

OUTLINE OF BUDGET AND CHARGING METHODOLOGY

This paper contains 'business rules' and in some places outline drafting, for an initial discussion. It will be converted to a fully legally drafted document at a later stage.

1 General

[Usual standard introduction for DSC Service Documents]

[Definitions including:

Committee is the Contract Management Committee

Charging Year is the DSC Year for which charges are to be determined

Overview of charging:

- costs are divided into **Service Costs** (run-the-business) and **Investment Costs**
- Service Costs are recovered by **General Service Charges** and **Specific Service Charges**
- A Specific Service Charge is a charge made for a specific service. The only Specific Service Charges contemplated are existing Non-Code User Pays Services, the IX maintenance charge and (for new Users) the IX installation charge. Third party service charges could also be treated as Specific Service Charges. General Service Charges recover Service Costs (ie run-the-business costs) not recovered through specific charges.
- Investment Costs are recovered by Infrastructure Charges and Change Charges.

2 Preliminary

2.1 Charge Base Apportionment Table

2.1.1 The Charge Base **Apportionment Table** is the table below which sets out the proportions in which amounts in respect of Service Costs in each Service Area are to be apportioned to different Customer Classes:

Service Area	Shippers	Transporters			
		Transmission	Distribution		
			DNs + IGTs	DNs	IGTs

Notes: The Service Areas are the [23] service areas.

(Drafting note: This implies that we need to modify the definition of Customer Class (or use another term) so that DN + IGTs, DN alone, IGT alone, can each be a Customer Class.)

Comment [Dentons1]: Number to be confirmed.

2.1.2 The Charge Base Apportionment Table would be changed only if a Service Change (see Change Management Procedure) added a new or removed an entire Service Area or a new Customer Class. The change to the Charge Base Apportionment Table would be done as part of the Service Change procedure.

2.2 Cost Allocation Model

2.2.1 The CDSP will establish and keep under review and may from time to time revise a **Cost Allocation Model**.

2.2.2 The Cost Allocation Model will provide for the allocation of Service Costs to different Service Areas, on the basis of the input costs used to establish the CDSP Budget.

2.2.3 The Cost Allocation Model and its application are subject to audit as provided in the Contract Management Arrangements.

Comment [Dentons2]: The existing Agency Charging Statement (which will be superseded by this Methodology) contains further details of cost allocation.

2.3 Charging Shares

2.3.1 For each Customer which is a Shipper User and for each Month M, the **Shipper Monthly Charging Share** for a Month is calculated as:

$$[ASOQ_M / \sum ASOQ_M]$$

ASOQ_M is the aggregate of the SOQs for all Supply Points of the Shipper User as at [/] before Month M

∑ is the sum over all Shipper Users]

2.3.2 For the DNs and IGTs, the **Relevant Transporter Annual Charging Share** for a DSC Year is:

$$ASP_Y / \sum ASP_Y$$

ASP_Y is the aggregate number of Supply Points on the DN's or IGT's network as at [/] before the DSC Year, derived from CDSP records

∑ is the sum over all (i) DNs and IGTs, or (ii) all DNs, or (iii) all IGTs, according to the Customer Class in question.

2.3.3 The Relevant Transporter Annual Charging Share for NTS is 1. [This may not be needed depending on precise drafting.]

2.3.4 An **Annual Charging Share** (for each Shipper User) may also be needed – see eg 6.2.1. This could be an arithmetic mean of the Monthly Charging Shares for the Charging Year, or it could be derived on the basis of actual charges (in £) to shippers.

2.4 Accounting principles

Budgets and accounting statements to be prepared on accruals basis in accordance with UK GAAP.

Comment [Dentons3]: To be confirmed by Xoserve

3 Annual process - budget

3.1 Overview

3.1.1 To list the basic outputs required from the budget for charging purposes:

- (a) Annual Service Charge Base
- (b) Core Annual Service Charge Base (after deduction of forecast costs / revenue attributable to Specific Charges and Third Party Services)
- (c) Annual Change Charge Base
- (d) Annual Infrastructure Charge Base.

3.2 The document containing the CDSP Budget may contain information relating to years after the Charging Year but any such information has no effect for the purposes of the DSC and only the information relating to the Charging Year shall be counted as the CDSP Budget.

3.3 Statement of planning principles

3.3.1 The CDSP will establish a **Statement of Planning Principles** for the Charging Year setting out the basis on which the CDSP will establish a CDSP Budget.

3.3.2 The Statement of Planning Principles will include planning period, assumptions, strategic context, service footprint, basis of financial forecasts.

3.3.3 The Statement of Planning Principles will cover all activities of CDSP (including provision of Third Party Services).

3.3.4 The CDSP will:

- (a) prepare and provide to the Committee a draft Statement of Planning Principles;
- (b) discuss the draft with the Committee;
- (c) take into account, as it considers appropriate, the views of Committee in finalising the Statement of Planning Principles.

3.4 CDSP Budget

3.4.1 On the basis of the Statement of Planning Principles, the CDSP will establish a **CDSP Budget** for the Charging Year by assessing the forecast input costs of performing the activities in the Statement of Planning Principles, in the following categories:

- (a) run-the-business (including people, systems, property, financing costs (if any), other);
- (b) investment, divided into change; infrastructure.

3.4.2 Bad debt from a prior year, which was not covered by a provision in that year's budget, would be a cost under 'other' in the Charging Year's budget.

3.5 Adjustment for margin

3.5.1 Costs (in each category) are adjusted by adding a margin to determine:

- (a) Annual Service Charge Base;
- (b) Investment Charge Base divided into:
 - (i) Infrastructure Charge Base;
 - (ii) Change Charge Base.

3.5.2 [To set out principles on which margin is set.]

3.6 Adjustment for Specific Charges

3.6.1 To set out the basis on which amounts attributable to Specific Charges and Third Party Services are forecast.

3.6.2 **Core Annual Service Charge Base** is Annual Service Charge Base less forecast amounts attributable to Specific Charges and Third Party Services.

3.7 Budget consultation

3.7.1 The CDSP will:

- (a) prepare and provide to the Committee a draft CDSP Budget;
- (b) discuss the draft with the Committee;
- (c) take into account, as it considers appropriate, the views of Committee in finalising the CDSP Budget, and provide to the Committee a report that outlines the actions taken in response to the views of the Committee ;
- (d) [*may include a second round of consultation*]
- (e) send the final CDSP Budget to the Committee and each Customer.

3.8 Budget appeal

To set out an appeal process as required by the draft licence condition.

Will need to include provisional use of the original budget, and true-up based on Ofgem decision.

3.9 Budget amendment

To set out circumstances (to include a successful appeal) in which the Annual Budget might be revised, and the application of the revised budget in recalculating charges.

4 Calculation of General Service Charges

4.1 Allocation of Core Annual Service Charge Base

4.1.1 The CDSP will apply the Cost Allocation Model to allocate the Core Annual Service Charge Base to each of the Service Areas in the Charge Base Apportionment Table.

4.1.2 This gives the **Annual Service Area Charge Base** for each Service Area.

4.2 Apportionment of Annual Service Area Charge Base

4.2.1 For each Service Area, the Annual Service Area Charge Base is apportioned between each Customer Class in the Area Customer Group on the basis of the proportions set out in the Charge Base Apportionment Table.

4.2.2 This gives the **Annual Service Area Class Charge Base**.

4.3 Aggregation of Annual Service Area Class Charge Base

4.3.1 For each Customer Class, the Annual Service Area Class Charge Base is aggregated over all Service Areas to give the **Annual Customer Class Service Charge Base**.

4.4 Monthly Customer Class Charge Base

4.4.1 The **Monthly Customer Class Service Charge Base** is 1/12 of the Annual Customer Class Service Charge Base.

4.5 Monthly Service Charges

4.5.1 For each Month in the Charging Year a Shipper User's Monthly Service Charge is calculated as the Monthly Shipper Charging Share (for that Month) of the Monthly Customer Class Service Charge Base for Shipper Users.

4.5.2 For each Month in the Charging Year a [Transporter's] Monthly Service Charge is calculated as follows:

- (a) calculate the Relevant Transporter Annual Charging Share (for that year) of the Monthly Customer Class Service Costs for the relevant class (NTS, DN + IGT, DN, IGT);
- (b) aggregate over each of such relevant classes to arrive at a single Monthly Service Charge

5 Specific Charges

[To set out the basis on which Specific Charges are set – see for information the existing Agency Charging Statement]

6 Investment Charges

6.1 Infrastructure Charges

6.1.1 Annual Customer Class Infrastructure Charge Base is calculated for each Customer Class as:

$$AIC * ACCSCB / \sum ACCSCB$$

AIC Annual Infrastructure Charge Base

ACCSC Annual Customer Class Service Charge Base per 4.3.1

Comment [Dentons4]: In order to treat Gemini in an appropriate way, the following adjustments could be made: (1) Gemini-related costs are excluded from AIC. (2) in calculating ACCSCB for purposes of 6.1.1, Gemini-related Service Areas are excluded from the summation over Service Area in 4.3.1. (3) A separate Infrastructure Charge for Gemini is made to NTS.

Σ sum over Customer Classes.

- 6.1.2 Monthly Infrastructure Charges for each Customer are calculated as Monthly Charging Share of 1/12 of Annual Customer Class Infrastructure Charge Base for the relevant class.
- 6.1.3 It may be convenient to define $ACCSCB / \Sigma ACCSCB$ as a **General Charging Proportion** for a Customer Class.

6.2 Service Change Charges

[Note: more detail to be developed here.]

- 6.2.1 Amounts within the Change Charge Base for a given Service Change, above a threshold, are recovered from the Customer Class(es) for the relevant Service Area based on the relevant proportions in the Charge Base Apportionment Table (**Targeted Change Charge Base**). Within each class they are recovered from individual Customers based on **Annual Charging Shares**. [*How are change costs attributed to a particular Service Change? Does the Cost Allocation Model do this?*]
- 6.2.2 [Amounts in the Change Charge Base below the threshold are recovered between Customer Classes in General Charging Proportions and on the basis of Monthly Charging Shares.]
- 6.2.3 For **Targeted Change Costs**, where at the time the budget is set the Service Change is already known, a targeted charge (per 6.2.1) may be made from the start of the year – on an annualised ie 1/12 per month basis.
- 6.2.4 Otherwise, for amounts of the Change Charge Base which will be Targeted, they will be provisionally charged based on General Charging Proportions and on the basis of [forecast] Monthly Charging Shares.
- 6.2.5 At the end of the year, a reconciliation and adjustment will be made so that the Targeted Change Charge Base is recovered on the basis in 6.2.1

Comment [Dentons5]: Further work is needed to define what level of change-related costs are mutualised. Any threshold could be defined in £, or as a particular stage in the service change management procedures. If there is no such threshold (or the associated costs are simply part of the basic cost base rather than the change budget) then 6.2.2 would not be needed.

Comment [Dentons6]: See 2.3.4 for Shipper Users; for Transporters this is the annual share per 2.3.2.

7 Charging Statement

7.1 General

- 7.1.1 The Charging Statement sets out the result of applying the rules in 4, 5 and 6 to the CDSP Budget.

7.2 General Service Charges

- 7.2.1 The Charging Statement will set out:
- (a) for each Service Area:
 - (i) the Annual Service Area Cost
 - (ii) for each Customer Class, the Annual Service Area Class Costs;
 - (b) for each Customer Class, the Annual Customer Class Service Costs;
 - (c) indicative unit amounts based on aggregate SOQs for all Shipper Users and Supply Points for all Transporters?

7.3 Specific Service Charges

7.3.1 Charging Statement to set out rates and relevant units for Specific Service Charges.

7.4 Investment Charges

7.4.1 Charging Statement to set out details of Infrastructure Charges and Change Charges.

8 Invoices

To set out what detail will be contained in individual invoices and supporting information for each charge

9 End of year adjustment

This will address outturn costs compared with budget.

It is suggested this is addressed by way of retrospective adjustment to charges for the Charging Year rather than rolling-forward as a budget amendment in the following year.

It is suggested this is done on the basis of the audited accounts for the Charging Year (ie following publication of the accounts).

Broadly this would involve a comparison of outturn costs with budgeted costs, in each category (Service Costs, Infrastructure Costs and Change Costs) and an adjustment rebate or charge to Customers. This could be based on total amounts (in £) paid by each Customer in the year in each category.

Comment [Dentons7]: Note, this would include any bad debt (to the extent not provided for) and other unprovided liabilities.

10 Timetable

To set out the expected timetable for the annual processes as above.