

Project Nexus – Funding Arrangements

Transporters' View:-

Introduction:

UK-Link, the group of computer systems which support the UK Gas Industry's transactional service requirement are due to be replaced in part over the next 3 to 4 years in readiness for a 2012 – 2013 implementation. xoserve, the Transporters' services agent have organised and been at the centre of a major industry consultation process to review existing and identify future industry system and process service requirements. Throughout this consultation process industry participants have submitted consultation responses which have indicated themes and areas of specific change which will face the UK gas industry over the coming years. These specific changes, ranging from but not limited to data management and supply point administration services and also the role of xoserve in delivering these services, both as service delivery agent and as a data manager are now being discussed by industry participants under the framework of the UNC at work stream meetings

Industry agreement of funding arrangements to support the development and timely implementation of new UK-Link systems in 2012 – 2013 is key to the project's success. Gas Transporters have developed this discussion paper with a view to achieving cross industry agreement and support for a number of key funding principles which will provide the framework for the development of new and existing UK-Link services and systems.

Interaction with Gas Distribution Price Control Review 2008 – 2013

The Gas Distribution Price Control Review (GDPCR) Final Proposals document 2008 – 2013 set out the Authority's decision on the manner in which the Transporters' agency would be funded throughout the period emphasising the central nature of the agency's role in providing common systems between Transporters and Shipper / Suppliers to reduce overall costs with the funding of agency costs through price controlled revenue.

Although it was highlighted there was, at the time, little appetite for extensive change in relation to the funding of the Transporters' agency it was recognised there was a requirement to incentivise Transporters to provide more than a minimum service level to Shippers and Suppliers and that a framework was required to facilitate such a regime.

The GDPCR Final Proposals document identified two main service areas undertaken by the Transporters' agency and classified them as 'core services' and 'user pays' services.

- *Core Services. Regulated services that it is appropriate to fund using price control allowed revenues. The costs associated with these services are spread across all customers through gas transportation charges.*

- *User pays services. Regulated services that it is appropriate to fund using charges levied directly upon the user(s) requesting the service. For the purposes of the price control, such services would be excluded services.¹*

The GDPCR further details the benefits associated with a User Pays approach to funding certain user services as:

- *GDNs and NGG NTS (xoserve) would have an incentive to enter into dialogue with users to provide additional services and respond to their needs due to the opportunity to earn additional revenue above their costs;*
- *it gives users an incentive to manage the costs they impose on xoserve because they would pay for the additional services they request / use; and*
- *xoserve's cost forecasts include a significant amount of expenditure on an upgrade of UK-Link. User pays would help to make sure that the incremental capacity of these new systems is given to those who value it most.*

Specifically in relation to the replacement of systems within UK-Link the document emphasises the fact that Transporters have been funded through the price control for a 'like for like' replacement, although it is recognised that the project to replace central systems provides the opportunity to the industry to encompass improved and more efficient processes and systems with only the incremental cost of these changes being charged directly to industry users. Where completely new services are required or where changes to existing services are tabled, the discussions would fit under the umbrella of a UNC Modification 213V User Pays framework allowing the funding of such processes to be agreed through a mechanism which would ensure organisations benefiting the most from these services would fund them proportionately.

Like for Like Funding – Transporters' View:

The term like for like funding has often been applied to the funding of the UK-Link replacement system and suggests funding provided to the Transporters through the GDPCR is to replicate the current suite of services on an identical basis with little or no room for manoeuvre. When analysing how systems and processes could be improved and made to be more efficient in terms of servicing the UK gas industry's needs the Transporters, through their agency envisage that current GDPCR funding levels could deliver future change requirements where systems can be built and designed at no additional cost to the current service. It is also recognised that to ensure the most efficient use of resources to deliver existing services the governance framework would be required to guarantee that all industry parties were able to discuss and agree on how existing services should be changed and modified or even where services were no longer required, be removed. Like for like funding, with the proviso that cost estimates would need to be provided, could be supplemented by user funding where an incremental cost associated with any change has been identified. This would also go some way to meeting the principle highlighted in the GDPCR Final Proposals document that where any incremental capacity is identified within the suite of new UK-Link systems, such capacity is given to those who value it the most.

¹ Gas Distribution Price Control Review Final Proposals – Dec 2007, Section 8 'Other Issues', Funding of xoserve.

Completely new services such as process and system support for smart metering for example could be discussed and developed within the UNC Project Nexus Workgroup / Workstream framework with a subsequent UNC Modification being required to introduce the concepts directly in the UNC itself. Were this to occur the UNC Modification 213V user pays framework would apply and provide to all industry organisations the confidence that the required funding was in place to meet implementation schedules and also to meet expectations that the right organisations are providing the right level of funding.

It is understood that discussions and agreements may take place within other industry governance structures, for example the Supply Point Administration Authority (SPAA) in relation to completely new services which may be required to support areas such as smart metering. The Transporters recognise that it is essential that the Project Nexus Workgroups and Workstreams are kept informed of these developments and discuss these areas where necessary. However, where these non UNC changes are progressed to the implementation stage it is further recognised that a similar user pays arrangement to that introduced by UNC Modification 213V would need to be developed to facilitate an assured level of funding for system and process changes within the relevant governance framework.

Introduction of User Pays Governance Framework - UNC Modification 0213V.

The initial introduction of User Pays as a means of funding services in the UK gas industry began with six existing services being extracted from the central funding pot and replaced with a user directed funded regime which in turn has grown to encompass further new service lines which were deemed to fit the user pays philosophy. In line with the GDPCR document it was recognised that a suitable governance framework was required which would allow all gas industry participants to discuss, develop and agree the funding principles for UNC modifications and their supporting system change requirements. UNC Modification 0213V, raised by EDF Energy and developed with Transporter support introduced the framework which allowed UNC Modifications which were deemed to be User Pays to have an accompanying cost allocation matrix which clearly defined which parties would fund system changes associated with the Modification. The Modification also highlighted the importance of cost information to support the Modification decision framework and also transparency around cost estimates to ensure users were benefiting from the most efficient use of resources and that full cost-benefit analysis exercises were undertaken.

The UNC Modification rules and Modification templates were changed to include the requirement for the proposer of UNC Modifications to discuss and agree with industry participants how and where the user pays principle would apply.

Funding Principles.

1. Existing services delivered through Transporter PCR funded revenue.
2. Changes to existing services discussed and developed within a UNC User Pays framework with incremental costs met directly by user contribution.

3. New services discussed and developed within a UNC User Pays framework with full costing share charged to industry users.

Principle 1

- Existing core services which support the majority of industry process requirements will be provided on a like for like basis with funding provided centrally. Transporters are incentivised to provide these services in the most cost effective and efficient manner through a mechanism which allows the retention of savings.

Principle 2

- Where changes are required to existing services and such changes are agreed within the UNC User Pays governance framework only incremental costs associated with the implementation of system changes will be charged directly to users.

Principle 3

- Completely new services will be developed under the UNC User Pays framework in conjunction with the User Pays Guidance Document and funding agreed in line with a User Pays UNC Modification Proposal.

Example 1 – Project Nexus & Changes to Existing UNC Services.

1. Specific topic is discussed in one of the Project Nexus workstreams centring on changes to an existing UNC service and the subsequent changes to xoserve systems to facilitate this change.
2. Background to change and detail discussed in workgroup with some initial discussions on the funding of the change. Workgroup report would reflect attendees view (s) on funding in a funding statement to accompany the report.
3. Project Nexus workstream discusses workgroup report and also the funding statement.
4. Individual organisation (s) to raise specific UNC Modification Proposals to introduce required changes into the UNC to facilitate the industry change.
5. UNC Modification Proposals would detail User Pays criteria as specified and in the UNC Modification Rules and proposers of UNC Modifications would adhere to the steps and guidance as detailed in the Transporters' document entitled:-

“Guidance Document on Best Practice – Cost Estimates and Cost Allocations relating to Uniform Network Code User Pays Modification Proposals”.

Example 2 – Project Nexus & New Services.

1. Specific topics outside those services already detailed in the UNC are discussed and developed in one of the Project Nexus workgroups centring on how the specific service would be introduced into the UNC (new obligations), or where it is deemed not to be appropriate for the service to sit under the UNC how the change could be progressed under an alternate regime.
2. Background to change and detail discussed in workgroup with some initial discussions on the funding of the change and how and why the service should and would fit under the umbrella of the UNC. The Workgroup report would reflect attendees view (s) on funding in a funding statement to accompany the report.
3. Where it is deemed a new service should not be established under the governance of the UNC and should sit under alternate arrangements, for example the Supply Point Administration Agreement, the report would be further be discussed within the relevant governance regime to establish the precise funding arrangement.
4. Where appropriate individual organisation (s) would raise specific UNC Modification Proposals to introduce required changes into the UNC to facilitate the industry change.
6. UNC Modification Proposals would detail User Pays criteria as specified and in the UNC Modification Rules and proposers of UNC Modifications would adhere to the steps and guidance as detailed in the Transporters' document entitled:-

“Guidance Document on Best Practice – Cost Estimates and Cost Allocations relating to Uniform Network Code User Pays Modification Proposals”.

End.