**0841 Workgroup Report – Draft Text**

The text in yellow is new text and has not previously been reviewed by the Governance workgroup.

The non highlighted text has previously been reviewed at a Governance workgroup meeting including the text that has been crossed out. The crossed out text relates to issues that have since been addressed through later versions of the modification and/or the Business Plan Information Rules (BPIR) and therefore is deemed no longer appropriate.

***Can Governance Workgroup participants please review this document and bring any questions/queries to the 05 February 2024 meeting.***

Impacts & Other Considerations

#### Workgroup review of Consumer Benefit Areas

#### A Workgroup Participant agreed that this Modification could improve the service, assuming scrutiny of the budget impacts the level of services. Another Participant challenged that at best it can be a marginal impact. There are some services that the CDSP does purchase which impact consumers (e.g. switching) and therefore those investments may be better/improved as a result of the budget being scrutinised. The Workgroup agreed that consumer benefits would be marginal.

#### Cross-Code Impacts

Possible interactions with and impacts on the iGT UNC should be reviewed.

#### EU Code Impacts

None.

#### Central Systems Impacts

None. While there will be changes to the requirements on the CDSP, these will be information provision related only, not systems related.

Initial Representations

Initial Representation received from Xoserve (see link)

[Xoserve initial response to Mod0841 V1.0 (3).pdf (gasgovernance.co.uk)](https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-05/Xoserve%20initial%20response%20to%20Mod0841%20V1.0%20%283%29.pdf)

Rough Order of Magnitude (ROM) Assessment

|  |  |  |  |
| --- | --- | --- | --- |
| **Assurance Activity Options** | **Indicative Cost Range** | **Mod 0841** | **Mod 0841A** |
| Assurance Audit conducted by 3rd Party (not under existing arrangement) (every year) or; | £45,000 - £70,000 | √ | √ |
| Assurance conducted under the existing CDSP Contract Assurance Audit Plan by 3rd Party under the co-source arrangement (every 3 years) or; | £0 | × | √ |
|  |  |  |  |
| Assurance conducted under the existing CDSP Contract Assurance Audit Plan by existing CDSP resource (every 1 to 3 years depending on the outcome of the audit) or; | £0 | × | √ |
| Assurance conducted by the DSC CoMC | £0 | × | √ |

**QUESTION**: Assume nothing changes other than 0841A column needs to be removed?

#### Panel Questions

**Q1. How is efficiency defined**

The term efficiency is used in the Licences and in the UNC. It is a known and frequently used term, which is well understood.

**Q2. How does this Modification interact with the current Appeal and the Appeal process**

The Modification does not interact with the current Appeal and the Appeals process.

Workgroup Discussions

**20 March 2023**

The Proposer introduced the Modification and explained the proposal aims to is to improve the ability of UNC Parties to fulfil their obligation jointly to control and govern the CDSP on an economic and efficient basis (under UNC General Terms, Section D, 1.4.4), through the introduction of explicit requirements for efficiency, greater transparency of the Budget and revised governance processes. ~~With the Modification proposing changes to UNC, IGT UNC and DSC which are required in order for the Budget to be more transparent and enable scrutiny by CDSP Customers, and for the Budget governance to be made more robust.~~

~~The Workgroup reviewed the list of proposed documents alongside the timetable, noting it may be challenging to bring this to Panel in June 2023 due to the work involved and that at least one full meeting will be required to review the Legal Text.~~

N.B. The initial version of the Modification proposed changes to UNC, IGT UNC and DSC. However, through workgroup development the proposer, with the latest version of the Modification, is now only proposing changes to the UNC. It was acknowledged that some of the proposed changes, that have since been removed the initial version of the Modification, could be picked up via another Modification/Request.

**17 April 2023**

Discussions around alternative means to achieve the objective took place with the Proposer pointing out that all current routes available had been exhausted (i.e., multiple Appeals, escalation etc) and therefore, they deemed this Modification necessary.

There was general consensus amongst the Workgroup that the proposed changes would have a positive impact by providing greater transparency around costs incurred.

~~The Proposer shared a list of documents that would require changes as a result of this Modification and then took the Workgroup through the proposed changes. It was noted that the legal text provider had not produced the amended documents and therefore a full line by line review of the legal text will be required by the Workgroup once it became available.~~

~~It is hoped that the changes will take effect in time for the next CDSP Budget 2024/2025.~~

Workgroup briefly discussed the CDSP Efficiency Review and concluded this will run separately to the Modification but its results will be of interest to those involved in the Workgroup. More information can be found in the documentation for the DSC Contract Management Committee.

<https://www.gasgovernance.co.uk/dsc-contract/140623>

**Governance of documents**

A Workgroup Participant noted that currently CDSP Service Documents only go to DSC Change out of courtesy and agreed it should be DSC Contract rather than DSC Change.

A Workgroup Participant advised that Third Party and Additional Service should sit under DSC Contract.

**22 May 2023**

Discussions around a proposed alternative approach, the introduction of a Guidance Document, which was put forward by the CDSP took place (see minutes for detail: [Workgroup 0841 22 May 2023 | Joint Office of Gas Transporters (gasgovernance.co.uk)](https://www.gasgovernance.co.uk/0841/220523)). A Workgroup Participant suggested that a Guidance Document would allow the CDSP more flexibility, however, the Proposer pointed out that this would rely on the CDSP ‘doing the right thing’ but without having any obligation to adhere to the Business Plan rules. It was also pointed out that having codified rules, about how a Business Plan should be put together, is not unique and is a recognised approach across the industry.

A CDSP representative challenged that being able to get the Business Plan right the first time each year is difficult due to the subjectivity of requirements. The Proposer clarified it is *how* decisions are made and that being able to demonstrate full transparency is the intention of the Modification. The Proposer explained the process: the Business Plan will be presented to the DSC Contract Committee; the DSC Contract Committee will provide suggestions for CDSP to consider; the DSC Contract Committee will consider if CDSP has complied or if further work is required. In practice, the Committee will go through the Business Plan line by line and agree on each aspect of it.

It was noted that the Workgroup cannot pre-judge what the Committee will do. What the Committee thinks is required also depends on the quality of the plan that is delivered, and that the DSC Contract Committee’s concern will be around the uncertainty, what the baseline point is, and the rules. The Proposer suggested that this is nothing new in terms of what CDSP already do, it is about documenting it within the Business Plan.

A view was sought from those Workgroup participants that are also DSC Contract Committee members:

One member agreed in principle, stating transparency will be useful but has similar concerns as to how this will work in practice. Another member stated that there is a key concern that the Xoserve Board is not prevented from setting a budget and fulfilling their duties and there seems to be a risk of a continual loop, if so, there is a risk of the Xoserve Board not being able to set the budget.

The Proposer clarified that this Modification would introduce a process:

* Provides a list of requirements that CDSP is required to conform to;
* The draft of the Business Plan goes to DSC Contract Committee;
* The DSC Contract Committee provides suggestions to CDSP.
* All discussions are documented.

The Proposer confirmed that there is no interaction between the Board’s decision making process and the process being introduced as a result of this Modification. However, some Workgroup Participants noted that it does introduce additional decisions at the DSC contract committee which could shift the current dynamic. Some Workgroup Participants was also noted that this introduces a level of rigour that is required. Some Workgroup Participants believe the Modification introduces additional opportunities for other parties to engage with the Business Planning process.

If CDSP ignores the advice, there could be an appeal. Some Workgroup Participants believe that this Modification could reduce the chances of an appeal being required by providing greater transparency within the Business Planning process. Some Workgroup Participants believe that this Modification could actually increase the risk of Appeals being raised.

**21 June 2023**

~~A Request is due to be raised by Centrica which will incorporate some of the original considerations under this Modification which have since been removed (see amended Modification). This means that there will be no change to where the documents are reviewed under this Modification. Charging related tests will be introduced into the Change Management Procedures as part of this Modification.~~

Workgroup discussed whether the Business Plan Information Rules (specifying the minimum contents of the business plan and how the Business Plan should be drafted) should form part of the UNC or whether it could form a UNC Related Document. If it were a UNC related Document, the governance for this document was then further discussed noting that the Proposer was very keen to ensure that there should be a wide ranging, robust industry consultation to publicise changes proposed. The document itself can specify the process to change it, potentially including a DSC consultation route (with potential review by a DSC Committee) prior to it going to UNCC for approval. Workgroup and the Legal Text Provider appeared to be content with this suggestion.

A Workgroup participant asked whether there would be any change to the current Appeals process. The Proposer confirmed there are no planned changes being introduced with this Modification.

Workgroup reviewed the draft Business Plan Information Rules. Discussions covered the transparency requirements and how this might work in practice. The CDSP representative noted that the CDSP is aiming to meet as many of the requirements set out in this document ahead of the Modification being implemented.

**26 July 2023**

The Workgroup considered the changes made to Section 3 ‘Why Change’. A CDSP representative wished to note, that as the CDSP, they have no control over what costs/savings are passed onto consumers (via Shippers/Suppliers) and that this Modification may not result in cost savings for consumers. The Proposer stated that providing greater transparency should have a positive effect on ensuring costs are efficiently controlled.

The Workgroup reviewed the Business Plan Information Rules. A Workgroup participant enquired about the granular level of information and the comparison to the Authority guidance provided to licenced entities such as the Electricity System Operator (ESO). Another Workgroup participant noted that obligations required under licence conditions would be different to that of service providers and that licenced parties are required to provide suitable scrutiny, but not all information is in the full public domain. Therefore, they were not sure if the micro-level snapshots of how money is spent was suitable, noting organisations like Elexon and other service providers do not have this level of scrutiny.

A CDSP representative also asked about the ESO comparison challenging this was not a like-for-like comparison with the CDSP being a service provider. It was suggested a comparison to Elexon would be more suitable in terms of the nature of service. The Proposer explained the intention is to increase the level of scrutiny and challenge of budgets, and that the reference tools, used in other areas of the industry offer examples of good practice. The examples / tools discussed were considered relevant for a monopoly Service Provider and therefore did not only apply / be relevant for a network company or a licenced party.

The Workgroup discussed how the costs would be assessed. The Proposer explained how confidential and non-confidential information could be managed through the current DSC Contract Management Procedures, with the use of confidentiality agreements similar to those signed by Performance Assurance Committee (PAC) members. It was noted that confidential meetings can be managed similarly to PAC where member-only meetings are held when reviewing commercially sensitive data. The Workgroup considered that the role of DSC Contract Management Committee Representatives would not need to change, however, the meeting arrangements may need to be adapted to avoid public access to cost information.

The Proposer summarised the change process for amending the Business Plan Information Rules to ensure amendments are controlled and appropriately approved. It was envisaged this would be approved by either the UNCC or DSC Contract Management Committee with certain parameters in place.

**22 August 2023**

The CDSP Representative shared the CDSP’s view of the Business Plan Information Rules, explaining they had completed a high level assessment of whether the requirement could be met (on a reasonable endeavour basis), possibly/maybe met, or could not currently be met for the Business Plan Year 2024/2025.

The Workgroup discussed the difference between the Business Plan Information Rules and the DSC Contract Committees role in agreeing the level of information to be included in the Business Plan. The Proposer explained that the Business Plan Information Rules sets out the ***type*** of information required to be included in the Business Plan, whereas the DSC Contract Committee would agree the ***level*** of information to be included. The Modification also introduces the process to make amendments to the Business Plan Information Rules document, which is expected to be UNC Related Document.

There was a discussion around whether the Modification would reduce the risk of an Appeal being raised. A Workgroup Participant questioned whether the level of detail being agreed could open the door to more Appeals, considering that the level of detail is to be agreed in a committee that is only attended by a small number of representatives. A CDSP Representative agreed, commenting that one person may feel something is very well evidenced and another may not, which could actually increase the risk of an Appeal.

A discussion around what was meant by the DSC Contract Committee having to ‘agree’ the level of detail to be included in the Business Plan and whether a vote was required; and what would happen if agreement couldn’t be reached and whether this would delay the budget process. The Proposer explained that the way in which the DSC Contract Committee comes to an agreement will not change as result of this Modification.

The Proposer stated that the goal of the Modification is not to reduce Appeals per se; it's hoped that fewer Appeals will be a consequence of improved ability to scrutinise the Business Plan, and referred to the purpose of the Modification:

*The purpose of this Modification is to improve the ability of UNC Parties to fulfil their obligation jointly to control and govern the CDSP on an economic and efficient basis (under UNC General Terms, Section D, 1.4.4), through the introduction of explicit requirements for efficiency and, greater transparency of the Budget.*

It was also noted that the current Business Plan Consultation process was not changing as a result of this Modification.

**~~Review of ROM~~**

~~The CDSP shared the draft ROM with the Workgroup explaining that there were two elements which made up the cost:~~



**TO BE DELETED**

~~There was a challenge from some of the Workgroup Participants around why the costs were so high considering this should be a process that is already being carried out. A CDSP Representative explained that there was uncertainty around the detail required to ensure adherence to the ‘Third-party assurance activities’ as outlined in the Business Plan Information Rules.~~

~~A Workgroup Participant suggested that assuring Business Planning activities is something that other parties do as part of their Business Planning process (e.g., A professional auditing company certifying a Board budget, independent verification of the budget etc). Other Workgroup Participants agreed.~~

~~The Proposer explained that the expectation was for the CDSP to develop a Business Plan based on the Business Plan Information Rules and then have a third party assure against the activities undertaken, noting that other monopoly organisations do this. The Proposer then shared an extract from another party that follow a similar Business Plan assurance process~~ [~~Talkbook template (wwutilities.co.uk)~~](https://www.wwutilities.co.uk/media/3533/appendix-1g-kpmg-assurance-on-business-plan-accuracy.pdf)~~:~~ *~~a review of compliance with Ofgem’s Business Plan guidance and guidance in their Sector Specific Methodology Decision document; a series of checks to validate the accuracy and consistency of the numbers presented in the main Business Plan narrative.~~*

**~~Legal Text~~**

~~The Legal Text provider was asked whether the Business Rules within the Modification were sufficient to commence work on the Legal Text. They agreed that they would discuss the Business Rules with the lawyers and feedback to the next Workgroup. They did point out that BR11 may need to be removed and therefore a revised version of the Modification may be required. However, it was agreed that the feedback from the lawyers would be considered first.~~

~~A discussion around whether the Business Plan Information Rules document would be approved by DSC Contract Committee or UNCC. The Legal Text provider stated that they expect the document to be reviewed by the DSC Contract Committee, but approval would be via the UNCC. They also confirmed that they expected the document would become a UNC Related Document. A Workgroup Participant did raise a query around General Terms D and whether DSC Committees are independent of UNCC.~~

**19 September 2023**

A Workgroup participant highlighted, in relation to the Third Party Assurance and requirement for a full third party audit to be conducted on a yearly basis, that this was not economical, and an audit would usually be on request or targeted to a specific area. The Proposer highlighted this would not require an extensive review and would merely be a sense check to ensure the efficiency and robustness of process in meeting the requirements of the Business Plan Information Rules, as well as the accuracy of the numbers. It was discussed amongst the Workgroup what it was specifically that is being audited, with the Proposer confirming it was the output of the process as opposed to the process itself. A discussion took place on whether the use of the internal audit team could be used in conjunction with an external audit team as a hybrid, the Workgroup agreed that this could be an option.

A Transporter representative raised a concern around the wording of “minimum level of detail” having to be agreed in Business Rule 6, could cause a conflict when being read in conjunction with the Standard Special Condition A15 (3C) of the Gas Transporter Licence, suggesting the wording be amended to read “to give opportunity to the Committee”. The Proposer, disagreed with this point, stating that there is nothing to prevent the CDSP from providing more detailed information or less in the form of a summary. Further, there does not appear to be anything preventing the CDSP from responding to both the requirements of the UNC and Business Rule 6.

[Standard Special Condition - PART A Consolidated - Current.pdf (ofgem.gov.uk)](https://www.ofgem.gov.uk/sites/default/files/2023-03/Standard%20Special%20Condition%20-%20PART%20A%20Consolidated%20-%20Current.pdf)

**October 2023**

A discussion around ‘economic efficiency’ took place. A workgroup participant pointed out that in terms of UNC-related obligations, economic efficiency flows from the licence and the licence does not define economic efficiency. It was also noted that economic efficiency can be demonstrated in different ways and that in relation to the provision of CDSP services, there is already a phrase around economic efficiency.

It was noted that CDSP is already following the some of the Business Plan Information Rules (BPIR) and there is already an expectation that CDSP will service their clients and that the BPIR document will go out as an instruction manual that will ensure that there is a framework that CDSP can adhere to.

The latest version of the BPIR was reviewed and a query was raised about the definition of the term ‘resources’. The proposer clarified that this is a general term that covers not only the money but also any other resources required to deliver services. The proposer clarified that the term resources include headcount, FTEs, and anything else the CDSP might need such as an additional rented workspace etc. A concern was expressed that there may be an issue with GDPR is salaries are included as that may be sufficient to identify individuals due to the small number of people working in Xoserve.

**QUESTION**: Do we need to review the concern over resources potentially being identified?

**November 2023**

The workgroup discussed the CDSP assurance resource element covered within the ROM, noting that as Xoserve had produced their business plan (BP24) which largely reflects the contents within the modification, then why are additional resources required to implement this modification as they must have existed to produce BP24. Chair sought to clarify that Xoserve had to utilise additional resources this year but at their own risk. However, providing these additional resources would be unsustainable should the modification be implemented.

The CDSP representative clarified that it is not their intention to revert back to the previous BP process and they will be including the level of detail provided this year, for the subsequent years.

The proposer explained that it appears that the additional resource is something which would be required going forwards regardless of whether the modification is implemented or not and would like to understand why those costs for additional resources are linked to the modification.

The CDSP representative confirmed that the costs are derived from the requirements from when the modification was first raised as they, CDSP, made a decision to try and follow the rules being proposed, recognising that there was good practice which could be adopted by the CDSP, even though the modification had not been implemented. It was acknowledged that the additional resources need to be funded, whether it is through the modification or via a different route.

The proposer acknowledged that the additional resource/costs will be needed but does not understand why it is linked to the modification, if it has already been established that the additional resources will be need going forward.

Chair sought to clarify and noted 0841 potentially meant that the additional resources were required. And further noted that if the modification was not implemented, would the CDSP revert back to previous ways of working and therefore the additional resource would not be required.

The proposer stated that the CDSP mentioned that has been done for this year and will form the baseline moving forward and that there will be no reversion of a lesser form of a business plan. Therefore, the costs will be backed into the subsequent business plan regardless of whether the modification is implemented.

The CDSP mentioned that they will continue to develop the business plan, following the process which has been followed this year, and noted that everyone is in agreement that additional resource is required. CDSP further mentioned that they could remove the additional resources from the ROM and include it in BP24 as an ongoing cost moving forward.

**December 2023**

The proposed confirmed that the Business Plan Information Rules (BPIR) will be created as a new UNC related document.

A CDSP representative questioned whether the default level or a timeline can be agreed upon by which point the lowest level of granularity, for each specified information category, needs to be presented by the CDSP. Another CDSP representative agreed, stating that a clear timeline would help avoid delays.

The Chair enquired whether having a specified date is restrictive to the CDSP. A CDSP representative responded, stating that it is helpful rather than restrictive as if the date was not agreed, there would be no clarity as to the time by which the detail needs to be agreed.

The proposer emphasised that this refers to the minimum level of detail and CDSP can exceed this and provide more detail than the minimum level.

When discussing the DSC Contract Committee meetings and non-disclosure agreements, a workgroup participant noted that Committee members represent their constituencies and asked whether signing a non-disclosure agreement would prevent them from discharging their responsibility of representing their constituencies. The legal text provider representative was asked whether the lawyers had any concerns about this. The legal text provider representative confirmed that the lawyers did not raise any concerns about this. The Workgroup accepted this.

**ROM Discussion:** A CDSP representative noted that being able to achieve the same results as Business Plan 2024 without any additional resources may not be sustainable. Therefore, the intention was that the additional costs required for achieving the standards of Business Plan 2024 will not be incorporated into the ROM but the CDSP will include the additional resource requirements, which were introduced when creating the 2024 Business Plan, will be included in the budget moving forward. ER clarified that JR wanted to check whether there would be any challenges to the budget if those costs were included.

The proposer questioned whether it is correct for CDSP to remove everything from the ROM that refers to them requiring extra resources. A CDSP representative confirmed that it is correct, and the amended ROM would now only include costs that are related to the additional requirements being introduced as part of the modification and not those that are already in place. The proposer asked whether they should expect an increase of £50k to £60k in the budget which is the cost of the resources required to produce the BP24 and future business plans, regardless of whether the modification is implemented or not. The Chair confirmed that now that the costs had been removed from the 0841 ROM the costs needed to be included somewhere as it was now an enduring cost associated with producing the business plan.

The proposer asked a question around the co-source audit arrangement and whether that really means zero costs.

A CDSP representative explained that Xoserve put aside money for external audits in a co-source plan and they agree with the third party on what needs to be audited each year, noting that Xoserve could ensure that the business plan is included as part of the audit.

A CDSP representative clarified that each year there is a finite number of things the CDS can ask to be audited as a part of the co-source agreement. The CDSP could incorporate the business plan into this plan, however, this means that something that would have previously been chosen for auditing would need to be sacrificed. CDSP noted that if the industry does not wish to sacrifice one of the audits, there would be additional costs involved in updating the co-source arrangement as this would be seen as additional work.

**January 2024**

Following previous discussions around having a date by which the lowest level of granularity needed to be agreed by, the proposed confirmed that a drop dead date around providing the lowest level of granularity has now been added with the date being 31 July, this has also been reflected in the Legal Text. This date was decided as a result of discussions between the proposer and the CDSP, the CDSP representative confirmed they are happy with this date.

The CDSP representative stated that Xoserve was broadly happy with the modification as it currently stands and confirmed that the final draft of BP24 has now been published pending approval by Xoserve’s Board. Xoserve believe the published draft of BP24 represents an appropriate level of transparency and detail and that it intends to maintain this level of detail in future business plans.

**Text Provided by CDSP**

One of the purposes of the Business Plan Information Rules (BPIR) is:



The BPIR goes onto describe the outputs required from the third-party assurance activities (described in clause 5). This includes a description of the assurance activities, any remedial actions required and the assessment as to whether the BPIR requirements have been satisfied.

In order to meet these requirements in the most efficient way, we previously discussed with WG the most appropriate time to undertake the assurance activities.

To confirm, the view and expectation to achieve this, is to undertake the assurance activities after the first draft of the Business Plan. This allows the assurer to undertake the required review and provide an assessment on areas which require remedial actions. We expect this will give the CDSP time ahead of the final draft to address these areas and make the required changes where possible.

Based on this, we expect the main assessment to be completed after the first draft of the Business Plan, with a follow-up check on the areas identified to be improved where the CDSP has taken remedial action ahead of the final draft.

We believe this meets the requirements within the BPIR to have an assessment of the BPIR being satisfised within the final version of the Business Plan, whilst also giving time for the CDSP to act on any areas for improvement.

LegalText

AWAITING FINAL VERSION