

Industry Dialogue on xoserve Services and their Funding

Workgroup Minutes

Monday 08 October 2007

Ofgem, 9 Millbank, London SW1P 3GE

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Alan Raper	(AR)	National Grid Distribution
Alex Thomason	(AT)	National Grid NTS
Andy Miller	(AM)	xoserve
Chris Smith	(CS)	xoserve
Collette Baldwin	(CB)	EON
Graham Frankland	(GF)	xoserve
Hazel Ward	(HW)	RWE Npower
Jemma Woolston	(JW)	Shell Gas Direct
Joel Martin	(JM)	Scotia Gas Networks
Jon Dixon	(JD)	Ofgem
Kevin Woollard	(KW)	BGT
Neil Henson	(NH)	Wales & West Utilities
Nicola Rigby	(NR)	National Grid NTS
Rekha Patel	(RP)	Waters Wye Associates
Richard Street	(RS)	Statoil
Robert Cameron-Higgs	(RCH)	Northern Gas Networks
Sauvita Shaunak	(SS)	EDF Energy
Simon Trivella	(ST)	Wales & West Utilities
Steve Briggs	(SB)	Centrica
Steve Ladle	(SL)	Gemserv

1.0 Introduction

TD welcomed all attendees to the meeting.

2.0 Minutes of last meeting

The minutes of the 14 September meeting were accepted.

3.0 Discussion

3.1 Ofgem's Proposals

The Ofgem Proposals Document had been published, indicating that the DNs would be incentivised to introduce a user pays approach for some xoserve service lines by assuming new charges would raise £2.83m and hence excluding this from allowed revenue under the price controls. TD suggested that if any attendees would like CS to run through a presentation on the proposed approach, they could contact him after the meeting.

3.2 Terms of Reference

CS indicated that the draft terms of reference sought to deliver a framework cover ongoing change and new service provision as well as the initial service lines proposed by Ofgem. The intention was to cover all the various items by Christmas.

RS enquired how the service lines were defined when Ofgem ascertained the level of revenue to exclude. He remained concerned about the potential for under/over recovery of costs and the introduction of perverse incentives. JD argued that the level was a reasonable estimate and the order of magnitude would not change.

HW enquired whether excluding the six service lines had been agreed or remained open for discussion. TD indicated that the group was focussed on implementation issues assuming Ofgem's proposals were unchanged, but that the process for considering the scope was through Ofgem's consultation. JD emphasised that the industry, not Ofgem, had identified these as potential user pays service lines. To some extent, this limited introduction could be seen as a test of the approach on which to build in future. JD also emphasised that user pays should not be seen as a proxy for Shipper pays. Others may obtain services from

xoserve so long as they are prepared to fund the work themselves. A driver for introducing user pays is to further incentivise xoserve to be dynamic and business focused, meeting customer needs.

TD suggested there was a need to develop an approach to fit the six proposed service lines and that completing this initially could deliver a framework against which ongoing change could be considered. On this basis, it was agreed to split the Terms of Reference deliverables between the initial service lines and ongoing change.

With regard to the Agency Charging Statement, CS advised that the draft licence condition states that prices should be 'cost reflective', but not how they should be set or amended. It was agreed to include this element within the plan.

Under Invoicing and Cash Collected, it was agreed that this applied to all parties, not just Shippers, and that credit needed to be considered.

HW suggested the terms of reference might usefully include a post implementation review. JD suggested this may not be within the Workgroup's brief, but an assessment would need to coincide with the next Price Control review.

Action xSER007: Joint Office to refine the Terms of Reference for 29 October meeting.

3.3 Workplan

CS outlined the proposed workplan, emphasising the need to find a balance between speed and detail – some basic principles need to be agreed at the next meeting if the timetable is to be achieved.

3.4 Timeline

CS explained that the Transporters are looking for a facilitating UNC Modification Proposal to be presented to the December Modification Panel having first been reviewed by a Workstream as appropriate. System changes to support the approach would need to be initiated in advance of April 2008.

Ofgem approval of the Agency Charging Statement was targeted for January 2008, and the process for establishing and amending this will be based on that for Transportation Charging Methodologies.

RS enquired whether consideration had been given to developing a generic appeals process if users felt the amount they were asked to pay was unreasonable. AM pointed to the existing dispute resolution route for UNC services. For non-UNC services, this would be covered within the contract between the user and xoserve.

Attendees confirmed they were content, subject to the suggested refinements, with the timeline and workplan. In light of concerns about the tight timescale, however, it was agreed that progress against the plan should be reviewed at the end of each meeting.

Action xSER008: xoserve to refine the Timeline for 29 October meeting.

3.5 Scenarios

SB presented some thoughts on change scenarios. It was suggested that it might be beneficial to test the summary matrix using UNC Modification Proposals, such as 0088 (Extension of DM service to enable Consumer Demand Side Management) or 0104 (Storage Information at LNG Importation Facilities).

CS commented that as a 'general principle', the system costs associated with a UNC Modification Proposal could be spread across all Users. Others felt that consideration needed to be given to up-front development costs - there could be a one-off payment which may or may not be followed by ongoing transactional costs and charges. If others sought to subsequently use the service, a refund mechanism may also be equitable.

JD said Ofgem was happy to see the proposer(s) of a change reap the benefits of that change, although benefits may not be restricted to just the proposer(s) such that multilateral contracts may help. JM asked how up front costs would be managed in the event that a Modification Proposal was rejected. TD suggested the logic pointed towards a form of pre-works agreement.

TD asked if Ofgem's proposed price control allowances included an element to fund xoserve costs in support of ongoing change. JD suggested that, if mandated, Transporters would

need to fund change themselves. It was observed that a proposed change could be uneconomic in the short term but, over time, could become economically viable. JD suggested that in cases such as this, xoserve may be expected to fund the change if such change was allowed for within the price controls.

AM said xoserve expected to engage with the market on potential new service lines, but would not necessarily bring these to the market if the response to ideas was poor. He suggested that, as a rule of thumb, anything not covered within the UNC could be regarded as a user pays service.

TD asked members for their views on how best to progress the scenario analysis. SB suggested that a decision tree might prove helpful, and TD agreed to try to produce one for the next meeting.

Action xSER009: Joint Office to develop a decision tree document for consideration on 29 October.

4.0 AOB

None.

5.0 Diary Planning

It was agreed that the meetings should take the form of all day sessions and alternate between Solihull and London, proposed as follows:

- 29 October commencing 10:00am (Solihull);
- 19 November commencing 10:00am (London)
- 10 December commencing 10:00am (Solihull).

Action Log – xoserve Services workgroup – 08 October 2007

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner*	Status Update
xSER001	14/09/07	2.2	Joint Office to issue an invite to 08 October meeting to all interested parties.	TD	Closed 08/10/2007
xSER002	14/09/07	2.2	Joint Office to continue to publish all Workgroup documentation.	TD	Closed 08/10/2007
xSER003	14/09/07	2.2	xoserve to prepare draft Terms of Reference for consideration at 08 October meeting.	CS	Closed 08/10/2007
xSER004	14/09/07	2.2	xoserve to prepare a Workplan for consideration at 08 October meeting.	CS	Closed 08/10/2007
xSER005	14/09/07	2.2	xoserve to prepare a detailed timeline (plan), indicating critical points, for consideration at 08 October meeting.	CS	Closed 08/10/2007
xSER006	14/09/07	2.2	Centrica to prepare various test Scenarios for consideration at 08 October meeting.	SB	Closed 08/10/2007
xSER007	08/10/07	3.2	Joint Office to refine the Terms of Reference for 29 October meeting.	TD	Due on 29/10/2007
xSER008	08/10/07	3.4	xoserve to refine the Timeline for 29 October meeting.	CS	Due on 29/10/2007
xSER009	08/10/07	3.5	Joint Office to develop a decision tree document for 29 October meeting.	TD	Due on 29/10/2007