

Industry Dialogue on xoserve Services and their Funding

Workgroup Minutes

Monday 10 December 2007

Ofgem, 9 Millbank, London SW1P 3GE

Attendees

Tim Davis (Chair)	(TD)	Joint Office of Gas Transporters
Mike Berrisford (Secretary)	(MiB)	Joint Office of Gas Transporters
Alan Raper	(AR)	National Grid Distribution
Alex Thomason	(AT)	National Grid NTS
Alex Travell	(ATr)	E.ON UK
Andy Miller	(AM)	xoserve
Chris Smith	(CS)	xoserve
Collette Baldwin	(CB)	E.ON UK
Hazel Ward	(HW)	RWE Npower
James Crossland	(JC)	Corona
Joel Martin	(JM)	Scotia Gas Networks
Jon Dixon	(JD)	Ofgem
Kevin Woollard	(KW)	British Gas Trading
Laura Doherty	(LD)	RWE Npower
Martin Brandt	(MB)	SSE
Marie Clark	(MC)	ScottishPower
Nicola Rigby	(NR)	National Grid Transmission
Nick Salter	(NS)	xoserve
Savita Shaunak	(SS)	EDF Energy
Stefan Leedham	(SL)	EDF Energy
Steve Ladle	(SLa)	Gemserv

1.0 Introduction

TD welcomed all attendees to the meeting.

2.0 Minutes of last meeting

The minutes of the 19 November meeting were accepted.

2.1 Review of Actions

Action: xSER011 – MB advised that consequential SPAA change to accommodate user pays (IAD, DVD, RGMA and Shipper Agreed Reads) had been identified. National Grid Distribution were believed to be drafting the necessary proposal, which will need to be raised by 18 December if the target is to be met.

Action xSER011: Closed

Action: xSER012 – JD advised that an open letter has been issued about reviewing governance of industry codes and charging methodologies. Progress will be dependent on the outcome of this review.

Action xSER012: Closed

Action: xSER013 & 14 – JD emphasised that to some extent the present user pays proposals can be seen as a proof of concept, and reaffirmed that National Grid Transmission, as opposed to xoserve, systems are out of scope.

The recently published GDPCR Final proposals were discussed and JD confirmed that the AQ Appeal and Amendments process remains within the user pays scope.

AT enquired how much money was assigned to the user pays budget and how greater clarity would come about regarding collected income relative to Ofgem's assumptions. TD suggested that any over-recovery would not necessarily result in either a refund or extra service provision. HW suggested that it is the percentage slippage that is a concern. MB pointed out that Transporters could be expected to voice their concerns should the budget not match the like for like UK Link replacement cost. AR did not see user pays as a

budgetary exercise and emphasised that Transporters will deliver their obligations – gains or losses will be addressed via the next GDPCR.

JD confirmed the Final Proposals had not intentionally excluded large consumers or others from the user pays framework. AM explained that xoserve allow large users to access data provide they use the confirmation reference provided by their Shipper.

Action xSER013 & 14: Carried Forward

Action: xSER016 – see 4.1 below.

Action xSER016: Closed

3.0 Existing Services

3.1 User Pays Services

AM presented for xoserve. He confirmed that the AQ enquiry service line will be defined as the Spec Calculator. Three Invoice Query reports that have been little used have been removed from the proposed user pays scope:

- Queried & Withheld Amounts;
- Awaiting Adjustments; and
- Pending Adjustments.

It was agreed that using common terminology in the proposed UNC modification and ACS would aid clarity – Type 1 services (UNC) equate to code ACS Services, and Type 2 services to non-code ACS Services.

AT suggested the IAD and DVD services should be Type 1 as they are code obligations, albeit SPAA rather than UNC. MB suggested cross references within the SPAA to the UNC may help. AR argued the SPAA does not cover the contractual aspects and as a consequence these services should remain as Type 2. TD asked if others shared AT's view, which SL indicated that he broadly did. AT suggested the SPAA Expert Group will need to consider this in greater detail.

AM advised that annual subscription charges would be less than the cumulative charge for individual products (i.e. unit price x 12) and that more flexible timeframes than just April to April may need to be considered.

MC asked about the D8TA Centre phone number, as 0900 numbers could be problematic. AM advised that technical obstacles remained, but he hoped to offer each organisation a dedicated phone number which would support company specific charges.

3.2 Licence Changes

TD provided an overview of the proposed changes to Standard Special Condition A15. Concerns were raised that there also appeared to be no time for an Impact Assessment to be undertaken. JD confirmed that the omission of a formal consultation process was intentional. JD advised that the Authority is keen to adopt a common sense approach and promote Shipper buy-in to the user pays process. Significant changes, for example proposals associated with smart metering, would be consulted on via other formal routes and would be expected to identify ACS impacts and associated change requirements.

3.3 Agency Charging Statement (ACS)

CS emphasised that the draft focused on the six proposed service Lines. It was structured such that the main part of the document could remain largely unchanged while the appendices were more likely to be amended over time.

Attendees suggested to define the scope of user pays and core services the ACS should refer to the UNC rather than Agency Services Agreement (ASA). CS argued that defining what is core would be basically reinventing Schedule 2 of the ASA but, as the Licence will require core to be defined in the ACS, an option would be to attach Schedule 2 as an appendix to the ACS. AR pointed out that some items within Schedule 2 are not defined within the UNC and changes to core systems proposed by DNs are paid for by them – the DNs are comfortable with the concept of user pays and being charged via the ACS does not unduly concern them. In his view, defining what constitutes core systems does not help to move issues forward. JD supported this, believing it is neigh on impossible to have a black and white definition for what is core or non core.

Attends then conceded that referencing the UNC rather than the ASA in paragraphs 2.1 and 2.2 would be the preferred option.

AT suggested that the charging methodology in paragraph 3.2 is the key part of the ACS and requires more detail, and better identification of xoserve's costing approach would be beneficial to all parties concerned. CS agreed to look into this but pointed out that both direct and variable costs were involved.

Attendees questioned whether section 5.0 went beyond Competition Law requirements. JD was unsure but suggested that one way to identify if the competition model is working (i.e. is not being discriminatory) is to adopt a transparent approach.

CS anticipated that a revised ACS would be issued before Christmas with a near final version towards the end of January 2008.

Action xSER017: xoserve (CS) to update the draft ACS document in light of the points raised, for issue before Christmas

3.4 Transition Issues

AM advised that xoserve is contacting Shippers to pave the way for April 2008 implementation. Service Order mechanisms will be in place for early March such that orders can be placed and continuity of service achieved. MB suggested the Service Order should be in the ACS, but CS felt the drafting in paragraph 1.4 is sufficient.

AM is arranging meetings in December and January to ascertain demand levels and to support the roll-out, although prices will not necessarily be available for these meetings. Attendees pointed out that take-up of the service options could be price sensitive. AM anticipated a significant reduction in the current 30k accounts (30k). CS added that 80 to 90% of these belong to a few parties - xoserve understand the costs, but demand forecasting remains difficult, especially at inception. CB reiterated concerns that the implementation timescales are extremely aggressive and it remains difficult to envisage demand requirements without prices. AM said this is exactly why he is keen to engage sooner rather than later.

AT was concerned about governance. He was uncomfortable with the lack of consultation on, and Shipper inability to raise change to, the ACS and did not believe the Service Order concept is fair, felling Shippers are being forced into signing these before they can procure services which only xoserve can provide. TD responded that all parties will have an opportunity to voice concerns as part of the formal UNC Modification and initial ACS consultation processes.

AM indicated that by xoserve publishing Terms and Conditions users are well protected, including through unfair contract terms legislation. SL said his legal advisors do not support this view and remained concerned that no negotiation of the contracts will be possible. AM suggested that once the T&Cs are published parties will be able to take a more informed view. JD suggested Shippers collate their views and discuss concerns with xoserve with a view to refining the T&Cs. Furthermore, he would not expect the Authority to sign off on a solution which was inferior to the present position, although Ofgem does not expect to specifically sign off the T&Cs.

AT anticipated significant debate post publication of the charges in late January. CS acknowledged this, but restated that charges will be cost reflective since xoserve are delivering a Transporter Licence obligation. NS acknowledged that assessing a risk premium within prices remains difficult especially as xoserve anticipate that charges may well change in the first 6 months, even if a twelve month service has been ordered. Attendees suggested it was inappropriate to commit to a service for a twelve month period without a fixed price.

TD suggested that provision of the T&Cs sooner rather than later would be beneficial and AM agreed to see what can be done.

Action xSER018: xoserve (AM) to publish Terms & Conditions at the earliest opportunity

4.0 Changed/New Services

4.1 Updating the UNC Modification Process to Accommodate User Pays

TD walked through some potential changes to the Modification Rules to accommodate user pays. Attendees asked what would happen if the UNC Panel was split (5:5) on votes whether

or not to seek a view from Ofgem. TD explained the rules could be written either way – to require or prevent referral in the event of a split Panel vote.

MB was concerned that development of complex funding methodologies specific to each Proposal may lead to the raising of multiple alternatives where only the proposed funding differed. TD suggested it may be possible to limit funding options, for the Shipper/Transporter share being constrained to one of 0:100, 20:80 or 50:50. This was not supported by all. AR suggested funding was a two stage process – who bears the cost then how to split the cost between them - which would benefit from Authority guidance. CB suggested that the whole approach could stifle change, but JD emphasised that the Authority will only take a view and a different funding approach could be put forward in a Proposal.

MC asked who would be expected to meet costs for Modification Proposals that are not implemented. TD expected the ACS to define this. It could, for example, include a specific charge related to non-implemented Shipper raise Proposals, with costs met by Shippers in proportion to their DN Transportation Charges. Attendees suggested that care is needed to avoid the inadvertent introduction of two processes, one for Shippers and one for Transporters, and it may be best to deal with both in the same way.

AT was broadly in favour of TD's model, but was keen to avoid double charging for impact assessments. JD accepted that the treatment of costs to produce impact assessments are unclear. CS pointed out the importance of specifying the requirements from any impact assessments if robust information was to be provided. MB suggested Elexon provides a suitable model, and that the Proposer should meet the costs associated with a withdrawn Proposal.

SLa asked where Panel recommendations on implementation fit in and queried whether or not, Panel Members without a vested interest in a particular Proposal, should be allowed to make a recommendation. AR pointed out that Panel recommendations are not simply a cost consideration, but rather whether the Relevant Objectives are met.

MB asked how UK Link changes not associated with a Modification Proposal would be treated, to which it was suggested that the existing approach is expected to continue.

TD pointed out a dual governance issue since an ACS amendment would need to be approved if a user pays Modification Proposal were implemented. JD suggested that the Authority might be concerned with an approach that meant directing a Modification automatically consented to an ACS change. AT asked why the ACS should not sit within UNC governance. JD confirmed the ACS is expected to be a Licence requirement, and suggested that the user pays approach needs to be proven before changing basic concepts especially as it is meant to be aligned as closely as possible to the current regime. SL suggested the ACS changes should be clear early in the process, and prior to consultation.

CS asked JD if Ofgem will publish criteria as to what is and is not expected to fall within the user pays approach. JD suggested the more fundamental decision is whether or not a UNC modification is required. AR asked if in future, the Authority would be looking for assessment of the percentage impact on the relevant objectives. JD acknowledged that Special Standard Condition 11 will need reconsideration, but decisions may well be subjective to a degree. SL felt not having specific criteria is no better or worse, than the current process. AR believed funding guidelines would help avoid the process getting bogged down in funding discussions and disagreements. JD reminded members that this group need to identify the process and not necessarily how to apply it.

SL asked how Ofgem envisage user pays impacting upon the urgent modification process and if the adoption of an Elexon style post implementation audit may be beneficial. JD stated that this had not been proposed, but felt it could have merit. However, he questioned what parties would want the audit to cover – IAs, funding arrangements, system costs etc.?

Action xSER019: Joint Office (TD) to amend the 'Updating the UNC Modification Process to Accommodate User Pays' model in line with discussions.

5.0 Progress Review

CS provided a brief update and confirmed that the timeline remains on schedule:

- UNC modification proposal development on track for presentation to the December Panel;
- Charging Statement has been reviewed;

- o Final version of Contracts available end January, although xoserve will endeavour to release earlier; and
- o Consideration of change is complete.

CS said xoserve proposed another meeting in early February to review the ACS, Terms of Reference and any implementation issues.

Action xSER020: Joint Office (MiB) to arrange 11 February 2008 meeting in Solihull area.

6.0 AOB

None.

7.0 Diary Planning

The next meeting is booked for:

- 11 January, commencing 10:30am, at 31 Homer Road, Solihull. B91 3LT.

Action Log – xoserve Services workgroup – 10 December 2007

Action Ref	Meeting Date(s)	Minute Ref (orig' ref)	Action	Owner*	Status Update
xSER011	29/10/07	2.1 (3.4)	E.ON & SSE (AT & MB) to investigate what SPAA requirements, if any, will need to be considered as part of the drafting of a modification proposal process in time for the 19 November meeting.	MB	Update provided. 10/12/07. Closed
xSER012	29/10/07	2.1 (3.4)	Ofgem (JD) to provide a presentation on 'General Charging Changes' at the 19 November meeting.	JD	Update provided 10/12/2007 Closed
xSER013	19/11/07	4.2	The Authority (JD/MCo) to check what has, or has not been included within the Transmission (NTS owned systems) Price Control.	JD/MCo	Update provided 11/02/08 Carried Forward
xSER014	19/11/07	4.3	The Authority (JD/MCo) to define what has been allowed for future core system model proposals.	JD/MCo	Update provided 11/02/08 Carried Forward
xSER016	19/11/07	4.3	Joint Office (TD) to draft a rewrite of the UNC Modification Rules in time for the 10 December meeting.	(TD)	Completed Closed
xSER017	10/12/07	3.3	xoserve (CS) to update the draft ACS document in light of the points raised, for issue before Christmas	(CS)	Update due on 11/02/08
xSER018	10/12/07	3.4	xoserve (AM) to publish Terms & Conditions at the earliest opportunity	(AM)	Update due on 11/02/08
xSER019	10/12/07	4.1	Action xSER020: Joint Office (TD) to amend the 'Updating the UNC Modification Process to Accommodate User Pays' model in line with discussions.	(TD)	Update due on 11/02/08
xSER020	10/12/07	5.0	Action xSER021: Joint Office (MiB) to arrange 11 February 2008 meeting in Solihull area.	(MiB)	Completed 11/12/07