

Minutes Review Group 0334
Post Implementation Review of Central Systems Funding and
Governance Arrangements
Wednesday 26 January 2011
at 31 Homer Road, Solihull, B91 3LT

Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Helen Cuin (Secretary)	(HC)	Joint Office
Alan Raper	(AR)	National Grid Distribution
Alex Ross	(ARo)	Northern Gas Networks
Brian Durber	(BD)	E.ON UK
David M ^c Crone	(DM)	ScottishPower
Gareth Evans	(GE)	Waters Wye
Graham Frankland	(GF)	xoserve
Joel Martin	(JM)	Scotia Gas Networks
Jon Dixon*	(JD)	Ofgem
Jonathan Wisdom	(JW)	RWE npower
Martin Brandt	(MB)	SSE
Sean M ^c Goldrick	(SMc)	National Grid NTS
Stefan Leedham	(SL)	EDF Energy
Steve Mulinganie	(SM)	Gazprom
Tim Davis*	(TD)	Joint Office

* via a teleconference link

1. Introduction

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 008: Consider future funding (allocation) options for discussion at the 07/01/11 meeting.

Update: GE advised that some concerns had been identified apportioning funding options upfront, he believed this may create hurdles. He suggested that this could be noted as an option for consideration. Also see item 2.1.

Action: Complete.

Action RG0334 009: SL to consider future funding (allocation) options for discussion at the 26/01/11 meeting.

Update: See item 2.1. SL provided an overview of suggestions they had recently presented to Ofgem to explain an approach EDF would like to see to the change management and funding process for xoserve.

Action: Complete.

Action RG0334 0010: AR/GF to consider future funding (allocation) options for discussion at the 26/01/11 meeting.

Update: See item 2.1.

Action: Complete.

2. Review Group Discussions

Copies of all materials are available from the Joint Office web site at: www.gasgovernance.co.uk/0334.

2.1. Funding options for the change process

SL explained that at the present time, xoserve is viewed as an OPEX cost. However, in the Shippers view xoserve is a critical service provider. He suggested that as a minimum, the Governance of xoserve should reflect that Shippers ultimately fund xoserve. It was suggested that xoserve should be given their own budget, with separate price controls and a potential to tender for services without instruction from transporters. It was viewed that the governance of Elexon is better than xoserve's current governance approach. Outputs should focus on costs, customer satisfaction and ability to support industry change in a timely manner. He suggested having a board, with potentially two Transporters, a number of Shippers and possibly a Customer Representative, to give direction on investments.

SMc explained that this is there already governance through panel, workgroups and committees, he was not aware anything was missing – he would not expect xoserve's board to be involved in the change process on a regular basis. GE suggested it could give a strategic approach and the ability to manage change from an industry point of view. AR explained xoserve have a responsibility to deliver what is in the UNC, he questioned what responsibilities they would have, what the controls would be? He believed there would be a need to re-examine Transporter responsibilities and obligations with all board members sharing in the obligation to deliver them.

SMc was concerned that it was suggested membership of xoserve board would be in the shippers interests – any board member should be there to represent xoserve's interests. He was also interested to see how xoserve's ownership/equity and responsibilities would be managed should shippers be given board membership. SL was still to be convinced that it was not possible, as a similar model was in use for Elexon.

AR believed this would be a big change compared to existing arrangements. However, he did not see any objection if responsibilities are addressed as he recognised that changes are usually made for the benefit of shippers.

MB believed that greater transparency in the process was needed so that parties could understand if the services being delivered represented good value. SM highlighted Shippers are a customer of xoserve and therefore they should have an oversight of how it is managed. This is due in part to the fact that shippers have no choice but to use the services provided by xoserve.

GF provided a presentation on the future Funding allocation of Change Development. Explaining, Elexon receive funding to analyse and develop options around the actual change itself - funding is agreed at the BSC panel.

GF raised a number of questions in the presentation around funding and how could it work in gas – Regulator/Government/Europe, GTs, Shippers, Multi-party options. The group should consider potential ways to fund development costs, i.e. market share, or only those who use the service. GF

covered the User Pays aspects of funding. However, the downside to this would be how to manage others who may join the service later once the development costs had been recovered. Potential ways to fund development costs could be invoice portions of the development cost at regular intervals or create an upfront central change fund. GF covered the pros and cons of both methods.

MB – those who wish to use the service, central cost, if late comers, reconciliation of costs could be undertaken providing rebates for those already funded, and charging new comers the appropriate %. AR was not convinced as it would create a significant amount of work to debit and credit parties who commit to taking services at different times.

SM was not convinced the electricity models were best practice, he felt more clarity was needed on management of funding. His view is that there may need to be a certain socialisation of costs to enable the market to operate and develop efficiently, even though some parties may not get an immediate benefit from a change.

GE questioned a pass through cost charge. He does not see the xoserve change process as a competitive activity, it is a necessary cost to allow the market operate and develop, therefore funding could be allowed without the need to develop charges for every service.

AR suggested that the benefit in the current process is to allow the opportunity parties to request change and for it to be adopted by one, some or all parties. SM referred to LTV as not being a benefit to the LSP market as it is restricted to the SSP market operators. However, he would gain a benefit if he chose to enter this market, therefore he could see the benefit of the change. MB argued against imposing costs on parties that may not wish to use this service.

BF may want to assess benefits of change – how to measure the benefits proposed following implementation.

MB expressed concerns that in principle the solution may be acceptable but sometimes the cost of the change is not know until post implementation and that costs should be know before a decision is given on implementation. He gave an example of the SARS change.

DME was discussed and the expected demand used to estimate transactional charges, and how these can be affected when a service is not widely taken up. GF explained that demand could be difficult to understand and parties are reluctant to provide information when the information required is commercially sensitive.

The workgroup discussed the implementation of UNC 0224 and the take up of the service. AR explained that costs were being incurred and these will need to be recovered at some stage. However, there needs to be continued assessment to ensure costs do not continue to be incurred if the service is not going to be used. GE argued that take up may be driven by parties changing systems at different times, therefore their expectations of when to use the service is different but they would still want it to be available when their systems are available.

GE surmised that there is a need to consider how to recover costs and what the principle would be. There may be benefit in considering a take or pay approach for transactional costs.

JW challenged the situation when the proposer requests a change, the change is made, but the service not utilised by the proposer or any other

party. How should the costs be recovered, should they be from the proposer?

GE felt that the principle of user pays is to fund the changes you may want, but it may mean you end up incurring a lot of cost if there is little industry take up of the service.

SL explained that under the User Pays process for any costs that are not covered, the mechanism is for the costs to be recovered through the transportation charge.

It was suggested that all relevant parties should fund development costs as the service is available to all and those that use the service should incur transactional/operational costs.

2.2. Draft report

Members considered the areas reviewed within the Review Group Report. It was agreed further consideration of the report was required to document the recommendations. However, it was recognised that a consensus on some issues/topics may not be reached.

2.3. AOB

None

3. Diary Planning for Review Group

The next meeting is scheduled for 16 February 2011 at ENA, London. The main purpose of this meeting will be to consider the Review Group Report.

ACTION LOG – Review Group 0334

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0334 008	15/12/10	2.2	Consider future funding (allocation) options for discussion at the 26/01/11 meeting	ICOSS (GE)	Complete
RG0334 009	07/01/11	2.2	Consider future funding (allocation) options for discussion at the 26/01/11 meeting	EDF Energy (SL)	Complete
RG0334 010	07/01/11	2.2	Consider future funding (allocation) options for discussion at the 26/01/11 meeting	Transporters (AR/GF)	Complete