

Industry Dialogue on xoserve Services and their Funding

Workgroup Minutes

Friday 14 August 2007

Ofgem, 9 Millbank, London SW1P 3GE

Attendees

Tim Davis (Chair)	TD	Joint Office
Alan Raper	AR	National Grid Distribution
Chris Smith	CS	xoserve
Collette Baldwin	CB	EON
Graham Frankland	GF	xoserve
Jon Dixon	JD	Ofgem
Laura Doherty	LD	RWE Npower
Mark Cox	MC	Ofgem
Nick Salter	NS	xoserve
Nicola Rigby	NR	National Grid NTS
Paul Edwards	PE	AIGT
Paul Hemsley	PH	Scotia Gas Networks
Richard Street	RS	Statoil
Steve Briggs	SB	Centrica
Steve Ladle	SL	Gemserv

1. Introduction

TD welcomed all attendees to the meeting.

2. Discussion

2.1 Ofgem's Initial Conclusions

MC outlined the position which Ofgem had reached with respect to xoserve funding as part of the GDPCR. The introduction of a user pays approach is to be proposed. Funding for core xoserve costs will be provided through the traditional price control mechanism, but funding with respect to the costs of user pays services would not be provided. Instead these would be charged for directly and the revenue excluded from the price control. A high level supporting framework is provided in the draft licence conditions on which Ofgem is currently consulting. To achieve the intended 1 April implementation date, Ofgem was looking to the industry to develop the detailed framework needed to underpin a user pays approach in parallel with the GDPCR process.

MC confirmed that the price control allowances would reflect the need to fund a replacement for UK Link. SB welcomed xoserve's indication that they planned to arrange a series of meetings to debate the replacement programme especially, given the significance of the change, the proposed high level seminar to engage Shippers at the highest level.

CS presented on behalf of xoserve and the DNs, providing more detail on how the DNs envisage Ofgem's proposed approach being implemented. SB asked whether Shippers would be able to propose changes to the Agency Charging Statement and whether it could be provided for under the UNC rather than the Licence. CS explained that the draft Licence conditions provided for this statement in the same way as other charging statements and, as such, Shippers would not be able to formally propose changes. MC confirmed that if Shippers had concerns about this, they should respond to the Licence consultation.

CS indicated that two models had been considered, one creating a new contract between xoserve and users receiving user pays services, with charges paid directly to xoserve; and one where the UNC remained the sole contract with all charges paid to the

DNs. SB questioned the value of the DNs receiving the revenue, which would then require a system to ensure the funding was passed to xoserve. SL suggested that the user contract could simply refer to the UNC where appropriate and so avoid duplication.

CS indicated that bespoke services are already provided on a direct xoserve to customer basis. MC suggested that greater transparency of these services was required and that all services which used regulated assets – i.e. xoserve is the only potential provider – would be covered by the user pays framework and should be referenced in the Agency Charging Statement. All non-core services would be user pays in future, and MC hoped it would be relatively easy to define which services were core and hence funded through the price control. However, RS feared the devil would be in the detail and he feared Shippers could face separate charges for a wide range of services. JD emphasised that Ofgem was trying to create flexibility in the interests of all parties, with user pays applied to a limited set of service lines initially, as previously identified by the Workgroup. A key in defining these services was that there should be an element of optionality, with usage of the services dependent on the actions of the user.

SB was concerned that unintended perverse incentives could be created, but these could be dealt with if contracts were agreed on normal commercial terms, allowing deliverables and standards to be specified.

CS said that dealing with ongoing change was likely to need more consideration than applying the framework to existing services. MC suggested that only systems replacement would be funded through the main price control and that revenue from user pays charges would be expected to fund further change. It was recognised that this could be characterised as using the Class 3 UK Link change process as presently outlined in the UNC, although it was noted that no such changes had been implemented. Going forward, it may be necessary for every UNC Modification Proposal with an xoserve impact to include a section indicating how the proposed change would be funded and consequently the change in charges which users would face.

2.2 Way Forward/Next Steps

It was agreed that the xoserve Workgroup should begin to meet again, focussed on implementation of the proposed approach from 1 April 2008. The Workgroup would be advisory rather than having formal decision making powers. Actions agreed were;

1. An invitation to be issued inviting all interested parties to join the Workgroup (TD, Joint Office)
2. All documentation associated with the Workgroup to continue to be published on the Joint Office website (TD, Joint Office)
3. Draft Terms of Reference to be produced (CS, xoserve)
4. Workplan for the group to be produced (CS, xoserve)
5. Detailed implementation timeline to be produced, indicating critical points (CS, xoserve)
6. Scenarios to be developed in order to test the proposed approach (SB, Centrica)

3. AOB

None.

4. Diary Planning

It was agreed that meetings should alternate between Solihull and London, and would need to be at least monthly. The next meeting was booked for 10:30 on 8 October (location to be confirmed).