

UNC Funding, Governance and Ownership (FGO) Workgroup Minutes

Friday 29 July 2016

at Consort House, 6 Homer Road, Solihull, B91 3QQ

Attendees

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
Gethyn Howard	(GH)	Brookfield Utilities
Gregory Edwards	(GE)	British Gas
Karen Visgarda (Secretary)	(KV)	Joint Office
Kish Nundoll*	(KN)	ES Pipelines
Martin Baker	(MBa)	Xoserve
Nicola Cocks	(NC)	KPMG
Robert Wigginton*	(RW)	Wales & West Utilities
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/290716>

1. Introduction and Status Review

1.1. Approval of Minutes (11 July 2016 Charging)

MB proposed some amendments to the minutes to add clarity to the items recorded, which following discussion, were approved and later re-published.

2. Cost Allocation Model Review

MBa overviewed the table for the Cost Allocation Model, explaining it encompassed the work undertaken last year and this year on cost allocation funding which had been submitted to Ofgem. He explained how it 'maps out' in the DSC and indicated the apportionment of costs to services and funding parties. He then gave an explanation in relation to the ASA Services schedule across levels 1 and 2, with the 4 different funding constituencies and which constituencies would fund in which proportions. NC said it was a good summary of what KPMG had produced for the industry previously.

MBa then overviewed the DSC Service Schedule's, which encompassed 6 elements; DC, DNC, GTANC, IGTAC and IGTANC and he said all the Service Schedules mapped into one or more of the 6 elements, and he detailed the colour coding to indicate the status for each.

He drew attention to the fact that the table did not have the iGT's Services included and said these were still to be defined. He said the overall number of service groups required by the cost allocation and constituency funding model is reducing from last year from 43 down to approximately 25, which was advantageous in respect of less data to be managed. GH said he was keen to get confirmation of the iGT's Services and when and how these would be included, he said he would discuss this matter directly with AMi as part of iASA development and MBa agreed that was a sensible and speedy approach to take.

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

SH also highlighted that within the Cost Allocation Model table, National Grid NTS and GDN's needed to be split as presently it was showing GTAC and GTANC together. MBa said that was still being worked on currently and it included discussions on appropriateness of the GDN/NTS split.

A lengthy general discussion then took place in relation to funding and SMc again reiterated the fact that discussions were still awaiting the final Ofgem funding document at the end of August and only then would the definite Gemini funding position and 'pass through' detail be confirmed. NC agreed with SMc on that point, but also said that work needed to continue working on the 'Ofgem minded to position' and that the methodology was the critical factor, and not the funding model, in relation to this area. MBa confirmed the total funding requirements for the CDSP were reflected in the GT funding submission to Ofgem. GE asked if the proposed allocation document applied to the CDSP as a whole or a sub set of costs? MBa said it was the total costs for CDSP as a cost base, then recovered through the DSC (and other contracts such as the IX Agreement with Trader Users) from appropriate parties, which would be discussed when the numbers were applied. NC also said that other areas had not yet been included in these costs for example; change funding, investments and delivery costs, all of these costs were still yet to be discussed in the next meeting.

GE said he had a concern that all Shippers were being put together as being expected to pick up cost across the service lines regardless of whether they used the service. He was uncomfortable agreeing that some niche market Shippers would be expected to pick up costs in the same way as larger retail or wholesale Shippers and that will cause issues, especially from a Legal and methodology aspect. CB agreed and said that this information needed to be addressed in a more granular way, not only from the charging area, but also from the overall approach. GE said that clarity was needed on the CMA legal remedy, as smaller Shippers/Suppliers would be looking at every aspect of their charges and he reiterated he was not at all happy with this approach, as it could damage operators who had business models that focused for example of prepayment metering and this could become a competition issue.

NC said that this whole area was yet to be addressed and that the costs needed to be split down into different sections and constituencies and the methodology for this had not yet been developed. CN said that this level of detail was needed urgently, specifically in relation to the cost drivers and GE said in relation to the 25 service lines too, as some might not be appropriate. CB felt it would be more appropriate to go back towards the 43 services lines to confirm that the consolidation process had not been too encompassing and therefore impact choice and competition. MBa said to look at the separate different Shipper classes would mean going to a level that was not previously approved and this would put even more pressure on the Workplan. CN said information on the actual numbers was needed and proposed going to the next level down from the cost base to determine the impact on the allocation split between NTS and GDN's. MBa said he could do this for the next meeting and CN said that would give a good indication of the cost driver levels.

FGO 0706: Xoserve (MBa) to apply the numbers to show the allocation at a lower level showing the areas of materiality in Levels 1 & 2.

3. Methodology Statement

Not discussed at this meeting.

4. Consider Invoice Process

Not discussed at this meeting.

5. Charging Principles and Application

MBa overviewed the 'Summary of Workgroup Discussions on CDSP Charging Principles and their application' document, explaining following the meeting on 11 July 2016, he had amended the document in line with the discussions and conversations in that meeting, stating that nothing new had been added other than that to add clarity. He said the principles had been re-run as set out in the updated table with the applications and matters for consideration.

GE said that principles aligning with in a similar way to Transporters licence objectives with the aims of not restricting or distorting competition have not been included and that as this area is very important, it needed to be captured. MBa said he would look at the wording to address this aspect. GE said the most simplistic resolution was to include the 'Relevant Charging Objectives' within the principles in Section 1, under 'Matters for Consideration'. MBa agreed that this change would be considered for inclusion in the next version of the document.

FGO 0707: Xoserve (MBa) to consider including Transporter type 'Relevant Charging Objectives' into the principles document.

MBa said that he was very keen to confirm and finalise this document as soon as possible and requested comments directly to him prior to Friday 05 August.

FGO 0708: All Workgroup attendees to send any comments in relation to the Principles and Applications document to MBa prior to Friday 05 August 2016.

6. Margin, Surpluses and Deficits

MBa introduced the 'Discussion Paper for UNC FGO Workgroup (Charging)' and overviewed the various areas including the CDSP Margin and Surplus and Deficit sections. He said this was a draft document and wanted comments on the content.

Discussions then took place regarding, CDSP Margin Point 2.2 *In order to avoid the unnecessary accumulation of cash reserves in the CDSP, the level of CDSP margin should be reviewed annually, and the outcome of this review factored into the setting of CDSP Charges for the following CDSP Budget Year.* MBa said the initial thinking behind this point was that the margin would be from 0 to 6%, with 6% being a top end number, which would not be exceeded, in normal operation conditions. CN asked where was the rationale of the actual percentage figure and MBa said it had always been 6% historically and had been capped at that percentage since 2005. BF asked if it would be set across all the services across the year and MBa confirmed that was the case. A lengthy general discussion took place surrounding the margin and the cash 'buffer' and the impact on materiality. MBa said again that this document was for discussion and the Workgroup said it would be useful to see Process Flows of how the 'buffer' of margins were set initially and what the contingency element was. MBa agreed to work on this with CWo.

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.

7. Review of Workplan

MBa overviewed the Workplan explaining following the meeting on 11 July 2016, he had amended the document in line with the discussions in that meeting. He stated that more time was subsequently needed to overview the documents and proposed two more meetings on 05 September and 23 September in order to complete the Workgroup Report in time for the October Panel. He stressed that the timeline must be adhered to.

NC explained in relation to the timeline that Ofgem had now tasked KPMG to also consider contingency plans, should Project Nexus Implementation be delayed leading to the FGO programme going live before Nexus. The programme and workgroup would need to consider what would need to be done to allow this to happen. She said in view of this fact, it was important that any decisions made, took this into account with a holistic viewpoint and various scenarios would need to be thought about. CW was concerned that current drafting is based on a post Nexus implementation UNC and that no work had been done to consider the current UNC or Transition documents for a pre Nexus implementation.

General discussion took place regarding how much more challenging this was going to make the process and NC agreed, but again reiterated that Ofgem had requested this and so it had to be actioned.

GE asked MBa if there was an opportunity for a 'dry run' for the numbers and MBa confirmed this could take place on 22 August 2016 with a re-run on 05 September. MBa also said that the statement of charging methodology rules would be available for the Services section in this timeframe. GE asked what would be the process for any changes after the 22nd August meeting in relation to the methodology and numbers. MBa said that that running the methodology against a set of forecasts should not present a problem, if that was required. BF said that the final meeting is planned for 23 September and the methodology documents would need to be ready or as close as possible for inclusion with the Workgroup report. CWo said that when the legally drafted Charging Methodology was completed, it would be the responsibility of the Charging Group, and that the final version should be available by 23 September 2016.

A lengthy discussion took place regarding the challenging timeline and the amount of material that was to be completed for the October Panel. BF explained that an 'interim Panel' could be arranged for 03 November, if Ofgem were in support of this proposal, which would require the Workgroup Report being submitted on 03 November, with the consultation close out date of 08 December, giving the Final Workgroup Report ready for submission between 09 -12 December, in readiness for the Panel on 15 December 2016. BF advised that this request should be made by the proposer at the September Panel with the support of Ofgem to ensure they were aware of the reasons why. GH said from a Legal Text perspective the work would continue 'as is'. NC said she would 'factor in' this potential new timeline for Panel into the Plan and would speak with CWa about the potential date changes. GE asked if any alternate modifications were raised when would these need to be submitted? BF said if that was the case, any alternate modifications would need to be raised prior to the Panel on 15 September 2016, while the modification was still being considered by the Workgroup. CB said she was considering raising an alternative modification regarding the change process.

FGO 0710: NC to speak with CWa regarding the potential date changes and Panel submission timeline.

8. Review of Outstanding Actions

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: MBa explained the documentation was still being produced and so this action should be carried forward. **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: It was agreed this area had now been included in the Charging Methodology Statement and so this action could now be closed. **Closed.**

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

Update: MBa said this action could now be closed as the amended table had now been provided. **Closed.**

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

Update: MBa said this action should be carried forward as work was still being undertaken. **Carried forward.**

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

Update: MBa said this was still to be discussed at the next meeting and so should be carried forward. **Carried forward.**

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

Update: MBa said the table had been amended and so this action could now be closed.
Closed.

9. Any Other Business

CN proposed at the end of every meeting a 're-cap' should take place to ensure all parties were aware of the actions that had been raised in the meeting and to ensure all attendees were fully up to speed with what had to be achieved by the next meeting.

NC then overviewed the key deliverables of the Workgroup which were; allocation of costs, charging methodology, invoicing approach, charging statements and she overviewed the agenda items for the following meeting which were:- Cost allocation with numbers, to commence the review of Services, to review the first draft of the changing methodology, margins – surplus and deficits and the model for investment charging. NC also said due to the time constraints and the fact that MBa had some annual leave, could the Workgroup assist MBa in providing some input into some the areas that needed addressing. MBa said it would be helpful if the Workgroup could look at the charging of costs for Investments from the January documentation and see how certain types of investments should be funded prior to the meeting on 22 August 2016, together with reviewing the services to Shippers.

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.

FGO 0712: All to review the Services to Shippers and suggest the appropriate Cost Drivers prior to the 08 August 2016.

MBa said for all comments and suggestions to be sent to him directly prior to the meeting on 22 August 2016.

10. 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 03 August 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> • Legal Text Walkthrough ...<i>Continued from 25 July 2016</i> • Overview of Service Lines • DSC Change Control Procedures (1st draft)
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"> • 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)

		<ul style="list-style-type: none"> • 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 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 29 July 2016)					
Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
FGO 0605	30/06/16 Charging	4.0	Xoserve to summarise the “Other Services” eg. IX services to MAMs,	Xoserve (MBa)	Carried Forward

			Data Services to MAMs, MAPs, that are expected to be captured within Box 3 of the CDSP Services and Cost Presentation.		
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
FGO 0705	29/07/16	2.0	Xoserve (AMi) and Brookfield Utilities (GH) to discuss how and when the iGT's 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)	Pending
FGO 0706	29/07/16	2.0	Xoserve (MBa) to apply the numbers to show the allocation at a lower level showing the areas of materiality in Levels 1 & 2.	Xoserve (MBa)	Pending
FGO 0707	29/07/16	5.0	Xoserve (MBa) to consider including Transporter type 'Relevant Charging Objectives' into the principles document.	Xoserve (MBa)	Pending
FGO 0708	29/07/16	5.0	All Workgroup attendees to send any comments in relation to the Principles and Applications document to MBa prior to Friday 05 August 2016.	All	Pending
FGO 0709	29/07/16	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)	Pending
FGO 0710	29/07/16	7.0	NC to speak with CWa regarding the potential date changes and Panel submission timeline.	KPMG (NC)	Pending

FGO 0711	29/07/16	9.0	All to look at the charging of costs for investment from the January documentation and investigate how certain types of investment should be funded.	All	Pending
FGO 0712	29/07/16	9.0	All to review the Services to Shippers and suggest the appropriate Cost Drivers prior to the 08 August 2016.	All	Pending