

UNC DNCMF Workgroup Minutes

Monday 13 January 2020

at Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA

Attendees

Alan Raper (Chair)	(AR)	Joint Office
Kully Jones (Secretary)	(KJ)	Joint Office
Brandon Rodrigues*	(BR)	ESPUG
Jon Trapps	(JT)	Northern Gas Networks
Matt Atkinson*	(MA)	Gazprom
Niall Coyle	(NC)	E.ON
Nicky White	(NW)	Npower
Nitin Prajapati	(NP)	Cadent
Paul Whitton	(PW)	SGN
Smitha Coughlan	(SCo)	Wales & West Utilities
Stephen Cross	(SCr)	SGN
Tom Breckwoldt*	(TB)	Gazprom
Tom Sacker	(TS)	Cadent

*via teleconference

Copies of all papers are available at: <https://www.gasgovernance.co.uk/dncmf/130120>

1. Introduction and Status Review

Alan Raper (AR) welcomed all to the meeting.

1.1. Approval of Minutes (24 September 2019)

The minutes from the previous meeting were approved.

1.2. Review of Outstanding Actions

None to consider.

1.3. Pre-Modification discussions

None raised.

2. Allowed and Collected DN Revenue (MOD0186) Reports

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

Copies of the presentation slides are available at: <https://www.gasgovernance.co.uk/dncmf/130120>

2.1. Scotia Gas Networks (SGN)

Paul Whitton (PW) provided a brief overview of SGN's revenue report focusing on the key revenue changes. He highlighted that the key revenue changes were in relation to:

- RPIFt - Updated inflation for 2020/21 in line with December 2019 HM Treasury, (HMT), forecast.
- MODt - Updated to reflect November 2019 Annual Iteration Process, (AIP), final position.
- CDE - As part of November 2019 AIP 2020/21 cost of debt figure confirmed as 1.09%.
- Elt - Updated to reflect Oct 2019 Exit Capacity bookings.
- SHRt - Shrinkage gas price 2020/21 onwards as per market

forecast report 30 November 2019.

- BMt - Updated with 2018/19 scores and forecast for future years.

PW also reported that additional sensitivities and uncertainties have been included in 2020/2 tariffs. These include:

- Southern 2020/21 currently includes a 0.4% reduction to reflect the impact of the revised 2018/19 NTS incentive. A meeting is being held on 14 January with Ofgem to finalise this.
- 0.1% increase in tariffs is likely in relation to the SoLR claims by Ovo and Shell.
- Currently Xoserve have 21 outstanding defects in relation to the calculation of AQ/SOQ's. These are likely to impact on the formula AQ/SOQ's used to recover tariffs. Xoserve have indicated that the majority of these are low materiality.

In addition, PW stated that volatility issue being investigated by Xoserve has been resolved.

In relation to revenue forecasts for GD2, PW signalled that GD2 figures have been published on the SGN website under *Financing and Efficiency* (<https://www.sgnfuture.co.uk/>). He directed Workgroup participants to P38-39 for figures relating to allowed revenue. He also stated that the forecasts are not fixed at this stage and Shippers can manipulate the information to calculate their own projections.

He concluded by highlighting the 2020/21 price change between the September and December reports which was a movement of 0.9% for Southern and 0.2% for Scotland.

2.2. Northern Gas Networks (NGN)

Jon Trapps (JT) provided an overview of NGN's revenue report highlighting that all GD2 years have now been included as per the December 2019 Business Plan Bid Proposal. He stated that this is the latest position and not the final position. He added that the NGN website provides all the supporting data for the business plan submission (<https://www.northerngasnetworks.co.uk/document-library/>).

He highlighted the following points:

- The effects of Exit Capacity charges to highlight the total customer bill within the NGN network have been included.
- November RPI data was not available for this submission due to the General Election so RPI data published on 18 December was used for 20/21 prices. The update for the 60-day statement will result in a 2.48% reduction.
- NGN SOQ assumption for 2020/21 has been updated to reflect the latest data available and any updates relating to AQ defects will be included in the 60 day notice.
- Modification 0678 – JT indicated that the preferred Modification 0678A signalled in the Ofgem minded to decision letter would present the highest cost scenario of NGN.

He also highlighted that a claim for Together Energy of £235k has been included within Allowed Revenue 2020/21 data.

In terms of allowed revenue, the difference between the September and December report is 21.9m.

In response to a question, JT indicated that Modification 0678A, (often referred to as 'postage stamp'), was used for GD2 assumptions and would result in a total cost to NGN of approximately £33m.

2.3. Cadent

Nitin Prajapati (NP) provided a brief overview of Cadent's revenue report. He explained that the December report provides an updated collected revenue view for the final two years of RIIO-GD1 and an allowed revenue forecast for RIIO-GD2 aligned to the final Business Plan

submission in December. He highlighted three key updates have been included in the December revenue report:

- A revised collected revenue forecast reflecting Cadent's current expectation for 2019/20 revenue recovery
- The final Annual Iteration Process (MODt) adjustment for 2020/21
- A RIIO-GD2 allowed revenue forecast, confirming the key assumptions and financial parameters along with a timeline of key milestones.

He indicated that there are two changes to note from the September forecast in relation to a revised collected revenue forecast and the final Annual Iteration Process, (AIP), adjustment for 2020/21.

In terms of the collected revenue forecast, he indicated a £4.8m over recovery for 2019/20 equating to 0.25%. The AIP impact is a reduction of £4m driven by a reduction in the cost of debt allowance.

NP highlighted that the March updates would include:

Final forecast demand positions which will be utilised in the final charge setting process

- HM Treasury's forecast for the UK economy which will set the inflation basis for next year
- Standard monthly RPI updates and
- Updated collected revenue positions.

Tom Sacker (TS) then provided an overview of slides 13-18 of the presentation covering the revenue forecast for RIIO-GD2. He highlighted the key financial parameters used when developing the revenue forecast and which included the inflation index, cost of equity, cost of debt, WACC, gearing, corporation tax rate, OPEX/CAPEX capitalisation rate and REPEX capitalisation rate. He added that the values provided were subject to agreement still with Ofgem.

In terms of the allowed revenue forecast (slide 17), he highlighted that the price base was using nominal terms which is different to other networks.

He also confirmed that Ofgem's working assumptions have been used.

Tom Breckwoldt (TB) asked about the impact on LDZ and ECN prices not showing in GDN and whether the percentage change year on year on prices was available. NP agreed to look to see if this information can be published as part of the RIIO GD2 forecast and, if so, provide an update for March.

2.4. Wales & West Utilities (WWU)

Smitha Coughlan (SC) provided an overview of WWU's revenue report, highlighting the key changes since September 2019. She highlighted that:

- Collected revenue has decreased due to updates to 2019/20 revenue forecast.
- Gas prices have gone down due to decrease in long term gas price forecast and a small update to pass through cost forecast.
- MODt calculation has gone down due to the revised balance following November 2019 AIP inclusion.
- Reduction in inflation as per the December HMT forecast.
- RIIO GD2 base revenue forecast has increased as the GD2 figures previously based on 'Ofgem Notional' basis.

In addition, she provided additional comments in relation to the November 2019 AIP, GD2 base revenue, HMT medium term inflation forecast and the SoLR claim which would result in an estimated £0.7m to be included in the calculation of the allowed revenue for 2020/21.

3. RIIO-GD2 Update

This update was covered as part of agenda item 2.0. Shippers were asked what other information they require in relation to RIO GD2. Nicky White suggested more information on System Offtake Quantity (SOQ) figures would be helpful.

4. NTS Charging Modification Update

AR provided a brief update on Modification 0678 stating that Ofgem's minded to decision and draft impact assessment were published on 23 December 2019 - <http://www.gasgovernance.co.uk/0678>.

Of the 11 Modifications, Ofgem's assessment concluded that only Modification 0678 and 0678A are compliant with the relevant legislation. Ofgem's minded to decision is to approve Modification 0678A with a proposed implementation date of 01 October 2020 to coincide with the start of the gas year, dependant on consideration of consultation responses.

The consultation document outlines the scope, purpose and questions of the consultation and how industry can get involved. The closing date is 24 February 2020.

PW asked for views on the feasibility of implementation of Modification 0678. NC indicated that in his view there are no issues from a process perspective. PW agreed with this view and highlighted that the timescales would be tight depending on when the final Ofgem decision is received given that the auction process is normally starts around May.

It was noted that Ofgem had provided an update at the NTSCMF Workgroup held on 07 January 2020 and an additional meeting is being on 28 January 2020 to specifically discuss Workgroup 0670R and a potential short-haul product. Minutes of the NTSCM meeting are available here: <https://www.gasgovernance.co.uk/ntscmf/070120> and details of the next NTSCMF meeting are available here: <https://www.gasgovernance.co.uk/ntscmf/280120>.

5. Supplier of Last Resort Process Update

It was noted that there are two Modifications being considered at present:

- Modification 0687 - Creation of new charge to recover Last Resort Supply Payments and
- Modification 0688 - Recovery of Shipper Losses incurred in Supplier of Last Resort events).

Modification 0687 is awaiting an Ofgem decision following consideration at the 19 September and 21 November 2019 Panel meetings. The Panel recommended implementation.

Modification 0688 has been withdrawn by the proposer.

NP and PW both suggested that a decision on Modification 0687 is needed by the end of January. They reported that Xoserve have indicated that it may not be possible to make the system changes in time.

6. New Issues

There were no new issues.

7. Any Other Business

None raised.

8. Diary Planning

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

Post meeting Update

The next meeting on 24 March 2020 will start at 11am and not 10:30 due to the Shrinkage Forum meeting on the same day.

Time / Date	Venue	Workgroup Programme
11:00 – 14:00 Tuesday 24 March 2020	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> • Allowed and Collected DN Revenue

10:30 – 14:00 Tuesday 23 June 2020	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> Allowed and Collected DN Revenue
10:30 – 14:00 Tuesday 22 September 2020	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> Allowed and Collected DN Revenue
10:30 – 14:00 Tuesday 11 January 2021	Joint Office, Radcliffe House, Blenheim Court, Warwick Road, Solihull B91 2AA	<ul style="list-style-type: none"> Allowed and Collected DN Revenue

Action Table (as at 13 January 2020)

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