

UNC DSC Contract Management Committee Minutes
Wednesday 07 March 2023
via Teleconference

Attendees			
Bob Fletcher (Chair)	(BF)	Joint Office	Non-Voting
Helen Bennett (Secretary)	(HB)	Joint Office	Non-Voting
Shipper User Representatives (Voting)			
Clare Manning	(CM)	E.ON	Class A + C Voting
Oorlagh Chapman	(OC)	Centrica	Class A Voting
Steve Mulinganie	(SM)	Gazprom Energy	Class B (x2) + C Voting
Transporter Representatives (Voting)			
Helen Chandler	(HC)	Northern Gas Networks	DNO Voting
Sally Hardman	(SHa)	SGN	DNO Voting
Richard Loukes (plus alternate for Andrea Godden)	(RL)	National Grid	NTS Voting (x2)
Jenny Rawlinson (plus alternate for Brandon Rodrigues)	(JR)	IGT Representative	IGT Voting (x2)
CDSP Contract Management Representatives (Non-Voting)			
David Addison	(DA)	Xoserve	
Dave Turpin	(DT)	Xoserve	
Jayne McGlone	(JMc)	Xoserve	
Observers/Presenters (Non-Voting)			
Angela Clarke	(AC)	Xoserve	
Charlotte Gilbert	(CG)	BU-UK	
Emma Smith	(ES)	Xoserve	
Guv Dosanjh	(GD)	Cadent	
James Rigby	(JRi)	Xoserve	
Copies of all papers are available at: https://www.gasgovernance.co.uk/dsc-contract/080323			
<i>DSC Contract meetings will be quorate where: Committee Representatives of at least two (2) shall be Shipper Representatives and three (3) shall be DNO Representatives, NTS Representatives or IGT Representatives, are present at a meeting who can exercise six (6) votes.</i>			

1. Introduction

Bob Fletcher (BF) welcomed all to the meeting, confirming the meeting to be quorate.

1.1. Apologies for absence

Andrea Godden

Brandon Rodrigues

1.2. Alternates

Richard Loukes for Andrea Godden

Jenny Rawlinson for Brandon Rodrigues

1.3. Confirm Voting rights

BF confirmed the voting rights as detailed below:

Representative	Classification	Vote Count
Shipper		
Clare Manning	1 Shipper Class A + 1 Class C	2 votes
Oorlagh Chapman	1 Shipper Class A	1 vote
Steve Mulinganie	2 Shipper Class B + 1 Class C	3 votes
Transporter		
Helen Chandler	DNO	1 vote
Sally Hardman	DNO	1 vote
Richard Loukes + Alternate for Clare Manning	NTS	2 votes
Jenny Rawlinson + Alternate for Brandon Rodrigues	IGT	2 vote

2. Business Plan Updates

2.1. Consider Xoserve response to the Centrica CDSP BP23 Appeal

BF provided a brief background explaining that Centrica had submitted a notice of Appeal to Ofgem against the 2023-24 CDSP Annual Budget. The DSC Budget and Charging Methodology (BCM) rules require the CDSP to discuss the subject of the Appeal with the Committee, this meeting has been arranged for the Committee to consider the Appeal prior to the CDSP submitting its response to Ofgem.

It was explained that the CDSP have 10 Business Days from receiving the notice of Appeal to provide a response to Ofgem, which needs to be submitted by **14 March 2023**.

Oorlagh Chapman (OC) was invited to provide a summary of the Appeal, highlighting a number of concerns as follows:

1. Xoserve has failed to demonstrate the efficiency of the Service and Operate (S&O) Costs.
2. The Xoserve 2023 Business Plan (BP23) effectively changes the risk profile to which Customers are exposed that was set by a regulatory decision.
3. The 2023-24 CDSP Budget does not comply with relevant requirements set out in the Budget and Charging Methodology (BCM).

OC noted that the summary does provide the full context of the notice of Appeal which (including appendices) is 46 pages in length.

Dave Turpin (DT) advised that Xoserve are in the process of drafting their response and his intention was to refer to the main concerns as shown above.

OC asked for an adequate response, the notice of Appeal is a large document and includes a lot of context. OC therefore asked for Xoserve to respond to the Appeal in full and not just the three summary bullet points.

Xoserve has failed to demonstrate the efficiency of the Service and Operate (S&O) Costs

James Rigby (JRi) provided an update and advised the Efficiency Review is being discussed at DSC Contract Management Committee meetings, currently the procurement timeline is being discussed. A procurement exercise will follow as well as finalisation of the scope and evaluation of the tendering process.

OC challenged that the Efficiency Review has nothing to do with the Appeal, the efficiency was Appealed because Xoserve have not demonstrated efficiency within BP23. This was previously requested in BP21 and BP22.

JRi noted that Xoserve have listened to feedback as part of BP23 and that previously, there has been no budget for an Efficiency Review in previous years and this now being established as part of the plan.

Steve Mulinganie (SM) challenged this point and stated that CDSP could have asked for a budget amendment with justifications and the committee would have authorised it. He asked if any output from the Efficiency Review would be prospective rather than retrospective, if not the later then this should not feature in the CDSP response.

DT clarified this point by noting there would no ability to save money on what has already been spent, therefore, this would be prospective only and clarified that it is the view of the CDSP that there will be no change to the 2023-24 Business Plan (BP23) as a result of holding an Efficiency Review.

SM refuted that lack of funding is an unacceptable argument for Xoserve to use as an excuse for not putting an Efficiency Review in place sooner as the Committee could have authorised the spend.

When Jenny Rawlinson (JR) sought clarification of her understanding that CDSP are the service provider, and the DSC Contract Management Committee was created to assess if the CDSP are undertaking the activities that they should be, therefore, the Committee should be deciding if CDSP have undertaken the activities that they should have and then instructing a cause of action. BF clarified that the Committee has been convened to discuss the Appeal with the CDSP prior to a response to the Appeal by the CDSP being submitted to Ofgem.

DT further clarified that the Efficiency Review going ahead is not as a result of the Appeal, but of previous feedback received.

The Xoserve 2023 Business Plan (BP23) effectively changes the risk profile to which Customers are exposed that was set by a regulatory decision

When asked, DT advised that the Xoserve/Correla contract has the same downside and upside risks that have been there since its implementation; there are positives and negatives, it is not one directional. He said there is a need to make sure where customers have invested to change the scope, that is true for the 3 year period. DT added that every investment made prior to or after the the establishment of the Correla contract should be described in each case.

OC raised her concern that the Committee cannot effectively review the comments being made concerning the three Appeal topics, as the CDSP have not provided a view of their response and that as a Committee there is no way forward if it cannot understand the CDSP's position on the Appeal. OC highlighted the agenda is for the Committee to understand Xoserve's response.

To help the Committee understand their responsibilities BF highlighted paragraph 4.8.7 of the Budget and Charging Methodology:

4.8.7 Within 10 Business Days after the notice of appeal was received:

a) the CDSP shall, after discussing the appeal with the Committee (for which purposes an ad-hoc meeting of the Committee shall be convened), send to the Authority its opinion in respect of the matter subject to appeal and such other information as it considers appropriate (including any potential impact on performance of the DCC Contract), and provide a copy of such opinion and information to the appealing Customer, the Committee and each other Customer; and

b) any other Customer may send to the Authority (with a copy to the CDSP and the Committee) its opinion in respect of the matter subject to appeal.

Returning to the discussion relating to *BP23*, effectively changes the risk profile to which Customers are exposed that was set by a regulatory decision. The Committee reflected on how the arrangements brought into effect via FGO were being applied presently. OC stated that this ground for appeal was also related to the application of inflation. DT explained there has been no change to how inflation is applied; there is no bearing or impact on any upside or downside risks and BP23 sees a much higher rate of inflation than previously experienced but there is no change to how it is applied.

OC noted that customers are only being exposed to the upside of the risks and there appears to be no evidence of downside, that is where the concerns are and are documented throughout the Appeal (paragraphs 159-164).

DT advised that the proportion of CDSP's 3rd party costs increased when Correla moved away from the business however this would be mirrored by a reduction in direct costs. Where there is excessive spend, and therefore downside risk, this is identified and is part of a normal commercial contracting arrangement with risk falling to the supplier where appropriate.

SM noted there is no evidence either way of measuring the efficiency of those arrangements, the Committee has no visibility as they are held arm's length from the arrangements between the CDSP and Correla.

DT also noted, if it is thought that the sale of Correla has increased risk this would be the same since the implementation of the agreement, he is not sure BP23 has done anything to change that profile.

OC highlighted that the Appeal of BP22 is still awaiting determination.

SM asked if there is any evidence that downside risk is being passed on to customers and noted that it is important that the Company is not overly benefitting from the arrangements, and asked DT to show where the savings have occurred that portray it was not one-sided.

SM said, ultimately, is the CDSP delivering an efficient service? DT advised that the CDSP have saved money and in a number of cases have avoided costs that would have been passed through to customers and noted that in either case it is reciprocal.

DT advised, if there is an issue around this element, whether Correla should have been sold, and the Committee wish to discuss this, that is not a specific BP23 discussion as the process was concluded with the support of the industry and the proceeds of the sale redistributed.

When SM said the Committee need a greater understanding of the nature of the contract and the sharing of risk and reward, the application of those terms and if it is fair. DT advised that is a different discussion from a BP23 Appeal issue. SM disagreed and noted the efficiency of the terms relevant to the contracting period, should be considered and this impacts the budget established for each year.

When JR sought clarification that Centrica's challenge is that only downside risk is shared and not upside, and that DT believes both are shared. OC confirmed that Centrica have documented what they believe is true and there is no sight of the contract, throughout the BP23 process customers are only exposed to downside risk.

JR agreed there is no detailed sight that the service that is being paid for is value for money and how efficiency improvements are identified.

JR noted that if Xoserve are saying that Correla take the up and downside risks, if there is still a dispute of that, Xoserve need to provide evidence. JR noted that it would be usual in a commercial agreement for this to be the case.

OC noted that customers cannot determine how the costs are applied because there is not enough detail in what customers are paying for due to lack of transparency.

The 2023-24 CDSP Budget does not comply with relevant requirements set out in the Budget and Charging Methodology (BCM)

DT referred to Paragraph 15 a. of the Appeal:

15. *There are instances in which BP23 does not comply with the requirements set out in the BCM. These are:*

- a. Xoserve designating funding for the efficiency review as Change Costs prevents the funding from being used for the intended purpose.*
- b. Xoserve did not include all Costs in the final version of the 2023-24 CDSP Budget that it has used to calculate Charges.*
- c. Xoserve has not stated the value of the margin applied to non-Data Communications Company (DCC) Costs in the Budget and has not explained how the value was derived.*

DT explained why the Efficiency Review has been classified as Change Costs, and that once it is established what the Efficiency Review will look like and how often it needs to be carried out in order to understand what costs are being applied, it is expected it will be classified as S&O costs going forward once that level of understanding is confirmed.

DT advised that if it was the Committees interpretation is that this work should be funded via S&O in BP23, Xoserve would not object, as it would be the same value it would not be considered a material change. No objection was made by the Committee.

OC advised, the way that the Budget and Charging Methodology is, there is no way of the Committee using it if is classified as Change costs, therefore it is not fit for purpose and is not suitable to be allocated there.

JR agreed that it does sound like it would be better placed in S&O costs for BP23.

DT advised the budget is built up by examining the Y-1 and Y-2 positions and the next years costs in delivering services, there are two rebate positions that are included around the balance position, when looked at that position, Y-1 position requires this to be reflected in the following years BP.

34. The provisions of the BCM requires that prior year adjustments are included in the CDSP Budget. Xoserve has not fulfilled this obligation

DT advised it is difficult to give an accurate view within the year, until you get closer to the end of the year.

OC advised there are requirements in the methodology, the Appeal is making sure that where there are defined rules they are followed, and Centrica do not think they are.

DT suggested this could be discussed as part of Workgroup for *Modification 0841 - Introduction of cost efficiency and transparency requirements for the CDSP Budget, and revisions to DSC change processes*, and that Y-1 is difficult to provide any meaningful positions until you get closer to the end of the year.

OC clarified that Centrica are saying they have not been included and they should be. DT confirmed this information is only included in the Charging statement.

JR asked if some assumptions could be applied as a compromise? OC advised that Centrica have proposed the two remedies that would correct the issue: a modification to the Budget and a Modification to the Budget and Charging Methodology.

DT clarified the Charging Statement has the breakout of the different components for the 2023/24 charges.

DT advised this information is not in the Business Plan document because it is in the Charging Statement.

OC said if the information was in the BP23 it should then match the Charging Statement, if they don't match, they are odds with each other.

DT advised he thinks they do match, the Charging statement has additional information and questioned if it is helpful or meaningful to put that information back into the BP23. OC highlighted it is a requirement that the BP23 should reflect all costs, and it does not so it is not fulfilling requirement and that the determination of how the charges are calculated cannot be made if the documents do not match.

DT clarified that Y-1 and Y-2 have always been visible in the Charging Statement and further challenged that he cannot see the value in putting everything back into the Business Plan if they are in the Charging Statement.

The Committee felt, in order to mitigate the appeal, it would be beneficial to look to at an addendum to align BP23 and Charging Statement. DT noted that this would be possible.

DT noted the comments concerning margins and advised that updating BP23 to reflect the fact that no margin has been applied was possible. The Committee did not object

DT noted that the changes being proposed for BP23 (as per Ground 3) should not present the opportunity for a further appeal being made

Next Steps

BF explained the next steps would be:

- The CDSP to consider the discussion points raised at the meeting and the Appeal documents provided, a response to the Appeal will then be provided to Ofgem, the Committee and DSC Customers by **14 March 2023**.
- An AOB item will be added to the DSC Contract Management Committee meeting being held on 15 March 2023 for a brief discussion and update on progress.

BF advised that other customers could provide their opinion on the Appeal to Ofgem with copies to the CDSP and the Committee.

3. Any Other Business

OC advised she has requested, via email (twice), the cost allocation methodology and model but had not received it. JRi confirmed he will provide the information by the end of this week.

4.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Time/Date	Venue	Programme
09:30 Wednesday 15 March 2023	Microsoft Teams	Standard Agenda