
CENTRAL DATA SERVICES PROVIDER

STATEMENT OF CHARGING PRINCIPLES

PAPER FOR UNC FGO WORKGROUP DISCUSSION 27TH MAY 2016

1. Introduction

- 1.1 At a meeting of the UNC FGO Workgroup on 3 May 2016, Workgroup attendees asked Xoserve to prepare a statement of Central Data Services Provider (“CDSP”) Charging Principles (“the Principles”).
- 1.2 The Principles set out in this paper should be read and understood in the context of the background information and assumptions set out below.
- 1.3 The initial draft of UNC GTB7.10 as presented to the UNC FGO Workgroup on 18 May 2016 has been used to inform the scope and nature of the Principles, although not necessarily the Principles themselves.
- 1.4 The Workgroup also requested that consideration be given to transitional matters, specifically funding and charging arrangements for change projects and investments that are in flight on the effective date for the implementation of UNC MOD 565.

2. Background Information

- 2.1 In respect of its review of Xoserve funding, governance and ownership, Ofgem concluded that:
 - (a) The industry will need to develop a cost allocation methodology that should seek to target costs on users based on their use of different services, with the intention that those that drive additional costs pay for them in order to further incentivise cost control;
 - (b) The methodology should not be overly complex, as this would detract from its transparency;
 - (c) Cost reflectivity and simplicity are not mutually exclusive and that a balance can therefore be achieved; and
 - (d) The cost allocation methodology needs to be adaptable over time, for example, to take account of new services or new groups of users.
- 2.2 Ofgem’s most recent informal consultation on an amendment to the GT Licence concerning the establishment and operation of the CDSP requires the UNC to be modified so as to require users to pay for CDSP Services in accordance with the CDSP Charging Statement.

3. Assumptions

- 3.1 The CDSP is able to recover the costs of providing Central Data Services inclusive of a margin, where the level of margin generates working capital that is necessary and sufficient for the operation of the business, in order to meet financial commitments to employees, vendors and other third parties, but is not intended to cover the risk of exposure to liabilities.
- 3.2 Any regulatory prohibition or constraint on the distribution to shareholders of profits arising from the provision of CDSP Services (as may be set out in GT Licence Condition SSC A15A or in the Articles of Association of the company that provides CDSP Services) does not prevent the inclusion of a margin when calculating CDSP Charges.
- 3.3 The UNC will be modified with associated changes to the CDSP contracting model such that there is a mixture of:
 - (a) A direct contractual relationship between the CDSP and each user for CDSP Services that become the direct responsibility of the CDSP to deliver; and
 - (b) Continuation of elements of CDSP Services being delivered as GT Agency Services, whereby the GTs are the contractual counter-party to Shippers (as defined by the UNC) and the CDSP is their Agent or sub-contractor.
- 3.4 The CDSP invoicing arrangements represent the practical outworking of the CDSP contracting model and the CDSP Charging Methodology and Statement. Invoicing options are the subject of a separate paper that is being submitted to the UNC FGO Workgroup.

4. Principles

- 4.1 The Principles set out below consider:
 - (a) The CDSP Charging Methodology;
 - (b) The treatment of surpluses and deficits arising from the provision of Central Data Services;
 - (c) The consequences of user failure to pay; and
 - (d) Transitional arrangements.

Charging Methodology

- 4.2 The CDSP Charging Methodology should satisfy the requirements of SSC A15A of the GT Licence, namely “that the charging methodology [and the charging statement] will facilitate the objective of economic, efficient and transparent charging for the provision of the CDSP services” (SSC A15A, paragraph 8(e), draft 28.04.16).

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- 4.3 The CDSP Charging Methodology should provide users of CDSP services with predictable CDSP Charges, and should provide the CDSP with certainty and security of its revenue stream.
- 4.4 The CDSP Charging Methodology should display administrative simplicity, should be readily adaptable to the introduction of new CDSP Services, and should not normally be impacted by UNC Modification Proposals that change the detailed definition of individual CDSP Services.
- 4.5 The CDSP Charging Methodology should reflect:
- (a) The structure of CDSP Services (*UNC GTB7, paras. 7.1.3, 7.2 and 7.3*); and
 - (b) The Service Areas that comprise the CDSP Service Description (*UNC GTB7, para. 7.9*).
- 4.6 The scope of the CDSP Charging Methodology should consider both operational services and investments.
- 4.7 The CDSP Charging Methodology should set out rules for:
- (a) The attribution and / or allocation of CDSP Costs to Service Areas;
 - (b) The alignment of each Service Area to each Customer Class, to enable the proportion of costs attributed and / or allocated to that Service Area to be attributed and / or allocated to each Customer Class;
 - (c) The alignment of each Service Area to each Core Customer in each Customer Class, to enable the proportion of costs attributed and / or allocated to that Service Area to be attributed and / or allocated to each Core Customer;
 - (d) The calculation of CDSP Charges to each Core Customer in each Customer Class for each Service Area; and
 - (e) The interval(s) for the restatement of the values of any data items that are used in the attribution and / or allocation of CDSP Costs and the calculation of CDSP Charges.
- 4.8 In order to meet the objectives of CDSP revenue security, predictability for users of CDSP Services and administrative simplicity, CDSP Charges should be predominantly capacity driven (rather than usage driven)
- 4.9 In respect of CDSP Charges that recover investment expenditure, the CDSP Charging Methodology should define rules for:
- (a) The users of CDSP Services who are to fund the investments; and
 - (b) The levying of CDSP Charges period over the same time period as which the CDSP incurs investment expenditure.

4.10 The CDSP Charging Methodology should be capable of review and amendment under DSC governance. Amendments should be made to be effective from the start of a CDSP Budget Year only.

Treatment of surpluses and deficits

4.11 The treatment of surpluses and deficits is a matter for the Board of the CDSP provider, having due regard for:

- (a) The requirements of GT Licence Condition SSC A15A;
- (b) The contractual rights and obligations of the CDSP and users of CDSP Services; and
- (c) The financial liquidity of the Company's CDSP activities.

Failure to pay

4.12 Any loss of income to the CDSP arising from the failure of one or more users of CDSP Services to pay amounts due in accordance with the terms of the CDSP contracting model (including use of any securities) will be recovered by the CDSP from the community of users of CDSP services.

Transition

4.13 The CDSP Charging Methodology will be applied to the recovery of CDSP Costs in all instances unless it can be explicitly demonstrated that such costs are attributable to the period prior to the effective date of the CDSP contracting model and chargeable under different arrangements.