

# UNC Funding, Governance and Ownership (FGO) Workgroup Minutes

## Thursday 30 June 2016

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

#### Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Andrew Jones	(AJ)	KMPG
Angela Love*	(AL)	ScottishPower
Charles Wood*	(CWo)	Dentons
Chris Warner	(CWA)	National Grid Distribution
Craig Neilson	(CN)	National Grid Distribution
Edd Hunter	(EH)	npower
Gethyn Howard	(GH)	Brookfield Utilities
Gregory Edwards	(GEd)	British Gas
Martin Baker	(MBa)	Xoserve
Robert Wigginton*	(RW)	WWU
Sue Hilbourne	(SH)	Scotia Gas Networks

\*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/fgowg/300616>

#### 1. Introduction and Status Review

##### 1.1. Approval of Minutes (13 June 2016 Charging)

Minutes were approved.

#### 2. Consider Service / User Mapping

MBa provided the Workgroup with a brief overview of the six papers provided for the meeting, suggesting that the Workgroup started off by looking at the Workplan. The package of papers had been produced to help build an understanding of the totality of how the CDSP services and costs will fit together; how the service footprint needs to link back into the UNC; how the UNC links the structure of the CDSP; how different the build up of cost allocation is; and what needs to be considered for the investment and liability funding.

MBa reported that at the previous meeting Gareth Evans had confirmed he would be withdrawing the alternative proposed invoicing approach and therefore he was not proposing to amend the paper by including an alternative.

GEd highlighted since the last meeting British Gas will send Xoserve some feedback on the principles and had made a request to find a common set of principles that would be acceptable to all parties.

CWA expressed that the principles need to be specific, clear and the Workgroup need to make sure everything is captured. MBa suggested that any parties who had specific points that have not been identified to exchange correspondence with Xoserve. He suggested that British Gas re-cap the views to ensure these are captured within the principles.

#### 3. Workplan

MBa presented an updated Workplan to confirm what had been addressed so far and the plan for future meetings.

MBa suggested to allow enough time for parties to focus on the Ofgem consultation and cost allocation model, that the Workgroup should cancel the meetings on 11 July 2016 and 08 August 2016 as there would be insufficient time available to make the meetings meaningful.

GH expressed concerns about pushing back meetings when Ofgem were consulting upon the submitted methodology, which closes on 07 July. SH highlighted that the funding decision will have a final response in September and the Workgroup should leave a window of opportunity for Ofgem to undertake a further consultation should they choose to do so. Concern was expressed about cancelling meetings prematurely when there may be items to be discussed.

CWa asked the Workgroup to be clear on what is expected to be delivered for the charging elements and by when i.e. what is expected as the deliverable, will it be relevant drafting into the DSC or Code? CWo clarified that the Workgroup needs to consider the cut-offs and the subsequent drafting, and at what point the legal drafting will be done. He emphasised at some point there needs to be a paper (business rules) that needs to be considered to lead the legal drafting. This would allow the legal drafting to be pushed back if necessary subject to the business rules documents being presented in good shape.

GEd suggested that just producing a methodology statement would not be sufficient, the Workgroup will need to consider the methodology works against different scenarios using dummy numbers/data to check there aren't any unintended consequences. He was concerned that the right assurances need to be provided and sufficient time needs to be allowed to identify issues. He stressed parties need to be happy with the legal drafting and will want to produce numbers around the words, to test if these align with the expectations before proceeding to final legal drafting, there needs to be time to consider issues. The Workgroup considered the modelling and using the 08 August to consider some number crunching. CN agreed with GEd that there would be value testing the methodology with using data to ensure the mechanics work.

MBa explained that by the 29 July there needs to be a set of business rules that are sufficiently defined at a level regardless of feedback, capable of being applied to a forecast and to drive out what the funding/allocation commitment would be need to be between the constituency members.

GEd was keen to ensure that the principles captured all the concerns expressed at the previous meetings and parties having an opportunity to consider any mismatches.

MBa was concerned it would be more efficient to remove two of the meetings as the initial plan may have been ambitious.

SH expressed the need to have a fundamental sound set of principles. MBa recognised there were concerns expressed on 13 June and these had been documented but needed to be captured within an updated principles document. SH believed there were too many questions left outstanding from the 13 June that have not been settled on before moving forward and was reluctant to agree cancelling the 11 July meeting.

MBa clarified for the 29 July to be meaningful the Workgroups needs to affirm the principles are appropriate, keep to the principles and agreed basis to proceed.

It was agreed not to cancel the 11 July meeting to allow a further review and sign off the principles.

**Action 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.**

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

#### **4. CDSP Services and Cost**

MBa provided a CDSP Services and Cost presentation. CWa asked the Workgroup to bear in mind as to what is essential for Ofgem to approve Modification 0565. CWo highlighted the pricing of services needs to be clearly set out and have an agreed allocation of costs methodology.

CWo explained that the framework would start with Section GTB7, which will provide the framework for the CDSP to provide services.

GEd asked if within the draft licence condition there was a definition of the CDSP services. CWo explained currently the CDSP is captured within GTB7. Essentially the CDSP will be services that support the UNC and uses the resources of Xoserve, and services to non-CDSP services would by and large be but not exclusively be for non Code parties (i.e. MAMs and MAPs)

The Workgroup considered the 3 elements; 1 - IX Services to Trader; 2 - Non-Code Services for Non-Code Parties; and 3 - Other Services eg. IX services to MAMs, Data Services to MAMs, MAPs.

It was clarified that Box 1 (IX Services to Trader) are serviced as is. Box 3 (Other Services) are services which are not listed in the ASA, however the regulatory framework permits for them to be provided, and the service definition will be captured in contracts between the parties, not in UNC. Box 2 (non-code services provided to non-code parties) are the same as the services provided to code parties and are listed in the ASA Part 6. For purposes of the development of the methodology all existing services will be captured within the methodology.

GE asked if Xoserve could provide a list of services under Box 3.

**Action 0605: CDSP Services and Costs - 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.**

## 5. ASA DSC Service Mapping

MBa provided a presentation on the ASA DSC Service Mapping and tables detailing where the primary obligations reside within the UNC, which sections are impacted by the implementation of Project Nexus and Code impacts for GTs and iGTs.

It was clarified that the proposal would not include Traders within the DSC. Not all CDSP services will be outlined in the DSC. Traders are a class of Users, which need to sit outside of the DSC.

## 6. Cost Allocation Review Process

MBa provided an update on the Cost Allocation work to date. He confirmed that all pre-Nexus ASA services lines had been placed into 43 Service Groups based on the ASA Services Schedule structure including the Workgroup’s view of funding constituencies. Costs had been attributed / allocated to each Service Group based on historical Cost Allocation. CAM was used in determination of the constituencies’ funding of CDSP.

The Workgroup considered the drivers and the review process required. MBa confirmed that the output will be a revised set of rules for allocation of CDSP cost to services.

GEd asked if there would be a defined set of services. MBa confirmed the services would be outlined within the DSC Service Schedules as they are now such as the ASA Services Schedule.

CN hoped that there would be a full picture of how the processes will map through for each of the services provided. CN believed that there would be one to one mapping; many to one; and one to many; he understood that the one to many situation would be a narrow number. MBa suggested, as a hypothesis, that if for direct code services the contractual party is the Shipper there could be a potential opportunity to collapse the charges, however there would be other complexities to consider in other areas.

GEd highlighted that not all services would be listed in the DSC, how this would be visible, and how the elements not in the DSC would be carved out. It was also asked if for example the IX services to Traders Users were to be contracted out of the DSC and if it has been determined what the costs are, what would happened to any returns, would this go back to the Trader Users? CWo advised that Trader Users would still be a category of Coder User, however, they would only take a limited number of services and therefore any charging methodology would need to cater for this.

It was suggested that the return, mark-up could be different for certain areas. GEd questioned if there can be different models in the methodology. MBa stressed that there needs to be a consistent approach and commercial considerations; he suggested there may be a different level of margins for services provided.

GEd enquired about the management of the charging methodology, and if there will be one methodology that controls the apportionment of costs. MBa clarified that each contract will have to outline how charges will be set, and there needs to be a logical consistency to avoid cross subsidisation and avoid complications.

## 7. Categories of Liability

MBa confirmed a paper had been presented outlining the 4 categories, at the 01 June Workgroup meeting. These were:

A - Provision of DSC Services

B - Other DSC provisions

C - Liabilities in tort in connection with provision of DSC Services

D - Liabilities unconnected with the DSC

MBa had received a request to consider how the liabilities would be funded, he understood of the four categories initially identified that categories A&C would not apply but B&D could apply.

The Workgroup recognised they need to consider how the liabilities would be funded/allocated and not to debate whether liabilities should exist or not as this was being discussed in the Modification 0565 meetings.

MBa provided the proposed funding principles and that liabilities would not normally be associated with the provision of any individual Service Line; liabilities would not normally be included in CDSP Budget; and the CDSP should not build up a 'fighting fund' to finance the settlement of potential future liabilities.

The proposal was that the liabilities could be recovered as and when the CDSP is required to make payment, and these are recovered from all Users of CDSP Services in proportion to constituencies.

GEd asked about the recovery period, concerned with an immediate request for funding. GEd sought re-assurance that Xoserve should appropriately manage their risks. He was concerned that payments could in theory be sought at any point by any amount without much notice. He suggested parties should be able to negotiate how much can be paid and the period to which it can be paid, recognising that there may need to be financing options available.

GEd suggested that thresholds should be discussed to reduce the exposure to parties and there should be a consideration of an option to finance over-time as the default appeared to be an immediate payment with limited notice. MBa suggested an alternative could be to allow the CDSP board to decide on a case-by-case basis.

It was suggested that the Elexon model could be considered. MBa confirmed he would be happy to consider a party bringing an overview of the Elexon model for consideration, however Xoserve could not commit to investigating this.

The Workgroup considered the probability of a very large liability being incurred and the immediate nature of payment and cash flows. CWo suggested that the probability of incurring an unexpected liability would be very slim as early proceedings would provide an indication for an impending liability such as court proceedings or formal investigation.

CWo provided a definition of emergency funding under BSC Section D 6.6, to make a cash-call at short notice. MBa confirmed the scope of the failure would not be connected with the failure to deliver services this would only cover elements that have not been provisioned for.

GEd asked if there should be an aggregated split of costs.

MBa clarified that the principles of costs being recovered would be where all other reasonable endeavours have been undertaken but a liability still filters through despite making appropriate assurances. It was envisaged this would be a reasonable approach.

GEEd expressed major concern on the principle based on there could be a immediate cash call which had not be budgeted for and would like to explore the possibility of payment over a time period.

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

The Workgroup considered option of delayed payment and that this might involve parties having to fund the finance requirements made to cover a short-fall.

It was agreed that the concerns expressed would be fed into the 0565 Workgroup discussions.

## 8. Investment Funding

MBA recapped the funding principles. He proposed in respect of CDSP Charges that the CDSP Charging Methodology should define rules for investment expenditure and that users of CDSP Services should fund these investments. The levying of the CDSP Charges would be over the same time period at which the CDSP incurs the investment expenditure.

GEEd challenged the default position and suggested the solution to collecting money could be over a longer period. He suggested investment capital could be obtained through alternative means and users of the CDSP could fund investment costs plus an additional percentage to cover the cost of the capital outlay. MBA asked if parties have an alternative principle these should be clearly outlined for consideration.

GEEd believed that the principle as written excludes other options being explored. However, MBA believed the statement had some flexibility for long-life projects, for example if there is a three-year project the revenue could be collected upfront, over the three years or at the end of the three years.

GEEd challenged why costs can't be recovered after incurring the costs. MBA clarified that Xoserve are not suggesting that the principle would preclude a potential solution of collecting costs as they are incurred.

MBA confirmed in relation to the application of funding, where there is a delivery change (i.e. a change in service requirement through a UNC modification) this would have to have a user pays principle. Investments that refresh or replace Geminin systems would be funded by National Grid Transmission; and for other systems an allocation/recovery based on a simple formula [N%] by NGGT and [100-N%] by one or more of the GDN, iGT and Shipper Customer Classes.

MBA presented three options for funding Infrastructure Investments:

Option A - CDSP funded wholly by GTs [N% by NGGT, 100-N% by GDNs]. Recovered by GTs through future years' transportation charges.

Option B - CDSP funded wholly by Shippers. Eliminates GT intermediary handling of costs.

Option C - CDSP funded by all users of CDSP Services. Recover from constituencies in same proportion as recovery of budgeted service delivery costs in CDSP Budget Year, or apply other predetermined allocation rule.

MBA believed that Option A would be the best fit from a practicality point of view as membership was less dynamic than with a model based on B or C.

CN explained the GT cost pass-through mechanism, with any variation from budget being trued up over a two-year period.

GEEd challenged pass-through verses CapEx, he believed when Networks signed up to RIIO there was an 8-year funding arrangement, and it was not right to engineer a CDSP model around a pass-through arrangement that was already in place. GEEd was keen not to engineer the CDSP model to suit a particular set of users, for example the Transporters.

## 9. Consider Methodology

Item deferred to a future meeting when the principles are established.

## 10. Risks and Issues log

CWa advised that this would be available for discussion at the next Modification 0565 meeting as it was not intended to manage a separate charging risks and issues log.

## 11. Review of Outstanding Actions

**FGO 0506:** To amend the Funding, Governance and Ownership paper inline with discussions (including a full impact assessment) for consideration at the 09 June 2016 meeting.

**Update:** MBa advised that he had considered the comments received at this and earlier meetings and changes had been included. **Closed.**

**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.

**Update:** MBa advised the scope had been clarified in the presentations above. **Closed.**

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

**Update:** MBa advised that he was not intending to produce a paper identifying the categories as requested. He was not of an opinion that these would be helpful in a discussion that was considering the principles of allocating liability costs. He advised the paper provided on liabilities should provide sufficient information to those present to consider how liabilities should be allocated. However, he noted the concerns in the room and advised that he would be willing to consider issues should they be articulated in advance of the next meeting. **Closed.**

## 12. Any Other Business

None.

## 13. Diary Planning

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

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00 Monday 11 July 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging <ul style="list-style-type: none"> <li>• Re-consideration of Charging Principles</li> <li>• Consider application of Principles</li> </ul>
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"> <li>• DSC Terms &amp; Conditions (2<sup>nd</sup> draft)</li> <li>• DSC Service Description (1<sup>st</sup> draft)</li> <li>• DSC Budget &amp; Charging Methodology</li> <li>• UK Link Manual (1<sup>st</sup> Draft)</li> <li>• Change Control Procedures (outline)</li> <li>• Contract Management &amp; Reporting Arrangements (1<sup>st</sup> draft)</li> <li>• Third Party Services Policy (1<sup>st</sup> draft)</li> <li>• Transition Document (1<sup>st</sup> draft)</li> </ul>
10:00 Monday 25 July 2016	Dentons, One Fleet Place, London, EC4M 7RA	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• Introduction and summary of UNC/DSC framework</li> </ul>

		<ul style="list-style-type: none"> <li>• Overview of Workplan</li> <li>• UNC legal text walkthrough: <ul style="list-style-type: none"> <li>▪ General Terms Section D (includes residual parts of Section U)</li> <li>▪ TPD Sections H,G,M,V and miscellaneous TPD Sections</li> <li>▪ iGT Arrangements Document</li> <li>▪ Modification Rules</li> </ul> </li> <li>• Next steps (DSC Legal Text walkthrough planned for 23rd August)</li> </ul>
10:00 Friday 29 July	Consort House, 6 Homer Road, Solihull B91 3QQ	<p>FGO Workgroup – Charging</p> <ul style="list-style-type: none"> <li>• Cost Allocation Model Review</li> <li>• Methodology Statement</li> <li>• Consider Invoice Process</li> <li>• Transition Matters – Principles and Application</li> <li>• Surpluses and Deficits – Principles and Application</li> <li>• Budget Setting - Interaction with Charging Methodology</li> </ul>
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"> <li>• DSC Change Control Procedures (1<sup>st</sup> draft)</li> </ul>
10:00 Monday 08 August 2016	<b>CANCELLED</b>	
10:00 Monday 22 August 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	<p>FGO Workgroup – Charging</p> <ul style="list-style-type: none"> <li>• Cost Allocation Model Review</li> <li>• Methodology Statement</li> <li>• Review Invoice Process</li> <li>• Transition Matters – Principles and Application</li> <li>• Surpluses and Deficits – Principles and Application</li> </ul>
10:00 Tuesday 23 August 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	<p>FGO Workgroup and Workgroup 0565</p> <ul style="list-style-type: none"> <li>• DSC Framework Agreement (Final draft)</li> <li>• DSC Term &amp; Conditions (Final draft)</li> <li>• DSC Service Description (Final draft)</li> <li>• Change Control Procedures (Final draft)</li> <li>• Contract Management &amp; Reporting Arrangements (Final draft)</li> <li>• Third Party Services Policy (Final draft)</li> </ul>

		<ul style="list-style-type: none"> <li>• Transition Document (1<sup>st</sup> draft)</li> <li>• Timeline/Workplan Update</li> <li>• Consideration of Risks/Issues Log</li> </ul>
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"> <li>• GT B7</li> <li>• TPD G &amp; H</li> <li>• TPD M</li> <li>• TPD U</li> <li>• Other TPD &amp; EID</li> <li>• iGT and iGTAD</li> <li>• Accession / Withdrawal</li> <li>• Transition</li> <li>• Miscellaneous including MR</li> </ul> <p>DSC Contract Update Development of Workgroup Report</p>
10:00 Wednesday 21 September 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	<p>FGO Workgroup and Workgroup 0565</p> <ul style="list-style-type: none"> <li>• Development of Workgroup Report</li> </ul>
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"> <li>• Conclusion of Workgroup Report</li> </ul>



<b>FGO WG Actions (as at 13 June 2016)</b>					
<b>Action Ref</b>	<b>Meeting Date</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
<b>FGO 0506</b>	27/05/16 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)	<b>Closed</b>
<b>FGO 0601</b>	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)	<b>Closed</b>
<b>FGO 0602</b>	13/06/16	4.0	Xoserve (Mba) to create a table of categories from a liability perspective and their relative risks.	Xoserve (Mba)	<b>Closed</b>
<b>FGO 0603</b>	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	<b>Pending</b>
<b>FGO 0604</b>	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)	<b>Pending</b>
<b>FGO 0605</b>	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)	<b>Pending</b>
<b>FGO 0606</b>	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)	AI	<b>Pending</b>