

**REVIEW GROUP TERMS OF REFERENCE**  
**CODE REVIEW PROPOSAL No 0329**  
**Post Implementation Review of Central Systems Funding and Governance**  
**Arrangements**  
**Version 0.1**

**Date:** 29/10/2010

**Nature and Purpose of Proposal**

It is proposed that the industry undertaking a review of the current Central System Funding and Governance Arrangements that have been in place since GDPCR.

*Development of Current System Funding and Governance Arrangements*

As part of the DN Sales process a transporter agency was created to ensure that transporters could continue to provide a common service and system interface to Code Parties. Though at the time of the DN Sales the funding arrangements for central system was maintained, it was Ofgem's belief whilst undertaking the Gas Distribution Price Control Review (GDPCR) in 2008 that "the current funding model may provide poor incentives both on the GTs to provide anything more than a minimum level of service and on users (primarily shippers and suppliers) to manage xoserve's costs".

To resolve this issue, GDPCR separated funding for xoserve into two discrete areas; Core services, where the current funding arrangements would continue and User Pays services where charges are levied upon the User requesting the change. To allow Code Parties to assess the implications of any change, xoserve would provide a Rough Order of Magnitude (ROM) cost, with a Detailed Cost Analysis (DCA) undertaken if the modification was implemented.

These two changes fundamentally altered how Code Parties interact with central systems, in particular when looking to alter how services are provided, either via UNC modification proposals or User Pays Services outside of the UNC.

To support these new arrangements a suite of documents and operating procedures were developed. In addition to the UNC, these documents include:

- Agency Services Agreement(ASA)
- Agency Charging Statement (ACS)
- User Pays Guidance Documents
- Contract for Non-code User Pays services

These processes have remained fundamentally unaltered since they were implemented as a result of GDPCR.

*Review Timing*

The current regime has been in operation for two years. During that time several major changes to the UNC have been progressed and funded through both Core Services and the User Pays regime. This has provided useful, practical experience in how the new regime operates. In addition industry developments (Project Nexus, the Smart Metering Implementation Programme and the forthcoming GDPCR) will be impacted by the current System Funding and Governance arrangements. It therefore seems germane to assess the current arrangements to see whether any lessons can be learned from past experience and identify improvements to the current framework.

## **Review Group Terms of Reference**

### **Review Scope**

The current funding and governance arrangements for central systems have a significant bearing on many aspects of the UNC. In light of this any review will require a wide scope. It is suggested that the following areas are examined:

- Review of the current UNC process including:
  - Initial identification of funding requirement,
  - Apportionment of Funding
  - ROM & DCA process, including transparency and timescales.
  - Development and levying of charges.
- Review of funding frameworks operated by the transporter agent.
- Comparison of industry practices (gas and electricity) to identify possible improvements that can be applied to gas.
- Comparison of current process with commercial best practice.
- Examination of previous Modifications progressed under the current regime to identify good practice, as well as areas of improvement.

### **Suggested Aims and Outputs**

The aim of the review is to assess the current funding framework, identifying areas of good practice, as well as those areas that may require improvement. Particular attention will be given to previous experience of how the current regime has operated since it was implemented.

Efforts will be made to identify both short-term solutions, as well as more fundamental reforms.

It is envisaged that this Review Group will produce a report detailing its findings, recommending any necessary changes to the UNC, any other industry code or organisation working practices. It is recommended that the Review Group completes its work within a 6 month period. If necessary this could be extended by seeking agreement of the Modification Panel.

It is not expected that this Review Group should attempt to develop detailed modification proposals as part of the final report.

### **Scope and Deliverables**

The Review Group shall focus on changes to the UNC but also identify where improvements could also be made to areas of governance outside of the UNC.

The Review Group is to consider recommendations based on evidence provided during the topic meetings.

### **Limits**

The Review Group will focus on developing recommendations that efficiently address any

issues identified in a proportionate and cost effective manner. The Review Group will consider changes required to procedures and processes within UNC, however it will not develop changes for non-code processes but will request reports from review group members who can influence changes with the appropriate industry body.

### **Composition of Review Group**

This review group is open to all Transporters and their agents, Code Users, Ofgem and consumer representatives.

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

### **Timetable**

It is proposed that a period of six months be allowed to conclude this review, however given the complexity of the issues this may need to be extended depending on how this review develops.

Although the frequency of meetings will be subject to review and potential change by the Review Group it is suggested that the initial frequency of the meetings be monthly.

Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

Review Group Workplan	
Meeting Number	Topics for Discussion
1 – 05/11/10	Review terms of reference
2 – 22/11/10	
3 – 15/12/10	
4 – 05/01/11	
5 – 26/01/11	
6 – 16/02/11	
7 – 09/03/11	
8 – 30/03/11	Review of progress to date, including actions, recommendations and draft report