UNC FGO Workgroup

Review of Application of Charging Principles

11 July 2016

Overview

- Charging Principles discussed at Workgroup 27 May 2016

- Application of Principles discussed at Workgroup 13 June 2016

- At Workgroup 30 June 2016, some members requested opportunity to carry out further review of Principles and their Application

- Comments received from 2 GTs and 1 Shipper

  – These slides consider comments against Application of Principles

  – Comments on Principles are subject of separate Workgroup paper

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Principle 1 – Economic, Efficient and Transparent

Principle

The CDSP Charging Methodology should satisfy the requirements of SSC A15A of the GT Licence, namely "that the charging methodology [and the charging statement] will facilitate the objective of economic, efficient and transparent charging for the provision of the CDSP services"

Application

1) Costs are targeted at those parties that contract for services with the CDSP

2) Charging arrangements do not create a negative cost benefit outcome for industry

3) Users know what charges they expect to receive

4) The CDSP provides sufficient information to users to enable charge validation

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Principle 2 – Predictability and Certainty

Principle

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

Application

1) Users know what charges they expect to receive

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

3) Charges are invoiced monthly

4) Invoices are subject to 'pay now, query later' rules

5) The CDSP is protected from user failure to pay

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.

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Principle 3 – Simplicity, Flexibility, Stability

Principle

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

Application

1) Any increment in CDSP and user operating costs necessary to administer arrangements is minimised

2) Any new CDSP Service introduced post 1/4/17 should be:

   a) Classified as either a CDSP Direct Service or a CDSP Agency Service; and

   b) Assigned to a Service Area *(see Principle 4)*

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

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

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Principle 4 – Services

Principle

The CDSP Charging Methodology should reflect:

- The structure of CDSP Services; and

- The Service Areas that comprise the CDSP Service Description

Application

1) The methodology should reflect the classification of CDSP Services into the following Service Areas:

   a) CDSP Direct Services, comprising:

      i. Direct Code Services

      ii. Direct Non-Code Services; and

   b) CDSP Agency Services, comprising *(see note)*:

      i. GT Agency Code Services

      ii. GT Agency Non-Code Services

      iii. iGT Agency Code Services

      iv. iGT Agency Non-Code Services

Note: There is an option (applied in subsequent slides) to further classify GT Agency Services between NGGT Agency Services and GDN Agency Services

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Principle

The scope of the CDSP Charging Methodology should consider both operational services and investments

Application

1) Services - see Principle 4

2) Investments - see Principle 10

Principle 6 – Basis of Charges

Principle

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)

Application

1) Charges are set as to recover the attributed and / or allocated CDSP Budget Costs in equal monthly amounts over the period of the CDSP Budget Year.

2) 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

3) Charges are invoiced monthly

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.

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Principle 7 – Cost Attribution and Allocation

Principle

The CDSP Charging Methodology should set out rules for the attribution and / or allocation of CDSP Costs to Service Areas

Application

1) The CDSP cost allocation model defines the rules for the attribution and / or allocation of CDSP costs to each Service Area (as defined in the CDSP Service Description)

2) The cost attribution and allocation rules applied to CDSP forecasts for 2017/18 onwards in the GT cost assessment submission (January 2016) need to be reviewed and potentially amended to ensure alignment with the proposed structure of Service Lines and Service Areas

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Principle 8 – Services and Customers

Principle

The CDSP Charging Methodology should set out rules for:

- The alignment of each Service Area to each Customer Class, to enable the proportion of costs attributed and / or allocated to that Service Area to be attributed and / or allocated to each Customer Class; and

- The alignment of each Service Area to each Core Customer in each Customer Class, to enable the proportion of costs attributed and / or allocated to that Service Area to be attributed and / or allocated to each Core Customer

Application

1) For CDSP Direct Services, the contractual counterparty is the Shipper, [or the GT or the iGT – *to be validated*]

2) For CDSP Agency Services, the contractual counterparty is the GT or iGT

3) The methodology should define the rules for the attribution and / or allocation of CDSP charges to each contractual counterparty for each Service Area

Comment (SGN) - It was agreed that for CDSP Direct Services, the contractual counterparty could be Shipper, GT or iGT

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

Principle

The CDSP Charging Methodology should set out rules for:

- The calculation of CDSP Charges to each Core Customer in each Customer Class for each Service Area; and

- The interval(s) for the restatement of the values of any data items that are used in the attribution and / or allocation of CDSP Costs and the calculation of CDSP Charges

Application

1) 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

2) 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

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Principle 9 – Calculation of Charges (Direct Services to GTs and iGTs)

Principle

The CDSP Charging Methodology should set out rules for:

- The calculation of CDSP Charges to each Core Customer in each Customer Class for each Service Area; and

- The interval(s) for the restatement of the values of any data items that are used in the attribution and / or allocation of CDSP Costs and the calculation of CDSP Charges

Application *(subject to validation of Principle 8, Application 1)*

1) For CDSP Direct Services to GTs and iGTs that are Gemini services, all costs are recoverable from NGGT

2) For CDSP Direct Services to GTs and iGTs other than Gemini services, [N%] of costs are recoverable from NGGT, and the apportionment of [100-N%] of costs to each GDN (and, if appropriate, each iGT) is calculated by reference to the Supply Point Count within each GDN (and, if appropriate, each iGT) on a Gas Day agreed by all GDNs and all iGTs prior to the start of each CDSP Budget Year

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?

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

Principle

The CDSP Charging Methodology should set out rules for:

- The calculation of CDSP Charges to each Core Customer in each Customer Class for each Service Area; and

- The interval(s) for the restatement of the values of any data items that are used in the attribution and / or allocation of CDSP Costs and the calculation of CDSP Charges

Application

1) For GT Agency Services that are Gemini services, all costs are recoverable from NGGT

2) For GT and iGT Agency Services other than Gemini services, [N%] of costs are recoverable from NGGT, and the apportionment of [100-N%] of costs to each GDN (and, if appropriate, each iGT) is calculated by reference to the Supply Point Count within each GDN (and, if appropriate, each iGT) on a Gas Day agreed by all GDNs and all iGTs prior to the start of each CDSP Budget Year

Comment re 2) (NGGD) – As previous slide

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Principle 10 – Investments (Functional Change)

Principle

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

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)

Principle 10 – Investments (Infrastructure)

Principle

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

Application

1) Investments that maintain, refresh or replace CDSP systems infrastructure are funded:

   a) For investments in Gemini, by NGGT

   b) For investments in other systems:

      i. [N%] by NGGT

      ii. [100-N%] by one or more of the GDN, iGT and Shipper Customer Classes – *OPTIONS REQUIRE DEFINITION AND EVALUATION*

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

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?

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Principle 10 – Investments (Charges)

Principle

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

Application

1) Within a CDSP Budget Year, the CDSP will set its Charges so as to recover the investment expenditure that is budgeted to be incurred within that Year.

2) Charges will normally be invoiced in equal monthly amounts over the period of the CDSP Budget Year.

Comment (NGGD) – What would be the exception to invoicing in equal monthly amounts?

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Principle

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.

Application *(to be reviewed for alignment with Mod 565)*

1) The UNC / DSC will provide for an annual review of the CDSP Charging Methodology.

2) Criteria for review and amendment of the methodology would include:

   a) A significant change in the scope of CDSP Services

   b) Addition / removal of one or more Customer Classes

   c) Evidence that the prevailing methodology does not "facilitate the objective of economic, efficient and transparent charging for the provision of the CDSP services"

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Other Matters

- 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

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