

UNC Funding, Governance and Ownership (FGO) Workgroup Minutes

Tuesday 03 May 2016

31 Homer Road, Solihull B91 3LT

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HCu)	Joint Office
Alex Ross-Shaw	(ARS)	Northern Gas Networks
Angela Love*	(AL)	ScottishPower
Charles Ruffell	(CR)	RWE
Charles Wood	(CWo)	Dentons
Chris Warner	(CWa)	National Grid Distribution
Colette Baldwin	(CB)	E.ON
Gavin Anderson*	(GA)	EDF Energy
Gregory Edwards	(GE)	British Gas
Hilary Chapman	(HCh)	Scotia Gas Networks
Joanne Parker	(JP)	Scotia Gas Networks
Martin Baker	(MBa)	Xoserve
Michael Walls	(MW)	ESP Pipelines
Nicola Cocks	(NC)	KMPG
Robert Wigginton	(RW)	WWU
Sean McGoldrick	(SMc)	National Grid NTS

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/fgowg/030516>

1. Introduction and Status Review

BF explained the purpose of the Funding, Governance and Ownership (FGO) Workgroup meetings. Advising that the Workgroup would oversee all UNC FGO elements in particular the charging considerations, risks and issues, which are, raised outside the scope of Modification 0565.

NC provided a presentation and overview of the progress made to date by the KMPG.

NC explained that Xoserve would continue to provide services as they do now to GDNs, NTS, Shippers and IGTs, however these will be provided through a revised cost allocation approach and revised charging methodology under FGO arrangements.

CWa clarified that the arrangements will need to be clear and fully developed by 01 October 2016 for implementation for 01 April 2017.

NC noted some of the key dependencies required highlighting that Ofgem plans to publish its decision on the GT funding value and mechanism by September 2016 and the need for the UNC FGO Workgroup to ensure the charging cost allocation work is aligned to the timetable to allow ample time for the notification of charging statements to be issued in January 2017.

MB was unclear if Ofgem would be in a position to conclude deliberations and provide a decision in time for the notification of charging statements and this could present a risk. NC explained that Ofgem have a 42 day window to "not approve" proposed CDSP charging Methodology and CDSP Charging Statements prior to implementation, therefore preparation could continue in anticipation that they would not say no. *Post Meeting Note: The latest draft of the GT Licence amendment removes the requirement to submit the draft methodology and statement to Ofgem for a 42 day "not approve" window.* MB expressed concern about the risk of both elements being approved in time for the final charging statements in January 2017.

NC summarised the key aims outlined in Ofgem's October 2013 decision letter. She emphasised that Ofgem aim for transparency and accountability can only be achieved if users are able to distinguish transportation charges and charges for using the CDSP. The industry will need to develop a cost allocation methodology that seeks to target costs on users based on their use of services. The intention should be for those that drive additional costs to pay for them in order to further incentivise cost controls. To do that, changes will be needed to the existing cost allocation and associated charging statement.

The Workgroup considered the concept of user pays under an FGO regime and that under the framework user pays services as a defined term didn't necessarily feature as it does now, however the allocation methodology seeks to target costs on users based on the different services they require.

FC outlined the progress made to date and what principles and assumptions had been discussed at the last KMPG Workgroup on 05 April and Programme Overview Board (POB) meeting on 08 April.

CWo believed one of Ofgem's requirements was for the charging methodology to be part of the UNC and for this to sit within the governance of the UNC. CWo confirmed that the licence would need to define different objectives if these needed to be different to those already established for charges. NC explained that the principles and assumptions provided were to outline the key considerations for the development of the methodology and that the methodology needs to be part of the UNC. She recognised that if these needed to take into account current charging relevant objectives these could be incorporated.

2. Cost Allocation and Charging impacts

The presentation provided a breakdown of the Agency Services Agreement and that there were circa 300 services lines currently provided by Xoserve. These are broken down into two levels of detail. Level 1; included 9 high-level cost categories and Level 2; included 23 service areas. MB clarified that Xoserve's cost are currently allocated through the Agency Services Agreement (ASA) and for clarity he wished to confirm that Transportation charges are a matter between Transporters and Shippers.

NC explained that following the service allocation exercise; the workgroup had developed a concept of constituency groupings. A constituency group would allow services to be grouped together and costs allocated to each of these groups. She explained that this work had not yet been completed and some assumptions had to be made. AL asked if Shippers would be classified into different user groups. NC explained that the classification of Shippers had not been considered in detail by the KMPG workgroup at this stage, however this might wish to be considered going forward.

NC provided the Draft Next Steps to; confirm the charging principles; develop the service footprint for 1 April 2017; and develop a view of the cost drivers for each service, and indicative delivery costs.

NC explained the proposed next steps for the charging and cost allocation work. She summarised within the proposals the considerations that need to be taken into account to ensure the enduring arrangements are fully developed. This included understanding what services Xoserve will continue to deliver, what services will no longer be provided and the likely services in the future.

AL enquired about the extent of future changes beyond 2017/18 and 20/21. NC recognised there could be two approaches to consider 17/18 now and 20/21 later or consider all elements within the price control review.

The aim will be to consider the next steps: confirm the footprint for April 2017 onwards, confirm the classification categories for services and projects, and ensure the methodology is compatible with the emerging DSC.

SMc enquired from a Transporter perspective about the potential change to regulatory allowances and that this needed to be captured and clearly explained. He suggested there are other regulatory matters for consideration e.g National Grid Transmission taking on the full management of Gemini, this would have an impact on funding in the short and long term. NC acknowledged the need to consider how allowances are managed and that this needs to be considered as part of the review.

CWa emphasised that the timeline and plan would need to be considered to ensure there is no slippage.

CB suggested that a project plan is formulated to ensure alignment of all considerations and avoid duplication. It was suggested there ought to be a single workplan with all dependencies identified.

BF asked about the management of risks. CB expressed the need to ensure that risks are captured and considered in the right place. It was agreed by the Workgroup that it would be useful to have a consolidated list of risks from a programme level down to a UNC workgroup level to ensure there is no duplication. It was agreed to capture all risks and consider the overarching risk register on 18th May.

Action 0501: KMPG to devise a Workplan to capture and align project considerations, dependencies and meeting requirements.

Action 0502: KMPG to create a FGO Risk and Issues Log.

MBa confirmed Xoserve had provided a short presentation about Ofgems conclusions, work to date and key points. MBa clarified that the CDSP will be run as a non-profit organisation, the cost allocation model should seek to target parties based on their usage, the cost allocation model and charging methodology aims to achieve a balance between cost reflectivity and simplicity, while being adaptive to accommodate new Central Data Services (CDS) and CDS users.

MBa summarised the key points of the work undertaken to date. MBa emphasised that the costing, charging and invoicing arrangements need to be capable of fitting into the DSC structure, the application of margins, recovery of costs for funding investments and managing in year under/over recovery.

SMc enquired about non-code delivery of services and whether a profit margin would be allowed for the delivery of bespoke non-code services. MBa confirmed this is yet to be understood.

SMc asked about returns to users and if returns would be targeted to specific users or socialised should there be an over recovery. MBa explained that this does need to be considered.

MBa also explained that there needs to be an enduring set of arrangements, however, there will be inflight projects and there will be a need for transitional arrangements from current to the future arrangements.

AL enquired if Xoserve have had chance to consider the aspects of the funding model KMPG have discussed at POB, and whether Xoserve agreed with these. MBa confirmed that Xoserve have provided some feedback, in essence to look at the service footprint and cost drivers. He explained that Xoserve haven't looked at the exact timeframe but it looks like the outline is achievable.

CWo confirmed that the DSC will need to establish the services to be provided, a service description which builds on schedule 2 in the ASA and fits into the DSC structure. The charging methodology will need to pick up where the DSC leaves off.

BF enquired about the development of the DSC service lines. MBa explained there is a lot of the ground work which needs to be undertaken by Xoserve for review, in particular the service footprint. If the footprint changes Xoserve will need a view on the funding parties, if some of the cost drivers change this needs to be considered by Xoserve and shared with the Workgroup to build a common understanding and agreement of what should be included in the DSC schedules.

CWo confirmed a piece of work is being undertaken to produce a first cut of the services. MBa confirmed a mapping exercise would be needed as some services could potentially fall away, some change, and some new services added. MBa recognised co-ordination will be required to ensure alignment.

CWo suggested the industry may wish to consider a set of generic charging principles where ever possible, he suggested it would be preferable to have generic cost allocation rules to try and avoid a situation whereby a modification changing a service would result in a full review of the DSC resulting in new charging negotiations.

AL asked about the sharing of costs. MBa explained the principle of GDN share, based on the supply points on a date, as a sharing reference point.

AL enquired who was going to be responsible for the work plan. It was suggested that an overarching workplan would need to sit with KMPG. NC confirmed that the KMPG would be happy to manage and monitor the workplan.

CWo asked about bespoke services and the agreements on delivery and that the methodology needs to allow for bespoke services and whether there needs to be a share of generic costs. MBa explained that some code services are in the ASA but not defined in the UNC, these are envisaged to be in scope of the DSC. CWo broadly expected core services and core users to be incorporated, be not for profit and governed by the DSC rules.

BF enquired about the charging methodology relevant objectives set out in the Transporter licence and used in the UNC Section Y modification process, would there be a need for a third set of objectives or the use of the existing relevant objectives. CWo explained that the relevant objectives may not automatically apply, he explained that the UNC GTB7 will set the structure of the CDSP in the UNC, and there needs to be a consideration of the licence to understand which set or sets of relevant objectives would be applicable. Separate objectives could be established for the DSC charges, the objectives will depend on the charge process.

CWo provided an overview of GTB7 section 7.7 in relation to the CDSP Service Description and 7.8 which outlines the budget and charging methodology framework for the UNC and how CDSP costs should be allocated.

SMc questioned - what do we need, when do we need it, where does it sit? CWo envisaged that the UNC would cover the rules suggesting the avoidance of incorporating the actual methodology otherwise there would need to be a routine annual review process requiring a modification. It was challenged that if shippers are able to seek bespoke services and the provision doesn't impact the general Xoserve service provision, how does the industry provide assurance that services are charged for and provide transparency around bespoke service charges. MB advised that a credit management process would need to be established.

SMc enquired about Xoserve funding and at the end of each financial year how will any profits be allocated, is this to users, share holders or carried over? He suggested any over recovery in the first year is held back to provide Xoserve an operational cash cushion. AL suggested that this arrangement isn't a new concept and other industry examples can be used to establish some principles for managing budgets. CB suggested the industry wouldn't want to create a funding process that results in an industry party sitting on large pots of cash. It was recognised there was a need for a balance and to have a CDSP that is capable of functioning with appropriate funding and contractual governance to account for this.

The Workgroup considered funding, with cash-calling and "true-up" with the need to avoid over accounting. AL agreed the Workgroup needs to set principles, and consider other models, Suggesting that Xoserve should consolidate what the principles could be for the charging methodology in line with what is summarised in GTB7 and present this at the next meeting.

Action 0503: Xoserve to consider the matter raised under GTB7 7.8, consider other funding arrangements used in comparable industries and provide an outline on the proposed funding principles.

NC suggested that the Workgroup outline clearly what they are asking Xoserve to answer by scoping out the questions of the funding principles. It was anticipated there was two pieces of work required – funding principles and service cost drivers. The service foot-print is required for both the DSC and charging methodology and that the funding principles may be less important at this stage. MBa challenged the need to establish funding footprint principles at this stage. It was proposed - and agreed - that priority should be given to the drafting of charging principles.

BF suggested the DSC related meetings should consider the services and service schedules. MBa acknowledged there was work to be done on the principles, progressed independent of DSC discussions. In defining the DSC service footprint, what are the services, what are the costs – the methodology needs to be reflective of the service schedules and want to avoid duplication. There is an option to look at the DSC service schedule and use that to feed into the service footprint. NC believed that it would seem sensible for Xoserve to create a first draft of the service footprint.

MBa was not sure at this stage if the DSC service schedules were going to be built the same as the ASA. NC suggested no matter how the services are presented, it was anticipated that the services would not be significantly changing. CB agreed, the services Xoserve do today will be the same following 01 April 2017, however charging is changing significantly and this needs to be applied against service lines. MB was concerned about the mapping and having to change the presentation of services.

BF suggested that high-level principles could be set out such as the invoicing principles to focus discussions.

It was recognised that the DSC and the Charging Methodology needed to be appended to the modification and the DSC needed to be in a robust state, capable of being signed. NC confirmed that Ofgem will need to make a decision in September on the GT funding policy and will need to have a view of the funding arrangements before then. MBa asked if this would include the funding level, NC explained from the current information and assumption is that the funding levels will need to be understood before September.

Action 0504: Xoserve to provide a draft DSC Service foot-print.

The Workgroup discussed the splitting of meetings, having appropriate materials and the likely confusion it will create. BF explained the logic around having separate meetings to drive appropriate attendance and the risks associated with labelling all meetings under Modification 0565 or under a UNC FGO Workgroup.

3. Review of Workgroup risks and issues log

Deferred until 18 May. See Action 0502.

4. Issues

No new issues raised.

5. Any Other Business

5.1. Invoicing Considerations - POB

AL enquired about the invoicing considerations she believed were being undertaken at POB in relation to the ability of Xoserve to invoice Shippers directly and any implications on Project Nexus. MBa confirmed POB had been provided with an initial draft on invoicing options and Xoserve had provided feedback, which was going to be considered again at the 13 May meeting, an update was expected in due course. MBa explained this was a first cut of the options and evaluation criteria, Xoserve need to look at the logistics, the likely system changes, the possible challenges in relation to the collection and reporting of charges and associated data warehouse.

AL enquired about the implication of Project Nexus delays. MBa confirmed that this needs to be part of the evaluation to understand if any of the invoice options impact core systems now and post Nexus and how each option could be deliverable.

6. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00, Wednesday 18 May 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup - Charging Workgroup 0565 <ul style="list-style-type: none"> • Timeline/Workplan Update • DSC Contract Update • GT B7 (third draft with iGT provisions) • DSC Governance (final position) • TPD G and H (2nd draft) • TPD M (2nd draft) • TPD U (1st draft) • TPD and EID (2nd draft) • iGT and iGTAD (1st draft for iGTAD) • Miscellaneous MR, GT and TD and DSC transition (first draft) • Consideration of Risks/Issues Log
10:00 Friday 27 May 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup – Charging
10:00 Wednesday 01 June 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<ul style="list-style-type: none"> • Timeline/Workplan Update • DSC Contract Update • Consideration of Risks/Issues Log
10:00 Monday 13 June 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging
10:00 Monday	Elexon, 4 th Floor,	<ul style="list-style-type: none"> • TPD U (2nd draft)

20 June 2016	350 Euston Road, London NW1 3AW	<ul style="list-style-type: none"> • iGT and iGTAD (2nd draft for iGTAD) • Miscellaneous MR, GT and TD and DSC transition (second draft)
10:00 Thursday 30 June 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup – Charging
10:00 Monday 11 July 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging
10:00 Wednesday 13 July 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<ul style="list-style-type: none"> • GT B7 (1st consolidated) • TPD G and H (1st consolidated) • TPD M (1st consolidated) • TPD U (1st consolidated) • TPD and EID (1st consolidated) • iGT and iGTAD (1st consolidated) • Miscellaneous MR, GT and TD and DSC transition (consolidated) • Consideration of Risks/Issues Log
10:00 Monday 25 July 2016	Dentons	<ul style="list-style-type: none"> • UNC Legal Meeting • DSC Contract Update
10:00 Friday 29 July	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup – Charging
10:00 Wednesday 03 August 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<ul style="list-style-type: none"> • GT B7 (2nd consolidated) • TPD G and H (2nd consolidated) • TPD M (2nd consolidated) • TPD U (2nd consolidated) • TPD and EID (2nd consolidated) • iGT and iGTAD (2nd consolidated) • Miscellaneous MR, GT and TD and DSC transition (2nd consolidated) • Consideration of Risks/Issues Log
10:00 Monday 08 August	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging
10:00 Monday 22 August 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging
10:00 Tuesday 23 August 2016	Elexon, 4 th Floor, 350 Euston Road,	<ul style="list-style-type: none"> • Timeline/Workplan Update • DSC Contract Update

	London NW1 3AW	<ul style="list-style-type: none"> Consideration of Risks/Issues Log
10:00 Wednesday 07 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	Development of Workgroup Report
10:00 Wednesday 21 September 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	Development of Workgroup Report
10:00 Wednesday 05 October 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	Conclusion of Workgroup Report

FGO WG Actions (as at 03 May 2016)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
FGO 0501	03/05/16	2.0	KMPG to devise a Workplan to capture and align project considerations, dependencies and meeting requirements.	KMPG (NC)	Pending
FGO 0502	03/05/16	2.0	KMPG to create a FGO Risk and Issues Log.	KMPG (NC)	Pending
FGO 0503	03/05/16	2.0	Xoserve to consider the matter raised under GTB7 7.8, consider other funding arrangements used in comparable industries and provide an outline on the proposed funding principles.	Xoserve (MBa)	Pending
FGO 0504	03/05/16	2.0	Xoserve to provide a draft DSC Service foot-print.	Xoserve (MBa)	Pending