

# UNC Funding, Governance and Ownership (FGO) Workgroup (Charging)

## Minutes

Friday 27 May 2016

at Consort House, 6 Homer Road, Solihull B91 3QQ

### Attendees

Bob Fletcher (Chair)	(BF)	Joint Office
Mike Berrisford (Secretary)	(MB)	Joint Office
Andrew Jones	(AJ)	KPMG
Charles Wood	(CWo)	Dentons
Chris Warner	(CWa)	National Grid Distribution
Colette Baldwin	(CB)	E.ON
Craig Neilson	(CN)	National Grid Distribution
Edd Hunter	(EH)	npower
Gareth Evans*	(GE)	Waters Wye Associates
Gethyn Howard	(GH)	Brookfield Utilities UK
Martin Baker	(MBa)	Xoserve
Sean McGoldrick	(SMc)	National Grid NTS
Sue Hilbourne	(SH)	Scotia Gas Networks

\*via teleconference

Copies of all papers are available at: <http://www.gasgovernance.co.uk/fgowg/270516>

## 1. Introduction and Status Review

### 1.1. Approval of Minutes (03 May 2016)

The minutes of the previous meeting were approved.

## 2. Cost Allocation and Charging impacts

### 2.1. Draft Statement of Charging Principles paper

MBa provided an overview of the paper during which the workgroup provided feedback.

In order to summarise the detailed discussions, the most notable points have been captured below:

#### **Paragraph 1 – Introduction**

No significant discussions.

#### **Paragraph 2 – Background information**

Paragraph 2.1 – Ofgem conclusion was in circa October 2013;

Paragraphs 2.1(a), (b), (c) & (d) – are a matter of record which the workgroup is / are unable to change.

In relation to sub paragraph (c), Ofgem did not define any potential boundaries etc.;

Paragraph 2.2 – the informal consultation closed out 26 May 2016;

#### **Paragraph 3 – Assumptions**

Paragraph 3.2 – clarification of preceding paragraph 3.1 and relates to ‘margins’ only and not under / over spend aspects.

CB suggested that liability insurance should be considered via a separate paper for consideration at a future meeting rather than using margin for this purpose. CWo pointed out that liabilities would not be funded via margin, as this is inefficient and would be considered alongside other budgetary considerations. MBa advised that margins were a way of generating working capital;

Paragraph 3.3 – it was suggested that as Xoserve would be providing service activities to both GT's and iGT's, it might be preferable to refer to 'Transporters'.

It was also noted that this paragraph helps to set the principles for charging going forward;

#### **Paragraph 4 – Principles**

Paragraph 4.2 – it was pointed out that this paragraph forms the basis an 'objective test' that could / would be utilised in due course;

Paragraphs 4.3 & 4.4 – the aim is to provide stable outcomes for impacted parties wherever possible.

In considering whether or not any changes could potentially impact on budgets and therefore charges and the supporting methodologies, it was noted that this would need to be considered in more detail as it would influence the legal text drafting requirements.

Whilst it was recognised that the 'budget proposals' need to be able to evolve (perhaps on a yearly basis), it was acknowledged that 'within year' changes should be by exception only;

Paragraphs 4.5(a) & (b) – supporting materials (i.e. service groupings and customer classes etc.) would be provided for the 01 June 2016 meeting;

Paragraph 4.6 – when asked CWo explained that currently there has been no specific thinking done about defining investments as CDSP Services, but his belief is that Code would highlight that the CDSP parties would be expected to attend Code and CDSP meetings.

The question of whether investments are classed as services needs further consideration along with careful consideration of the classes of cost and how these are to be attributed/allocated;

Paragraph 4.7 – GH explained that he expects an Ofgem document relating to iGT funding proposals to be issued shortly.

Paragraphs 4.7(a), (b), (c), (d) & (e) – in general these can be seen as 'mirroring' how UNC GTB7.10 is drafted.

MBa explained that it would be necessary in due course to 'map' CDSP services across Code / Non Code areas in more details – additional detail is to be provided for the 01 June 2016 meeting.

It was suggested that a 'rule' would be required to identify how often data values would be refreshed (i.e. monthly / yearly);

Paragraph 4.8 – when it was suggested that the workgroup would need to consider the issue of rebates, MBa referred parties to paragraph 4.11 and remarked that these fall under the treatment of surpluses and deficits considerations. These would need to be addressed and in particular the allocation process to be adopted.

SMc suggested that whilst these proposals are not the only possible option, they do provide a simple (initial) approach and are not necessarily 100% capacity driven;

Paragraph 4.10 – CB asked whether or not this definition should also state 'UNC governance', CWo suggested that this was open to discussion before noting that as far as the DSC T&C's are concerned, these can only be amended via a UNC modification.

When asked, those in attendance did not have any additional questions / concerns in relation to paragraphs 4.2 through to 4.10, which seem to form the basis of a good starting point.

Paragraph 4.11 – underpinned by the concept of a return to Users.

It was noted that care would be needed to ensure that any monies returned to Users/Customers should only be returned to those parties who ‘funded’ an activity or project in the first instance (i.e. avoidance of any potential cross subsidisation related issues) and that extra care would be needed when considering any that ‘cross’ reporting / assessment periods.

CWo suggested that the workgroup would also need to consider how funding is established – one possible option being a ‘pool’ based approach and another being on a detailed individual party basis.

In referring to the current BSC approach, some parties believe that these current proposals lack a ‘check and balance’ feature – not all parties present fully supported the suggestion pointing out that these aspects are not always within Xoserve’s direct control and that perhaps ‘controlled expenditure’ should be covered at the Board level.

When CWo raised a question around working capital (i.e. at Day 1 and what, if any funding, gets carried over in to the new business) and budget cashflow, MBa responded by explaining that this would be an aspect of the margin before explaining how Elexon ‘trues up’ at the end of the year. He then went on to agree that Xoserve needs to undertake some more work on this area (budgets, workflow and working capital aspects especially) alongside how the financial transition would be enacted to the new business model.

In making reference to the fact that the current licence requirements mean that Ofgem need to be notified of any within year changes to the charges, it was noted that it had been pointed out to Ofgem that this is an ‘inflexible’ approach and there may need to be a materiality test.

GE was concerned about potential impacts of unknown/unplanned for changes needing to be progressed. MBa provided a brief overview of how previous unplanned changes e.g. faster switching had impacted upon budgets and how these were managed within the existing funding at the time by prioritising activities. CWo supported this by explaining that the margin provisions help to cushion against surplus and deficit related impacts (i.e. it all ties in to the designed charging cushion).

Whilst some parties prefer to allow within year changes to charges, it was recognised that this view would not necessarily suit all industry parties;

Paragraph 4.12 – it was noted that there is no stakeholder exposure involved, that a foundation statement for credit proposals would be needed, and that it should NOT be assumed that the community picks up costs as the ‘default’. Subject to users securities, the community of CDSP users bears the cost of bad debt.

It was noted that ‘Bad Debt’ provisions would be needed in order to avoid the CDSP potentially going bust and this would be a community risk;

Paragraph 4.13 – MBa pointed out that the new business model seeks to reposition risk and control. CWo also suggested that care is also needed, as this process is not like a ‘true’ business sale.

Concluding discussions, it was also suggested that the workgroup would also need to consider legacy and transition matters in due course.

When asked, the consensus was to leave the document ‘as-is’ and look to develop the more detailed solutions elsewhere (i.e. in any supporting documentation etc.).

It was also felt that as regular updates are provided to Ofgem through other forums such as POB, it is not necessary to provide a specific UNC FGO update at this time.

## 2.2. Joint Funding, Governance and Ownership KPMG / Xoserve Paper for POB / UNC FGO Workgroup on Potential Invoicing Approaches

In providing a brief overview, MBa explained that this draft paper had been compiled by both Xoserve and KPMG, to better reflect industry wide discussions on the matter.

During an extensive debate, discussions focused on the three proposed options of 'Direct', 'Indirect 1' and 'Indirect 2'. MBa suggested that the 'Direct' option offered the most logically consistent solution, the CDSP contracting model and explained that whilst 'Indirect 1 and 2' were included in order to take into account previous industry feedback.

GE suggested that there should be a fourth potential option whereby Users/Customers have a new separate line (catering for Xoserve CDSP charges) incorporated within the existing GT invoice and thereby look to pay their charges through the GT's invoice process – in essence, the industry parties (ICoSS) that he represents are keen to avoid having to develop new billing system invoicing stream mechanisms and processes, as this would potentially have a significant monetary and consumer impact. GE then quoted the DCC model as a good example of how this type of mechanism could work in practice and how it potentially offsets any risk related concerns parties may have. However, the other industry parties in attendance did not necessarily support GE's proposed fourth option on the grounds that:

1. It is potentially contrary to CDSP proposals;
2. There could be potential tax implications associated with the option;
3. Could possibly necessitate development of a separate iGT mechanism in order to fully support this option;
4. Transporters acting as agents for Xoserve (CDSP) may be unworkable;
5. The Xoserve costs do not align correctly under the proposed fourth option as Transporter costs are allocated differently;
6. A single invoice generates a single receivable, and therefore any 'set off rights' could not be actioned effectively;
7. The potential administration requirement for a new trust fund to support the fourth option would / could be considerable (i.e. who would hold any credit cover and who would be expected to enforce the process in instances where Shippers do not pay);
8. Potentially the fourth option would require significant UK Link system (ad-hoc invoice) changes to support it and there is no room in the schedule to undertake these before April 2017;

Several participants remained opposed to potentially incurring additional administration costs associated with the fourth option.

In acknowledging that in principle, the fourth option as proposed by GE, could feasibly work (subject to VAT, Tax and other considerations listed above not being an issue), CWo pointed out that it could not work under the current single invoice and receivable approach.

The workgroup concluded that the best way forward would be to look to expand the paper to include the fourth option and thereafter look to compare the 'pros / cons' for each option. The workgroup were also of the view that in light of the discussions around the new fourth option, 'Indirect 1 and 2' were not required and should be excluded from any further considerations.

**New Action FGO0505: Waters Wye Associates (GE) to articulate and provide a (fourth option) statement for inclusion in an amended Funding, Governance and Ownership paper for consideration at the 13 June 2016 meeting at the latest.**

**New Action FGO0506: Xoserve (MBa) to amend the Funding, Governance and Ownership paper inline with discussions (including a full impact assessment) for consideration at the 13 June 2016 meeting.**

**New Action FGO0507: National Grid Distribution (CWA) to provide a view on the legal text implications of the new (fourth) option.**

3.

#### 4. Review of Workgroup's Workplan

In providing a brief overview of the draft workplan, MBa pointed out that any proposals would need to fit in with both the UNC FGO and DSC development timelines, and that the plan follows a similar format to the principles workplan. The aim is to complete ALL aspects by the end of August 2016 in order to feed in to the proposed UNC modification development and for submission to Ofgem.

In considering whether or not the topic areas provided are suitable and their associated sequencing would work, parties suggested that perhaps more detail on a meeting-by-meeting basis might prove beneficial (i.e. aims and outcomes etc.).

CWo suggested that the legal text requirements would need to be considered and agreed by the end of July in order that the workgroup could then also consider the legal text for UNC and DSC purposes and interactions – it is doubtful as to whether or not the legal text drafting could be finalised off the back of the 25 July meeting as this was focusing on UNC drafting. He also pointed out that currently the Terms and Conditions (invoicing) are at a high-level perspective only.

As far as credit management was concerned, CWo explained that the assumption has been made that any credit support mechanisms would enable the recouping of outstanding charges – further detailed consideration is necessary (i.e. DSC supporting document provisions etc.).

CWo then focused attention on the 'transition' requirements believing that these could be an extremely complicated area of consideration and therefore suggested that these should be moved to an earlier slot within the workplan. Responding, MBa acknowledged that both Credit and Transition high-level principles (i.e. cost allocation / charging etc.) determinations, should be moved to the June meeting.

Several other items for inclusion within the workplan, or highlighted for future workgroup consideration were also suggested, as follows:

- DSC / UNC referrals;
- Consideration of Contract meeting outputs, circa July – in explaining Xoserve's transitional processes, MBa agreed to provide a suitable overview in due course;
- Charging Methodology will need to define process details (i.e. how DSC sets a budget);
- Consideration of provision of an Appeals Process / mechanism, as defined within the licence, and
- Identification of charging components and how these 'map over' into the DSC processes.

As the discussion continued, it was suggested that care would be needed in order to avoid unnecessary duplication of work across the FGO workgroup and contract meetings and that trying to incorporate budgetary considerations into the workplan would place a significant strain on the workgroups ability to complete all the necessary tasks / objectives. MBa suggested that it very much depends as to what extent the DSC would need to define its budgetary aspects.

When BF reminded everyone that the workgroup would need to be approving items by the end of August at the latest, MBa agreed and indicated that he would expect that ALL significant principles and supporting (business) rules would be agreed by then.

CWo felt that what this (FGO) workgroup is doing is rule writing and the 'other' groups (Contract Management) is applying the said rules. He went on to suggest that what this workgroup needs is clarity on timings and outputs as consideration of these (by this workgroup) would be beneficial.

Concluding discussions, attention centred on the two questions with MBa explaining the rationale behind question one, was in respect of the inclusion of the CDSP Budget setting process in the scope of the Workgroup's considerations. That question two was in respect of the inclusion of a legal drafting review within the work plan. The workgroup considering that the answer to question two, is yes.

**New Action FGO0508: Xoserve (MBa) to update the draft workplan to accommodate workgroup suggestions in time for consideration at the 13 June 2016 meeting.**

## 5. Review of Workgroup Risks and Issues Log

Review deferred to the 13 June 2016 meeting.

## 6. Review of Outstanding Action

**FGO0501:** KMPG to devise a Workplan to capture and align project considerations, dependencies and meeting requirements.

**Update:** The consensus was that this action had already been closed at the 18 May 2016 Workgroup meeting. **Closed**

**FGO0502:** KMPG to create a FGO Risk and Issues Log.

**Update:** The consensus is that this action should be transferred to the 0565 Workgroup to be considered further at the 20 June 2016 meeting. **Carried Forward**

**FGO0503:** Xoserve to consider the matter raised under GTB7 7.8, consider other funding arrangements used in comparable industries and provide an outline on the proposed funding principles.

**Update:** MBa suggested, and Workgroup members present agreed, that this action had been covered under discussions earlier in the meeting. **Closed**

**FGO0504:** Xoserve to provide a draft DSC Service foot-print.

**Update:** CWo pointed out that the structure and indicative services would be considered as part of the 01 June 2016 meeting. **Carried Forward**

## 7. Any Other Business

None.

## 8. Diary Planning

*Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)*

Workgroup meetings will take place as follows:

Time/Date	Venue	Workgroup Programme
10:00 Monday 13 June 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging <ul style="list-style-type: none"> <li>• Consider Service / User Mapping</li> <li>• Consider Cost Drivers and Allocation</li> </ul>
10:00 Monday 20 June 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• GT B7 (if needed)</li> <li>• TPD G &amp; H (if needed)</li> <li>• TPD M (2<sup>nd</sup> draft)</li> </ul>

		<ul style="list-style-type: none"> <li>• TPD U (2<sup>nd</sup> draft)</li> <li>• Other TPD &amp; EID (if needed)</li> <li>• iGT and iGTAD (2<sup>nd</sup> draft for iGTAD)</li> <li>• Transition (1<sup>st</sup> draft)</li> <li>• Miscellaneous including MR (1<sup>st</sup> draft)</li> </ul>
10:00 Thursday 30 June 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<p>FGO Workgroup – Charging</p> <ul style="list-style-type: none"> <li>• Consider Service / User Mapping</li> <li>• Consider Cost Drivers and Allocation</li> <li>• Consider Methodology</li> </ul>
10:00 Monday 11 July 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	<p>FGO Workgroup – Charging</p> <ul style="list-style-type: none"> <li>• Consider Cost Drivers and Allocation</li> <li>• Consider Methodology</li> </ul>
10:00 Wednesday 13 July 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	<p>FGO Workgroup and Workgroup 0565</p> <ul style="list-style-type: none"> <li>• DSC Terms &amp; Conditions (2<sup>nd</sup> draft)</li> <li>• DSC Service Description (1<sup>st</sup> draft)</li> <li>• DSC Budget &amp; Charging Methodology</li> <li>• UK Link Manual (1<sup>st</sup> Draft)</li> <li>• Change Control Procedures (outline)</li> <li>• Contract Management &amp; Reporting Arrangements (1<sup>st</sup> draft)</li> <li>• Third Party Services Policy (1<sup>st</sup> draft)</li> <li>• Transition Document (1<sup>st</sup> draft)</li> </ul>
10:00 Monday 25 July 2016	Dentons	<p>FGO Workgroup and Workgroup 0565</p> <p>UNC Consolidated Legal Review</p> <ul style="list-style-type: none"> <li>• GT B7</li> <li>• TPD G &amp; H</li> <li>• TPD M</li> <li>• TPD U</li> <li>• Other TPD &amp; EID</li> <li>• iGT and iGTAD</li> <li>• Accession / Withdrawal</li> <li>• Transition</li> <li>• Miscellaneous including MR</li> </ul> <p>DSC Contract Update</p>
10:00 Friday 29 July	Consort House, 6 Homer Road, Solihull B91 3QQ	<p>FGO Workgroup – Charging</p> <ul style="list-style-type: none"> <li>• Consider Methodology</li> <li>• Consider Invoicing Process</li> </ul>

		<ul style="list-style-type: none"> <li>• Consider Credit Arrangements</li> </ul>
10:00 Wednesday 03 August 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• DSC Change Control Procedures (1<sup>st</sup> draft)</li> </ul>
10:00 Monday 08 August	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging <ul style="list-style-type: none"> <li>• Consider Invoicing Process</li> <li>• Consider Credit Arrangements</li> <li>• Consider Transition Matters</li> </ul>
10:00 Monday 22 August 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup – Charging <ul style="list-style-type: none"> <li>• Consider Credit Arrangements</li> <li>• Consider Transition Matters</li> </ul>
10:00 Tuesday 23 August 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• DSC Framework Agreement (Final draft)</li> <li>• DSC Term &amp; Conditions (Final draft)</li> <li>• DSC Service Description (Final draft)</li> <li>• Change Control Procedures (Final draft)</li> <li>• Contract Management &amp; Reporting Arrangements (Final draft)</li> <li>• Third Party Services Policy (Final draft)</li> <li>• Transition Document (1<sup>st</sup> draft)</li> <li>• Timeline/Workplan Update</li> <li>• Consideration of Risks/Issues Log</li> </ul>
10:00 Wednesday 07 September 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 UNC Consolidated Legal Review <ul style="list-style-type: none"> <li>• GT B7</li> <li>• TPD G &amp; H</li> <li>• TPD M</li> <li>• TPD U</li> <li>• Other TPD &amp; EID</li> <li>• iGT and iGTAD</li> <li>• Accession / Withdrawal</li> <li>• Transition</li> <li>• Miscellaneous including MR</li> </ul> DSC Contract Update Development of Workgroup Report

10:00 Wednesday 21 September 2016	Elexon, 4 <sup>th</sup> Floor, 350 Euston Road, London NW1 3AW	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• Development of Workgroup Report</li> </ul>
10:00 Wednesday 05 October 2016	Consort House, 6 Homer Road, Solihull B91 3QQ	FGO Workgroup and Workgroup 0565 <ul style="list-style-type: none"> <li>• Conclusion of Workgroup Report</li> </ul>

### FGO WG Actions (as at 27 May 2016)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
FGO 0501	03/05/16	2.0	KMPG to devise a Workplan to capture and align project considerations, dependencies and meeting requirements.	KMPG (NC)	Update provided. <b>Closed</b>
FGO 0502	03/05/16	2.0	KMPG to create a FGO Risk and Issues Log. – <i>27/05 transferred into the 0565 Workgroup for further consideration at 20/06 meeting.</i>	KMPG (NC)	<b>Carried Forward</b>
FGO 0503	03/05/16	2.0	Xoserve to consider the matter raised under GTB7 7.8, consider other funding arrangements used in comparable industries and provide an outline on the proposed funding principles.	Xoserve (MBa)	Update provided. <b>Closed</b>
FGO 0504	03/05/16	2.0	Xoserve to provide a draft DSC Service foot-print.	Xoserve (MBa)	<b>Carried Forward</b>
FGO 0505	27/0516	2.2	To articulate and provide a (fourth option) statement for inclusion in an amended Funding, Governance and Ownership paper for consideration at the 09 June 2016 meeting at the latest.	Waters Wye Associates (GE)	<b>Pending</b>
FGO 0506	27/0516	2.2	To amend the Funding, Governance and Ownership paper inline with discussions (including a full impact assessment) for consideration at the 09 June 2016 meeting.	Xoserve (MBa)	<b>Pending</b>
FGO 0507	27/0516	2.2	To provide a view on the legal text implications of the new (fourth) option.	National Grid Distribution (CWA)	<b>Pending</b>
FGO 0508	27/0516	3.	To update the draft workplan to accommodate workgroup suggestions in time for consideration at the 13 June 2016 meeting.	Xoserve (MBa)	<b>Pending</b>