

## CENTRAL DATA SERVICES PROVIDER

### CDSP CHARGING PRINCIPLES, APPLICATION AND PROPOSED CHARGING METHODOLOGY

#### PAPER FOR UNC FGO CHARGING WORKGROUP 5<sup>TH</sup> SEPTEMBER 2016

#### 1. Introduction

- 1.1 Meetings of the UNC FGO Charging Workgroup held during May to August 2016 have considered CDSP Charging Principles and their application in the development of a CDSP Charging Methodology. Workgroup members considered that the Principles and their application should not be 'locked down' too early, but should be kept open until the impact on funding parties is better understood.
- 1.2 This paper consolidates the discussions to date on the Principles and their application, notes where Workgroup members have highlighted matters requiring further consideration, and records the proposed treatment in the draft Charging Methodology.

#### 2. Ofgem's Conclusions

- 2.1 We set out below a reminder of Ofgem's conclusions relevant to charging and cost allocation, which were presented previously to the Workgroup on 27 May 2016.
- 2.2 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.

2.3 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 We set out below relevant assumptions which were originally presented to the Workgroup in May 2016, with minor amendments reflecting subsequent Workgroup discussions.

3.2 The CDSP is able to recover the costs of providing Central Data Services inclusive of a margin. The purpose of the margin is to maintain an adequate level of working capital that is necessary and sufficient for the operation of the business, meeting financial commitments to employees, vendors and other third parties, but is not intended to cover the risk of exposure to liabilities.

3.3 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.

3.4 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.

3.5 The CDSP invoicing arrangements represent the practical outworking of the CDSP contracting model and the CDSP Charging Methodology and Statement.

#### 4. Table of Principles, Application, Matters for Consideration and Draft Methodology

ID	Principle	Application	Matters for Consideration	Draft Methodology
1	<p>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).</p> <p>Consistency with a broader range of transportation charging methodology objectives would require that:</p> <ul style="list-style-type: none"> <li>• Compliance with the charging methodology results in charges which reflect the costs incurred by the CDSP;</li> <li>• The charging methodology properly takes account of developments in the CDSP’s business;</li> <li>• Compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers; and</li> <li>• There is compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or</li> </ul>	<ol style="list-style-type: none"> <li>1) Costs are targeted at those parties that contract for services with the CDSP</li> <li>2) The costs of administration and maintenance of the arrangements do not outweigh any efficiencies that may be gained from fully cost reflective charging</li> <li>3) Users know what charges they expect to receive</li> <li>4) The CDSP provides sufficient information to users to enable charge validation</li> </ol>	<p>Whilst there was broad agreement that the primary CDSP Charging Methodology objective should be that included in SSC A15A, the Workgroup also recognised the potential benefits of consistency with a broader range of transportation charging methodology objectives (GT Licence SSC A4, paragraph 5 refers, and reproduced in the ‘Principle’ column).</p> <p><i>Ofgem has taken an action to review the case for inclusion of this broader range of objectives in the drafting of SSC A15A</i></p>	<p>The DSC Budget and Charging Methodology Service Document demonstrates how CDSP costs are built into the Budget, and are made subject to the application of the Cost Allocation Model. It then goes on to show how costs allocated to services are recovered from contractual counterparties through the Charging Methodology.</p> <p>The Charging Methodology is administratively simple to operate and is therefore efficient and transparent to users.</p> <p>The Charging Methodology is flexible to the introduction of new Service Areas and or new Customer Classes.</p> <p>The Charging Methodology does not advocate the expansion of the prevailing transactional charge approach. This avoids the risk of creating a ‘tax’ on switching or on the submission of queries that are a key part of maintaining and improving data quality.</p>

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	the Agency for the Co-operation of Energy Regulators			
2	The CDSP Charging Methodology should provide users of CDSP services with predictable CDSP Charges,	<ol style="list-style-type: none"> <li>1) Users know what charges they expect to receive</li> <li>2) Charges are set to recover the approved CDSP Budget, and inclusive of a margin to maintain an adequate level of working capital</li> <li>3) Charges are invoiced monthly</li> <li>4) Invoices are subject to 'pay now, query later' rules</li> </ol>	<i>Matters for consideration have been addressed and are reflected in the Principle</i>	The Charging Methodology proposes a capacity based approach for the large majority of charges, and apportionment based on empirical data.
3	The CDSP Charging Methodology should be capable of accommodating DSC Service Line expansion and contraction without the requirement for rewrite.	<ol style="list-style-type: none"> <li>1) Any new CDSP Service introduced post 1/4/17 should be:               <ol style="list-style-type: none"> <li>a) Classified as either a CDSP Direct Service or a CDSP Agency Service; and</li> <li>b) Assigned to a Service Area (see Principle 4)</li> </ol> </li> </ol>	<i>Matters for consideration have been addressed and are reflected in the Principle</i>	The Charging Methodology is flexible to the introduction of new Service Areas and or new Customer Classes.
4	The CDSP Charging Methodology should reflect the structure of CDSP Services and Service Areas as set out in UNC General Terms Section D.	<p>The methodology should reflect the classification of CDSP Services into the following Service Areas:</p> <ol style="list-style-type: none"> <li>1) CDSP Direct Services, comprising:</li> </ol>	The Workgroup has noted that, dependent on the final form of the CDSP contractual framework, there may be a requirement for an overarching CDSP Charging Methodology that is then applied consistently across and within the DSC and other contracts between	This is captured in the Charge Base Apportionment Table (Charging Methodology paragraph 2.1.1)

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		<ul style="list-style-type: none"> <li>a) Direct Code Services</li> <li>b) Direct Non-Code Services; and</li> <li>2) CDSP Agency Services, comprising:               <ul style="list-style-type: none"> <li>a) GT Agency Code Services</li> <li>b) GT Agency Non-Code Services</li> <li>c) iGT Agency Code Services</li> <li>d) iGT Agency Non-Code Services</li> </ul> </li> </ul> <p>where GT Agency Services may need to be further classified between NGGT and GDN Agency Services</p>	CDSP and users (such as the IX Agreement with Traders)	
5	The scope of the CDSP Charging Methodology should consider both operational services and investments	Refer to applications against Principles 6 and 10	<i>The Workgroup did not identify any matters for consideration</i>	Charging for operational services is addressed in Sections 4 and 5 of the Charging Methodology.  Charging for investments is addressed in Section 6 of the Charging Methodology
6	The CDSP Charging Methodology should set out rules for the attribution and / or allocation of CDSP Costs to Service Areas.	1) The CDSP cost allocation model defines the rules for the attribution and / or allocation of CDSP costs to each Service Area (as defined in the CDSP Service	<i>The Workgroup did not identify any matters for consideration</i>	These rules are defined in the Cost Allocation Model, which is subject to audit (Charging Methodology Section 2.2)

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		Description) 2) The cost attribution and allocation rules applied to CDSP forecasts for 2017/18 onwards in the GT cost assessment submission (January 2016) need to be reviewed and potentially amended to ensure alignment with the proposed structure of Service Lines and Service Areas		
7	The CDSP Charging Methodology should set out rules for:  (a) 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; and  (b) 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	1) For CDSP Direct Services, the contractual counterparty is the Shipper, GT or iGT 2) For CDSP Agency Services, the contractual counterparty is the GT or iGT 3) The methodology should define the rules for the attribution and / or allocation of CDSP charges to each contractual counterparty for each Service Area	<i>The Workgroup did not identify any matters for consideration</i>	These rules are defined in the Charge Base Apportionment Table (Charging Methodology paragraph 2.1.1)

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	Customer			
8	<p>The CDSP Charging Methodology should set out rules for:</p> <p>(a) The calculation of CDSP Charges to each Core Customer in each Customer Class for each Service Area; and</p> <p>(b) 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.</p>	<p>1) For CDSP Direct Services to Shippers, the apportionment of charges to each Shipper is calculated by reference to the appropriate cost drivers. Apportionment of fixed costs based on market share could be by reference to either SOQ or Supply Point count.</p> <p>2) For CDSP Direct Services and Agency Services to GTs and iGTs that are Gemini services, all costs are recoverable from NGGT</p> <p>3) For CDSP Direct Services and Agency Services to GTs and iGTs other than Gemini services, [N%] of costs are recoverable from NGGT, and the apportionment of [100-N%] of costs to each GDN (and, if appropriate, each iGT) is calculated by reference to the Supply Point Count within each GDN (and, if appropriate, each iGT) on a Gas Day agreed by all GDNs and all iGTs prior to the start of each CDSP Budget Year</p>	<p>The Workgroup has discussed an initial approach effective from 1.4.17 in which all Shipper Charges other than for the prevailing User Pays services are apportioned by reference to SOQ or Supply Point count. Shippers present have expressed a preference for using SOQ.</p> <p>Consideration can then be given to the case for an evolution of the Charging Methodology coincident with the Project Nexus Implementation Date or at a later date, either during 2017/18 or at the start of the 2018/19 Budget Year.</p> <p>The Workgroup has noted that Ofgem's minded to position on the form of control for GT funding of CDSP Services may influence GT (particularly NGGT) willingness to accept Application 3)</p>	<p>These rules are defined in Sections 2.3, 4, 5 and 6 of the Charging Methodology</p>
9	<p>In order to meet the objectives of CDSP, predictability for users of CDSP Services and administrative simplicity, CDSP Charges should</p>	<p>1) Charges are set as to recover the attributed and / or allocated CDSP Budget Costs in equal monthly amounts over the period</p>	<p>The Workgroup has discussed the appropriateness of a more flexible approach to the wording of this Principle, namely that "charges may</p>	<p>The Charging Methodology proposes that, subject to the continued application of 'transactional' charges to those services currently</p>

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	<p>be predominantly capacity driven (rather than usage driven)</p>	<p>of the CDSP Budget Year.</p> <p>2) OPTION FOR DISCUSSION: As 1), except that for certain services (for example, those that are currently defined as User Pays Services), there is a 'transactional' approach to the setting of charges</p> <p>3) Charges are invoiced monthly</p>	<p>be either fixed or variable with usage, subject to a review of input cost drivers and ensuring that charges to individual users are cost reflective"</p>	<p>designated as User Pays services, Charges will be apportioned on a capacity driven basis. The base proposal is that for Shipper Charges, apportionment is by reference to SOQ, and by reference to MPRN count for GDN and iGT Charges. Other options for Shipper Charges ('MPRN only' or 'Standing Charge + MPRN') are being considered by the Workgroup on 5 September.</p> <p>Charges are to be invoiced in equal monthly instalments (Charging Methodology Sections 4.4. and 4.5)</p>
10	<p>In respect of CDSP Charges that recover investment expenditure, the CDSP Charging Methodology should define rules for:</p> <p>(a) The users of CDSP Services who are to fund the investments; and</p> <p>(b) The levying of CDSP Charges period over the same time period as which the CDSP incurs investment expenditure.</p>	<p>1) Investments that deliver change to CDSP systems functionality to meet the service requests of one or more Customer Classes are funded by all Core Customers in the requesting Customer Class(es)</p> <p>2) Investments that maintain, refresh or replace CDSP systems infrastructure are funded:</p> <p>(a) For investments in Gemini, by NGGT</p> <p>(b) For investments in other systems:</p> <p>(i) [N%] by NGGT</p> <p>(ii) [100-N%] by one</p>	<p>A Workgroup member has proposed that there should be sub-categories of Customer Classes, particularly between 'domestic' and 'I &amp; C' Shippers. The Workgroup has noted that other aspects of Mod 565 and DSC drafting do not recognise sub-categories of Customer Classes.</p> <p>Some Workgroup members have requested greater flexibility in the time period for recovery of investment expenditure, although they recognise that any financing costs incurred by the CDSP as a consequence of such an arrangement must be recoverable from users. It has been suggested that investment cost recovery periods should be discussed as part of the Business Plan development and</p>	<p>The Charging Methodology proposes that investment costs are recovered within year, and in equal monthly instalments (Charging Methodology Section 6)</p>



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		<p style="text-align: center;">or more of the GDN, iGT and Shipper Customer Classes</p> <p>3) Within a CDSP Budget Year, the CDSP will set its Charges so as to recover the investment expenditure that is budgeted to be incurred within that Year.</p> <p>4) Charges will normally be invoiced in equal monthly amounts over the period of the CDSP Budget Year</p>	engagement process.	
11	The CDSP Charging Methodology should be capable of review and amendment under DSC governance. .	<p>1) The UNC / DSC will ordinarily provide for an annual review of the CDSP Charging Methodology.</p> <p>2) Criteria for review and amendment of the methodology would include:</p> <ul style="list-style-type: none"> <li>a) A significant change in the scope of CDSP Services</li> <li>b) Addition / removal of one or more Customer Classes</li> </ul>	<p>A Workgroup member considers that change to the CDSP Charging Methodology should be the subject of UNC governance (rather than DSC governance). This view is influenced (at least in part) by the draft of the GT Licence SSC A15A, paragraph 8(d).</p> <p>This matter requires escalation within the UNC FGO Workgroup to ensure consistency of approach to governance and DSC change control.</p> <p>A Workgroup member considers that there should be no restriction on the timeframe for review and amendment of the CDSP Charging Methodology.</p>	This is outside the scope of the Charging Methodology itself. Governance processes should be defined within the arrangements of the Contract Management Committee.