

UNC DNCF Workgroup Minutes

Tuesday 27 June 2023

via Microsoft Teams

Attendees

Helen Bennett (Chair)	(HB)	Joint Office
Vera Li (Secretary)	(VL)	Joint Office
Claire Caple	(CC)	E.ON
Dimuthu Wijetunga	(DW)	Shell Energy
Drew Sambridge	(DS)	Cadent Gas
Emma Robinson	(ER)	E.ON
George Moran	(GM)	British Gas
James Harris	(JH)	Wales & West Utilities
James Knight	(JK)	Centrica
Jenny Schofield	(JS)	Northern Gas Networks
Mark Fletcher	(MF)	Engie UK
Matt Atkinson	(MA)	SEFE Energy
Nathan Li	(LN)	Engie UK
Paul Whitton	(PW)	SGN
Rhys Jones	(RJ)	Wales & West Utilities
Stephen Cross	(SC)	SGN

DNCF meetings will be quorate where there are at least 6 participants, of which at least 2 shall be Shipper Users and 2 DN Transporters.

Please note these minutes do not replicate detailed content provided within the presentation slides, therefore it is recommended that the published presentation material is reviewed in conjunction with these minutes. Copies of these are available at: <https://www.gasgovernance.co.uk/dncmf/270623>

The quarterly DN Operator Cost Information reports are published at: <https://www.gasgovernance.co.uk/DNRevenueReports>

1.0 Introduction and Status Review

Helen Bennett (HB) welcomed parties to the meeting.

1.1. Approval of Minutes (28 March 2023)

The minutes of the previous meeting were approved.

1.2. Review of Outstanding Actions

Action 0101: All GDNs to advise on any correlation between locational LDZ and LDZ Exit Capacity NTS (ECN) Charges aggregate demand changes and why this varies so much amongst GDNs.

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

Action 0301: DNs to consider the Shipper request to provide Total SOQ Assumptions, by LDZ, broken down by charging bands.

Update: All three outstanding actions were considered together. It was agreed by the Workgroup James Harris (JH) and Jenny Schofield (JS) to arrange an offline discussion with Claire Caple

(CC), George Moran (GM) and any others who are interested, to clarify the issues raised and report to the September 2023 DNCFM Workgroup meeting. **Carried Forward.**

2.0 Allowed and Collected DN Revenue Reports

The presentations supporting these minutes are available at: <https://www.gasgovernance.co.uk/dncmf/270623>

2.1. SGN

Paul Whitten (PW) provided an overview of the SGN quarterly DN Operator Cost Information Report. For full details please refer to the presentation published alongside the minutes.

PW summarised there has been a sizeable reduction for this period due to the following key changes:

- Reduction in Shrinkage forecast based on the 6 June price suggested an average p/therm of 92p for 2023/24 compared to 296p used for the tariffs. Shrinkage cost is still subject to extreme volatility.
- National Gas Transmission published the final price for October 2023 at the end of May and the reduction in tariff reflects the drop in costs impacting next year's tariff.
- The Super Tax deduction and the Government's Spring Budget changed the capital expenditure forecast for 2023/24 through 2025/26
- Revised inflation rate

Stephen Cross (SC) provided an update on the Risks and Sensitivities:

- The June MOD186 already contained elements for the 2023 Revenue Reporting Pack (RRP) and has been signed off. The final RRP will be submitted in September with further inputs and revised forecasts.
- Wholesale gas prices are still subject to volatility and shrinkage cost forecast may be subject to material change.

A breakdown of the significant movements and re-opener applications can be seen on slides 4 & 5 which show the difference in Allowed Revenue for Southern and Scotland.

2.2. Wales and West Utilities

James Harris (JH) provided an overview of the WWU quarterly DN Operator Cost Information Report. For full details please refer to the presentation published alongside the minutes.

JH summarised the key movements since 28 March 2023 noting that:

- Inflation rates updated to reflect actual monthly inflation to the end of March.
- Shrinkage forecast for 2023/24 to 2025/26 has been updated based on the average for the month of May 2023 which reflects a reduction in revenue. Volatility in wholesale gas prices remains and continues to impact Allowed Revenue across the price control.
- Exit Capacity costs have been updated for 2023/24 to 2025/26 since new rates were published by National Gas Transmission on 31 May 2023. The change reflects the final charges for the 2023/24 Gas Year and new indicative charges for subsequent years.
- Tax Trigger Events – The Chancellor's Spring Budget 2023 changes from 1 April 2023 – 31 March 2026; being full expensing for the general pool and an extension of 50% first-year allowances for the special rate pool which reduce revenue for 24/25

JH noted no Regulatory Reporting Pack (RRP) changes and the full forecast will be submitted in September 2023.

JH also drew the Workgroup's attention to an Importance Notice as follows:

“to adhere to the five-year tariff forecast obligation under the UNC, WWU have included a forecast for the first two years of GD3 price control. As discussions with Ofgem regarding GD3 have not yet begun we have no basis to include any forecasts, as a result, WWU have taken the approach of rolling forward revenue levels from 2025/26 with an inflationary increase. This approach does not represent WWUs view of GD3 revenues. These revenues could be materially different to the figures quoted and any use of 2026/27 and 2027/28 tariff forecasts should be done to recognise this uncertainty.”

2.3. Cadent

Drew Sambridge (DS) provided an overview of the Cadent quarterly DN Operator Cost Information Report. For full details please refer to the presentation published alongside the minutes.

DS summarised the key movements between March and June 2023 noting that:

- Inflation has been updated to include the March 2023 OBR forecast. The May core inflation rate has not been reducing at the speed expected by markets.
- National Gas Transmission published the Pricing Statement in May 2023. This is a pass-through cost for Cadent and showed a reduction in rates for 12 months from October 2023.
- Shrinkage costs are now forecast to be lower in 2023/24 and subsequent years than the March MOD0186 report. The 2024/25 forecast is 150p/therm.

The Movement in Allowed Revenue for 2024/25 is forecasted at 7.5% down compared to March MOD186.

DS also noted:

- Cadent will continue to monitor macro changes such as inflation and gas price rates and present their impact on revenues and unit rates.
- The September report will include an update based on the Regulatory Reporting Pack (RRP) submission to Ofgem.

2.4. Northern Gas Networks

Jenny Schofield (JS) provided an overview of the NGN quarterly DN Operator Cost Information Report. For full details please refer to the presentation published alongside the minutes.

JS summarised the key movements between March to June 2023 noting they are similar to other GDNs' presentations:

- Inflation rate is still fluctuating and difficult to predict year on year. There has been a small change in the OBR inflation measures utilised by Ofgem since the last update.
- The Shrinkage forecast included the Heren prices. Since the new year has seen a huge reduction in gas prices which is in stark contrast to the end of 2022.
- Exit Capacity rate dropped since there has been a significant reduction in the latest published tariffs by National Gas Transmission due to a huge collection in the previous year.
- The combination of the April 2023 Budget amendment and changes in the Super Tax Reduction contributed to a significant reduction

A breakdown of the movements and potential re-opener applications was also provided. JS pointed out that (11.3%) is the current predicted price change.

GM expressed thanks to all the DNs for the inclusion of Tax impacts in the budgets providing an early review of the forecast, and similarly with the Shrinkage forecast so Shippers could keep track of Shrinkage cost.

GM asked the DNs about the Shrinkage cost assumptions and if that was based on hedging or pass-through costs.

PW (SGN) confirmed their cost was calculated based on the pass-through and not hedging. All DNs confirmed the same.

3.0 Review of Topic Tracker

The Chair (HB) presented the Topic Tracker and asked the Workgroup to review the outstanding issues listed.

Workgroup members noted all the subjects raised were no longer applicable nor relevant and that new issues raised are covered by the Action list in the Meeting minutes, hence, it was agreed that the Topic Tracker could be removed from the DNCMF webpage.

4.0 New Issues

None raised.

5.0 Any Other Business

None raised.

6.0 Next Steps

Standard Agenda.

7.0 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 26 September 2023	5pm Thursday 18 September 2023	Microsoft Teams	Standard Workgroup Agenda

DNCMF Action Table

Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0101	10/01/2023	2.1	All GDNs to advise on any correlation between locational LDZ and LDZ Exit Capacity NTS (ECN) Charges aggregate demand changes and why this varies so much amongst GDNs.	June 2023 Sept 2023	All GDNs	Carried Forward
0102	10/01/2023	2.1	All GDNs to consider a change to the reporting to include the total assumption used rather than movements.	June 2023 Sept 2023	All GDNs	Carried Forward
0301	28/03/2023	1.2	DNs to consider the Shipper request to provide Total SOQ Assumptions, by LDZ, broken down by charging bands	June 2023 Sept 2023	All GDNs	Carried Forward