

**UNC Funding, Governance and Ownership (FGO) Workgroup Minutes**  
**Monday 05 September 2016**  
**at Consort House, 6 Homer Road, Solihull B91 3QQ**

**Attendees**

Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Andrew Green*	(AG)	Total
Angela Love*	(AL)	ScottishPower
Charles Ruffell	(CR)	RWE
Charles Wood	(CWo)	Dentons
Chris Shanley	(CS)	Joint Office
Chris Warner	(CW)	National Grid Distribution
Colette Baldwin	(CB)	E.ON
Craig Neilson	(CN)	National Grid Distribution
Gareth Evans	(GE)	Waters Wye Associates
Gethyn Howard	(GH)	Brookfield Utilities
Gregory Edwards	(GE)	British Gas
Martin Baker	(MBa)	Xoserve
Michael Walls	(MW)	ESP Pipelines
Nick Salter	(NS)	Xoserve
Nicola Cocks	(NC)	KPMG
Rebecca Pickett	(RP)	Ofgem
Robert Wiggington	(RW)	Wales & West Utilities
Sean McGoldrick	(SMc)	National Grid NTS
Steve Mulliganie*	(SM)	Gazprom
Sue Hilbourne*	(SH)	Scotia Gas Networks

\* *via teleconference*

Copies of all papers are available at: <http://www.gasgovernance.co.uk/fgowg/050916>

**1. Introduction and Status Review****1.1. Approval of Minutes (22 August Charging)**

The Minutes of the previous meeting were approved.

**2. First Review of Charging Methodology Review (Services) (Investment)*****Services and Users***

Not specifically discussed at the meeting.

***Cost Drivers and Cost Allocation***

Not specifically discussed at the meeting.

***Charging Methodology, including funding of Liabilities***

Not specifically discussed at the meeting.

***Sharing of Charges, Cost Drivers, Budget and Charging Methodology and Invoicing Process***

Opening the meeting, NS provided an overview of the 'UNC FGO Workgroup (Charging)' presentation.

NS explained that the cost driver elements are provided in response to outstanding action

0711(c) and that as far as the invoicing process is concerned, Xoserve had explained to Ofgem in a recent discussion, how the processes might be expected to work.

### *Sharing of Charges*

Discussions then moved on to consider the 'Sharing of Charges' slide initially focusing on the **Networks** columns.

In response to a question on whether or not Xoserve would be expecting to charge out to the Networks based on MPRN's which would then be passed through to Shippers via other charges, RW reminded everyone that pass through in licence terms has a very different meaning to the one being considered here. He explained that the Networks would receive an invoice from Xoserve after which costs would be recovered via a charge to Shippers (based around the 95:5 Capacity/Commodity split).

When asked, NS confirmed that the X, Y and Z percentages are already defined in the January 2016 cost assessment but are subject to review when setting the DSC Charging Methodology.

Attention then focused on the **Shippers** columns whereupon NS explained that the charge apportionment options had been discussed at the recent FGO Programme Overview Board meeting.

NS advised that the Cost Assessment Template (CAT) split is consistent with previous industry debate and that Xoserve also believes that there is merit in retaining some User Pays aspects going forwards.

Examining the first of the three proposed Shipper options (Share on AQ), NS highlighted a significant concern relating to this option, namely that some Shippers with a low MPRN count and high throughput could/would potentially receive large charges, with 5 out of 19 parties expected to witness charges in the region of £250k over a four year period, with others possibly experiencing in excess of £1m over a similar time frame. The other key concern with this option is that site/pipe size is not reflective of Xoserve costs.

Moving on to consider the 'Share on MPRN only' option it was noted that the MPRN count is more reflective of Xoserve's cost drivers.

Discussions centred on why 30+ Shippers with low MPRN counts would potentially receive a lower charge than Trader only users during which NS explained that this reflects the fact that the CDSP model establishes new contractual arrangements with Traders (i.e. cost of IX equipment provisions and annual maintenance related charges). When asked what would happen if a Trader changes status (exits the regime), NS explained that where a Trader 'drops off' the scheme, a fixed element of the costs would be smeared across remaining participants. He also suggested that where participants are only using IX to undertake Trades, they should not incur the same costs as those who are both Trading and utilising other system services.

When it was suggested that the 'Share on MPRN with Standing Charge' option implies the utilisation of a fixed annual charge for participation, NS agreed advising that this would be circa £10k p.a. for the 30+ Shippers in question. However, it was noted there are possible alternative options such as charging a fixed element plus a proportional charge that takes into account the AQ (SOQ) elements.

NS then explained that the modelling exercise had revealed potentially different outcomes for different parts of the market and that the industry should really be looking for a common ground – some parties felt that achieving a clear market consensus would be extremely unlikely and very difficult in reality.

Reiterating the point that Shipper option 3 involves a 'cost to participate' charge, SM indicated that in his opinion, Gazprom could/would be able to support this option going forwards. NS warned that the predicted £10k p.a. cost was only established in order to successfully test the model and that further more detailed analysis would be required to establish a more accurate figure.

It was noted that care is needed in avoiding potential cross subsidy concerns.

In attempting to compare the predicted costs against the previous Xoserve budget submissions, especially the 2017/18 forecasts, some concerns were voiced that the figures do not necessarily

tally, to which MBa responded by explaining that the modelling predictions do not include any sharing of investment costs and are purely related to Xoserve running costs – NS pointed out that the aim of the presentation (and these discussions) is to establish the principles rather than focus purely on the monetary aspects. He also advised that should investment costs be included there could/would be significant Gemini and system (Project Nexus) costs involved that would probably be passed on to the Networks.

MBa pointed out that the purpose of the table is to attempt to reach a consensus around the preferred model basis for sharing CDSP costs and once this is agreed, a more detailed analysis of the costs would be undertaken – in short, Xoserve is looking to identify the fairest way to share out their costs across the community.

When asked whether or not IX costs should remain a separate cost item, the consensus was it should on the grounds that if it is an IX cost, it should be identifiable as such, rather than being seen as simply a 'cost to participate'. Some parties also remained nervous about referring to it as a 'standing charge'.

When it was suggested that there is a lack of detailed (cost) information relating to the three Shipper options, NS pointed out that the information is readily available within the supporting Excel spreadsheets.

AL asked if Xoserve had considered other system provider costs such as BSC, MRA etc and whether their models used a similar approach. Responding, NS advised that they had not directly considered other system providers as the services did not necessarily lend themselves readily for comparison.

Summarising the cost debate, CWO felt that there was a broad agreement that there are IX fixed and running costs and that we should also be looking at any other costs associated with being a DSC Party. At this point GE agreed to undertake an action to seek Trader views on the Sharing of Charges, especially the three Shipper options.

RP pointed out that whilst Ofgem is broadly supportive of these proposals, it would also be looking for, and expecting more, in the way of Stakeholder engagement.

It was noted that one possible hidden benefit in moving to a new model is that some parties might reassess their need to retain IX equipment going forwards.

In accepting that each option has both positive and negative aspects, NS enquired as to whether those in attendance believe that we now have a reasonable mechanism on which to build and move forwards. CB suggested that one possible concern relates to where the costs originate from, to which NS responded by advising that as far as IX costs are concerned, bandwidth impacts could potentially ramp up costs on an individual User basis.

When asked if a possible solution based around a minimum licence fee + recovery of residual amounts via an AQ or MPRN apportionment approach, NS confirmed the short answer was yes, with the later appearing to be the preferred approach. MBa refined the previous position statement further by explaining that we are looking at the cost associated with continuation of the IX service + additional licence cost to participate – this being the basis for the initial predicted cost of £10k p.a. MBa then asked if parties would be happy to agree the basic principle(s) in order that Xoserve can then go away and compile the more detailed supporting information. RP took the opportunity to point out that this information is separate to what (funding related information) Ofgem needs today, in order to make an informed funding decision at a later time.

MBa asked whether or not for the Blue area of the 'Sharing of Charges' table, there is a clear action on Xoserve to go away and look to develop more accurate costing information based around the two MPRN options – there was no clear indication provided at this point. CB suggested that analysis should be provided to support all the scenarios so that the impacts of each could be identified.

Discussions once again focused on the 'Transactional' User Pays services during which MBa confirmed that in essence, it means ALL current non-Code and Code User Pays (UP) service lines would continue. NS also indicated that whilst he anticipates that some Code UP service lines would fall away over time, Xoserve are not advocating an extension to current transactional UP service lines. SMC indicated that he remains concerned as to how UP aspects

would actually work in the future, especially how these would fit in with investment arguments/discussions..

A request was issued to Xoserve to review the User Pays services and to consider those which could continue to be charged on a 'transactional' basis as Specific Charges and to identify those which could be included in General Service Charges and apportioned on MPRN count.

When asked why Xoserve appear to be favouring the (two) MPRN based options over the AQ (SOQ) option, NS explained that the decision reflects the major weakness associated with the AQ option in that some Shippers with a low MPRN count could potentially incur large charges.

Continuing discussions, GE warned against 'ring fencing' the charging debate as he sees this as potentially missing an opportunity to reduce the number of industry invoices floating around – this was not necessarily a universally supported view by those in attendance. NS responded by explaining that Xoserve envisages issuing a monthly invoice to each DSC Party containing all relevant CDSP Charges for the period. However, he suggested that including each and every element of the future transactional charges on the face of the invoice would/could be extremely complex.

Moving on, NS explained that the final slide represents a set of speaker notes for the preceding slide(s).

**New Action FGO0901: Reference the Sharing of Charges Modelling - Waters Wye Associates (GE) to seek to ascertain Trader views on the Sharing of Charges model, especially the three proposed Shipper options.**

**New Action FGO0902: Reference the Sharing of Charges Modelling – Xoserve (MBa / NS) to consider whether or not, billing out on a monthly basis would/could be viable.**

**New Action FGO0903: Reference the Sharing of Charges Modelling – Xoserve (MBa / NS) to look to develop and provide more accurate costing information based around the two MPRN options, including what is involved in the 'fixed' licence fee and the rationale behind MPRN option 3.**

**New Action FGO0904: Reference the Sharing of Charges Modelling – Xoserve (MBa / NS) to review the User Pays services and to consider those which could continue to be charged on a 'transactional' basis as Specific Charges and to identify those which could be included in General Service Charges and apportioned on MPRN count**

#### *Outline of Budget and Charging Methodology*

In providing an overview of the document CWo explained the background as building on previous Workgroup discussions.

The following key points on a section-by-section review basis were captured as a result of the ongoing discussions:

#### 1 General

CWo will incorporate the proposed 'standing charge' elements, as discussed earlier.

#### 2 Preliminary

Referring to paragraph 2.1.1, it is envisaged that following Project Nexus implementation, iGTs will become a charging class whilst FGO could also see changes flowing through after this date.

The comment associated with paragraph 2.2.2, was acknowledged by those present.

As far as paragraph 2.2.3 is concerned, CWo confirmed that an additional audit report might be needed and that Trader Users would not be considered as DSC parties. However, he does accept that there is a need to consider 3<sup>rd</sup> party changes.

Examining the formula in paragraph 2.3.1, CWo explained that this would now be changed to cater for MPRNs on a monthly (snapshot) basis. When asked why this could not be undertaken on a daily rather than monthly basis, MBa explained that it is a cost v's benefit assessment that favours the monthly option at this time.

In considering the paragraph 2.3.2 statement(s), RW pointed out that the DNs portfolio

growth is expected to be negligible, with the primary driver being based on numbers. GH added that whilst the iGTs portfolio growth could be significant over a 12 month period, it is not expected to be an issue. When asked, GH confirmed that it is possible to proceed on the current iGT assumptions whilst he double checks with his iGT colleagues. NS suggested that perhaps one option could/would be to review on more than a yearly process basis – perhaps quarterly.

Referencing paragraph 2.3.3, SMc explained that the forthcoming DN/Transporter meeting scheduled to take place Thursday 08 September would look to bottom out the apportionment aspects.

### 3 Annual process - budget

Referring to paragraph 3.1.1(a), (b), (c) and (d), CWo pointed out that these sub paragraphs reflect the Agency Services Agreement (ASA).

Looking at paragraph 3.4.2, CWo wondered whether or not this is actually needed now, although it should be recognised that it does answer the historical question(s).

In referring to the [ ]'s statement in paragraph 3.5.2, CWo suggested that this would be based on defining the working capital (i.e. costs + margins), before he then went on to explain that paragraph 3.6 relates more to forecasting than the actual methodology.

Moving on to consider paragraph 3.8 – Budget appeal, CWo suggested that this could possibly utilise a within year adjustments process, although this remains to be decided/defined but would be expanded in the next version of the document. MBa believed that the *'Will need to include provision use of the original budget.....'* statement is a very important point.

In considering paragraph 3.9 – Budget amendment, concerns around how short notice regulatory changes would be managed were voiced to which MBa responded by suggesting that depending upon their nature, a (budget) re-opener maybe triggered.

### 4 Calculation of General Service Charges

MBa suggested that this section builds upon previous charging discussions, whilst CWo pointed out that paragraph 4.3.1 relies upon a vertical summation process.

### 5 Specific Charges

CWo pointed out that this is dependent upon what the current User Pays provisions turn into going forwards.

### 6 Investment Charges

CWo pointed out that as far as paragraph 6.1 – Infrastructure Charges are concerned, this relates to the delivery structure and therefore it is not expected to be subject to significant change.

In considering paragraph 6.1.1 and the associated formula and comment statement, SMc felt that based on the assumption that the 100% arrangements go ahead, this could/would work, however if not, further consideration would be needed. MBa suggested that the proposals are broadly reflective of the approach defined in the Xoserve January 2016 cost assessment submission.

In briefly considering what alternative infrastructure charge allocations might be feasible, MBa explained that infrastructure costs could be apportioned against specific service lines.

MBa explained that the drafting is based on a constituency charging approach, which envisages a degree of transparency between change budget and service provision charges.

**New Action FGO0905: Reference the Outline of Budget and Charging Methodology – Xoserve and Dentons (MBa & CWo) to look to provide a working example for the Annual Customer Class Infrastructure Charge.**

In recognising that the proposals look to provide both a specific targeting and broader charging model aligned approach, NS explained how both the budget changes would be expected to be managed via the DSC process in the future, and the fact that Xoserve has

strived to build the proposals around previous industry discussions.

Moving on to consider paragraph 6.2.1, CWo provided a brief background to the rationale behind the statement. When NS suggested that care would be needed in managing constituency / sub constituency change triggers, GE also noted that clear definition as to what charging methodology is being followed would be needed. NC pointed out to those present that this matter relates to material costs and therefore requires due consideration.

SMc explained that the Transporters would be keeping a close eye on the change budgets, including any change capital aspects, going forwards. During a brief debate as to whether or not this fits in with the Price Control mechanisms, RP advised that Ofgem are currently considering the matter.

In seeking a clear steer on what additional investment analysis the Workgroup feels would be beneficial, MBa enquired if utilising the Investment forecasts in the January 2016 cost assessment submission applied to CWo's proposed calculations over a 5 year period would be suitable – the consensus being that it would be extremely helpful in aiding understanding.

**New Action FGO0906: Reference the Outline of Budget and Charging Methodology – Xoserve (MBa) to look to provide a working example for investment analysis utilising the proposed calculations over a 5 year period.**

NS explained how any Gemini related costs could/would be removed in future to avoid potentially double accounting to National Grid NTS.

When GH indicated that he was unable to reconcile aspects of the January predicted costs for the iGTs (i.e. allocation of Project Nexus costs v's Ofgem Price Control indicators) it was suggested that offline discussions might prove beneficial. Moving on, MBa advised that Xoserve would consider how post FGO and Project Nexus modelling costs potentially impact on the January constituency service cost predictions.

**New Action FGO0907: Reference the Outline of Budget and Charging Methodology – Xoserve (MBa) to provide a view on how application of the DSC Charging Methodology to the cost assessment forecasts compares to the cost assessment view of constituency funding.**

When asked whether or not it is expected that Ofgem will have published their funding decision prior to the next FGO Charging Workgroup meeting scheduled for 23<sup>rd</sup> September, RP suggested that a decision might be forthcoming on either the 22<sup>nd</sup> or 23<sup>rd</sup> September, although she would look to chase the matter with her colleagues.

## 8 Invoices

CWo pointed out that this section would be used for describing invoices and invoicing at a future meeting.

## 9 End of year adjustment

During a detailed debate around outturn costs where some parties expressed a preference for Xoserve to keep any outstanding monies (+ or -) and then adjust the following years charges, NS suggested that subject to any timing or potential working capital implications, Xoserve could consider a + or – variance adjustment. NS went on to point out however, that any potential deficit situations may trigger a budget re-opener – when asked, the Network representatives present did not object to the proposed option. Whilst some parties indicated that they also favour adoption of a Transportation Charge style of reconciliation mechanism in support of the above proposal. Whilst not discounting other parties views on this matter, SMc indicated that National Grid NTS continues to prefer a more targeted solution for reconciling + or – adjustments. Summarising, CWo suggested, and parties agreed, that this is in essence, an adjustment based on customer classes.

When SMc suggested that care would be needed around potential minimising the impacts (undermining) on any future large investment works planned and undertaken by the Networks – how these could/would be reconciled needs consideration.

Whilst acknowledging that conceptually these proposals could work, NS felt that further detailed consideration would be beneficial, especially potential timing impacts and how we

would ensure that the right parties receive the over/under recovery monies. When CWO provided a brief explanation as to how these proposals vary from the current Transportation Charging Model(s) and how the treatment of over/under recovery of costs are managed, several options such as the BSC / MRA and DCC models were put forward.

**New Action FGO0908: Reference the Outline of Budget and Charging Methodology – Dentons (CWO) to look to amend the document, especially aspects of paragraph 9 in line with Workgroup discussions.**

#### *CDSP Charging Principles, Application and Proposed Charging Methodology*

In providing a very brief overview of the document (which is primarily provided for information purposes only at the meeting), MBa explained that since the previous meeting the table has been enhanced with the introduction of a new fourth column that describes how each Principle has been applied in the draft DSC Charging Methodology.

#### *Fixed and Variable Costs Review*

MBa provided a brief overview of the Xoserve presentation explaining that the final bullet on page 2 (User Pays services) might be subtly amended in light of today's discussions.

#### *Cost Allocation Charging Methodology Model*

RW provided a brief overview of the Excel spreadsheet presentation explaining that this is in response to outstanding action 0801.

RW went on to advise that in his view the spreadsheet provisions do not materially change Xoserve's previous fixed and variable costs review document, but simply builds upon, and provides a supporting narrative behind the figures.

RW and CN then went on to provide a brief explanation to the background for each tab, as follows:

#### Home

Provides a high-level summary of the information contained in the other tabs.

#### Cost Base Analysis (15/16 Prices)

This is similar in concept to the RPi template layout (i.e. PNL cost base format).

#### Level 2 Cost Allocation by Cost Type

This is a shell model only at this time as it is currently only populated with data available at the time of creation.

Every £ identified within the Cost Base tab can be traced out here.

#### ASA Service Line to Service Schedule Map

RW suggested that this picks up on a previous point made by CB regarding mapping ASA service lines to service schedules – CB indicated she was happy with the information provided.

#### Level 2 Cost Allocation to Service Schedules

RW advised that this brings forward some or all of the granular detail from previous tabs, providing flexibility to define cost to each service line.

Any changes to the yellow sector automatically flow through.

#### Service Schedule to Constituent Group Allocation

Building on previous tab(s) and peels down to a more detailed level of granularity.

#### Inter Constituent Mapping

This tab is built to provide maximum flexibility and allows users to define their inter constituent grouping and allocation basis in order to accurately apportion costs. It also enables the user to focus on iGT splits etc. via a modular based approach, including definition of separate rules

It was noted that whilst this tab is only targeting core costs at present, the yellow drop down feature enables additional focused targeting of the analysis and data. In confirming that this tab

allows for targeting of the + / - changes being modelled, it does not have any factor for margins built in at this time.

CD suggested, that if needed, algorithms relating to cost of service could be built in at a later date.

CD went on to suggest that this potentially illustrates where they currently have areas of tension that will need to be resolved before looking to fully develop and populate the model going forwards.

It was noted that not only is this modelling tool something that the Xoserve Finance Team could utilise, but given the development of appropriate management/governance arrangements, it could form the basis of a invaluable industry tool.

When RW explained that the challenge lies in moving from some of these base assumptions to a point where parties are happy to sign off the model, those in attendance responded positively suggesting that it satisfies their previous requests for the provision of additional transparency.

### *General Discussion*

GE enquired whether the regulator is proposing to undertake a scrutiny of the high-level figures/data at which point MBa highlighted that all the information had already been provided to Ofgem and made publically available. RP confirmed that Ofgem has received the information and responded by requesting additional clarifications, especially around the anticipated wider industry impacts. They (Ofgem) are also considering how these matter 'map' against the Price Control templates.

RP went on to indicate that they expect the outputs would follow previous Ofgem 'minded to' approaches. In recognising that assurances on the work being undertaken are not necessarily to the same standard as those for full licence requirements, she believes that Xoserve have undertaken and completed a suitable (internal rigour and review) validation process.

### **3. Invoicing**

NS provided a verbal update only and explained that the proposals are building upon previous discussions around who undertakes the CDSP invoicing (i.e. via Transporters perhaps).

When RP advised that ICoSS has already raised some concerns with Ofgem, GE advised that whilst he acknowledges the various industry points raised on this matter, he also recognises and accepts that the consensus view would prevail.

### **4. Transition Matters**

Not specifically discussed at the meeting.

### **5. Margin, Surpluses and Deficits**

Not specifically discussed at the meeting.

### **6. Budget Setting**

Not specifically discussed at the meeting.

### **7. Review of Actions Outstanding**

**FGO 0705:** Xoserve (AMi) and Brookfield Utilities (GH) to discuss how and when the iGTs will be included into the Cost Allocation Model and GH to provide any concerns iGTs may have with the allocation process.

**Update:** The subject of discussion at the Transporter meeting on Thursday 08 September 2016.  
**Carried Forward**

**FGO 0709:** Xoserve (MBa) and Dentons (CWo) to provide Process Flows of the process and produce a Rule Base Drafting document for 05 September meeting.

**Update:** It was acknowledged that this matter has been reflected in the drafting document and would be picked up in more detail as part of the next draft of the principles document and that



this action may not accurately address the information required. **Closed**

A new action was then placed on Xoserve to define a process around the creation of Working Capital and how you manage any margins therein.

**New Action FGO0909: Xoserve (MBa) to define a process around the creation of Working Capital and how you manage any margins therein.**

**Expanded Action FGO 0711:** All to look at the charging of costs for investment from the January documentation and investigate how certain types of investment should be funded.

a) ~~AJ to provide the relevant KPMG document for circulation as soon as possible; (**Post Meeting Note:** On 23 August 2016 AJ re-circulated to the FGO Charging Workgroup the January submission made to Ofgem. **Completed**~~

b) MBa to provide more narrative detail behind the January figures as soon as possible;

**Update:** Further development to be undertaken at the next Workgroup meeting. **Carried Forward**

c) All parties to reconsider whether initial assumptions remained valid regarding funding routes/parties or if should they be revised in the light of more detail regarding fixed/variable costs being made available prior to the next meeting (05 September 2016).

**Update:** It was agreed that this part of the action could now be closed. **Closed**

**FGO 0801: Allocation of Costs to DSC Services, UK Link Manual and iGT facing Services**

**Update:** The action was split into two component parts, as follows at the 05 September meeting.

a) MBa to provide greater clarity regarding any defined services/cost allocations (service drivers, system connection costs, etc.). Also, GTs to consider treatment of CSEP Admin Charge under FGO (both pre and post Nexus).

**Update:** It was agreed to carry forward this (new) element of the action pending offline discussions between interested parties. In addition, clarification is to be provided at the Distribution Networks Charging Methodology Forum. **Carried Forward**

b) MBa to consider how the transfer over to Project Nexus would be completed. **Pending**

**FGO 0802: Allocation of Costs to DSC Services - MBa and CN to construct and provide a dynamic matrix clarifying the traceability of services, costs, charging groups, structures, and indicating where fixed and variable costs lie.**

**Update:** It was agreed the action was now completed. **Closed**

**FGO 0803: Allocated percentages – MBa and AJ (KPMG) to provide information to SMc from previous Charging and Cost Allocation Workgroup meetings concerning the share of costs apportioned to NTS and the underlying rationale.**

**Update:** It was agreed the action was now completed. **Closed**

**FGO 0804: Methodology for apportionment of Shipper Charges - MBa to provide indicative data for discussion based on the SOQ approach (using October 2015 as the starting point), and to provide clarity on costs associated with each service line (fixed, variable, and drivers for each) and the principles for splitting out and how this affects the SOQ approach, by 31 August 2016.**

**Update:** It was agreed the action was now completed. **Closed**

**FGO 0805: Methodology for apportionment of Shipper Charges - AL to raise discussion at Energy UK, ICOSS and the Small Supplier Forum, and seek views.**

**Update:** NS explained that following discussions between AL and GE, the matter has now been resolved. **Closed**

**FGO 0806: Methodology for apportionment of Shipper Charges - Parties to review with a view to confirming acceptance of this approach at the 05 September 2016 meeting (or provide**

concrete reasons for rejection and offer a viable alternative).

**Update:** Whilst views differed, the consensus was that the action had now been completed.  
**Closed**

**FGO 0807:** *Methodology for apportionment of GT and iGT Charges* - GTs and iGTs to consider rules for apportionment of charges under the interim and enduring arrangements.

**Update:** GH suggested that the action should be reassigned to Transporters and Shippers. He is also of the view that this forms part of the discussions at the forthcoming Transporter meeting on Thursday 08 September. MBa suggested that there is still merit in iGTs being part of discussions.

Whilst SH felt that the action should be carried forward on the grounds that any potential 'gaps' in funding need to be considered at Thursday's meeting, RP wondered if any allowable changes would be needed anyway as we are only looking at small amounts. **Carried Forward**

**FGO 0808:** AJ to establish a communication route between the FGO POB and FGO/0565 Workgroups to provide updates.

**Update:** NC explained that a communication route between POB and 0565 had been/would be established and is tabled for consideration at the next POB meeting. **Closed**

**FGO 0809:** RM to consider at what level and where CDSP charging methodology objectives might best reside.

**Update:** RM reported that Ofgem are still considering the licence aspects. **Carried Forward**

**FGO 0810:** *'Table of Principles, Application and Matters for Consideration'* for CDSP - MBa to revise this document and alongside the production of the draft charging methodology statement add in a commentary to explain how the comments/matters for consideration had been addressed.

**Update:** It was agreed the action was now completed. **Closed**

**FGO 0811:** *Licence Condition A15a* - GE to provide draft wording for consideration.

**Update:** Subject to GE providing a post meeting covering statement, it was agreed to close the action. **Closed**

## 8. Any Other Business

### 8.1. Transporter View on Whether January Cost Predictions are Still Valid

In recognising that this matter is to be discussed at a forthcoming Transporter meeting on Thursday 08 September, RP advised that Ofgem is disappointed that Transporters appear unable to provide a view, as previously requested, at this meeting on whether or not the January cost predictions remain valid. She went on to point out that any delay impacts upon Ofgem's ability to make a decision based on anything other than the 'original' CAT figures.

Responding, SMC explained that they had challenged some of Ofgem's points of view relating to this matter (i.e. whether or not Ofgem has fully assimilated Gemini business costs etc.) and are awaiting a response – in short, if Ofgem could provide a view on what it allows for Gemini running the business and investment costs, then Transporters could respond accordingly.

Putting the Gemini issue to one side, RP reiterated that Ofgem is seeking clarification that the 'run the business' (for UK Link) and investment costs provided in the January CAT submissions are appropriate. Responding, GH advised that the iGTs remain concerned that they may be being asked to commit to potential FGO related costs before having an agreed model and without sufficient allowances.

NS believes that the iGT costs have not, and would not, change materially from those identified within the January submission. Furthermore, he does not envisage any major

GT cost over and above those already identified – RP explained that this is why Ofgem has based its 'minded to' decision on the RRP and not the CAT figures.

When GH voiced iGT concerns around visibility of the process, data and decision making processes, MBa suggested that the majority of these concerns are answered by the provision of the 'Cost Allocation Charging Methodology Model' discussed earlier in the meeting. MBa believes that the only remaining concern relates to the question of funding Gemini running costs across Transporters.

## 9. Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)

### Workplan Review

Not specifically discussed at the meeting.

### Meeting Programme

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00 Wednesday 07 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 DSC Review <ul style="list-style-type: none"> <li>• DSC Contract Management</li> <li>• DSC Term and Conditions</li> <li>• DSC Change Control Procedures</li> <li>• Third Party Services Policy</li> <li>• Transition Document</li> <li>• Miscellaneous including MR</li> </ul> DSC Contract Update Development of Workgroup Report 0565
10.00 Tuesday 13 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC</li> </ul>
10.00 Tuesday 20 September 2016	Dentons, One Fleet Place, London, EC4M 7RA	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC</li> </ul>
10:00 Wednesday 21 September 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• Development of Workgroup Report</li> </ul>
10.00 Friday 23 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<b>FGO Workgroup – Charging</b> <ul style="list-style-type: none"> <li>• Review of Charging Methodology               <ul style="list-style-type: none"> <li>○ Shipper Charges – Transactional</li> <li>○ Shipper Charges – 'Standing Charge' and Apportionment Methodology</li> <li>○ Apportionment of Network Charges</li> <li>○ Investment Funding</li> </ul> </li> </ul>

10.00 Friday 23 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<b>FGO Workgroup – Charging</b> <ul style="list-style-type: none"> <li>• Review of Charging Methodology <ul style="list-style-type: none"> <li>○ Shipper Charges – Transactional</li> <li>○ Shipper Charges – ‘Standing Charge’ and Apportionment Methodology</li> <li>○ Apportionment of Network Charges</li> <li>○ Investment Funding</li> </ul> </li> <li>• Working Capital</li> <li>• Surpluses and Deficits</li> <li>• Budget and Charging Methodology Service Document Update</li> <li>• Financial Transition</li> <li>• Cost Allocation Model Update</li> <li>• Review of Requirement for Future Charging Workgroup Discussions</li> </ul>
10.00 Thursday 29 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC</li> </ul>
10.00 Friday 30 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC <b>[29<sup>th</sup> or 30<sup>th</sup> ?]</b></li> </ul>
10.00 Monday 03 October 2016	Dentons, One Fleet Place, London EC4M 7RA	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC</li> </ul>
10:00 Wednesday 05 October 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• Conclusion of Workgroup Report</li> </ul>
10:00 Friday 07 October 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC <b>[Provisional date, may not be possible due to other industry meetings]</b></li> </ul>
10.00 Tuesday 11 October 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC</li> </ul>
10.00 Friday 14 October 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC</li> </ul>
10.00 Tuesday 18 October 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• TBC</li> </ul>

FGO WG Actions (05 September 2016)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
FGO 0705	29/07/16 Charging	2.0	Xoserve (AMi) and Brookfield Utilities (GH) to discuss how and when the iGTs will be included into the Cost Allocation Model and GH to provide any concerns iGTs may have with the allocation process.	Xoserve (MBa) Brookfield Utilities (GH)	<i>Due at 23 Sept meeting</i> <b>Carried Forward</b>
FGO 0709	29/07/16 Charging	6.0	Xoserve (MBa) and Dentons (CWo) to provide Process Flows of the process and produce a Rule Base Drafting document for 05 September meeting.	Xoserve (MBa) Dentons (CWo)	Update provided. <b>Closed</b>
FGO 0711	(29/07/16) Action expanded 22/08/16 Charging	(9.0) 7.0	All to look at the charging of costs for investment from the January documentation and investigate how certain types of investment should be funded.  a) <del>AJ to provide the relevant KPMG document for circulation as soon as possible;</del> b) MBa to provide more narrative detail behind the January figures as soon as possible; c) All parties to reconsider whether initial assumptions remained valid regarding funding routes/parties or if should they be revised in the light of more detail regarding fixed/variable costs being made available prior to the next meeting (05 September 2016).	All	<i>Due at 23 Sept meeting</i>  (a) Completed  (b) <b>Carried Forward</b>  (c) <b>Closed</b>
FGO 0801	22/08/16 Charging	2.0	<i>Allocation of Costs to DSC Services, UK Link Manual and iGT facing Services</i>  a) MBa to provide greater clarity regarding any defined services/cost allocations (service drivers, system connection costs, etc.). Also, GTs to consider treatment of CSEP Admin Charge under FGO (both pre and post Nexus). b) MBa to consider how the transfer over to Project Nexus would be completed.	Xoserve (MBa) and the GTs	a) <b>Carried Forward</b>  b) <b>Pending</b>

<b>FGO 0802</b>	22/08/16 <a href="#">Charging</a>	2.0	<i>Allocation of Costs to DSC Services</i> - MBa and CN to construct and provide a dynamic matrix clarifying the traceability of services, costs, charging groups, structures, and indicating where fixed and variable costs lie.	Xoserve (MBa) and NGD (CN)	Update provided. <b>Closed</b>
<b>FGO 0803</b>	22/08/16 <a href="#">Charging</a>	2.0	<i>Allocated percentages</i> – MBa and AJ (KPMG) to provide information to SMC from previous Charging and Cost Allocation Workgroup meetings concerning the share of costs apportioned to NTS and the underlying rationale.	Xoserve (MBa) and KPMG (AJ)	Update provided. <b>Closed</b>
<b>FGO 0804</b>	22/08/16 <a href="#">Charging</a>	2.0	<i>Methodology for apportionment of Shipper Charges</i> - MBa to provide indicative data for discussion based on the SOQ approach (using October 2015 as the starting point), and to provide clarity on costs associated with each service line (fixed, variable, and drivers for each) and the principles for splitting out and how this affects the SOQ approach, by 31 August 2016.	Xoserve (MBa)	Update provided. <b>Closed</b>
<b>FGO 0805</b>	22/08/16 <a href="#">Charging</a>	2.0	<i>Methodology for apportionment of Shipper Charges</i> - AL to raise discussion at Energy UK, ICOSS and the Small Supplier Forum, and seek views.	ScottishPower (AL)	Update provided. <b>Closed</b>
<b>FGO 0806</b>	22/08/16 <a href="#">Charging</a>	2.0	<i>Methodology for apportionment of Shipper Charges</i> - Parties to review with a view to confirming acceptance of this approach at the 05 September 2016 meeting (or provide concrete reasons for rejection and offer a viable alternative).	All Shipper parties	Update provided. <b>Closed</b>
<b>FGO 0807</b>	22/08/16 <a href="#">Charging</a>	2.0	<i>Methodology for apportionment of GT and iGT Charges</i> - GTs and iGTs to consider rules for apportionment of charges under the interim and enduring arrangements.	Transporters	<b>Carried Forward</b>
<b>FGO 0808</b>	22/08/16 <a href="#">Charging</a>	5.0	AJ to establish a communication route between the FGO POB and FGO/0565 Workgroups to provide updates.	KPMG (AJ)	Update provided. <b>Closed</b>
<b>FGO 0809</b>	22/08/16 <a href="#">Charging</a>	5.1	RM to consider at what level and where CDSP charging methodology objectives might best reside.	Ofgem (RM)	<b>Carried Forward</b>
<b>FGO</b>	22/08/16	5.1	<i>'Table of Principles, Application and</i>	Xoserve	Update

<b>0810</b>	<a href="#">Charging</a>		<i>Matters for Consideration' for CDSP</i> - MBa to revise this document and alongside the production of the draft charging methodology statement add in a commentary to explain how the comments/matters for consideration had been addressed.	(MBa)	provided. <b>Closed</b>
<b>FGO 0811</b>	22/08/16 <a href="#">Charging</a>	5.1	<i>Licence Condition A15a</i> - GE to provide draft wording for consideration.	British Gas (GE)	Update provided. <b>Closed</b>
<b>FGO 0901</b>	05/09/16 <a href="#">Charging</a>	2.	<i>Reference the Sharing of Charges Modelling</i> - Waters Wye Associates (GE) to seek to ascertain Trader views on the Sharing of Charges model, especially the three proposed Shipper options.	Waters Wye Associates (GE)	<b>Pending</b>
<b>FGO 0902</b>	05/09/16 <a href="#">Charging</a>	2.	<i>Reference the Sharing of Charges Modelling</i> – Xoserve (MBa / NS) to consider whether or not, billing out on a monthly basis would/could be viable.	Xoserve (MBa / NS)	<b>Pending</b>
<b>FGO 0903</b>	05/09/16 <a href="#">Charging</a>	2.	<i>Reference the Sharing of Charges Modelling</i> – Xoserve (MBa / NS) to look to develop and provide more accurate costing information based around the two MPRN options, including what is involved in the 'fixed' licence fee and the rationale behind MPRN option 3.	Xoserve (MBa / NS)	<b>Pending</b>
<b>FGO 0904</b>	05/09/16 <a href="#">Charging</a>	2.	<i>Reference the Sharing of Charges Modelling</i> – Xoserve (MBa / NS) to review the User Pays services and to consider those which could continue to be charged on a 'transactional' basis as Specific Charges and to identify those which could be included in General Service Charges and apportioned on MPRN count.	Xoserve (MBa / NS)	<b>Pending</b>
<b>FGO 0905</b>	05/09/16 <a href="#">Charging</a>	2.	<i>Reference the Outline of Budget and Charging Methodology</i> – Xoserve and Dentons (MBa & CWo) to look to provide a working example for the Annual Customer Class Infrastructure Charge.	Xoserve & Dentons (MBa / CWo)	<b>Pending</b>
<b>FGO 0906</b>	05/09/16 <a href="#">Charging</a>	2.	<i>Reference the Outline of Budget and Charging Methodology</i> – Xoserve (MBa) to look to provide a working example for investment analysis utilising the proposed calculations	Xoserve (MBa)	<b>Pending</b>

			over a 5 year period.		
<b>FGO 0907</b>	05/09/16 Charging	2.	<i>Reference the Outline of Budget and Charging Methodology – Xoserve (MBa) to provide a view on how application of the DSC Charging Methodology to the cost assessment forecasts compares to the cost assessment view of constituency funding.</i>	Xoserve (MBa)	<b>Pending</b>
<b>FGO 0908</b>	05/09/16 Charging	2.	<i>Reference the Outline of Budget and Charging Methodology – Dentons (CWo) to look to amend the document, especially aspects of paragraph 9 in line with Workgroup discussions.</i>	Dentons (CWo)	<b>Pending</b>
<b>FGO 0909</b>	05/09/16 Charging	7.	Xoserve (MBa) to define a process around the creation of Working Capital and how you manage any margins therein.	Xoserve (MBa)	<b>Pending</b>