

UNC Funding, Governance and Ownership (FGO) Workgroup Minutes

Monday 13 June 2016

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

Attendees

Angela Love	(AL)	ScottishPower
Bob Fletcher (Chair)	(BF)	Joint Office
Charles Ruffell	(CR)	RWE
Charles Wood	(CWo)	Dentons
Chris Warner	(CWa)	National Grid Distribution
Colette Baldwin	(CB)	E.ON
Craig Neilson	(CN)	National Grid Distribution
Edd Hunter*	(EH)	npower
Gavin Anderson*	(GA)	EDF Energy
Gethyn Howard	(GH)	Brookfield Utilities
Gregory Edwards	(GE)	British Gas
Karen Visgarda (Secretary)	(KV)	Joint Office
Martin Baker	(MBa)	Xoserve
Michael Walls	(MW)	ESP Pipelines
Nicola Cocks	(NC)	KMPG
Robert Wigginton	(RW)	WWU
Sean McGoldrick	(SMc)	National Grid NTS
Sue Hilbourne	(SH)	Scotia Gas Networks

*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/fgowg/130616>

1. Introduction and Status Review

1.1. Approval of Minutes (27 May 2016 Charging)

MBa requested some amendments to the Minutes from 27 May 2016, which were discussed and then subsequently approved.

2. Consider Service / User Mapping

MBa confirmed that this activity was still in progress, although primarily it would feed into the DSC discussion under Modification 0565 and cost allocation discussions in this group.

3. Consider Cost Drivers and Allocation

MBa overviewed the 'Application of Charging Principles' presentation, explaining the principles had been discussed in the meeting on 27 May 2016 and had now been put into a practical application format, with some being confirmed, while others need to be discussed and amended.

MBa explained he wanted to focus on the Charging Methodology Principles in particular, and explained these had been split into specific principles with the associated applications. Certain Principles and Applications were focused on in more depth, with the complete list detailed below:-

Principle 1. Economic, Efficient, and Transparent

No discussion

Principle 2. Predictability and Certainty

In relation to application number 5) *'The CDSP is protected from user failure to pay'* general discussion took place about this application from a costing and margin perspective. MBa explained more detail would be supplied in the credit arrangements area.

General discussion took place regarding the fact Xoserve were not a new business and so would have working capital in the business to draw upon and that historically the Transporters had to pay for the Xoserve charges. BF asked what was the Value at Risk (VAR) and MBa reiterated that this section was being allocated to the Credit framework and would be discussed in more detail at a later date.

Principle 3. Simplicity, Flexibility, Stability

General discussion took place in relation to the wording in the Principle itself; *"The CDSP Charging Methodology should display administrative simplicity, should be readily adaptable to the introduction of new CDSP Services, and should not normally be impacted by UNC Modification Proposals that change the detailed definition of individual CDSP Services"*

The discussion was focused on the wording; *'and should not normally be impacted'* and AL asked if it was impacted by a UNC Modification, would a charge proposal then be required? Both MBa and CWo said yes this was correct, and if that situation did occur it would have to be looked at in isolation. MBa clarified that Xoserve would require a change order and BF advised that there is a view a modification could be considered as a change order but this was being discussed in governance.

Principle 4. Services

SMc said this was a good place to start, however, more work and discussion was needed from the overall split perspective and MBa said he appreciated this and just wanted an agreement that this was the correct starting point. SMc also said that consideration was needed, as to how fixed costs such as property and Bulk Services would be apportioned. MBa agreed and said the allocation of costs criteria was still being worked on currently.

Principle 5. Scope

No discussion

Principle 6. Basis of Charges

General discussion took place and it was felt that the word 'capacity' in the Principle was misleading, in the context of *'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)'*

MBa said he understood that it might be misleading, but in the context of the User Pays process and the unit rate attached to it, it was seen as a 'flat charge' and the capacity driven would be what created the flat charge. An in-depth general discussion then ensued in relation to the availability of demand, the transactional and systems approach, together with charging process and if that charging methodology was fixed for a certain period of time. MBa confirmed the methodology and charging process would be fixed and would be linked to the budget.

Further discussion took place surrounding a potential appeals process and the impact that might have, both MBa and CWo said that if that situation did arise then it would be investigated from and 'fit for purpose' aspect and on what specific grounds, and would be addressed accordingly.

MBa said in relation to Application 2) it was 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.* He said he was aware it needed more detail and this would be amended accordingly.

Principle 7. Cost Attribution and Allocation

NC asked what the timeline was for the view of post Nexus regarding the Service Schedule being completed, in relation to the cost attribution and allocation. MBa explained this was still being worked on at the present time, in the same way the Agency Services Agreements were being produced, and that the mapping of circa 43 service groups was taking time. He also explained this work was linked to the CDSP budget for 2017/2018, so in some areas the cost allocation and charging methodology may be different. General discussion took place surrounding the cost allocation and what that would look like and the importance of having a defined Service footprint for Ofgem. NC again reiterated the importance of this needing to be completed and finished as the consultation process ended in August with the numbers being submitted for September. MBa explained that further detail and information would be supplied regarding this topic at the 07 July meeting.

Principle 8. Services and Customers

MBa discussed the applications relating to this principle and agreement was reached that these were acceptable. SMc highlighted that the differentials needed to be considered for example between Distribution and Transmission Transporters.

Principle 9. Calculation of Charges (Direct Services to Shippers)

MBa overviewed the applications, with focus on application 2) *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.*

General discussion took place surrounding the supply point and IX being a special case as non Code users have access to it. MBa said if different charging approaches were introduced for different services, this would be extremely complex from a data, numbers and billing perspective. He also said the systems costs were linked to the design capacity and it was shared across the market for the use of the provision.

Principle 9. Calculation of Charges (Direct Services to GT's and iGT's)

SMc said this area needed more work and discussion following the letter from Ofgem and MBa agreed this now needed more work and investigation.

Principle 9. Calculation of Charges (GT and iGT Agency Services)

No discussion

Principle 10. Investments (Functional Change)

MBa explained this area needed more in-depth work regarding the budget setting for each year and this would be further discussed at subsequent meetings.

Principle 10. Investments (Infrastructure)

MBa explained this area would also be discussed at subsequent meetings.

Principle 10. Investments (Charges)

NC asked if this area was being looked at by the 0565 Workgroup? MBa confirmed this was correct. General discussion took place surrounding the approval process and who would have the decision making authority. BF said care needed to be taken as to how this would fit with the Code Governance Review as industry Panels were expected to provide implementation management for major changes. CWo explained this area would be covered in the Change Budget area and should not be linked to aspects that would have been set at the beginning of the year.

Principle 11. Governance

MBa said this area was being sensed checked for alignment with 0565 in relation to scope and any changes. GE asked if the Charging Methodology would sit in the UNC or in the DSC, if so, application 2.C) *Criteria for review and amendment of the methodology would include:*

c) Evidence that the prevailing methodology does not “facilitate the objective of economic, efficient and transparent charging for the provision of the CDSP services” would have impacts on who would be raising a change. CWo said any change could only be raised through a Code Modification and there would be no limits on the review. General discussion took place as to how often the methodology would or could be reviewed, and if there would be limits applied to this process. CWo said this area would be discussed at future meetings, when this area was more fully developed.

Other Matters

MBa then overviewed the other matters as listed below:-

- Methodology outlined on previous slides is applicable to common services to GTs, iGTs and Shipper Users
- In the context of the CDSP contracting model, consideration needs to be given to charging arrangements for:
- Other services
 - Third Party Services(GTB7.15)
 - Individual Services (GTB7.2.4)
- Other customers
 - Trader Users
 - Non-Code Parties

MBa explained all the above needed more discussion as to where they would sit from a cost base perspective. General discussion took place regarding the differentials in relation to the CDSP and the DSC. MBa said in the post Nexus World the services that would be allocated within and outside the DSC, still needed to be defined. He agreed to produce a document to clarify this in more detail.

Action FGO 0601: Xoserve (MBa) to clarify the scope for Non Code Services and which services can be part of the DSC and what is the contracting model for external parties requesting services from the CDSP.

CWo provided an overview to the ‘FGO – CDSP invoicing – indirect options – legal aspects’ paper. He explained this had been produced following a request to show how indirect invoicing would be undertaken. He provided an explanation to the Case 1 and Case 2 invoicing processes including the monitoring of payments process and then moved on to provide clarity in relation to the legal aspects of the document. He highlighted the complexity that would be involved in this process with the potential for an invoice to be raised by the CDSP and then a further 5 invoices being raised by the Transporters. General discussion took place regarding the practicalities and the complexity of such a process.

4. Liabilities – Funding and Allocation

CWo explained the Categories of Liability area had a narrow scope within this group as the in-depth discussion was taking place in the 0565 Workgroup in setting out the terms and conditions. He advised that the scope of this group is to focus on the allocation of costs should a liability be incurred. MBa explained a paper was presented at the meeting on 01 June 2016 regarding the liability of the CDSP. He overviewed the categories and listed below:-

Categories of liability

Categories of possible liability of the CDSP to core customers are:

A) liabilities in respect of the provision of services, for example by reference to service levels. These liabilities could be quantified, as liquidated damages (like the current UNC compensation rules) or unquantified (open damages);

B) liabilities for breach of other provisions of the DSC (ie other than service provision), such as breach of confidentiality or data processing obligations. Such liabilities might be created by indemnity provisions;

C) liabilities in tort (such as negligence) in connection with the provision of DSC services. Typically a commercial contract would (to the extent possible) exclude the possibility of making claims of this kind, as it may otherwise be seen as a way of by-passing the agreed position on liability under the contract; and

D) liabilities unconnected with the DSC which arise in law, for example statutory liabilities (such as occupiers liability) or other tort or regulatory liabilities. Liability of this kind would in principle be equally likely to arise towards a third party as a core customer.

MBa said the two specific categories to focus on were b) and d) and CWO explained debate was still taking place in relation to these two categories. SMC said in light of the recent letter from Ofgem advising of their minded to position with regard to Xoserve funding, the area of NTS holding the Gemini liability responsibility now needed to be discussed and evaluated accordingly. MBa agreed to produce a document to provide further clarity of the categories in relation to liabilities and associated risks for failure.

A long and lengthy general discussion then ensued in relation to these liabilities and how they should be apportioned, together with the impact of a potential corrupt or bribery situation and how that would be managed. BF proposed this whole debate was taking place too early in the process and was out of scope for this group, which should be focusing on allocations should a liability be incurred.

Action FGO 0602: Xoserve (MBa) to create a table of categories from a liability perspective and their relative risks.

5. Review of Workgroup's Workplan

MBa presented the updated 'Charging Workplan' and explained the headings under the Topic section, had been previously agreed. He also highlighted the footnote '*Dependancy on development of CDSP Service Description*' which would need to be further developed in due course, together with the 'Budget Setting' heading which had been added to look at the funding model from a liability apportionment perspective. MBa explained this area now needed in depth consideration in light of the recent letter from Ofgem on Friday 10 June 2016 '*Consultation on our minded-to position on the review of gas transporter agency (Xoserve) costs in RIIO GD1 and T1*'.

NC explained in light of this letter from Ofgem, this was being taken into consideration and was going to be raised at the next POB meeting. MBa said that despite this, Xoserve were still working towards the Nexus delivery date of 01 October 2016.

6. Review of Workgroup's Risks and Issues log

NC said in relation to 0565 more information was required from the allocation perspective and MBa said Xoserve were now looking at the impacts from the recent Ofgem letter and he was not sure this topic should be added to the Risks and Issues log at this stage.

7. Review of Outstanding Actions

FGO 0505: Waters Wye Associates (GE) to articulate and provide a (fourth option) statement for inclusion in an amended Funding, Governance and Ownership paper for consideration at the 13 June 2016 meeting at the latest.

Update: The Workgroup discussed there had been no paper submitted by GE, and so it was proposed to proceed with Direct Invoicing, BF explained the action could only be closed, following discussion with GE.

Post Meeting Update: Gareth Evans subsequently advised Xoserve that he would not be submitting an invoicing options paper, and agreed that the Workgroup discussions should proceed on the basis of the 'direct invoicing' approach and this action could now be closed. **Closed.**

FGO 0506: Xoserve (MBa) to amend the Funding, Governance and Ownership paper inline with discussions (including a full impact assessment) for consideration at the 13 June 2016 meeting. **Update:** MBa explained this action was dependant on the decision of Action 0505 and so would be carried forward. **Carried forward.**

FGO 0507: National Grid Distribution (CWa) to provide a view on the legal text implications of the new (fourth) option.

Update: CW overviewed the paper regarding this action with the Workgroup and it was agreed this action could be closed. **Closed.**

FGO 0508: Xoserve (MBa) to update the draft workplan to accommodate workgroup suggestions in time for consideration at the 13 June 2016 meeting.

Update: MBa presented the updated workplan to the Workgroup and it was agreed this action could now be closed, although it was noted that the plan would be kept under constant review. **Closed.**

8. Any Other Business

8.1. None

9. 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 Monday 20 June 2016	Elaxon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> • GT B7 (if needed) • TPD G & H (if needed) • TPD M (2nd draft) • TPD U (2nd draft) • Other TPD & EID (if needed) • iGT and iGTAD (2nd draft for iGTAD) • Transition (1st draft) • Miscellaneous including MR (1st draft)
10:00 Thursday 30 June 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup – Charging <ul style="list-style-type: none"> • Consider Service / User Mapping • Consider Cost Drivers and Allocation • Consider Methodology
10:00 Monday 11 July 2016	Elaxon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging <ul style="list-style-type: none"> • Consider Cost Drivers and Allocation • Consider Methodology

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 • 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	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
10:00 Friday 29 July	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup – Charging <ul style="list-style-type: none"> • Consider Methodology • Consider Invoicing Process • Consider Credit Arrangements
10:00 Wednesday 03 August 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> • DSC Change Control Procedures (1st draft)
10:00 Monday 08 August	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging <ul style="list-style-type: none"> • Consider Invoicing Process • Consider Credit Arrangements • Consider Transition Matters
10:00 Monday 22 August 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging <ul style="list-style-type: none"> • Consider Credit Arrangements • Consider Transition Matters
10:00 Tuesday	Elexon, 4 th Floor,	FGO Workgroup and Workgroup 0565

23 August 2016	350 Euston Road, London NW1 3AW	<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
10:00 Wednesday 07 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<p>FGO Workgroup and Workgroup 0565 UNC Consolidated Legal Review</p> <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 <p>DSC Contract Update Development of Workgroup Report</p>
10:00 Wednesday 21 September 2016	Elexon, 4 th Floor, 350 Euston Road, London NW1 3AW	<p>FGO Workgroup and Workgroup 0565</p> <ul style="list-style-type: none"> • Development of Workgroup Report
10:00 Wednesday 05 October 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<p>FGO Workgroup and Workgroup 0565</p> <ul style="list-style-type: none"> • Conclusion of Workgroup Report

FGO WG Actions (as at 13 June 2016)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
FGO 0505	27/0516 Charging	2.2	To articulate and provide a (fourth option) statement for inclusion in an amended Funding, Governance and Ownership paper for consideration at the 09 June 2016 meeting at the latest.	Waters Wye Associates (GE)	Closed
FGO 0506	27/0516 Charging	2.2	To amend the Funding, Governance and Ownership paper inline with discussions (including a full impact assessment) for consideration at the 09 June 2016 meeting.	Xoserve (MBa)	Carried Forward
FGO 0507	27/0516 Charging	2.2	To provide a view on the legal text implications of the new (fourth) option.	National Grid Distribution (CWa)	Closed
FGO 0508	27/0516 Charging	3.0	To update the draft workplan to accommodate workgroup suggestions in time for consideration at the 13 June 2016 meeting.	Xoserve (MBa)	Closed
FGO 0601	13/06/16 Charging	3.0	Xoserve (MBa) to clarify the scope for Non Code Services and which services can be part of the DSC and what is the contracting model for external parties requesting services from the CDSP.	Xoserve (MBa)	Pending
FGO 0602	13/06/16	4.0	Xoserve (MBa) to create a table of categories from a liability perspective and their relative risks.	Xoserve (MBa)	Pending