

UNC Governance Workgroup Minutes

Tuesday 22 August 2023

via Microsoft Teams

Attendees		
Kate Elleman (Chair)	(KE)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
Andy Clasper	(AC)	Cadent
David Mitchell	(DM)	SGN
Edd Green	(EG)	E.ON
Gregory Edwards	(GE)	Centrica
James Rigby	(JR)	Xoserve
Helen Chandler	(HCh)	Northern Gas Networks
Jayne McGlone	(JMc)	Xoserve
Josie Lewis	(JL)	Xoserve
Kirsty Ingham	(KI)	Centrica
Richard Pomroy	(RP)	Wales & West Utilities
Richard Tester	(RT)	Xoserve
Sally Hardman	(SH)	SGN
Steve Mulinganie	(SM)	SEFE

This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.

Please note these minutes do not replicate/include 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 all papers are available at: www.gasgovernance.co.uk/Gov/220823

1.0 Introduction and Status Review

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

1.1. Approval of minutes (26 July 2023)

The minutes from 26 July 2023 were approved.

1.2. Approval of Late Papers

No late papers to approve.

1.3. Review of outstanding Actions & Issues Log

No actions outstanding.

1.4. Modifications with Ofgem

KE referred Workgroup to the Ofgem Expected publication dates timetable at: <https://www.ofgem.gov.uk/publications/code-modificationmodification-proposals-ofgem-decision-expected-publication-dates-timetable> dated 17 August 2023 and noted the most recent update:

Modification	Estimated Decision Date
0696V - Addressing inequities between Capacity booking under the UNC and arrangements set out in relevant NExAs	29 September 2023

0761 - Arrangements for Interconnectors with additional Storage capability	15 September 2023
0823 - Amendment to the Allocation of Entry Capacity and Flow Quantities to Qualifying CNCCD Routes	22 December 2023
0839 - Revision of the Modification Panel Membership Cessation Provisions	12 January 2024

KE also noted that Ofgem are seeking volunteers for a Cross Code Workgroup for the Future Systems Operation Codes Change programme, expressions of interest by 23 August 2023. <https://www.ofgem.gov.uk/publications/call-volunteers-fso-codes-change-programme>

1.5. Pre-Modification Discussions

None.

2.0 Workgroups

2.1. Modification 0841 – Introduction of cost efficiency and transparency requirements for the CDSP Budget

(Report to Panel 16 November 2023)

<https://www.gasgovernance.co.uk/0841>

3.0 New Issues

No new issues were raised.

4.0 Any Other Business

KE provided an overview of the UNC User Appointment Nominations, advising of the following vacant positions:

- 3 for EBCC,
- 2 Shipper Class C for DSC Change,
- 1 Shipper Class B and 2 Shipper Class C for DSC Contract,
- 1 for DSC Credit; and
- 1 for UNC Panel.

5.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Tuesday 19 September 2023	5pm Monday 11 September 2023	Microsoft Teams	Standard Agenda
10:00 Tuesday 10 October 2023	5pm Tuesday 02 October 2023	Microsoft Teams	Standard Agenda
10:00 Monday 06 November 2023	5pm Tuesday 27 October 2023	Microsoft Teams	Standard Agenda

UNC Workgroup 0841 Minutes
Introduction of cost efficiency and transparency requirements for the
CDSP Budget
Tuesday 22 August 2023
via Microsoft Teams

Attendees		
Kate Elleman (Chair)	(KE)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
Andy Clasper	(AC)	Cadent
Charlotte Gilbert	(CG)	Xoserve
David Mitchell	(DM)	SGN
Edd Green	(EG)	E.ON
Gregory Edwards	(GE)	Centrica
Helen Chandler	(HCh)	Northern Gas Networks
James Rigby	(JR)	Xoserve
Jayne McGlone	(JMc)	Xoserve
Josie Lewis	(JL)	Xoserve
Kirsty Ingham	(KI)	Centrica
Mark Cockayne	(MC)	Northern Gas Networks
Richard Pomroy	(RP)	Wales & West Utilities
Richard Tester	(RT)	Xoserve
Sally Hardman	(SH)	SGN
Steve Mulinganie	(SM)	SEFE
Tracey Saunders	(TS)	Northern Gas Networks
<p><i>This Workgroup meeting will be considered quorate provided at least two Transporter and two Shipper User representatives are present.</i></p> <p><i>The Workgroup Report is due to be presented at the UNC Modification Panel by 16 November 2023.</i></p> <p><i>Please note these minutes do not replicate/include 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 all papers are available at: https://www.gasgovernance.co.uk/0841/220823</i></p>		

1.0 Introduction and Status Review

Kate Elleman (KE) welcomed everyone to the meeting noting Oorlagh Chapman’s (OC) apologies for today.

1.1. Approval of minutes (26 July 2023)

The minutes from 26 July 2023 were approved.

1.2. Approval of Late Papers

KE noted the provision of a ROM on the morning of the meeting.

1.3. Review of Outstanding Actions

0701: CDSP (JMc) to provide analysis on parts of the Modification which can and cannot be included with the current 2024/25 budgeting process.

Update: KE provided an overview of the discussions held last month. Jayne McGlone (JMc) confirmed Xoserve/CDSP will provide more information within the Business Plan update. See item 2.0. **Closed.**

2.0 Review CDSP's view on the implementation of the Business Plan Rules

James Rigby (JR) presented the Business Plan Information Rules for Workgroup discussion, noting the:

- the requirement to provide information for key items,
- the DSC Committee agreeing the level of detail required,
- the availability of information on an unrestricted webpage.

Kirsty Ingham (KI) clarified that the agreement on the level of detail, is covered within Business Rule 6 and that this will be agreed upon ahead of the process commencing.

The Workgroup considered the timescales and management of exceptions.

Richard Pomroy (RP) noted the potential need for transitional legal text, and the timing of implementation, that for Business Rule 6 this will only be applied going forward and will not be applied retrospectively. Therefore, the Modification will only take effect when there is time for the DSC Contract Management Committee to agree on the level of detail required.

Tracey Saunders (TS) recapped that the DSC Contract Management Committee will consider the details required ahead of commencing the Business Plan. With the concept starting at the beginning on the level of granularity, TS challenged if this would build in a potential delay if an agreement cannot be reached. It was questioned whether it would be better to have the Modification outline how the Committee will reach agreements, for example, if this is by a majority vote. TS expressed concern that the multiple constituencies may not be able to reach an agreement. TS also highlighted that the guidance document governance review to change the rules can only change the process going forward, and once the details have been agreed it cannot be changed until the next Business Plan Year.

Gregory Edwards (GE) explained the distinction between the key information types and level of detail. In terms of the Business Plan, this will capture/amend the information **type**, not the level of **detail**, which would be determined by the DSC Contract Management Committee. GE clarified there is no exclusion or boundary, the Business Plan will outline the minimum provision, and it will be the DSC Contract Committee that agrees on what level of information will be needed to ensure the Business Plan can be achieved.

GE explained that the current DSC Contract management arrangements are not being changed, the governance of this Committee, and how it manages decisions will remain as they are now. Therefore, the style/wording on reaching an agreement by the Committee has been mirrored within Modification 0841 so it remains aligned with the current decision-making process.

Helen Chandler (HCh) clarified that voting tends to be undertaken at the DSC Committees to record decisions, this can involve deferring decisions to allow the Shipper Class Representatives to communicate with their constituencies if there has been limited time to consider approvals.

TS remained concerned that the current process for reaching agreements may hinder and delay the Business Plan cycle. TS wished to understand how disagreements would be managed and if there will be an appeals process.

TS challenged the objective to reduce appeals and expressed concern about being able to reduce this probability when the level of detail is approved at the beginning of the process. TS believed this may open the door to more appeals, as parties could claim that they wanted more detail and were not party to the decisions made by the Committee. TS noted that the Committee is only attended by a small number of representatives and unlike other Committee decisions, the Business Plan is a stakeholder level document.

It was clarified that the goal of this Modification is not to reduce Appeals. The purpose of this Modification is to improve the ability of UNC Parties to fulfil their obligation jointly to control and govern the CDSP on an economic and efficient basis (under UNC General Terms, Section D, 1.4.4), through the introduction of explicit requirements for efficiency and, greater transparency of the Budget. It is hoped that as a consequence of the improved ability to scrutinise the Business Plan, fewer Appeals will be raised.

GE wished to note particularly for the Workgroup Report that the concerns being raised about

the way in which the DSC Committees reaches agreements is not exclusive to this Modification. If there are concerns about the DSC Contract Management Committee not reaching agreements or the way in which it reaches agreements this would require a separate Modification as Centrica is not proposing to change the way in which the DSC Committees operate. GE clarified current practise would be applied and if the industry has a general concern about the existing process for reaching agreements and this is believed to be a current flaw a separate Modification would need to address this.

The Business Rules Information Plan sets out the **type** of information required and the Modification includes the governance requirements on how amendments can happen. The DSC Contract Management Committee are there to agree the **level** of detail required not the type

It was re-emphasised that there are no plans to change the DSC Contract Management Committee governance, how it makes decisions, or to interfere with the way the Committee operates as it does now.

Steve Mulinganie (SM) expressed the need for the Workgroup Report to be clear that the Modification is not amending how the DSC Committees currently operate to avoid this being raised and being perceived as being a new issue within the consultation process.

The Workgroup continued to review the Business Plan Information Rules. KE asked Xoserve/CDSP if there were any areas, they believe they cannot report on. JR explained as Xoserve at this stage does not know what level of detail will be required it is difficult to assess if there are any areas of concern. Xoserve/CDSP however were not anticipating there would be areas they would have an inability to report on.

The one element that may wish to be considered was the timing of information and that forecasts may need to be used for example Y-1 until the year has closed out. There may also be the need redact certain information. JR explained there may be information within the Contract which may be considered confidential, the understanding is where this is the case, this would need to be justified. GE agreed to provide Xoserve with an example of redaction statements to assist Xoserve in understanding what this could look like (for example, what you can't tell us and why you can't). The use of non-disclosure documents was also considered to control the provision of certain data. It was noted that Business Rules 8 - 10 allow for confidential information to be considered, with the use of non-disclosure agreements and confidential/closed sessions of the Committee.

The Workgroup considered the reporting of investment costs, noting that some costs may be treated differently i.e., anything other than an investment. JR noted there is some subjectivity with the outputs and the understanding that if/when rules can't be applied, the CDSP will provide an explanation as to why. Referring to the cost expenditure and unit costs GE clarified the expectation would be for Xoserve to report cost efficiencies providing details of cost base changes.

3.0 Review Updated ROM

JR provided an overview of the Rough Order of Magnitude (ROM) noting there will be extra costs for the 3rd Party assurance activities over and above the costs incurred now. The cost of this is not known therefore Xoserve has used a comparison to a similar exercise as a measure.

The enduring cost was estimated to be between £380k and £600k.

Steve Mulinganie (SM) challenged if the Modification obligates 3rd Party Audits. Kirsty Ingham (KI) explained that the annual assurance exercise is to ensure that there is rigour in the process.

JR explained the potential range and scope of the assurance exercise expansion, therefore potential costs have been based on the efficiency review undertaken with Kearney. Without a detailed scope of the tasks, a broader view has been provided.

The Workgroup considered the scope of the Modification to allow a better prediction of costs. It was suggested that the scope of the assurance activities proposed to be undertaken needs to be set out to better assess potential costs, at present the ROM has been scoped based on a

broader exercise.

KI explained that an independent assessment is to ensure there has been due diligence. KI provided an overview of the assurance activities and suggested that the CDSP could include details of the assurance activities that could be conducted. HCh explained the difficulty of providing cost estimates at this stage which can be preliminary and subject to change. HCh highlighted that at this stage the ROM provided an indication of costs to help the industry to assess whether to proceed with a change on a worse-case basis. Once the detail of the change is better understood a more price-reflective ROM can be provided.

It was suggested that some auditing companies may have an off-the-shelf product and give a cost guide of a professional company certification for general budget compilation, or an independent verification of a budget. The Workgroup considered what assurance activities are undertaken now when presenting budgets to the Xoserve board and if they could provide a cost estimate based on the costs incurred for the current budget assurance activities.

JR asked the Workgroup to clearly articulate the requirements of the 3rd Party assurance to allow a more accurate. GE noted there are benchmarks that could be used, such as DCC and ESO. It was suggested that it would be helpful to understand the scope/scale/cost for similar activities.

It was clarified that the assurance activity is to procure a 3rd Party to check that the Business Plan requirements have been met and the budget is suitable based on the Business Plan.

Referring to the ESO [KMPG Business Plan Review \(www.utilities.co.uk\)](http://www.utilities.co.uk) model KI provided a statement from the 3rd Party review to review compliance with Ofgem's Business Plan guidance and guidance in their Sector Specific Methodology Decision document. This is a series of checks to validate the accuracy and consistency of the numbers presented in the main Business Plan narrative.

New Action 0801: Xoserve/CDSP (JR) to review the ROM and provide an update at the next meeting.
--

4.0 Development of Workgroup Report

The Workgroup considered the Workgroup Report and considered that the Self-Governance criteria would not be met as the Modification could materiality increase costs that are passed onto consumers, or maybe in the future, and it will entail parties incurring additional costs. It was agreed to leave the Governance route with an Authority Direction but it could be reconsidered if there are any material changes.

It was agreed that the Implementation Section should record it being beneficial to implement the Modification in time for the next Business Plan process commencing. This would require an Ofgem decision before commencement in March 2024.

The impact on Consumers was considered. It was agreed that the direct impact of this Modification on Consumers would be marginal.

It was agreed there would be no changes to the central system as this was an administrative process change.

The Panel Questions were considered, and views from the Workgroup captured.

It was suggested by TS that as the Modification introduces additional decisions to the Business Plan process this could shift the current dynamic, governance and influence the Budget consultation. Some Workgroup participants however believed that the Modification would bring in a higher level of rigour and allow better opportunity to engage with the Business Planning process which in turn could reduce the risk of an appeal.

In an attempt to understand the potential reduction in appeals, TS asked if there are organisations that foresee appeals not being needed if this Modification is implemented and from the history of appeals if these have been limited to the organisation raising the Modification. It was suggested it would not be appropriate to ask for parties to provide a view/commitment on

not utilising the appeal process in the future. It was noted in the Workgroup Report that the risk of an appeal could reduce or increase. There was a discussion around the relevance of a single organisation raising appeals, noting that previous appeals have been supported by other organisations.

It was agreed that a copy of the updated Workgroup Report would be published ahead of the next meeting to allow participants to consider what has been captured and needs to be captured.

5.0 Workgroup to consider requesting Legal text

Noting that Business Rule 11 may need to be removed Andy Clasper (AC) agreed to share the current version of the Modification with the Legal Text provider to consider the ability to draft the legal text.

6.0 Next Steps

KE outlined the Workplan for the next two Workgroup meetings:

September

- Updated ROM
- Business Rules and Legal Text Status Update
- Develop Workgroup Report
- Consideration of Implementation and the need for Transitional Text

October

- Review Final Legal Text
- Conclude Workgroup Report
- Report to 16 November 2023 UNC Modification Panel

7.0 Any Other Business

SM enquired if the Workgroup wanted an opportunity to review the outputs from the Xoserve Kearney Report. It was suggested that the consideration of the Xoserve efficiency review is separate and the results from the report should be reviewed at an appropriate forum.

8.0 Diary Planning

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

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Wednesday 19 September 2023	5 pm Tuesday 08 September 2023	Microsoft Teams	<ul style="list-style-type: none"> • Updated ROM • Business Rules and Legal Text Status Update • Develop Workgroup Report • Consideration of Implementation and the need for Transitional Text

10:00 Tuesday 10 October 2023	5 pm Tuesday 02 October 2023	Microsoft Teams	<ul style="list-style-type: none"> • Review of Final Legal Text • Development/Completion of Workgroup Report
10:00 Monday 06 November 2023	5 pm Tuesday 27 October 2023	Microsoft Teams	Contingency meeting if required

0841 Action Table						
Action Ref	Meeting Date	Minute Ref	Action	Reporting Month	Owner	Status Update
0701	27/07/23	2.0	Xoserve/CDSP (JMc) to provide analysis on parts of the Modification which can and cannot be included with the current 2024/25 budgeting process.	August 2023	Xoserve/CDSP (JMc)	Closed
0801	22/08/23	3.0	Xoserve/CDSP (JR) to review the ROM and provide an update at the next meeting	September 2023	Xoserve/CDSP (JR)	Pending