

## Representation - Draft Modification Report 0565 0565A 0565B

### Central Data Service Provider: General framework and obligations

**Responses invited by: 5pm 08 December 2016**

**To:** [enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)

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| <b>Representative:</b>                   | Richard Pomroy  |
| <b>Organisation:</b>                     | Wales & West Utilities Ltd  |
| <b>Date of Representation:</b>           | 8 <sup>th</sup> December 2016   |
| <b>Support or oppose implementation?</b> | 0565 – Qualified Support<br>0565A – Oppose<br>0565B - Support   |
| <b>Alternate preference:</b>             | <i>If either 0565, 0565A or 0565B were to be implemented, which would be your preference?</i><br><br>0565B                      |
| <b>Relevant Objective:</b>               | <b>c)</b> Positive 0565, 0565A, 0565B<br><br><b>d)</b> Positive 0565, 0565A, 0565B<br><br><b>f)</b> Positive 0565, 0565A, 0565B |

*Please note that due to the number of documents required the ‘Supporting Business Documentation’ page has been linked to the main modification page, which includes the legal drafting as follows:*

*CDSP/DSC Draft for Consultation: <http://www.gasgovernance.co.uk/0565/DSC> (CDSP and DSC documents)*

*UNC Draft for Consultation: <http://www.gasgovernance.co.uk/0565/UNCdrafting> (UNC Legal Text)*

#### **Reason for support/opposition: Please summarise (in one paragraph) the key reason(s) for each modification**

The three proposals only differ in respect of the transporter representation on the Data Services Contract (DSC) Change and Contract committees. In all other respects the modifications are identical and therefore we believe they are overall all positive in respect of relevant objectives (c), (d) and (f).

We support and prefer 0565B as this is consistent with existing representation on UNC related committees. Markedly different arrangements for the DSC committees may raise wider questions about membership of other committees and we think that a principles

led approach should apply rather than implementing arrangements that seek to address perceived problems which in our view are considerably overstated.

We offer qualified support for 0565 because although we believe it gives large transporters appropriate influence; we have concerns that this will give IGTs more seats than NTS. We acknowledge that this has been proposed as an attempt to reach a consensus.

We do not support 0565A as we think that the representation proposed is not appropriate when the actual, rather than perceived risks are considered.

**Self-Governance Statement:** *Please provide your views on the self-governance statement.*

We agree that none of the modifications are self-governance.

**Implementation:** *What lead-time do you wish to see prior to implementation and why?*

We agree that implementation should be on 1<sup>st</sup> April 2017.

**Impacts and Costs:** *What analysis, development and ongoing costs would you face?*

This arrangement replaces the current arrangements under the ASA and WWU does not anticipate additional cost as it already attends the monthly Change and Contract Managers meetings with the Transporter Agency. The only potential additional cost would be if WWU is required by the credit rules to post security which it is not currently required to do.

There remains a risk to the Networks that reduced control afforded through this modification may reduce the ability of the network to manage costs within the revised price control set. Any costs over those set by Ofgem will be borne by the shareholders of WWU to the extent set out in the Totex Sharing Mechanism.

**Legal Text:** *Are you satisfied that the legal text will deliver the intent of the Solution?*

Yes

**Are there any errors or omissions in this Modification Report that you think should be taken into account?** *Include details of any impacts/costs to your organisation that are directly related to this.*

No.

**Please provide below any additional analysis or information to support your representation**

The only differences between the proposals are in the representation for Transporters on the two DSC committees. The two committees are:

- Change Management Committee - which deals with changes to services offered by Xoserve; and

- Contract Management Committee - which enables all contracted parties to participate in discussions relating to Xoserve performance, priorities and budget setting/out turn.

All the proposals propose the same arrangements for both committees which would have six Shipper members and six Transporter members.

### **0565B**

0565B proposes Transporter membership split one NTS, four DN and one IGT. It is consistent with the post Nexus make-up of the UNC modification panel which was subject to consultation in modification 0440. The ratio of four DN to one IGT member was also recently implemented as part of the arrangements for the Performance Assurance Committee introduced by modification 0506V in January 2016 following Ofgem direction. Our view is that the proposed representation appropriately represents the Transporter members. NTS representation is appropriate considering that much of their interest is in Gemini decisions on which are reserved to NTS only and the representation of IGTs is appropriate considering the risks they face and the costs they incur.

Notwithstanding the above, the financial implications also need to be considered. Ofgem's Funding decision in Sept 2016 to impose a reduced price control allowance effectively prevents GTs from recovering any overspend of these allowances on a pass through basis. One of the reasons for not allowing pass-through of CDSP costs was to incentivise large transporters to ensure that the CDSP was efficient. To do this, large transporters need to be able to exert effective influence over the CDSP to control costs efficiently and effectively. This becomes less easy to achieve if DNs are not able to control change decisions that could come from both code and non-code changes with a range of development options where large transporters are outvoted in terms of the solution. Given that DNs are charged 41% of the cost of funding the CDSP, as opposed to 29% Transmission; 29% Shipper; and 1% IGT funding, we believe that 0565B provides the appropriate level of large transporter influence.

We therefore support and prefer 0565B.

### **0565A**

0565A takes a view that each part of the market should have equal representation namely two members for each of NTS, DN and IGT. This is in line with Shipper representation of splitting the market into domestic, non-domestic and challenger; however we think that this argument is flawed because the risk to IGTs is considerably overstated when it is examined for the reason given below.

Section 3 (Why Change) of the draft modification report states in relation to the benefits of 0565A: "Shipper and Transporter members with smaller numbers of customers felt that their views would be marginalised and decisions imposed unilaterally if the size of their voice was related to their share of the financial value of CDSP costs"

We also note that the Brookfield Utilities' representation (published on 5<sup>th</sup> December in advance of the 8<sup>th</sup> December deadline for representations) states "Our concerns are based on restricted class changes which impact only IGTs and GDNs as the models presented under UNC0565 and UNC0565B will always provide GDNs with a majority advantage (and subsequent approval) regardless of the IGT constituency position."

We think that, although, in principle this risk exists, in practice the concern is overstated as there are only **two** services that are restricted Transporter class (that is only Transporters can vote on them) and of these only **one** is shared exclusively with GDNs (that is NTS do not take the service and would not vote on matters relating to that service). The stated concern of Brookfield Utilities therefore relates to one service line.

All other services are either shared with Shippers, or not taken by IGTs.

The service shared by all Transporters is the provision of supply point information services which Transporters are obliged to provide by the terms of the GT Licence. Section 1.5.3 (c) of the proposed drafting for the new UNC General Terms section D states:

*no Party shall knowingly exercise any right under this Section D or the DSC in a way, which would result in a Transporter or Independent Gas Transporter being in breach of a Relevant Licence Provision.*

Therefore IGTs are not at risk in relation to this service.

The second service is the generation of a supply meter point reference number. The combined total of these costs represents approximately 11% of the total cost of the services shared amongst Transporters of which IGTs pick up a small proportion. We therefore believe that the IGT concern is overstated in relation to their stated concern over the risk they face regarding the one restricted class service shared by DNs and IGTs.

Of the 13 services (with an associated cost) taken by GDNs, IGTs share 8 service areas, but there are a further 5 areas that are not shared. As an example, IGTS do not have any interest in energy balancing and transportation services; the calculation of metered quantities and volumes; and demand estimation services, which form a large part of the total services provided on behalf of GDNs and Transmission (40%). It is likely that significant parts of the business of the DSC committees would not involve IGTs and therefore a representation of two IGTs on each committee would be a significant resource requirement compared with the costs to which they are exposed. The drafting of UNC General Terms D 4.3 being consulted on does not provide for proxies nor alternates. This means that there is a risk of Voting Members not attending committee meetings due to other more important matters taking priority and therefore there is a risk that the Transporters collectively may not be fully represented at meetings.

For these reasons we do not support 0565A.

## **0565**

0565, which originally had the arrangements now proposed by 0565B, has one NTS, three DN, two IGT representatives. We think it provides large transporters with an appropriate level of influence (five votes as for 0565B) however we do not think that it is appropriate to give IGTs twice as many votes as NTS. While much of the NTS cost base is related to Gemini decisions on which are reserved to NTS only it is hard to justify an arrangement which gives IGTs 2 votes when their share of costs is 1% but only 1 vote to NTS which incurs 29% of the cost. For this reason we only offer qualified support for 0565.