

UNC DNCMF Workgroup Minutes
23 January 2024
via Microsoft Teams

Attendees		
Helen Bennett (Chair)	(HB)	Joint Office
Nikita Bagga (Secretary)	(NB)	Joint Office
Alex Mitchell	(AM)	Wales & West Utilities
Dimuthu Wijetunga	(DW)	Shell Energy UK
Emma Robinson	(ER)	EON Energy
Fredrick Usen	(FU)	SSE
James Harris	(JH)	Wales & West Utilities
James Knight	(JK)	Centrica
Jenny Schofield	(JS)	Northern Gas Networks
Mark Fletcher	(MF)	Shell Energy UK
Matthew Atkinson	(MA)	SEFE Energy
Monika Hudakova	(MH)	OVO Energy
Paul Whitton	(PW)	SGN
Rakesh Gohil	(RG)	Centrica
Samuel Yuen	(SY)	Cadent
Sanjeet Kang	(SK)	Cadent
Stephen Cross	(SC)	SGN

DNCMF 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/230124>

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 (26 September 2023)

The minutes of the previous meeting were approved.

1.2. Review of Outstanding Actions

Action 0901: All GDNs to provide SOQ data as per 60-day notices. This should be sent to Jenny Schofield, NGN, directly or via the Joint Office.

Update: Jenny Schofield (JS) explained that GDN’s had not provided their SOQ data however, she suggested closing this action as this data will be included in the 60-day notice which is due in around 7 days. James Harris (JH) advised that Wales & West Utilities would not be submitting their data within the 60-day notice but would email JS separately. JS confirmed she was happy with this and confirmed the closure of this action.

Closed

Action 0902: All participants to review MOD186 statement and report back to JS with any comments to improve. This should be sent to Jenny Schofield, NGN, directly or via the Joint Office.

Update: Following discussion at the Pricing Managers' meeting JS suggested this action should be closed. She advised that most of what is in the MOD186 statement has been written into Code and that some input had been obtained from Shipper Members.

Closed

2.0 Allowed and Collected DN Revenue Reports

The presentations supporting these minutes are available at:

<https://www.gasgovernance.co.uk/DNCFM/260923>

2.1. Cadent

Sanjeet Kang (SK) provided an overview of the presentation slides, discussing the key updates incorporated since the September MOD186.

SK discussed the finances advising that there had been an increase of £29.1 million and that inflation appears to be the biggest factor driving the significant increase in costs. Further details can be found in the appendices of the presentation.

In relation to tax, prices are being reduced from September 2023 to take into account the latest Government legislation for investment.

Dimuthu Wijetunga (DW) raised a question regarding the SOQ reductions, requesting clarification on what sort of reductions are being seen and what impact this has on the LDZ as a percentage.

SK advised this was previously around £112 million and has since reduced to around £3.7 million for Cadent.

Samuel Yuen (SY) provided an overview of the RII03 Timeline for awareness purposes so that participants are aware of what is forthcoming.

DW drew reference to the submission of the first business plan in July and questioned whether the Committee would have visibility of this. SY advised that this draft will just be for Ofgem however the business plan which will be submitted in December, will be publicly available for the Committee around early January 2025.

Fredrick Usen (FU) queried the SOLR charges and final position and requested an explanation in the absence of numbers.

SY explained that in relation to SOLR, all GDN's will advise that it has been more prevalent over the last few years with costs being shared across the customer base. From Cadent's perspective, over £100 million was initially collected which was then reduced to £5 million. This was expected due to fewer Suppliers ceasing trading so there will be fewer costs to be shared around. SY explained that the data relating to SOLR costs collected this year and what is expected to be collected next year, could be shared. FU requested for this to be sent over as it would be useful to see these figures.

Please refer to the presentation slides published for more information.

2.2. Northern Gas Networks

JS provided an overview of the key updates between September 2023 and December 2023.

JS discussed the Heren prices in relation to shrinkage which had been tracked across various Modifications, in which a notable decrease can be seen. This decrease is not surprising however when compared to this time last year, a visible difference is noted. JS noted changes seen in shrinkage, which are passing through costs and onto the revenues.

The dry run 1 was submitted around September last year and in December, the total shift was £33 million. This was broken down and further information can be seen on slide 4. JS provided an overview of this table and the breakdown of movements.

JS provided an overview of slide 5, drawing attention to information which had not been included in this slide:

- Other GDN's had not included anything relating to SOLR which appears to be a wise decision. Initially, the position was that there would be a revenue collection from the suppliers and passed on to the customers however, when published in December, the position flipped with 1.5 collections switching to 1.6 costs.
- In relation to the AIP, this should have no impact on the final 60-day notice. NGN are predicting a reduction however, this landed at around 11.9 when the snapshot was received in December.
- Shrinkage will not be amended between today and the final 60-day notice so the only items that will shift are SOLR and capacity.

Rakesh Gohil (RG) requested clarification regarding SOQ, explaining he understands the different movements for AQ's but would like to understand how they are charged on SOQ.

JS explained that the SOQ charges on the capacity of the peak day of the year. If the end customer is taking less end product, the revenue is still fixed, this will come through unit rates on the gas bills. If the SOQ is reducing and less gas is being used, the rates will need to be increased to ensure the same amount of revenue is being collected. NGN need to ensure that there is sufficient space in the pipes for the gas.

RG raised the different movements occurring in AQ, LDZ and ECN and wanted to understand why this was, when this would be charged on SOQ and what was driving this. Is this due solely to a reduction in demand?

JS explained in relation to this point that Xoserve and Corella had been challenged several times and this question might be more appropriate for Xoserve or Ofgem. There are algorithms in place linking AQ and SOQ. With improvements relating to the installation, the increased cost of gas and environmental impacts has made people more conscious which is leading to less usage. The second year saw a reduction in AQ and SOQ. In terms of the drivers behind this reduction, JS advised that NGN are not as close to identifying it as suppliers may be. NGN's role goes as far as maintaining the pipes in the event there is a sudden need for gas.

Paul Whitton (PW) added, further to this, advising that the high gas prices are causing the end users to be more prudent with their gas use. A lot of the meter points are domestic based, and the SOQ derives from the AQ. If there is a drop in the AQ, this will impact the SOQ for a majority of the meter points. There is therefore a direct correlation between the drop in AQ and the drop in SOQ.

Please refer to the presentation slides published for further information.

2.3. SGN

Stephen Cross (SC) provided an overview of the key revenue changes, providing a breakdown of the figures relating to Southern Gas and Scotland Gas.

RG drew reference to the movement in September and December for SOQ and requested further information on this.

PW advised that the position is not that much different from other networks and that a continual drop-off has been seen in NSAQ's. This position stabilised over the summer and PW explained this could be due to the industry catching up with itself however, as we went into the winter, a drop-off had been noted which reflected the movement in September and December. The position is consistent with what other networks are seeing.

If the SOQ continues to change, FU queried whether the final charges will be amended to reflect those changes or would it be considered within the next charging year. FU also queried whether charges are fixed.

PW advised that there is only a little bit of movement in Scotland with more movement seen in the Southern region. The expectation is that due to the increase in demand, there is less of a reduction in the rates, particularly in the Southern region.

PW explained that there is a view of demand for December and this level becomes fixed for the vast majority of sites as there will be a continual drop. The actual billing of AQ and SOQ will remain the same so there is stability in charging. The hope is that gas prices will drop and will continue to drop. Between now and December 2024, SGN will be tracking internally. From a billing perspective, it will remain at a certain level so the Committee will not see volatility in pricing. An increase in rates will be seen if the drop continues. Once published in January, there should not be any further changes.

JK further added a similar position was noted for September in terms of SOQ movement. In relation to the internal review discussed by PW, JK requested if SGN could share where they are obtaining their internal view on movement from and how it pieces together so that others can incorporate similar data into their presentations. It will be useful to see what SGN are seeing, should SOQ increase again and given the sizeable movement over the past few years.

PW explained that this data is received from Xoserve monthly and that there appears to be heightened interest in demand over the past 12 months, understandably. Due to the increased demand for updates, SGN updated the September view to take into account movements seen since April. Historically, this data would not have been included as it was not previously considered material, until this year which is why it is now being included. The majority of other networks may have done the same but going forward, the focus will be on demand.

JK raised the issue considered last year in relation to the different impacts of AQ and LDZ charges which are both charged against SOQ, but the charges are not built the same way. DNO Members appear to have different assumptions of demand movements. This was previously considered however; an explanation was not reached.

PW advised from an SGN perspective, due to the amounts discussed, it is unlikely that a direct comparison between the two areas will be seen. There is consistency in the behaviour, but a direct percentage will not be obtained due to the different sizes in numbers.

In response to this, JK explained that it would be useful to have sight of the SOQ base DNO Members are using to create charges. JK asked whether there was data available at an aggregate level that could be shared to confirm what is being seen, it would be useful to show movement and to obtain a feel for how things are changing.

PW explained that the suggestion is that this data would be included in the 60-day notice at the charge band level.

Please refer to the presentation slides published for further information.

2.4. Wales & West Utilities

JH requested if Wales & West Utilities could present first due to being on a training day. The Committee confirmed they were happy with this.

JH provided an overview of the movements since 26 September 2023. In relation to inflation, this has been built in and received by Ofgem. Inflation has caused a significant increase in revenue and final pricing and rates have been based on this.

JH flagged to the Committee the section relating to costs, advising that there had been an increase in exit capacity and a decrease in shrinkage.

James Knight (JK) referred to a separate spreadsheet, drawing attention to the percentage figures provided. The year-on-year movement aggregate in Table 5 states that the LDZ charge element

is -9.5% which would suggest an increase and charges are moving by 9.9% in the other direction. JH advised that the 9.5% figure reflects the drop in AQ.

JH advised that the data does contradict itself slightly and that pre-conceived questions on demand are considered. The GDN's appear to combine these two rows to include both figures when considering this data. JK stated that if both movements are added together, a similar figure to other GDN's would be obtained.

JH stated that he would look into this going forward to avoid any confusion and to look at an easier way to present the data. Other GDN's presentations will be considered to see if the way they present their data, could be adopted for this presentation. JH thanked JK for flagging.

JH advised that any further questions should be emailed to him and he will respond when he can.

Please refer to the presentation slides published for further information.

3.0 New Issues

None raised.

4.0 Any Other Business

None raised.

5.0 Diary Planning

DNCMF meetings are listed at: <https://www.gasgovernance.co.uk/DNCMF>

All other Joint Office events are available via: www.gasgovernance.co.uk/events-calendar/month

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Tuesday 26 March 2024	5pm Thursday 21 March 2024	Microsoft Teams	Standard Workgroup Agenda
10:00 Thursday 27 June 2024	5pm Thursday 19 June 2024	Microsoft Teams	Standard Workgroup Agenda
10:00 Thursday 26 September 2024	5pm Thursday 18 September 2024	Microsoft Teams	Standard Workgroup Agenda

DNCMF Action Table

Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0901	26/09/2023	1.2	All GDNs to provide SOQ data as per 60 day notices. This should be sent to Jenny Schofield, NGN, directly or via the Joint Office	January 2024	All GDNs	Closed
0902	26/09/2023	1.2	All participants to review MOD186 statement and report back to JS with any comments to improve. This should be sent to Jenny Schofield, NGN, directly or via the Joint Office.	January 2024	All Participants	Closed