesday 19 September 2023	17:00 Thursday 07 September 2023	Teams Meeting	Standard Workgroup Agenda

Action Table (as at 10 January 2023)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0101	10 Jan 2023	2.1	All GDNs to advise on any correlation between LDZ and ECN aggregate demand changes and why this varies so much amongst GDNs	All GDNs	Pending
0102	10 Jan 2023	2.1	All GDNs to consider a change to the reporting to include the total assumption used rather than movements.	All GDNs	Pending