

UNC DNCMF Workgroup Minutes

Tuesday 23 March 2021

via Microsoft Teams

Attendees

Kate Elleman (Chair)	(KE)	Joint Office
Mike Berrisford (Secretary)	(MiB)	Joint Office
Drew Sambridge	(DS)	Cadent
George Moran	(GM)	Centrica
James Cornfield	(JC)	RWE npower
Jonathan Trapps	(JT)	Northern Gas Networks
Julian Haughey	(JH)	EDF Energy
Matthew Atkinson	(MA)	Gazprom Energy
Nick Tyson	(NT)	Total Gas & Power
Nicholas Pollard	(NP)	Northern Gas Networks
Nitin Prajapati	(NPr)	Cadent
Paul Bedford	(PB)	Drax
Paul Whitton	(PW)	SGN
Ricky Robinson	(RR)	Unknown
Samantha Wilcock	(SW)	Hudson Energy
Sherry Marchant	(SM)	Laser Energy
Smitha Coughlan	(SC)	Wales & West Utilities
Stephen Cross	(SCr)	SGN
Thomas Paul	(TP)	E.ON Energy
Tom Breckwoldt	(TB)	Gazprom Energy
Vladislav Zuevskiy	(VZ)	Northern Gas Networks

Copies of all papers are available at: <https://www.gasgovernance.co.uk/dncmf/230321>

1. Introduction and Status Review

Kate Elleman (KE) welcomed all to the meeting and confirmed the meeting to be quorate.

1.1. Approval of Minutes (11 January 2021)

The minutes from the previous meeting were approved.

1.2. Review of Outstanding Actions

Drew Sambridge (DS), on behalf of the GDN representatives present, advised that the GDNs had considered the outstanding actions and concluded that they would welcome some additional clarification as to what is expected.

Action 0101: All GDNs to consider the Net Zero Scenarios and how they propose approaching these.

Update: Thomas Paul (TP) advised that the 'original' enquiry related to the Ofgem publication of its Final Determinations, which included aspects of the Net Zero scenarios. He was seeking clarity on any potential future figures that might have an industry / commercial party impact.

In response, Smitha Coughlan (SC) pointed out that the GDNs had already responded directly to Ofgem in respect of any potential re-openers and that these responses can be found on the Ofgem web site. **Closed**

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

Action 0102: All GDNs to look to provide more clarity around the effect of reducing the K factor lag on Revenue Allowances within their final determinations.

Update: It was noted that actions 0101, 0102, 0103 and 0104 all relate to how the GDNs are looking to factor in these uncertainties within their respective Revenue Allowances, various parties in attendance requested provision of a one page summary to be provided within the June 2021 presentations.

SC pointed out that under RIIO-GD2 provisions there are no base allowances as such and therefore the GDNs would be looking to provide continual forecast (and re-forecasting) revisions year on year, parties requested further clarity around what has and what has not been included.

Jonathan Trapps (JT) explained that the GDNs will be looking to work with parties on rolling revenues going forward, especially on the more detailed adjustment elements – the current difficulties are primarily a consequence of the transitional period between RIIO-GD1 and RIIO-GD2, and it is hoped that these initial teething issues would subside over time. **Closed**

Action 0103: All GDNs to look to provide more clarity around step-change from RIIO-1 to RIIO-2 Revenue Volatility Assessments and Risk Mitigation / Premiums within their final determinations.

Update: George Moran (GM) explained that this action was around the provision of some form of ‘teach in’ exercise, especially in relation to future rolling revenue provisions, and also additional transparency around the key variables involved.

Please also refer to discussions on action 0102 above for more details. **Closed**

Action 0104: All GDNs to look to provide additional clarity around key events in Annual Pricing Timetable and alignment with events associated with the final determinations.

Update: Please refer to discussions on action 0102 above. **Closed**

General discussion was then undertaken in respect of the four actions above during which Paul Whitton (PW) acknowledged the feedback being provided by those in attendance noting that the GDNs are in a ‘halfway house’ position at this time between the RIIO-GD1 provisions and the RIIO-GD2 provisions and are currently considering how best to report to the industry going forward. The GDNs are looking to finish reporting on the GD1 elements before moving to provide ‘uncontaminated’ GD2 reports in the future.

When asked for a view on when the GD1 elements would be finalised, PW responded by suggesting that June 2021 might be too early, and that September 2021 would be a more realistic target date. The GDNs are looking 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. In support, DS added that the new GD2 report would take the form of a realignment exercise in order to remove any redundant GD1 items whilst adding in the relevant newer GD2 elements. It was noted that post September 2021 the new reports could always be enhanced further to better meet requirements.

When asked, the GDNs indicated that it is their intention to look to raise a new UNC Modification in due course, in order to amend the current 0186 Reports to better facilitate the RIIO-GD2 reporting demand going forward.

New 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.

New Action 0303: Reference RIIO-GD1 to RIIO-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.

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: Nitin Prajapati (NPr) confirmed that they would be looking to provide additional Exit Zone related charging information (i.e. 2022/23 individual Exit Zone impacts etc.) within their Charging Statement for both the coming year and beyond.

SC pointed out that the information to be provided would highlight any over / under recovery, calculated on a total basis, rather than at an individual Exit Zone level – it is anticipated that the 31 March 2021 Charging Statements would make it clear how this would work. **Carried Forward**

Concluding discussions, KE noted that it is expected that the new evolved GD2 report would satisfy the concerns highlighted within the five actions being considered at this meeting.

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/dnrevenueports>

2.1. 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, during with the following points being noted:

- as far as the 'K – under / over collection correction factor' data is concerned, more information will be provided at the June 2021 meeting;
- further consideration of the 'RIIO GD2 Revenue Forecast format' will be undertaken during consideration of the draft report proposals at the June 2021 meeting, and
- no figures are available as yet in respect of the potential Wales & West Utilities Competition Markets Authority (CMA) Appeal¹, except to confirm that it will be formally submitted at some point – no comparison between this and the other GDNs respective appeals has been undertaken at this time.²

2.2. Cadent

Nitin Prajapati (NPr) and Drew Sambridge (DS) provided a combined overview of the summary revenue report presentation during which the discussion focused mainly on the 'Forecast Revenue Scenarios' and 'Next Steps' slides, during with the following points being noted:

- as far as the 'Timeline for the calendar year 2021' slide is concerned, following the publication of the Allowed Revenue updates circa November 2021, the 2022/23 are essentially set - discussions with the Supplier of Last Resort (SoLR) suggests that there would be no anticipated additional movements once finalised in November;

¹ Please note: the CMA is considering whether to grant permission to appeal to 9 energy companies against modifications made on 3 February 2021 to the electricity and gas transmission. For more information please refer to: <https://www.gov.uk/cma-cases/energy-licence-modification-appeals-2021>

² Post meeting update: a copy of the WWU CMA appeal press release is available at: [Wales & West Utilities seeks to appeal against Ofgem's final determination \(wwutilities.co.uk\)](https://www.wwu.co.uk/press-releases/wwu-cma-appeal)

- the *'Forecast Revenue Scenarios'* graph showed the difference (gap) between the *'Base March MOD scenario'* and *'Potential CMA scenario'* lines potentially involves a range of possibilities, and the reality may mean a closer alignment – a firmer view is expected around December 2021;
- the June/Sept Revised Mod186 reporting format should see the removal of RIIO-GD1 elements with the addition of the newer RIIO-GD2 elements;
- it was noted that *'Capital Allowances'* and *'Super Deductions'* are similar to the Corporation Tax model, for which these new investment rates are automatically applied over the first 2 years – in short, the super deductions will impact Allowed Revenues over the first 2 years;
- the Ofgem PCFM will not impact Collectable Revenue for the current year but would have a 'K' factor effect for 2023, and
- it was noted that the GDNs can effectively adjust their respective Allowed Collected Revenues, there is a materiality threshold (circa 1%) for each GDN, although Ofgem could always republish their PCFM – the aim being that Allowed Revenues match the PCFM values, even if during this initial transition period this might be difficult to achieve – collectable revenue remains the more stable indicator.

2.3. Northern Gas Networks

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

- the *'Total base revenue changes for 21/22'* figure of £2.8m is comprised of £1.7m for Ofgem approved changes and £1.1m updated CPIH forecast figures, and
- as far as the *'Shrinkage pass thru'* is concerned, this reflects the latest National Balancing Point rates.

2.4. Scotia Gas Networks

Paul Whitton (PW) provided an overview of the summary revenue report presentation during which the discussion focused mainly on the *'Scotland Distribution Network'* and *'SGN GD2 Price Changes'* slides, during with the following points being noted:

- the *'Total Distribution Charges Arithmetical Price Change'* value of +8.4% for 2022/23 reflects the 'true up' of NTS costs;
- as far as the *'SGN GD2 Price Changes'* slide is concerned, the apparently large movement (swing) between the 2021/22 (-7.8%) and 2022/23 (8.4%) values confirms the effects of application of the NTS true up costs;
- as per the earlier WWU report, no figures are available as yet in respect of the potential Scotia Gas Networks Competition Markets Authority (CMA) Appeal, except to confirm that it will be formally submitted at some point – no comparison between this and the other GDNs respective appeals has been undertaken at this time, and
- it was confirmed that the non-confidential appeal documentation is already available on the CMA web site.

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

KE explained that the Modification is still with Ofgem awaiting a decision and that no 'minded to' view had been provided during recent discussions undertaken at the 18 March 2021 Panel meeting. Parties debated whether this matter relates specifically to domestic credit balances being recovered across the domestic market, or whether it also involves non-domestic parties – the consensus being that it relates to the domestic side of the market only.

4. New Issues

No new issues raised.

5. Any Other Business

5.1. National Grid Consultation on Updated Forecasted Contracted Capacity (FCC) Methodology to apply for Gas Year 2021/22

In noting the recent National Grid NTS email communication as issued by the Joint Office on 19 March 2021 entitled 'National Grid Consultation on Updated Forecasted Contracted Capacity (FCC) Methodology to apply for Gas Year 2021/22', parties discussed the proposed move away from an historical based model to a 1:20 peak demand based model for the Forecasted Contracted Capacity (FCC) methodology.

It was noted that part of the reasoning behind the proposed changes was to avoid a repeat of the previous year's material under collection scenario – the Peak Demand information is published on the National Grid web site.

A National Grid hosted webinar is due to be held on Wednesday 24 March 2021, so interested parties are encouraged to attend.³

6. 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 22 June 2021	Teleconference 0203 443 9666, Conference ID 565 115 535# Join Microsoft Teams Meeting	Allowed and Collected DN Revenue
10:00 - 12:30 Tuesday 21 September 2021	Teleconference 0203 443 9666, Conference ID 565 115 535# Join Microsoft Teams Meeting	Allowed and Collected DN Revenue
10:00 - 12:30 Monday 10 January 2022	Teleconference 0203 443 9666, Conference ID 565 115 535# Join Microsoft Teams Meeting	Allowed and Collected DN Revenue

Action Table (as at 11 January 2021)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0101	11/01/21	2.	To consider the Net Zero Scenarios and how they propose approaching these.	All GDNs	Update provided. Closed
0102	11/01/21	2.	To look to provide more clarity around the effect of reducing the K factor lag on Revenue Allowances within their final determinations.	All GDNs	Update provided. Closed
0103	11/01/21	2.	To look to provide more clarity around step-change from RIIO-1 to RIIO-2 Revenue Volatility Assessments and Risk Mitigation / Premiums within their final determinations.	All GDNs	Update provided. Closed

³ Registration details can be found here: <https://www.eventbrite.co.uk/e/forecasted-contracted-capacity-fcc-methodology-consultation-webinar-tickets-139925630327>

Action Table (as at 11 January 2021)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0104	11/01/21	2.	To look to provide additional clarity around key events in Annual Pricing Timetable and alignment with events associated with the final determinations.	All GDNs	Update provided. Closed
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	Carried Forward
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	Pending
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	Pending
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	Pending