

UNC Funding, Governance and Ownership (FGO) Workgroup Minutes

Monday 11 July 2016

Elexon, 4th Floor, 350 Euston Road, London, NW1 3AW

Attendees

Andrew Jones	(AJ)	On behalf of FGO Programme Manager
Bob Fletcher (Chair)	(BF)	Joint Office
Charles Ruffell	(CR)	RWE
Charles Wood*	(CWo)	Dentons
Colette Baldwin	(CB)	E.ON
Craig Neilson	(CN)	National Grid Distribution
Edd Hunter*	(EH)	npower
Gethyn Howard	(GH)	Brookfield Utilities
Gregory Edwards	(GE)	British Gas
Joanne Parker	(JP)	Scotia Gas Networks
Karen Visgarda (Secretary)	(KV)	Joint Office
Martin Baker	(MBa)	Xoserve
Michael Walls	(MW)	ESP Pipelines
Sean McGoldrick	(SMc)	National Grid NTS

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/fgowg/110716>

1. Introduction and Status Review

1.1. Approval of Minutes (30 June 2016 Charging)

MBa requested some amendments to the Minutes from 30 June 2016, which were discussed and then subsequently approved.

2. Re-consideration of Charging Principles

MBa confirmed he had previously invited people to provide feedback on the Principles and Applications following on from the last meeting and explained that GE had produced a detailed response.

GE overviewed the table of Principles with the associated comments starting with:-

Principle 1 – Economic, Efficient and Transparent Application 2:

“Charging arrangements do not create a negative cost benefit outcome for industry”

Recommendation

This should be deleted

Comment

The proposed wording cannot exist in isolation from the objectives charging methodologies are meant to achieve.

Charging Methodologies are assessed against the Relevant Methodology Objectives (in the GT licence for example). One such objective is: “that, so far as is so consistent, compliance with the charging methodology facilitates effective competition between gas shippers and between gas suppliers;”

GE said he wanted to highlight the point that the relevant charging objectives were still relevant, to try to ensure the Principles were ‘sound’ in their own right, in relation to the administration aspect. CW said the objective that is relevant was the one that was quoted in the Licence and that was the only one that was found externally, and he did not advocate adding in extra objectives in addition to the Licence conditions. CN quoted specific wording from the existing

Licence and said perhaps it could possibly be expanded to help demonstrate the consistency, as presently it seemed to read with a wider context in relation to the administration function. MBa said he would look further at the wording of application 2, and would also look at the Charging objectives in relation to how they would apply to the DSC Charging Methodology.

New Action 0701: Xoserve (MBa) to investigate expanding the wording of application 2 to provide greater clarity.

New Action 0702: Xoserve (MBa) to review the relevant charging objectives and consider how these apply to the DSC Charging Methodology.

Principle 2

Principle 2 – Predictability and Certainty:

“The CDSP Charging Methodology should provide users of CDSP services with predictable CDSP Charges, and should provide the CDSP with certainty and security of its revenue stream”

Recommendation

The following words should be deleted: “...and should provide the CDSP with certainty and security of its revenue stream”

Comment

This must be covered elsewhere in the new arrangements. For example, this could be covered in the DSC (enforcement arrangements), DSC (credit arrangements), etc.

Additionally, charging methodologies, by nature, cannot provide security of revenue streams.

GE and MBa agreed that the words in the recommendation should be deleted.

Principle 2

Principle 2 – Predictability and Certainty Application 2:

Charges are set to recover the approved CDSP Budget, and inclusive of a margin to generate working capital

Recommendation

This should be deleted

Comment

Arrangements relating to margins have not yet been finalised and agreed by industry parties.

A lengthy general discussion ensued in relation to the ‘margin’ area, and CB again reiterated her comments in a previous meeting, that Xoserve were not a new business and that it must have working capital, so why should there be a margin in the form of a loan against working capital. She once again said that she was still not comfortable with this specific wording. CN also said this statement needed more clarity. MBa said the Principle was in relation to establishing the ability to set a margin and the effective time period, it was not about the level of margin. CN said in that case, the wording should be altered and to say ‘maintaining working capital’ and the management of any deficits also needed to be defined. GE said the dynamics of how this would be confirmed, could be viewed as a bit premature at this stage. MBa said to move this forward, he would amend the wording, and proposed he would; 1) Replace the word ‘generate’ with the wording ‘maintaining an adequate level’. 2) Take out the words; ‘inclusive of margin’ 3) and would look at the ‘subject to statement’ in relation to the mechanisms to manage this. CN proposed that perhaps square brackets [] could be used surrounding these word changes and he agreed with GE, regarding the premature angle. MBa said he was not overly keen on using square brackets, but he would look into this.

Principle 2 – Predictability and Certainty Application 5:

“The CDSP is protected from user failure to pay”

Recommendation

This should be deleted

Comment

This must be covered elsewhere in the new arrangements. For example, this could be covered in the DSC (enforcement arrangements), DSC (credit arrangements), etc.

Additionally, charging methodologies, by nature, cannot provide protection against user failure to pay.

Following a brief discussion, it was agreed that this would be item would be discussed in the DSC meeting on 13 July, as a paper concerning credit arrangements had been submitted for this purpose.

Principle 3 – Simplicity, Flexibility, Stability Application 3:

“The methodology should not necessarily be reliant on the schedule of individual CDSP Service Lines as set out in the CDSP Service Description”

Recommendation

This should be deleted

Comment

This statement conflicts with the basic principle that costs are targeted at those that impose the costs on the CDSP. Divergence between costs, the services that result in those costs being incurred and charges borne by Users does not align with that principle. Additionally, this will lead to cross- subsidies and may restrict or distort competition.

General discussion took place and GE said he had a concern that the costs relied on the Service Lines, which were still to be provided. MBa explained that the current understanding was that the DSC was structured into groups, in relation to Agency, Code and Non Code and defined contractually via Counter Parties, and the wording was not reliant on Individual Service Lines. CN said the wording did suggest detachment when there was a dynamic relationship and that it read as though the Service Lines were irrelevant. CW explained that the methodology should be drafted in such a way that it would not require to be changed on each occasion when there was a change in one or more Service Lines. CN proposed wording the principle in the positive, rather than the negative, in that case, explaining it was designed to cope with expansions and contractions to the Service Lines. GE reiterated that the wording had to reflect what the Principle itself was trying to achieve and he wanted to be confident that he was not going to pay for more Service Lines than were actually used; for example, if only 100 were used as opposed to say 300. Further lengthy general discussions took place regarding this matter and MBa explained that within the structure, the Constituency Members would still have visibility of which Service Lines were being used and costed. He agreed to reword Principle 3 in light of the discussions that had taken place in the meeting.

Principle 4 - Services:

“The CDSP Charging Methodology should reflect: •The structure of CDSP Services; and •The Service Areas that comprise the CDSP Service Description”

Recommendation

This principle may need to be re-worded

Comment

Depending on the final definition of CDSP services and interaction between multiple charging methodologies for various types of Users. For example, if multiple methodologies are to be developed, the ‘main’ methodology will have to refer to other service such as services to traders.

MBa explained this Principle was originally drafted in May 2016 prior to clarity on the CDSP format and he agreed this principle would be reworded to give greater granularity.

Principle 6 - Basis of Charges:

“In order to meet the objectives of CDSP revenue security, predictability for users of CDSP Services and administrative simplicity, CDSP Charges should be predominantly capacity driven (rather than usage driven)”

Recommendation

The following words should be deleted: “...should be predominantly capacity driven...”

Comment

The cost drivers for services have not yet discussed in detail in the workgroup. This was one of the outstanding actions to be completed following the submission of the cost assessment submission on January 2016.

The wording of the principle must not prevent the application of the appropriate cost drivers.

GE said he was not happy with the wording 'predominantly capacity driven' and asked MBa to explain the context. MBa said the wording had clearly led to a misunderstanding and that the intention is not to refer to Network Capacity. A general and very lengthy discussion then ensued surrounding this wording issue and MBa said he would look at using alternative language, but he pointed out that a potential sub clause could be added, taking account of the CDSP Charging costs and detailing whether they were capacity or usage (transitionally) driven. CN said it also needed to include the wording 'cost reflective', MBa agreed he would encompass this into the amended wording.

Principle 9 – Calculation of Charges (Direct Services to Shippers):

“For CDSP Direct Services to Shippers, the apportionment of charges to each Shipper is calculated by reference to the Supply Point Count of each Shipper on the first Gas Day of each monthly billing period

Recommendation

This should be reworded to ...the apportionment of charges to each Shipper is calculated by reference to the appropriate cost drivers...

[this wording covers both fixed and transactional costs]

Comment

As above, this has not been agreed given because the outstanding action has not been completed.

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 based on an agreed measure of 'usage' or market share”

MBa said this aspect of the Charging Methodology was still being developed at the present time, and more feedback was welcomed.

Principle 10 – Investments (Functional Change) Application 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)”

Recommendation

This should be reworded to “...funded by the relevant sub-category(ies) by all Core Customers in the requesting Customer Class(es)...”

Comment

Based on current wording, all Shippers would be required to fund investment that is requested by and for the benefit of I&C shippers only. Shippers that operate only in the domestic segment of the market must not be called on to fund such activities. Further, the existing wording creates cross subsidies and may restrict or distort competition.

A general discussion took place regarding the need for a distinction between Shipper classes for the purposes of defining DSC Services and Charges. MBa said currently there was no delineation between them. MBa proposed discussing this matter with the 0565 and DSC Workgroups to investigate if this was needed.

New Action 0703: Xoserve (MBa) to raise with the 0565 and DSC meeting the potential need for delineation in Shipper classes.

Principle 10 – Investments (Functional Change) Principle 10 – Investments (Infrastructure) Principle 10 – Investments (Charges):

“In respect of CDSP Charges that recover investment expenditure, the CDSP Charging Methodology should define rules for:

- The users of CDSP Services who are to fund the investments; and*
- The levying of CDSP Charges period over the same time period as which the CDSP incurs investment expenditure”*

Recommendation

The following words should be deleted:

“The levying of CDSP Charges period over the same time period as which the CDSP incurs investment expenditure”

Comment

There is no reason why funding over shorter or longer time periods should not be implemented. Funding over longer periods can be a way of mitigating against volatility.

GE said this could possibly lead to an escalation in charges and there was a need to restrict the period of funding. MBa explained the statement was designed to protect the cash flow position of the CDSP and that the CDSP would need to know where to find the funds from. GE said the wording was misleading. Further discussion was inconclusive as to whether or not the Principle should be varied.

Principle 11 – Governance:

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

Recommendation

The UNC should be referred to instead of the DSC

Comment

In various decision documents relating to FGO and in the latest version of the GT licence modification, Ofgem has stated that the charging methodology should sit in the UNC. Established open governance arrangements relating to charging matters already exist in the UNC.

GE asked if this Principle should sit in the DSC and the UNC. MBa explained one of the DSC Service Documents is the Charging Methodology and that the Charging Principles will be in the UNC (General Terms), and he posed the question if the methodology needed to change and it was part of the DSC, would the change need to be subject to UNC governance? BF said that was not necessarily the case and it would depend on the type of change required. MBa agreed that this point should be raised with the activities being discussed in the DSC and UNC aspects of Modification 0565.

Principle 11 – Governance

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

Recommendation

The following words should be deleted:

“Amendments should be made to be effective from the start of a CDSP Budget Year only.”

Comment

There may be instances in which the existing methodology is materially flawed to the extent that an immediate change is required. No restriction should be placed on immediate changes in those circumstances.

GE proposed that this second part of Principle 11, should be deleted and JP and CN agreed to look at the wording options for this section to help provide clarity in relation to the charges, as defined in the Licence conditions.

3. Consider application of Principles

MBa overviewed the ‘Review of Application of Charging Principles’ presentation explaining he had added in ‘comments’ boxes with specific feedback received to-date.

Principle 2

Principle 2 – Predictability and Certainty:

“Comment (NGGD) - Comfortable with the principle of including a margin, but not 100% clear on how the level of margin required is to be established, especially given light touch approach on surplus and deficit.”

MBa said currently this was being discussed, but there was not immediate resolution at this time in relation to an appropriate level of margin. SMc said there needed to be an avoidance of negotiating margins and investments on an individual item basis to avoid over complicating the process. CB asked that the management of surpluses is clarified sooner rather than later, so that parties were aware of potential impacts or conflicts. MBa said this was on the Workplan under Surpluses and Deficits.

Principle 3 – Simplicity, Flexibility, Stability Application 3:

“Comment (SGN) - Add an application for any changes that happen from a Mod or a significant change to a service area”

JP confirmed this was in relation to Individual Service Lines.

Principle 6 - Basis of Charges:

“Comment (SGN) - Costs can only be deemed as transactional if the cost of providing the service is only incurred as a result of requesting the transaction. If not there is a risk that Xoserve have incurred costs and no one takes the service.”

JP said she thought this was pretty self explanatory and MBa said that it was, providing that the cost could be identified as a transactional cost.

Principle 9 – Calculation of Charges (Direct Services to Shippers):

“Comment re 1) (NGGD) – Note NTS challenge back on this under price controlled arrangements for GTs.”

“Comment re 2) (NGGD) - What is the current thinking on how this % is established? Will it be fixed or dynamic? Over time we observe general growth in supply point counts. If NGGT % is fixed, means shift in proportion of charges to GDNs and iGTs over time?”

CN said this was in relation to a comment made by SMc previously regarding the Gemini costs and price control arrangements. SMc said this whole area was still being discussed as in the early days of the FGO programme, discussions took place that the costs for Gemini should be shared. However, following feedback and the on going discussions that NTS should be the lead and take 100% of the cost, SMc said if that was the case, NTS should also have 100% of the funding too, together with ‘pass through. He added Ofgem were not going to offer ‘pass through’, with reduced level of allowances. SMc said that the outcome was yet to be finalised and an update would be available following the consultation response. CN said that clarity was still needed regarding mixed supply points across NTS and Distribution and that this explanation and clarity had been asked for a number of times already.

Principle 10 – Investments (Infrastructure)

“Comment (SGN) - Need to determine the percentages to be funded by each constituency for each system”

MBa said ongoing discussions were taking place in relation to this comment as to how investment could be funded and costs shared out between some or all constituents. GH said looking from an IGT perspective, this could have an impact from a cross subsidisation angle, in that smaller users would probably not be using all the services, but could be still be charged.

“Comment (NGGD) - Whilst I can see some of the logic behind subsequent proposal to allocate all investment to GTs, I stand by my previous assertion re the risk born in price controlled arrangements particularly where investment expenditure is emergent from the assumptions underpinning establishment of cost allowances (the risk of which in itself increases with longer PCR periods). Might actually drive behavior that discourages investment?”

CN explained he was making the same point in relation to investments charged to IGT’s. MBa said he understood this does create uncertainty and poses questions and this would be further discussed in September, prior to going down to the next level of detail. CN said he wanted greater clarity on this matter and he had been under the impression that this topic was going to be discussed in the meeting. MBa agreed to update the slide presentation to show the latest

status and options.

New Action 0704: Xoserve (MBa) to update the Review of Application of Charging Principles' presentation to capture the discussions from the meeting.

4. Workplan

MBa overviewed the Workplan Table and explained that at the meeting on 30 June 2016, the Investment Funding and Service Mapping structure had been discussed, liability funding and how central services are impacted by Project Nexus. MBa drew attention to the Credit Management section of the table, explaining there was an option to include this section in the DSC Workplan, and this would be discussed at the next DSC meeting. MBa also stated that the DSC Services Schedule would provide an input to the Cost Allocation discussions on 29 July 2016. GE asked where the the development of the DSC Services Schedule would sit and MBa confirmed it would sit within the DSC meetings, as it was not the responsibility of this Workgroup. AJ asked if the DSC meeting was the last chance to agree a certain topic and MBa said it might not be last chance, but the papers would be published with the focus being on Sections G and M of the UNC and the Direct Code Services.

5. Review of Outstanding Actions

FGO 0603: Any parties who wish to make comments on the Charging Principles (presented on 13 June 2016) are to provide these to Xoserve no later than 04 July to enable them to be considered in the production of a revised set of principles.

Update: It was agreed that some comments had been received and so this action could now be closed. **Closed**

FGO 0604: Xoserve to update and provide a revised Charging Principle Paper by 07 July for further consideration on 11 July.

Update: It was agreed this action could now be closed as MBa had overviewed the 'Review of Application of Charging Principles' presentation. **Closed.**

FGO 0605: Xoserve to summarise the "Other Services" eg. IX services to MAMs, Data Services to MAMs, MAPs, that are expected to be captured within Box 3 of the CDSP Services and Cost Presentation.

Update: Action related to Charging meetings, carried forward to 29 July 2016. **Carried Forward.**

FGO 0606: Liability Funding - Parties to provide their concerns and the considerations they would like made to Xoserve (ie. delayed payments, funding shortfalls).

Update: Action related to Charging meetings, carried forward to 29 July 2016. **Carried Forward.**

6. Any Other Business

None.

7. 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 13 July 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> • DSC Terms & Conditions (2nd draft) • DSC Service Description (1st draft) • DSC Budget & Charging Methodology

		<ul style="list-style-type: none"> • UK Link Manual (1st Draft) • Change Control Procedures (outline) • Contract Management & Reporting Arrangements (1st draft) • Third Party Services Policy (1st draft) • Transition Document (1st draft)
10:00 Monday 25 July 2016	Dentons, One Fleet Place, London, EC4M 7RA	<p>FGO Workgroup and Workgroup 0565</p> <ul style="list-style-type: none"> • Introduction and summary of UNC/DSC framework • Overview of Workplan • UNC legal text walkthrough: <ul style="list-style-type: none"> ▪ General Terms Section D (includes residual parts of Section U) ▪ TPD Sections H,G,M,V and miscellaneous TPD Sections ▪ iGT Arrangements Document ▪ Modification Rules • Next steps (DSC Legal Text walkthrough planned for 23rd August)
10:00 Friday 29 July	Consort House, 6 Homer Road, Solihull B91 3QQ	<p>FGO Workgroup – Charging</p> <ul style="list-style-type: none"> • Cost Allocation Model Review • Methodology Statement • Consider Invoice Process • Transition Matters – Principles and Application • Surpluses and Deficits – Principles and Application • Budget Setting - Interaction with Charging Methodology
10:00 Wednesday 03 August 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<p>FGO Workgroup and Workgroup 0565</p> <ul style="list-style-type: none"> • DSC Change Control Procedures (1st draft)
10:00 Monday 08 August 2016	CANCELLED	
10:00 Monday 22 August 2016	Elaxon, 4 th Floor, 350 Euston Road, London NW1 3AW	<p>FGO Workgroup – Charging</p> <ul style="list-style-type: none"> • Cost Allocation Model Review • Methodology Statement • Review Invoice Process • Transition Matters – Principles and Application • Surpluses and Deficits – Principles and

		Application
10:00 Tuesday 23 August 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> • DSC Framework Agreement (Final draft) • DSC Term & Conditions (Final draft) • DSC Service Description (Final draft) • Change Control Procedures (Final draft) • Contract Management & Reporting Arrangements (Final draft) • Third Party Services Policy (Final draft) • Transition Document (1st draft) • Timeline/Workplan Update • Consideration of Risks/Issues Log
10.30 Monday 05 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup – Charging Agenda TBC at 29 July meeting
10:00 Wednesday 07 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 UNC Consolidated Legal Review <ul style="list-style-type: none"> • GT B7 • TPD G & H • TPD M • TPD U • Other TPD & EID • iGT and iGTAD • Accession / Withdrawal • Transition • Miscellaneous including MR DSC Contract Update Development of Workgroup Report
10:00 Wednesday 21 September 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> • Development of Workgroup Report
10.00 Friday 23 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup – Charging Agenda TBC at 29 July meeting
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"> • Conclusion of Workgroup Report

FGO WG Actions (as at 11 July 2016)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
FGO 0603	30/06/16 Charging	3.0	Any parties who wish to make comments on the Charging Principles (presented on 13 June 2016) are to provide these to Xoserve no later than 04 July to enable them to be considered in the production of a revised set of principles.	All	Closed
FGO 0604	30/06/16 Charging	3.0	Xoserve to update and provide a revised Charging Principle Paper by 07 July for further consideration on 11 July.	Xoserve (MBa)	Closed
FGO 0605	30/06/16 Charging	4.0	Xoserve to summarise the "Other Services" eg. IX services to MAMs, Data Services to MAMs, MAPs, that are expected to be captured within Box 3 of the CDSP Services and Cost Presentation.	Xoserve (MBa)	Carried Forward
FGO 0606	30/06/16 Charging	7.0	<i>Liability Funding</i> - Parties to provide their concerns and the considerations they would like made to Xoserve (ie. delayed payments, funding shortfalls)	All	Carried Forward
FGO 0701	11/07/16 Charging	2.0	Xoserve (MBa) to investigate expanding the wording of application 2 to provide greater clarity.	Xoserve (MBa)	Pending
FGO 0702	11/07/16 Charging	2.0	Xoserve (MBa) to review the relevant charging objectives and consider how these apply to the DSC Charging Methodology.	Xoserve (MBa)	Pending
FGO 0703	11/07/16 Charging	2.0	Xoserve (MBa) to raise with the 0565 and DSC meeting in relation to the functional Supplier Charge.	Xoserve (MBa)	Pending
FGO 0704	11/07/16 Charging	3.0	Xoserve (MBa) to update the Review of Application of Charging Principles' presentation to capture the discussions from the meeting.	Xoserve (MBa)	Pending