

Xoserve FGO – UNC mod 0565 workgroup on charging

3rd May 2016

Aims of today

We have been asked to provide:

Background on FGO progress on charging and cost allocation to date, including deliverables and key discussion points

Background

Xoserve is the Central Data Services Provider. Under the enduring FGO arrangements, Xoserve will continue to provide services to GDNs, NTS, Shippers and IGTs.

Most of Xoserve's costs are currently funded through transportation charges paid by GDNs and NTS through their price control allowance.

A small proportion of costs are recovered under a User Pays arrangement.

One of the concerns to be addressed through the FGO programme is the perceived lack of transparency in the costs incurred by shippers to fund Xoserve's services – because they are not currently able to distinguish between these CDSP charges and transportation charges.

Xoserve's costs fit into two broad categories:

1. Service delivery/run the business costs – the costs of delivering the CDSP services; and
2. Change/project costs – investment costs driven by the market, infrastructure requirements etc.

The FGO programme needs to develop and implement for 1 April 2017:

- A revised cost allocation approach - A list of prices for services and projects that users have confidence in
- A revised charging methodology – An approach for charging users for the services that they use

Timeline and Dependencies

We need to note some key dependencies for this work.

- Ofgem plans to publish its decision on GT funding value and mechanism by September 2016
 - A minded to position is due in May
- UNC 565 Workgroup reports to UNC Panel in October 2016 – does the charging methodology need to be set out in UNC or DSC (or both)?
- Current draft GT Licence Condition gives Ofgem a 42 day window to ‘not approve’ proposed CDSP Charging Methodology and CDSP Charging Statement prior to implementation
 - Next iteration is due to be published for informal consultation in May
- What advance notice do CDS users require of 2017/18 Charges?
 - Current assumption is for charging statements to be issued in January 2017, with potential for this to be moved earlier in future years

Ofgem's decision letter – October 2013

Aims

- Ofgem's is, "clear about what needs to be achieved – transparency and accountability – and that this can only be achieved if users are able to distinguish between transportation charges and charges for using the CSP."
- "The industry will need to develop a cost allocation methodology. It should seek to target costs on users based on their use of different services. The intention should be for those that drive additional costs to pay for them in order to further incentivise cost controls. To do that, changes will be needed to the existing cost allocation and associated charging statement, in particular to deal with any reallocation of services".

Requirements for the new arrangements:

- "All users will collectively fund the CSP which will require changes to the funding approach. A new cost allocation methodology will need to be established..."
- "Cost allocation methodology needs to be adaptable over time, for example, to take account of new services or new groups of users".
- Ofgem see "benefit in the methodology being included in the UNC" for services in the UNC.
- For additional services not in the UNC, "a separate contractual arrangement and charging framework will be needed".
- Direct invoicing, "warrants further debate"

Progress to date

Principles and assumptions

The following principles were discussed at the last workgroup on 5 April and at POB on 8 April :

1. Cost allocation and charging to be linked to the work of the business plan and budget setting process completed during 2016/17.
2. Cost allocation and charging arrangements to provide greater transparency and accountability to all users.
3. Costs to be targeted on users, based on their use of different services, with an incentive for cost control.
4. Changes to the charging methodology to be taken forward in future where these better meet the following objectives:
 1. Cost reflective, as far as possible;
 2. Facilitate competition;
 3. Reflect developments in the gas industry; and/or
 4. Facilitate CDSP users meeting their relevant obligations.

Principles and assumptions

Other considerations included:

- a) The Charging Methodology and Charging Statements will be subject to regulatory review for the 2017/18 Financial Year only¹ and in the case of appeals to the Authority, coming from CDS users.
- b) The invoicing of Charges for Central Data Services will be carried out in such a manner that each user has transparency of their total charges.
- c) Xoserve will be protected from the consequences of user failure to pay.

¹ this is subject to the final drafting of the GT licence condition

High level summary

Xoserve as CDSP have submitted draft cost forecasts to Ofgem for the remainder of the GD1 period (to March 2021) – this was submitted on 29 January 2016.

There are two key elements of costs from an FGO perspective:

1. Service delivery/run the business costs – the costs of delivering the CDSP services; and
2. Change/project costs – investment costs driven by the market, infrastructure requirements etc.

Deliverable – the response to Ofgem's RFI was circulated to POB members

RTB costs - Cost allocation

The Agency Services Agreement sets out the c.300 services that Xoserve currently provide. This is provided at two levels of detail:

- Level 1 – 9 high level cost categories; and
- Level 2 – 23 service areas.

Each level 2 service area therefore contains a number of services.

Xoserve have provided cost allocations for Levels 1 and 2 to the workgroup for 2013/14.

Most costs are currently recovered through transportation charges, and are allocated to GDNs and NTS on a high level 89/11 split.

Progress to date – service use allocation

Our starting point for analysing the services that Xoserve provide and that users use – was the existing Agency Services Agreement.

This allowed:

- 1 – A discussion around the options for contracting under FGO – now being taken forward by 0565
Who does Xoserve need to contract with, and for what services?
- 2 – A discussion around the options for charging
Who uses Xoserve services, and so who should pay for them?

The workgroup and POB have reviewed the c.300 service lines currently provided by the CDSP to identify which constituencies use which services.

- The working assumption was that users of services would pay the costs associated with delivering these services.
- The working assumption for change/project costs has been that NTS will fund Gemini costs, while investment in other projects would be funded by those who use the related services/systems.

Deliverable – the working assumption on service usage allocation was circulated to UNC 0565 following the 21 March meeting.

Progress to date – constituency groupings

Following on from this service allocation exercise, the workgroup developed this into a new Level 3 – known as constituency groupings.

A constituency grouping is where services are grouped under the same Level 2 service area, but also have a common group of service users.

For example.

Level 2 - Service area 1 – “managing the supply point register”.

- This service area includes 24 individual services.
- These 24 services can be grouped into two constituency groupings:
 - Constituency grouping 1 – is a set of services used only by shippers; and
 - Constituency grouping 2 – is a set of services used by both shippers and GDNs.

Under this approach, the workgroup identified 43 constituency groupings.

It was agreed that this would be a sensible working basis for future work as a compromise between the c.300 service lines and the high level detail in Levels 1 and 2.

Deliverable – the report summarising the breakdown of services into 43 constituency groupings was circulated to UNC 0565 following the 21 March meeting

Approaches to take

There were a range of views on how best to take forward the development of the cost allocation approach and charging methodology. Broadly these ranged between:

- Seeking a detailed understanding of the costs to provide each/most of the individual services – based on the relevant cost drivers; and
- An allocation approach using Level 2 cost data – with costs then allocated down to different groups of services and to users.

Ofgem had issued a request for information to the GDNs, NTS and Xoserve – seeking forecast costs in order to inform their consultation on the mid-period reopener.

Given the urgency of response, the workgroup developed a working assumption approach to inform the Ofgem response. It was agreed that significant further work would be needed to develop this further.

Progress to date – allocation of costs to constituency groupings

Using the 43 constituency groupings, the workgroup took a three step approach to allocating costs.

- Step 1 – Allocate Level 2 costs to the 43 constituency groupings.
- Step 2 – Allocate costs between constituencies within each of the 43 constituency groupings.
- Step 3 – Allocate costs to the individual parties within each constituency.

It should be noted that this work was taken forward in order to ensure that a response could be provided to meet Ofgem's request for information on 29 January. It was specifically noted that this was therefore a working assumption and that significant further work would be needed to develop the cost allocation approach and charging methodology to be in place for April 2017.

The workgroup reviewed each set of constituency groupings sitting under each Level 2 service area. They discussed potential options for how to most appropriately split the Level 2 costs to the constituency groupings based on their understanding of the relative demands and requirements of each constituency grouping.

The workgroup identified a chosen working assumption cost allocation for each constituency grouping.

Deliverable – the report summarising the proposed cost allocation to each of the 43 constituency groupings was circulated to UNC 0565 following the 21 March meeting

Progress to date – allocation of costs to constituencies

Once a proposal for allocating costs to each constituency grouping had been put forward, the workgroup discussed potential options for allocating costs to the different constituencies within each.

- In some cases this step was unnecessary, as the constituency grouping included only one constituency – (23 of the 43 constituency groupings)
- For the remaining 20 constituency groupings, a range of options was discussed, but all were relatively high level and recognised that more work was needed. These included:
 - Allocation on a supply point basis;
 - 50/50 split between shippers and GTs; and
 - High level split between GDNs and NTS – similar to the current 89/11 approach.

Deliverable – the report summarising the proposed cost allocation to each of the 43 constituency groupings was circulated to UNC 0565 following the 21 March meeting

Progress to date – Funding of change

The workgroup discussed two principal categories of change:

- Market driven change – this is change required in order to meet the requirements of a user, or a group of users. This type of change is funded through User Pays arrangements at present. The working assumption was that this would continue.
- Infrastructure change – this is investment that benefits a wider group of users (or all users). This is currently funded through transportation charges.

At POB on 22 January, the suggestion was made that:

- Change projects be mapped to specific service lines where possible – with funding therefore aligned to service users.
- If this is not possible, then costs could be allocated based on the overall percentage split of costs to constituencies for RTB costs.

It should be noted that this work was taken forward in order to ensure that a response could be provided to meet Ofgem's request for information on 29 January. It was specifically noted that this was therefore a working assumption and that significant further work would be needed to develop the cost allocation approach and charging methodology to be in place for April 2017.

Deliverable – the report summarising Xoserve's allocation of costs using the above approach was circulated to UNC 0565 following the 21 March meeting



Developing a workplan

Development of the next steps/workplan

Further discussion has taken place at POB and workgroup following the 29 January submission.

The group developed a revised set of overarching charging principles which were discussed at POB on 8 April.

The group agreed at a high level the potential next steps to take. KPMG drafted this into a more detailed document, and this was circulated ahead of the POB meeting on 29 April.

Deliverable – Proposed next steps for charging and cost allocation workstreams

It was agreed at POB that a sensible way forward would be for the UNC 0565 workgroup to set up a separate group to focus on the charging and cost allocation work, making use of the relevant governance arrangements in place.

It was proposed that this be Chaired and facilitated by the Joint Office, with KPMG attending to provide additional resource and to take forward arising actions, as well as to continue to provide an overarching programme management role for the FGO programme (including elements within and outside the scope of the 0565 modification)

This group could then take forward the agreed workplan.

Proposed next steps – to be discussed at POB on 29 April

We circulated a proposed scope of work for next steps – as requested at the last POB meeting. We will discuss this at POB on 29 April and provide an update for discussion at the 0565 meeting on 3 May.

The key steps are summarised below.

- 1 – Confirm the charging principles.
- 2 – Develop the service footprint as of 1 April 2017.
- 3 - Develop view of cost drivers for each service, and indicative delivery costs.
- 4 – Workgroup discussion on the above.

Deliverable – Draft scope of work will be discussed at POB and an update provided on 3 May.



Thank you