

**Industry Dialogue on xoserve Services and their Funding**

**Workgroup Minutes**

**Monday 29 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
Alex Travell	(ATr)	EON
Andy Miller	(AM)	xoserve
Chris Smith	(CS)	xoserve
Collette Baldwin	(CB)	EON
Hazel Ward	(HW)	RWE Npower
James Crossland	(JC)	Corona
Jemma Woolston	(JW)	Shell Gas Direct
Joel Martin	(JM)	Scotia Gas Networks
Jon Dixon	(JD)	Ofgem
Kevin Woollard	(KW)	BGT
Laura Doherty	(LD)	RWE Npower
Martin Brandt	(MB)	SSE
Marie Clark	(MC)	ScottishPower
Nicola Rigby	(NR)	National Grid NTS
Richard Street	(RS)	Statoil
Savita Shaunak	(SS)	EDF Energy
Simon Trivella	(ST)	Wales & West Utilities
Stefan Leedham	(SL)	EDF Energy

**1.0 Introduction**

TD welcomed all attendees to the meeting.

**2.0 Minutes of last meeting**

The minutes of the 08 October meeting were accepted.

**2.1 Review of Actions**

Action: xSER007 – The revised Terms of Reference (v2.0) were accepted.

**Action: xSER007 – Closed.**

Action: xSER008 – see item 3.4 below.

Action: xSER009 – see item 4.0 below.

**3.0 Existing Services**

**3.1 Service Lines**

AM provided a presentation. ATr said that there had been insufficient consultation surrounding the six service lines which were to be covered by User Pays and that these should be open for debate. CS confirmed that xoserve had used the 'Industry Dialogue Report' as the basis for developing the six service lines and the amount of revenue which Ofgem proposed to exclude from the main price controls. TD emphasised that the group's remit was to take forward implementation issues and that objections to the approach itself should be directed to Ofgem as part of the GDPCR (Gas Distribution Price Control) process. In addition, there will be consultation on the supporting UNC Modification Proposal and the Agency Charging Statement (ACS). JD acknowledged that there had been a 'natural evolution' in parties thinking, but neither Ofgem nor the industry was going back to square one on this matter.

AM said that discussions surrounding the new xoserve contracts is scheduled for 19 November, with charges likely to be released in January, in time for April 2008 implementation. MC was concerned that User system changes may not be possible for April.

AM welcomed this feedback and said that indications of how best to implement the proposal without impacting User systems would be welcome.

Looking at the D8TA Centre Services and specifically IAD, attendees questioned whether the charges would recover marginal costs (transactional charges) or would also include investment and development costs. JD confirmed that Ofgem's figures include an element of fixed cost recovery based upon a reasonable proportion of xoserve costs being allocated to the service lines concerned. AM confirmed that xoserve will be contacting Shippers with the intention of cleaning up IAD accounts before April.

In response to questions about liabilities, AM suggested that appropriate provisions will be defined within the contracts. However, the business rules would remain as now and parties will only receive the data that they are entitled to. JD suggested that members should start to consider the service provision contingencies and whether or not new business rules/contract terms may be required. However, AM counselled that higher built-in liabilities and higher prices go hand in hand.

AM emphasised that Users will have the option to purchase only those user pays reports they deem appropriate for their business. The 'Query Management – Standards of Service report' is not the Network Code Modification 0565 report, which will continue to be released as now. MC asked if Modification 0081 reports would be under User Pays, and AM advised that they would not.

RS enquired if an item is mandated for under SPAA, would this mean that it would fall under a type 1 classification, to which AM advised that these would in fact be considered as a type 2 as they are not within the UNC.

With regards to the email and facsimile 'biscuit' files, TD asked if Shippers would favour a per file or per MPRN charge. Responses indicated that, excluding the biscuit files, a per file basis is preferable. AM agreed to investigate this and perhaps consider some form of file size limitation.

AM indicated that xoserve are looking to introduce cost effective invoicing with either a regular, perhaps monthly, cycle, or an invoice value basis.

Some attendees expressed concern regarding governance arrangements. JD said that it is within the Authorities edict to introduce user pays, but agreed that both governance and the framework within which user pays will operate are of great importance. CS advised that more discussions will be undertaken as part of the change process considerations.

**Action xSER010: xoserve to consider charging basis for email and biscuit files by 19 November.**

### **3.2 Contractual Framework**

CS explained that under the proposed approach, with regard to Type 1 (UNC) services there is no need for additional contracts as all requirements would be specified within the UNC. For Type 2 (non-UNC) services, attendees enquired if xoserve are happy that SPAA provisions have been considered? CS said that legal advice has been sought but it appears at this stage that everything is in order.

Attendees asked if other contractual frameworks were being considered, with concern expressed that the model does not allow parity between service provider and consumer. The DNs confirmed they were not looking at alternatives.

### **3.3 Licence Conditions**

See item 3.4 below for further details on discussions on the Agency Charging Statement (ACS) provision. In response to questions, TD pointed out that rather than the ACS being a Licence Obligation, as proposed, Shippers could make a case to Ofgem for it being an ancillary document within UNC governance.

### **3.4 UNC Modification**

AR provided a brief overview on what he believes should be included within any prospective UNC Modification Proposal to implement user pays, which is limited to referring to the ACS and providing for charges to be levied in accordance with it. It was agreed that this forms a reasonable initial basis on which to move forward. ATr and MB agreed to investigate whether consequential SPAA changes will be needed.

RS asked what changes would be required to the Licence to accommodate the suggested approach, and ST suggested minor changes to A15 – Agency – could be involved. JD advised that the Authority is sympathetic to having a flexible user pays methodology. The overriding objective of user pays is the introduction of cost reflective charging to incentivise appropriate behaviours. He acknowledged that good governance arrangements are key to success and agreed to provide a presentation covering ‘General Charging Changes’ at the next meeting.

AR stated that he is looking to formally present a Modification Proposal at the December Modification Panel meeting, with a draft copy being available before that.

**Action xSER011: EON & SSE (AT & MB) to investigate consequential SPAA changes to accommodate user pays and report at the 19 November meeting.**

**Action xSER012: Ofgem (JD) to provide a presentation on ‘General Charging Changes’ at the 19 November meeting.**

#### 4.0 Changed/New Services

TD explained the thinking behind the Decision Tree document. Asked whether it applies before, during or after the raising of a proposal, TD believed that common sense would suggest before would be best. However, should the proposal change, reconsideration would need to be given to the decision tree.

TD asked whether future UNC Modification Proposals should include consideration as to whether or not user pays applied. CS suggested all modifications will potentially have a user pays impact in one form or another. RS felt it is the sharing of costs that is important for industry players. CS highlighted the funding of initial xoserve impact assessments. AM suggested that it is not uncommon for feasibility studies to be funded by the requester(s) before being fully developed and costs apportioned thereafter. His concern is that xoserve may be asked to undertake such studies on the basis of poor information. JD suggested that many modifications are directed to implementation before any meaningful assessment is undertaken and this provides an opportunity for improvement.

JD acknowledge that the impact of user pays on smaller players may need further consideration, as it may become a barrier to them proposing change. JD considered that it could be envisaged that a model is developed whereby all initial assessment is funded through a price control allowance. TD asked if a ‘pass through’ allowance should be contained within the price control? JD acknowledged that this could become a reality, but may be too late for delivery by April 2008.

Summarising the debate, TD pointed to the difficulty in identifying the core/non core decision points, and suggested there may be four key considerations:

1. what constitutes user pays;
2. xoserve impact assessment costs;
3. central costs; and
4. funding (i.e. how the cake is cut).

CS asked whether the assumption that everything falls under user pays in the first instance was feasible, and attendees reluctantly agreed this could work. However, attendees were keen for Ofgem to consider adoption of a centralised cost approach, including utilisation of a pass through mechanism.

#### 5.0 Progress Review

CS said the timeline remains on target, but changes will be required to the Modification Proposal section. Both a draft charging statement methodology and draft contract would be available for consideration at the next meeting. However, the contract will only contain the basic framework.

#### 6.0 AOB

None.

#### 7.0 Diary Planning

Planned meetings are:

- 19 November, 10:00am (London)
- 10 December, 10:00am (London)

### Action Log – xoserve Services workgroup – 29 October 2007

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner*	Status Update
xSER007	08/10/07	3.2	Joint Office to refine the Terms of Reference for 29 October meeting.	TD	Revised T of R presented <b>Closed</b>
xSER010	29/10/07	3.1	xoserve to consider charging basis for email and biscuit files by 19 November.	AM	Update due on 19/11/2007
xSER011	29/10/07	3.4	EON & SSE (AT & MB) to investigate consequential SPAA changes to accommodate user pays and report at the 19 November meeting.	AT & MB	Update due on 19/11/2007
xSER012	29/10/07	3.4	Action xSER012: Ofgem (JD) to provide a presentation on 'General Charging Changes' at the 19 November meeting.	JD	Update due on 19/11/2007