











UNC Modification	At what stage is this document in the process?
<h1 data-bbox="134 320 657 412">UNC 0841:</h1> <h2 data-bbox="134 450 1182 734">Introduction of cost efficiency and transparency requirements for the CDSP Budget, and revisions to DSC change processes</h2>	<div data-bbox="1209 309 1468 627"> <div>01 Modification</div> <div>02 Workgroup Report</div> <div>03 Draft Modification Report</div> <div>04 Final Modification Report</div> </div>
<p>Purpose of Modification:</p> <p>The purpose of this Modification is to improve the ability of UNC Parties to fulfil their obligation jointly to control and govern the CDSP on an economic and efficient basis (under UNC General Terms, Section D, 1.4.4), through the introduction of explicit requirements for efficiency, greater transparency of the Budget and revised governance processes.</p>	
<p>Next Steps:</p> <p>The Proposer recommends that this Modification should be:</p> <ul style="list-style-type: none"> considered a material change and not subject to Self-Governance assessed by a Workgroup <p>This Modification will be presented by the Proposer to the Panel on 16 March 2023. The Panel will consider the Proposer's recommendation and determine the appropriate route.</p>	
<p>Impacted Parties:</p> <p>High: None</p> <p>Medium: CDSP, Shippers, Distribution Network Operators, Independent Gas Transporters</p> <p>Low: Consumers</p> <p>None:</p>	
<p>Impacted Codes:</p> <p>Independent Gas Transporters UNC</p>	

Contents		 Any questions?
1	Summary	3
2	Governance	4
3	Why Change?	5
4	Code Specific Matters	6
5	Solution	6
6	Impacts & Other Considerations	11
7	Relevant Objectives	12
8	Implementation	14
9	Legal Text	14
10	Recommendations	14
Timetable		 0121 288 2107
Modification timetable:		Proposer: Oorlagh Chapman – British Gas
Pre-Modification Discussed	16 February 2023	 enquiries@gasgovernance.co.uk
Date Modification Raised	03 March 2023	 Oorlagh.chapman@centrica.com
New Modification to be considered by Panel	16 March 2023	 07557 614769
First Workgroup Meeting	TBC	Transporter: Guv Dosanjh Cadent
Workgroup Report to be presented to Panel	15 June 2023	 Gurvinder.Dosanjh@cadentgas.com
Draft Modification Report issued for consultation	19 June 2023	 07773 151572
Consultation Close-out for representations	07 July 2023	Systems Provider: Xoserve
Final Modification Report available for Panel	13 July 2023	 UKLink@xoserve.com
Modification Panel decision	20 July 2023	Other: Insert name
		 email address
		 telephone

1 Summary

What

This Modification proposes to provide for greater clarity of the content requirements for the Central Data Services Provider (CDSP) Annual Budget. Specifically the current arrangements do not require the CDSP to provide efficient services, to demonstrate that the expenditure proposed is efficient and that it represents value for money to its Customers. The proposed changes are intended to allow for greater scrutiny of the Budget by Stakeholders.

The Modification will also improve the governance of inputs to the Budget, as well as for future changes to governance procedures and processes for change under the Data Services Contract (DSC).

Why

Business plan requirements:

UNC Parties are mandated by the UNC to utilise the CDSP's services and are responsible for challenging and scrutinising the CDSP's Costs. This is in line with the Authority's decision on the Funding Governance and Ownership model. Key elements of the Authority's decision include that the CDSP be subject to industry accountability and governance. Under UNC General Terms, Section D, 1.4.4:

*"Each Party undertakes that it will act and exercise its rights and powers under the DSC in relation to the CDSP so as **jointly to control and govern the CDSP on an economic and efficient basis**" [emphasis added]*

The Authority decided that the CDSP Budget would be set via a consultative process and parties would work collaboratively to ensure that Costs are efficient and that the CDSP Budget is fit for purpose. The CDSP is obliged under the DSC Budget and Charging Methodology (BCM) to produce an annual Budget according to the defined Annual Process. The DSC does not prescribe that the CDSP's Costs should be economic and efficient. Also, the DSC prescribes very little of the necessary information that must be included in the CDSP Budget to facilitate parties scrutinising the proposals.

The CDSP's proposals have lacked transparency over several years. Key information needed to allow Parties to determine whether the proposals are economic and efficient have been excluded. The lack of transparency and the exclusion of relevant information have prevented meaningful scrutiny of the CDSP Budgets. The lack of transparency and the exclusion of relevant information have been consistent themes in the appeals of the CDSP Budget in 2020, 2022 and 2023 (the 2022 and 2023 Appeals remain with Ofgem for decision). The CDSP has been notified of objections to all four CDSP Budgets since 2020.

Change processes:

The procedures for changing the CDSP Service Documents (such as the BCM) are defined in the Change Management Procedures (CMP). The Change Management Committee (ChMC) was designed to focus primarily on assessing technical changes to CDSP Services. However, the ChMC is also responsible for assessing changes to CDSP Service Documents. This means that the ChMC is responsible for assessing contract/finance related changes even though the Contract Management Committee is better placed to do so. Another weakness of the current arrangements is the Parties that propose changes to CDSP Service Documents are not required to demonstrate the merits of the proposals relative to the status quo.

How

Section D of the UNC General Terms governs the requirements and arrangements for the appointment and usage of a Central Data Services Provider (CDSP), following Standard Special Condition A15 of Gas Transporter's Licences.

The CDSP Licence Condition stipulates that a service agreement must be in place between the CDSP and Parties for the provision of services. This is defined as the Data Services Contract (DSC) in the UNC, where the objectives of the contract are set. The objectives state that services must be provided “*effectively*” (UNC GTD 1.2.2).

This Modification proposes to introduce an additional DSC objective that requires the **costs for delivery of CDSP services to be economic and efficient**, in addition to the current requirement to make service provision effective. Consequential changes to the UNC and the DSC suite of documents will be required to facilitate this change by making explicit how the objective is met, allowing Parties transparency of the required information and amending governance processes.

In summary, this Modification will:

- Make explicit the requirement that services are delivered efficiently;
- Create a set of business plan rules, and
- Re-work the change processes so that any contract/finance related matters are handled by the DSC Contract Management Committee and specify criteria for testing DSC change proposals to ensure they represent improvement to the baseline.

2 Governance

Justification for Authority Direction

This Modification will require Authority Direction as it seeks to make changes to governance arrangements. The consequential DSC changes would also amend the current conditions specifically to add the Authority's approval of changes to the charging methodology, consistent with other codes and processes for governance of charging matters.

Requested Next Steps

- This Modification should: be considered a material change and not subject to Self-Governance.
- be assessed by a Workgroup.

The proposed timeline for development and implementation of this Modification is designed to inform and support the business planning cycle for CDSP Budget 2024/25.

The draft Principles and Approach for the Business Plan are usually published in late June or early July, outlining the intended scope and content of the process and eventual drafts. Therefore we suggest that Workgroup meetings take place from March to May, in order for a Draft Modification Report and Consultation to be issued in June, allowing the Principles and Approach to take account of the Workgroup's outputs.

Implementation of the Modification in September 2023 will allow the CDSP to incorporate the change in the publication of the first draft of the Business Plan document in October 2023.

Implementation of amendments to the DSC suite of documents and DSC governance in October 2023 will coincide with new Contract and Change Management Committee members taking up their seats. It will also

allow the inclusion of the full change to be incorporated in the second draft Business Plan document, which should be published in late October 2023 or November 2023.

The proposed timeline and alignment to the indicative CDSP Budget engagement cycle is provided in the table below:

Date	Modification milestone	CDSP Budget milestone
Mar 2023	Modification formally raised	
Mar-May 2023	Workgroup development	
Jun 2023	Draft Modification Report & Consultation	Publication of Business Plan 2024/25 Draft Principles & Approach, consultation
Jul 2023	Final Modification Report	
Sep 2023	Implementation of UNC changes	
Oct 2023	Implementation of DSC changes	First Draft Business Plan 2024/25, consultation
Nov 2023		Second Draft Business Plan 2024/25, consultation
Dec 2023		Final Draft Business Plan 2024/25, consultation
Jan 2024		Final Business Plan 2024/25 publication, with CDSP Board approval

3 Why Change?

Business plan requirements:

Industry parties are dependent on appointed central service providers to perform processes that facilitate the delivery of energy. Central services are funded by their users as part of the costs they incur to operate. Ensuring value for money for consumers across all parts of the energy value chain, including central service providers, is more important than ever in the current cost of living crisis.

In the case of CDSP Services, the CDSP's Customers are mandated by the UNC to utilise the CDSP's services and are responsible for challenging and scrutinising the CDSP's costs. This is in line with the Authority's decision on the Funding Governance and Ownership model, which was implemented in 2017. Key elements of the Authority's decision are that the CDSP must be collectively owned by the Transporters, be not-for-profit and be subject to industry accountability and governance. The Authority decided that the CDSP Budget would be set via a consultative process and Parties would work collaboratively to ensure that Costs are efficient and that the CDSP Budget is fit for purpose.

Under UNC General Terms, Section D, 1.4.4:

*"Each Party undertakes that it will act and exercise its rights and powers under the DSC in relation to the CDSP so as **jointly to control and govern the CDSP on an economic and efficient basis**" [emphasis added]*

The CDSP is obliged under the DSC Budget and Charging Methodology (BCM) to produce an annual Budget with a defined Annual Process. The CDSP must provide to and discuss with the DSC Contract Management Committee drafts of the Planning Principles and the Budget itself. The BCM sets out that the CDSP can act as it considers appropriate in taking the Committee's views into account prior to finalising the Budget.

There is a route for Appeal to the Authority if Parties do not consider the final Budget to be fit for purpose. This has been exercised in 2020, 2022 and 2023 (the 2022 and 2023 Appeals remain with Ofgem for decision). The CDSP has been notified of objections to all four CDSP Budgets since 2020. The grounds for Appeal have consistently raised that there is insufficient transparency and detail of information contained in the published Budgets to allow Parties to determine whether or not the CDSP is acting on an economic and efficient basis. Industry party feedback through the business planning processes and within Contract Management Committee has been consistent with these views.

Greater clarity and transparency of information in the CDSP Budget, comparable to that provided by other industry service providers in their annual business plans, is needed to allow Parties improved ability to meet their obligation under UNC GTD 1.4.4 and to ensure cost efficiency and value for money for consumers.

Change processes:

The procedures for changing the CDSP Service Documents (such as the BCM) are defined in the Change Management Procedures (CMP). The Change Management Committee (ChMC) was designed to focus primarily on assessing technical changes to CDSP Services. However, the ChMC is also responsible for assessing changes to CDSP Service Documents. This means that the ChMC is responsible for assessing contract/finance related changes even though the Contract Management Committee is better placed to do so.

Another weakness of the current arrangements is the Parties that propose changes to CDSP Service Documents are not required to demonstrate the merits of the proposals relative to the status quo. Parties that propose changes that affects how charges are calculated are not required to explain how the changes, if implemented, better achieve the DSC Charging Methodology Objectives. Parties that propose other types of changes are not required to explain how the changes, if implemented, better achieve the DSC Objectives.

4 Code Specific Matters

Reference Documents

Current and recent CDSP Budgets (Xoserve Business Plans): [Business plan \(xoserve.com\)](https://www.xoserve.com)

DSC suite of documents: [DSC / CDSP Documents | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](https://www.gasgovernance.co.uk)

Knowledge/Skills

Knowledge of CDSP and other central services provider (e.g. BSCCo, REC, ESO) budget and business planning guidance, rules and conventions; knowledge of DSC governance processes.

5 Solution

Outline

The proposed Modification consists of three elements, which will:

- Make explicit the requirement that services are delivered efficiently;
- Create a set of business plan rules, and

- Re-work the change processes so that any contract/finance related matters are handled by the DSC Contract Management Committee and specify criteria for testing DSC change proposals to ensure they represent improvement to the baseline.

The overall package will be effected in a hierarchy, through changes to the UNC with related and consequential changes to the DSC suite of documents subordinate. The package should be progressed holistically due to interlinked nature of the solution.

Each element of the solution and required changes are described below.

Make explicit the requirement that services are delivered efficiently

Fundamental to these proposals is the introduction of a new DSC Objective at UNC General Terms Section D (GTD), Interpretation, which will require the costs of CDSP Services and the performance of Non-Service Functions to be both efficient and economic.

In addition, a requirement will be placed on all Parties to ensure that CDSP costs are efficient in addition to the obligation to jointly govern the CDSP on an economic and efficient basis (under Agreement to engage the CDSP and be party to DSC).

These UNC changes should consequentially be reflected in the DSC Terms and Conditions, with introduction of reference to the new DSC Objective, obliging the CDSP to ensure that costs are efficient. Specifically this should reference efficient operation of UK Link and efficient delivery of Non-Service Functions.

Finally, to carry this element through to a tangible outcome, the DSC Budget and Charging Methodology (BCM) should include the requirement for the CDSP to evidence efficiency of costs in the Business Plan document. This will part of the Business Plan rules described below.

Create a set of business plan rules

Many other central service providers are provided with clear guidance from the Authority, in some detail, of the expectations for the content of their annual Business Plans. This can include specific cost breakdown requirements and templates for conducting cost-benefit analyses. These are to enable scrutiny and challenge of budgets by the Authority and all stakeholders. They also ensure that information is provided in clear, consistent, comparable and timely manner.

This Modification intends to provide similar helpful business planning rules for the CDSP to follow, which will support the approach, structure and content for the annual Business Plan. This will enable delivery of, and also provide a test for, the demonstration of cost efficiency contained the new DSC Objective contained in the UNC. The rules will include content and additional process requirements.

Firstly, the purpose prescribed to the BCM in the UNC should be amended to include that it should provide for the information that must be included in the annual CDSP Budget.

The information requirements will sit in the BCM. These should include:

- the minimum requirements of the plan content e.g. data granularity, evidence, etc;
- requirement for the CDSP to explain why and how the draft Budget does not comply with the business plan rules, and
- requirement for the CoMC to assess whether the minimum requirements have been met and to set out the actions that the CDSP needs to take to achieve compliance.

The minimum requirements should include:

- Transparency and specific publication of items to specified locations

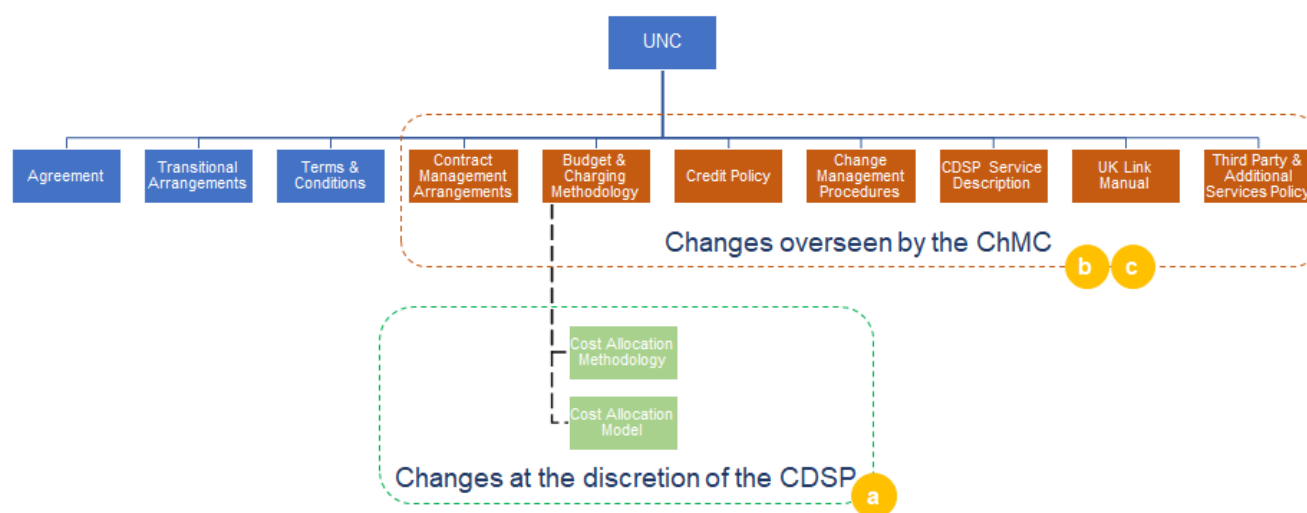
- A redaction statement if any information is considered too sensitive to publish, and requirement to share the full document with CoMC
- Stakeholder engagement
- Current performance information
- Business case content and publication for investment proposals
- Expenditure details, including the treatment of inflation
- Cost allocation to Customer Classes
- Risk, uncertainty and assurance

We will append draft Legal Text proposals for the BCM to address these points and form the basis of Workgroup development.

Re-work the change processes so that any contract/finance related matters are handled by the DSC Contract Management Committee, and specify criteria for testing DSC change proposals to ensure they represent improvement to the baseline

This element of the proposals involves changes to governance processes to improve transparency and robustness, and alignment of decision-makers to their relevant topics on matters of rule change. In relation to this group of proposals it is helpful to consider the existing governance model for the DSC under the UNC, shown in the diagram below.

Figure 1: Current governance model



Five sets of change are proposed:

- a. Designation of the Cost Allocation Methodology and Model as Service Documents
- b. Revisions to DSC Change Proposal procedures
- c. Revisions to Change Proposal routes
- d. Introduction of a test for charging-related Change Proposals

- e. Introduction of a test for non-charging-related Change Proposals

a. Designation of the Cost Allocation Methodology and Model as Service Documents

Currently changes to the key elements of budget and charging development are under the sole control of the CDSP and can be changed at its discretion. This means that there is little or no transparency of the grounds for changes to the approach for cost allocation, and no opportunity for stakeholders to provide feedback or propose change.

This Modification proposes to make these documents subject to open governance. This will improve transparency and aid stakeholder engagement with and scrutiny of costs.

The UNC change proposed is to designate the Cost Allocation Methodology and Cost Allocation Model as CDSP Service Documents. This will be replicated in the DSC Terms and Conditions and consequential change to the BCM will remove CDSP 'ownership' of the Cost Allocation Methodology and Cost Allocation Model, while preserving the obligation on the CDSP to continually review these documents.

b. Revisions to DSC Change Proposal procedures

The ChMC currently governs any changes made to the majority of DSC/CDSP documents. ChMC's defined role is to represent Customers in the management of change to the DSC.¹ The key role that ChMC carries out is to review and issue decisions on changes to services and systems, which may or may not be triggered by a Code Modification. The focus of the group is therefore mainly technical.

Separately the CoMC's defined role is to manage the DSC on behalf of Customers,² with the exception of items which fall under the Change Management or Credit Committees. The focus of CoMC is mainly commercial matters.

Under these proposals the Change Management Procedures and Contract Management Arrangements would be modified so that the CoMC would be responsible for overseeing changes to the Contract Management Arrangements, Credit Policy, Budget and Charging Methodology, Cost Allocation Methodology and Cost Allocation Model. ChMC would maintain responsibility for overseeing changes to Change Management Procedures, and the Third Party and Additional Services Policy.

c. Revisions to Change Proposal routes

Following the above, consequential changes are required to the individual documents, policies and procedures to align to the new route for change governance. In summary:

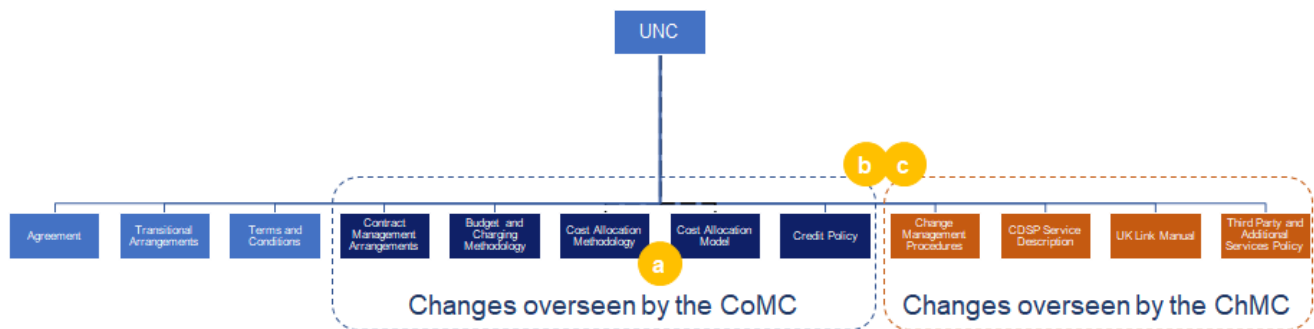
¹ [CDSP Service Document - Change Management Procedures v2.0](#), 2.1.1.

² [CDSP Service Document - Contract Management Arrangements v2.0](#), 4.1.1.

	Existing conditions	Proposed conditions
Budget & Charging Methodology	<ul style="list-style-type: none"> Amended via procedures in Change Management Procedures 	<ul style="list-style-type: none"> Amended via procedures in Contract Management Arrangements
Change Management Procedures	<ul style="list-style-type: none"> Amended via procedures in Change Management Procedures 	<ul style="list-style-type: none"> No change
Contract Management Arrangements	<ul style="list-style-type: none"> Amended via procedures in Change Management Procedures 	<ul style="list-style-type: none"> Amended via procedures in Contract Management Arrangements
Third Party & Additional Services Policy	<ul style="list-style-type: none"> Amended via procedures in Change Management Procedures 	<ul style="list-style-type: none"> No change
Credit Policy	<ul style="list-style-type: none"> Amended via procedures in Change Management Procedures 	<ul style="list-style-type: none"> Amended via procedures in Contract Management Arrangements (no impact on Credit Rules)
Cost Allocation Methodology & Model	<ul style="list-style-type: none"> Amended at the CDSP's discretion as per the Budget and Charging Methodology 	<ul style="list-style-type: none"> Amended via procedures in Contract Management Arrangements

The result of the proposed changes a. to c. above is summarised in the diagram below. The Cost Allocation Methodology and Cost Allocation Model are shown as Service Documents and changes to them are overseen by CoMC.

Figure 2: Governance model after implementation of proposed changes



d. Introduction of a test for charging-related Change Proposals

Currently there is no requirement to test the merit of a proposed amendment to charging arrangements against any criteria. Specifically this issue applies to the Cost Allocation Methodology and Cost Allocation Model, which would be amended via the BCM, and in turn to the BCM under Change Management Procedures. The result is that changes can be made without justification and which would not represent any improvement and could in fact be detrimental to all or certain classes of CDSP Customers. This is a clear weakness in governance of changes to these items.

The proposal is to bring forward a test of any charging-related changes relative to the baseline, similar to the test required against relevant objectives for Code change. The proposer will be required to explain how a proposed amendment that affects charges will better achieve the DSC Charging Methodology Objectives. This requires changes to the Contract Management Arrangements.

It is also proposed that changes which affect charging should be subject to Authority approval, in line with other charging issues.

e. Introduction of a test for non-charging-related Change Proposals

There is also no requirement to test the merit of a proposed amendment to any other non-charging arrangements in the DSC suite of documents against any criteria.

The proposal is to bring forward a similar test to improve change governance, that the proposer will be required to explain how a proposed amendment that affects charges will better achieve the DSC Objectives. This will require changes to the Contract Management Arrangements.

6 Impacts & Other Considerations

Does this Modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

There are no impacts identified on a current SCR.

Consumer Impacts

Enduring enhancements to cost efficiency and value for money in central data service provision to the gas industry, potentially leading to lower costs to consumers than would otherwise be the case.

What is the current consumer experience and what would the new consumer experience be?

CDSP services which directly impact consumers, such as switching supplier, may be positively impacted on both cost and performance, through improved ability for stakeholders to engage on efficiency. Consumers may also benefit from enduring reductions in the cost elements for central services which are passed through to them by suppliers.

Impact of the change on Consumer Benefit Areas:

Area	Identified impact
<p>Improved safety and reliability</p> <p>The proposals may lead to improvements in performance of services which directly impact vulnerable consumers by allowing greater scrutiny of the efficiency of CDSP activities by industry stakeholders.</p>	Positive
<p>Lower bills than would otherwise be the case</p> <p>Consumer bills may be reduced on an enduring basis due to improved opportunity for industry stakeholders to understand and challenge the cost efficiency and value for money of CDSP services.</p>	Positive
<p>Reduced environmental damage</p> <p>None</p>	None

Improved quality of service CDSP services which directly impact consumers, such as switching supplier, may be positively impacted on both cost and performance, through improved ability for stakeholders to engage on efficiency.	Positive
Benefits for society as a whole None	None

Cross-Code Impacts

Possible interactions with and impacts on the iGT UNC should be reviewed.

EU Code Impacts

None.

Central Systems Impacts

None. While there will be changes to the requirements on the CDSP, these will be information provision related only, not systems related.

7 Relevant Objectives

Impact of the Modification on the Transporters' Relevant Objectives:

Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	Positive
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	Positive

g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None
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Relevant Objective c):

Transporters are obligated under licence to provide CDSP services through an appointed CDSP. The licence sets out the requirement for the UNC to include the obligation on parties to jointly control and govern the CDSP on an economic and efficient basis,³ and the minimum requirement for economic, efficient and transparent charging for the provision of the CDSP Services.⁴ The licence also requires consultation of CDSP service users in the development of the annual Budget and their participation in decision making for the ongoing operation of the CDSP. This Modification will have positive impacts for improved efficiency across all these obligations through defining information and transparency requirements more clearly, improving participative governance of cost allocation tools and aligning change processes to the appropriate forum.

Relevant Objective d):

Greater transparency and scrutiny of information allows shippers and suppliers better to manage their costs and risk profiles. With greater granularity and transparency of CDSP expenditure, parties will be able to include more information in forecasts of the charges that they pay for CDSP services. This should serve to improve accuracy and development of individual risk and other assumptions incorporated. This will have a positive impact on competition between Shippers and between suppliers.

Relevant Objective f):

The UNC provides for the establishment of the CDSP and obligates usage of CDSP Code Services by all parties. It also obliges the CDSP to produce an annual Budget and for all parties to enter into the DSC. Further, each party must *act and exercise its rights and powers under the DSC in relation to the CDSP so as jointly to control and govern the CDSP on an economic and efficient basis* (GTD 1.4.4.).

The proposals in this Modification will have a positive impact on the efficiency of the implementation of these conditions, specifically in the economic and efficient control and governance of the CDSP. The introduction of business plan rules, outlining the content requirements that are consistently needed for stakeholders to undertake this role more effectively, is clearly a positive outcome.

It could also be anticipated that greater transparency and information provision would result in a reduced burden of administration, through a lower likelihood of appeals processes.

Changes to governance of change processes under the DSC will also have positive impacts on efficiency, through aligning decision-making with the relevant expertise.

³ Gas Transporter Standard Special Condition A15, 4 (c) (i).

⁴ Gas Transporter Standard Special Condition A15, 6 (d) (ii).

8 Implementation

Implementation is proposed for 1 October 2023. This allows for the Modification to be incorporated in the development of the CDSP Budget 2024/25.

9 Legal Text

Text Commentary

Insert text here.

Text

Legal text proposals for the UNC are appended in mark-up form. Proposed amendments to the DSC documents will be provided.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

- Agree that Authority Direction should apply.
- Refer this proposal to a Workgroup for assessment.