

Governance Workstream Minutes

Tuesday 07 July 2008

Ofgem Offices, 9 Millbank, London

Attendees

Tim Davis (Chair)	(TD)	Joint Office
John Bradley (Secretary)	(JB)	Joint Office
Alan Raper	(AR)	National Grid UKD
Alex Thomason	(ATh)	National Grid NTS
Alex Travell	(ATr)	E.ON
Jenny Boothe	(JB)	Ofgem
Jon Dixon	(JD)	Ofgem
Martin Brandt	(MB)	SSE
Mitch Donnelly	(MD)	British Gas
Stefan Leedham	(SL)	EDF Energy
Simon Trivella	(ST)	Wales & West Utilities

Apologies

Joel Martin	Scotia Gas Networks
Christian Hill	RWE

1.0 Introduction and Status Review

1.1 Minutes from Previous Workstream

These were accepted without amendment.

1.2 Review of Actions

Action: GOV 1035 JO to examine costs of past Modification Proposals.

See 2.0 below

Closed

2.0 Modification Proposals

2.1 0213 "Introduction of User Pays Governance Arrangements into the UNC"

TD explained that the JO had contacted xoserve for cost breakdowns of previous Modifications and was awaiting a reply. He then went through a revised Modification Proposals Register highlighting closed Proposals which might have been classified as User Pays – those for which the Final Modification Report indicated a systems impact was anticipated. The study had gone back Proposal 0136 without finding any quantified systems costs recorded in the Final Modification Reports.

TD then presented a Scotia Gas Network's slide developed for Review Proposal 0175 "Encouraging Participation in the elective Daily Metered Regime". This showed analysis costs of £40k compared to Core System Change Costs of £270-395k. ATr asked how much there was in the xoserve budget and DN price control allowances for analysis. ST indicated that he did not believe analysis costs had been separately identified when price control allowances were established. TD suggested that under the User Pays approach such costs only need to be specifically recovered if the Proposal were not implemented - if it were implemented the change would be paid for along with the wider system costs. There was general agreement to this. JD added that analysis costs should be recoverable if efficiently incurred, and if such analysis were requested by Panel this would be evidence that the costs had been efficiently incurred.

SL asked whether the concept of core services that are exempt from User Pays still exists. The view expressed was that all changes could be regarded as User Pays

but the Transporters might still fund 100% in some instances. AR stated that Transporters fund xoserve for changes they support and for those they have an obligation to implement. This was recognised.

MB then outlined a potential process when a Modification Proposal is raised. He believed that for all User Pays Proposals that were “fit for purpose”, the Panel would request an impact analysis and xoserve would respond with a completed analysis proforma. SL believed that the default was for analysis – a Panel majority would be required to prevent the analysis being required. The Transporters did not agree with this, believing the default should be not to provide analysis. This initial analysis would be at high level and be funded by the Transporters. Further, more detailed analysis would take place, if the Panel requested it, and a cost for this analysis would be identified.

SL asked what level of cost estimate would be sufficient from Ofgem’s point of view. JD responded that at DMR stage Ofgem would not wish to influence what level is needed to inform consultation responses; that decision was best left for the Panel. Even at the FMR stage, Elexon often only produce high level analysis and JD was not aware of any cases where this had caused problems: the equivalent was therefore likely to suffice for Ofgem to reach a decision for a UNC Proposal. ST pointed out that sometimes the Transporters would require further analysis.

TD suggested that operational costs would also be relevant when assessing Proposals. These are often dependent on transaction volumes and a wide price per transaction range might be identified if there was uncertainty about likely demand, especially if seeking to recover an element of fixed costs on a transactional basis.

There was some discussion on the potential for cost reductions by bundling changes into the same UK Link Release. It was suggested that xoserve should identify the potential for bundling as one of the assumptions underpinning its cost analysis.

ATr asked how the level of analysis would be defined. SL responded that the time agreed to carry out the analysis by the Panel would effectively do this. AR suggested that many analyses would be provided for the relevant Workstream/Work Group, in which case the right for the Panel to require an estimate to be produced would be a back-stop.

TD asked what would happen to the costs incurred if Ofgem rejected a Proposal where a full analysis had been conducted? ATr suggested that, based on the 0175 example, a high level analysis would always suffice, in which case the question would not arise. MB responded that if the Panel did decide to go to full analysis, it could decide how these costs would be broken down in the event of rejection. JD added that the Proposer could offer to pay for the full analysis even if the Panel did not require it. SL pointed out that as part of Modification Proposal 0213 a number of options had been identified, including smearing these costs across all User Pays Services. JD felt Ofgem would not favour this as it would impact cost transparency. TD suggested instead a specific ACS charge could be identified to recover the costs involved, and this might be based on transportation charges. However, he recognised that this may not be worth doing given the levels of cost involved.

ATr asked whether a Panel decision not to request analysis could be appealed to Ofgem. SL responded that the Proposal 0213 allows Ofgem to request analysis which amounts to the same thing, albeit an informal mechanism. ATr felt there was a case for formality, for example setting a time limit by when Ofgem should respond.

MD asked whether one (or more) Shippers could fund analysis, for example because this would potentially support an earlier implementation date. MB reminded the Workstream that the UK Link Committee would still have to agree an implementation date. AR suggested that the xoserve cost report could potentially identify ranges of implementation dates and the costs associated with alternatives. It was concluded that there should be a way of paying for analysis associated with implementing

Proposals provided any necessary agreement from the UK Link Committee was obtained.

Taking the example of Review Proposal 0175 further, TD presented some spreadsheet data that demonstrated costs per meter if the development costs and take-up were high, medium and low. This prompted discussion on the forecast of demand for the new User Pays service. ST stated that xoserve would be expecting the industry to provide this type of forecast. ATr believed that the charging basis would be crucial – charges would impact demand. SL suggested that the charging basis should be part of the Proposal.

SL believed that uncertainty would affect the take-up for a new (or changed) service and therefore that charges for at least the first six months should be fixed beforehand. Any under or over recovery for this six months would then be fed into subsequent periods.

Discussion then turned to the number of years over which investment costs should be recovered. One year was considered as too short by some Shippers, but JD pointed out that it could be unsatisfactory to introduce pay back periods so long that the business or systems would have changed fundamentally within the recovery period. It was concluded that each Proposal should allow the selection of an appropriate pay back period.

The matter of stranded assets was discussed if, for example, there was little take-up of a new service for which xoserve had invested in systems enhancements. AR agreed to draw up a proposal for recovery of the investment costs in this event.

Action GOV 11036: National Grid Distribution to develop a proposal for recovery of stranded costs.

MB suggested that the Workstream needs to agree on how to determine the split between Transporters and Shippers in terms of the proportion of costs each should bear, and subsequently how the split is determined between shippers. It was agreed that these should be specified in each Proposal. There was also support for limiting the available range of options (i.e. only 100:0, 75:25 or 50:50), although SL and ATr preferred any limits to be within guidelines rather than obligatory, with the onus on the Proposer to justify departing from these guidelines as appropriate.

TD asked when the Transporters would be able to produce a revised Agency Charging Statement that reflected the discussion so far. AR responded that he would like to see more consensus develop before doing this work.

SL asked for views on Proposals in flight. It was agreed that the post-Modification 0213 arrangement should only apply to Proposals raised after the date of implementation.

ATh asked whether the consensus was that an Ofgem direction to implement a Proposal would also be their non-veto of the associated Agency Charging Statement change. JD and others agreed with this principle.

3.0 Any Other Business

None

4.0 Next Meeting

17 July 2008 at Elexon.

Action Log – UNC Governance Workstream 07 July 2008

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner*	Status Update
GOV1035	19/06/2008	2.1	JO to examine costs of past Modification Proposals	Joint Office (TD)	Closed
GOV1136	07/07/2008	2.0	Develop a proposal for recovery of stranded costs	National Grid Distribution (AR)	