

Minutes of Review Group 0334
Post Implementation Review of Central Systems Funding and
Governance Arrangements

Wednesday 20 April 2011

via teleconference

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andy Miller	(AM)	Xoserve
Chris Warner	(CW)	National Grid Distribution
Gareth Evans	(GE)	Waters Wye
Joanna Ferguson	(JF)	Northern Gas Networks
Joel Martin	(JM)	Scotia Gas Networks
Jon Dixon	(JD)	Ofgem
Jonathan Wisdom	(JW)	RWE npower
Martin Brandt	(MB)	SSE
Richard Street	(RS)	Corona Energy
Simon Trivella	(ST)	Wales & West Utilities

1. Introduction

All materials related to this meeting are available at www.gasgovernance.co.uk/0334/200411

BF welcomed all to the meeting.

1.1. Minutes from the previous meeting

The minutes of the previous meeting were approved.

1.2. Review of Action from the previous meeting

Action RG0334 018: ST to coordinate drafting the outline of a modification seeking to bring ACS methodology changes within UNC governance.

Update: ST reported that this was in its early stages and under consideration.

Carried forward

2. Review Group Discussions

2.1. Review of commercial arrangements

GE gave a presentation, offering a broad overview of the commercial elements that Shippers and Suppliers take into account before appointing a third party service provider, and pointed out that budgetary considerations and cost were often the defining issues in practice.

JD asked if elements of this might be considered for adoption within the UNC. GE pointed out that in a commercial rather than a regulated environment, more attention was given to budgetary costs and how much had already been spent so far in a financial year. In the regulated environment consideration never seems to be given as to how parties are able to accommodate funding associated with modifications, and perhaps a

more pointed focus is needed on potential cost. Commercial service providers tend to seek to offer value added services or other options to achieve a solution that is affordable for the customer

GE pointed out that vendors could also say no, and that Xoserve did not appear to have this right, even if they think something is a really bad idea, and must provide the service. RS added that the commercial model has a more open and flexible approach on costing a solution, and it was possible to negotiate a product and cost structure. The Gas Forum was quoted as an example, and RS explained how it went about tendering.

AM pointed out that Xoserve has to work in a licensed environment and this limited its ability to negotiate price and take a product to market; it had no speculative ability. Within its restrictions it did try to influence and inform to achieve more straightforward ways of doings. The Gas Forum was a single party; in the UNC regime multiple parties are involved with many different commercial positions, and it was hard to satisfy all views or even reach a consensus at times. JD thought there was some scope for Xoserve to consider speculative services and funding models to allow a degree of innovation and reward.

Prior to User Pays, funding was covered from a central budget (Transco) and this was a strength in the old process. ST commented that one of the benefits of User Pays was to remove the concept that only the Transporters could hold purse strings (and potentially obstruct). GE believed there was a more selfish focus by parties on 'what was the cost impact for me' rather than what might be construed as being 'fair across the industry'. RS added that modifications were judged by how much it was likely to cost/benefit an individual party. Many modifications may not be what parties actually want but go through because at a material level they are not significant.

ST disagreed with these views; industry changes feed into a lot of open discussions, User Pays allocates costs and adds a thoroughness of consideration to the review of a modification. RS believed User Pays was not necessarily an incentive to engage even if it hit a party's bottom line.

JM referred to the User Pays elements of Modification 0224 and noted that many parties had been quite vocal regarding this. It was implemented because Ofgem believed it to further the relevant objectives; the industry identified a material impact; costs were split and some parties declared they had no interest in it. RS observed that Corona took a longer-term view, and recognised a future value for industry. Parties would still raise objections to modifications even though they had no intention of using the proposed service/product.

AM referred to previous expense associated with change and asked if Xoserve were perceived as expensive, adding that they were trying to reduce complexity and costs wherever possible, although the complexities of changes could tie to certain positions.

JD referred to the Review Report section 3.1 and asked if Xoserve could put up a fully costed alternative. AM would like the opportunity to advise that there may be other ways of doing things. Once a modification had been formally raised it was more difficult as the terms/parameters of the modification as written/proposed may inhibit discussion. AM would like the option to raise a number of alternatives and also to point out if something did not make sense or was not likely to be effective. Also, to contribute to the understanding of a business case for a proposal, especially in terms of perceived benefits or lack of them.

JW suggested that Xoserve should be able to present options to a Workgroup and not rely on the Proposer to put these forward. A Proposer may have had to get internal sign off and may be limited in his welcoming of changes that forced a review. Reasoning might be difficult to explain and reverse, but to put alternatives into the public domain to offer opportunities for a Workgroup to develop could be seen as positive.

AM reiterated that Xoserve would prefer to be involved in discussions with the Proposer before a modification is formally raised. RS suggested adding something to the existing process indicating that preliminary discussions with Xoserve had taken place. There was no obligation to agree, but certainly to hold a dialogue and discuss points of view; disagreement should not be viewed as negativity. Xoserve can only comment on the systems changes and need to be seen as completely independent.

JD commented that Xoserve's input should be a standard expectation with regard to any modification that involved system changes. BF added that there should be an expectation that the Proposer should seek to engage in preliminary dialogue. It was suggested that the templates might have to be amended to include these expectations.

JD then raised the question, was there a problem in that some User Pays services have remained unused, how can take up be regulated to ensure costs were not stranded.

RS believed that choice had a value even if a party did not use the service; it was part of the cost of having joint systems. There may be individual pressure to argue against a particular service, even if considered in the round it might be good.

Implementation issues were discussed. GE suggested the 'bundling' of releases, as there were often changes that parties were prepared to wait for, eg as part of Project Nexus; cost savings and efficiencies might be identified by doing this. JD commented that there might be overall efficiency, but parties would be hit by multiple changes at the same time and might find this difficult. GE responded that a party could make budgetary provision earlier for changes that it was known would be coming in the future; a longer-term view could be extended to plan these in.

JD envisaged the UNC Modification Panel having more of a role regarding fixed implementation dates; more information would be required to make a commercial decision to either bring forward or delay. JD then questioned if the UKLC was currently in possession of all such information that might be required in order to make a recommendation to the Panel. MB suggested that early engagement of UK Link Committee (UKLC) should help to inform the Panel of an appropriate length of time to implement a modification. RS observed that wider understanding by small suppliers might be required of the composition and election process for UKLC, as he believed that negative perceptions were held in this respect. MB briefly explained the election process and pointed out that current members were listed on the Joint Office website.

JD then referred to Modification 0224 and the DM Elective regime; AM confirmed there were still no signings to this. Given the lack of response to this, JD asked if there was a flaw in the process when trying to assess the likely engagement of Shippers? Was there a need for greater commitment beforehand, or perhaps a caveat for example that provision of a service will be subject to a minimum number of parties taking it up. The potential for unintended 'white elephants', ie having to provide services that no one was

interested in, was becoming very apparent. RS was of the view that part of operating in a commercial environment meant that one had to accept that on occasion something in which you had invested time and money may not come to fruition or perform as well as you had expected. This should not be seen as a failure, but rather as an experience that the industry could learn from.

GE believed that commercial rigour should be maintained to the end of a process, and that if at any point it was recognised that a service/product was not going to be used then it should be possible to suspend or halt the process, especially if costs had been imposed on parties. ST referred to Modifications 0263 and 0276 (with which issues were clearly visible) and thought these were a case in point whereby the ability to 'walk away' would have been welcomed – the Authority had given its approval with no agreed funding mechanisms in place. JD responded that the ACS can be signed off but there was no contractual obligation to use services. ST commented that if it was all under a single governance arrangement everything could be discussed at the same time. RS added that Shippers and Suppliers usually indicate a service is required when they perceive a commercial benefit. JW pointed out that often parties do not review their initial decision or look at longer-term costs to the industry, and suggested that it would be useful to have a checkpoint just before implementation to reassess whether a service/product was going to be used, or a 'User Commitment' to big spends. There is usually a final check in the commercial world, before committing to a final 'yes', and this does not seem to be present in the regulatory sphere. An inordinately long period of time often elapses before Ofgem informs the industry of its decision, and in the meantime parties' views can change, as can circumstances.

RS pointed out that Shippers needed reasonable notice to make major high cost changes and this should be taken into account more often. It was often difficult for small parties to attend meetings and everyone needed to have a voice.

Recognising that charges have to be cost reflective, JD then asked if the charging mechanisms were sufficiently flexible; should Xoserve be able to earn more but also be able to absorb a loss if a service/product fails? It was suggested that perhaps Xoserve's margins could be looked at.

It was pointed out that if a service/product has been developed with 100% cost pass through, it could be seen to be unfair if only one party actually takes it up; perhaps transactional costs can be capped and other recovery mechanisms considered; or perhaps a service/product only becomes 'live' subject to a minimum number taking it up.

RS suggested that a more detailed breakdown within the charging statements would be beneficial for all parties.

GE commented that in the light of these discussions regarding commercial best practice, it would be useful to start to give greater consideration to the total cost to the industry and where the financial burdens might lie. It would be prudent to initiate a final check on the position and enable Xoserve not to carry out implementation if specific indications are that the service/product is no longer required or will not be used.

2.2. Draft Report

BF will publish a revised version of the Report based on these discussions and further explorations will take place at the next meeting.

The Workgroup's attention then turned to reviewing and discussing the matrix summarising the position following the previous meeting.

It was suggested that extra columns could be included to capture the issue trying to be addressed, any next steps, and the solution.

It was pointed out that 'consensus' did not necessarily imply an acceptance or a positive view.

JD advised that the discussions could be recognised as part of the stakeholder engagement process and would be a missed opportunity if the outcomes focused on short-term incremental changes, it would help if the industry also had a view longer-term that could be focused on. It was accepted that complete agreement was not necessarily possible, but it was good to get a feel for the appetite for particular fundamental changes going forward. Can feed into and facilitate changes. .

3. Any Other Business

None raised.

4. Diary Planning for Review Group

The next meeting will take place at 09:30 on Tuesday 17 May 2011 via teleconference.

ACTION LOG – Review Group 0334

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0334/018	30/03/11		Coordinate drafting the outline of a modification seeking to bring ACS methodology changes within UNC governance	WWU (ST)	