

UNC0XXX: Introduction of cost efficiency and transparency requirements for the CDSP Budget

16 Feb 2023



Pre-Mod discussion

centrica

Why change?

- The intention of the Funding Governance and Ownership model was for the CDSP to 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

- Paragraph 1.4.5 states that a Party may appeal the CDSP budget to the Authority in accordance with the Budget and Charging Methodology under the DSC
- It has become clear that it is necessary to amend the UNC, IGT UNC and DSC suite of documents in order for Parties better to meet the obligation under GTD 1.4.4

Options

- Industry engages in the CDSP annual Budget development cycle with the aim of meeting its obligations for economic and efficient service provision
 - This consultative route should be a way for CDSP Customers to scrutinise the Budget and for improvements to be made so that Customers can satisfy themselves that the spending and operations will be economic and efficient, and the Budget therefore fit for purpose
- Industry has found the engagement route to be unsatisfactory
 - The CDSP has provided insufficient information on efficiency and value for money despite specific requests from Customers
- Centrica has formally appealed the CDSP Budget to Ofgem in 2020 and 2022 (and objected in 2021 and 2023), with grounds including lack of transparency and absence of relevant information
 - This Appeal route should enable the Authority to order changes to the Budget which satisfy the obligation – however it has not resulted in improvements to individual Budgets or the to the business planning process
- We met with Ofgem in Sept 22 to discuss addressing the concerns on an enduring basis and jointly reached the conclusion that a Code Modification and DSC change proposal(s) were the best route

Solution

We suggest changes to UNC, IGT UNC and DSC in order for the Budget to be more transparent and enable scrutiny by CDSP Customers, and for the Budget governance to be made more robust

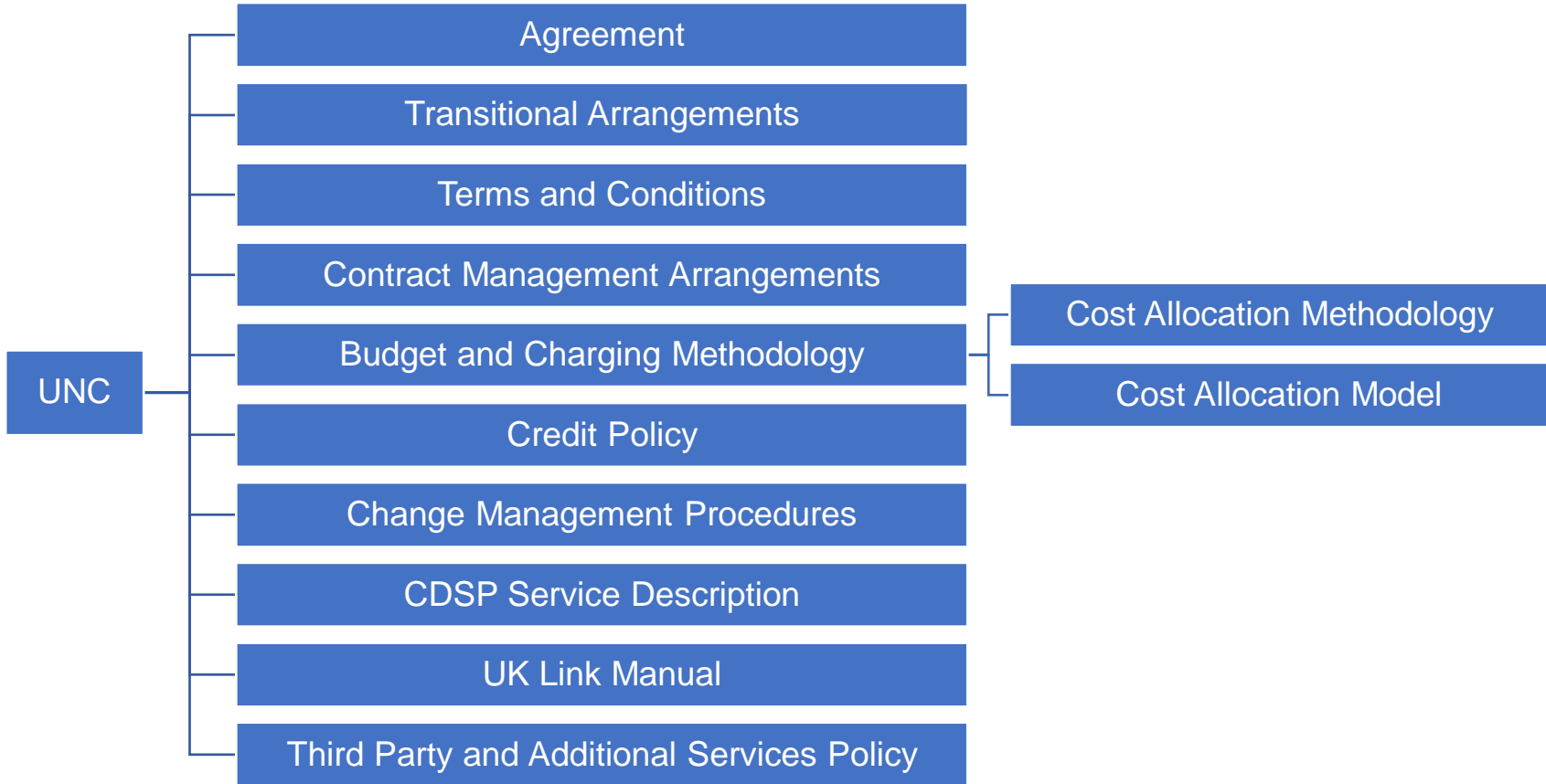
- 1** Make explicit the requirement that services are delivered efficiently
- 2** Create a set of business plan rules
- 3** Re-work the change processes so that anything contract/finance related is handled by the DSC Contract Management Committee and specify criteria for testing DSC change proposals

Indicative timeline

- Our suggested timeline aims to progress change to support the early stages of the CDSP planning cycle in summer
- Amendments to the DSC Contract and Change Management Committee change processes should be implemented from the start of the new gas year on 1 Oct 2023, when new members take their seats

- Mar 2023 Modification formally raised for Panel meeting
- Mar-May 2023 Workgroup development
- Jun 2023 DMR & Consultation
- Jun 2023 FMR & Panel decision
- Sep 2023 Implementation of UNC change
- Oct 2023 Implementation of DSC governance changes for CoMC and ChMC

Context: the Data Services Contract



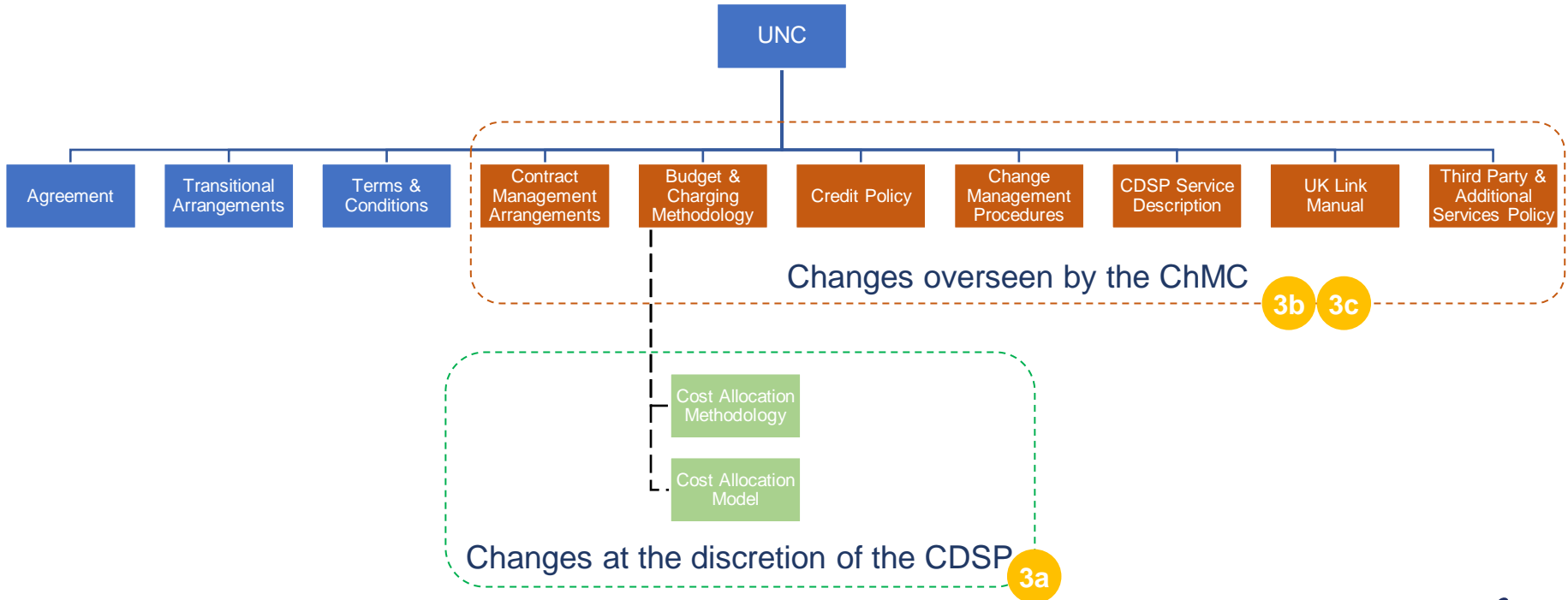
1. Make explicit the requirement for efficient delivery

	Existing conditions	Proposed conditions
UNC	-	<ul style="list-style-type: none">▪ DSC Objective requiring Costs to be efficient▪ Requirement for Parties to ensure Costs are efficient
DSC T&Cs	-	<ul style="list-style-type: none">▪ Obligations on the CDSP to deliver non-Service functions efficiently, operate UK Link efficiently and to ensure Costs are efficient
Budget & Charging Methodology	-	<ul style="list-style-type: none">▪ Requirement for CDSP to explain in the business plan how Costs are efficient and to provide evidence

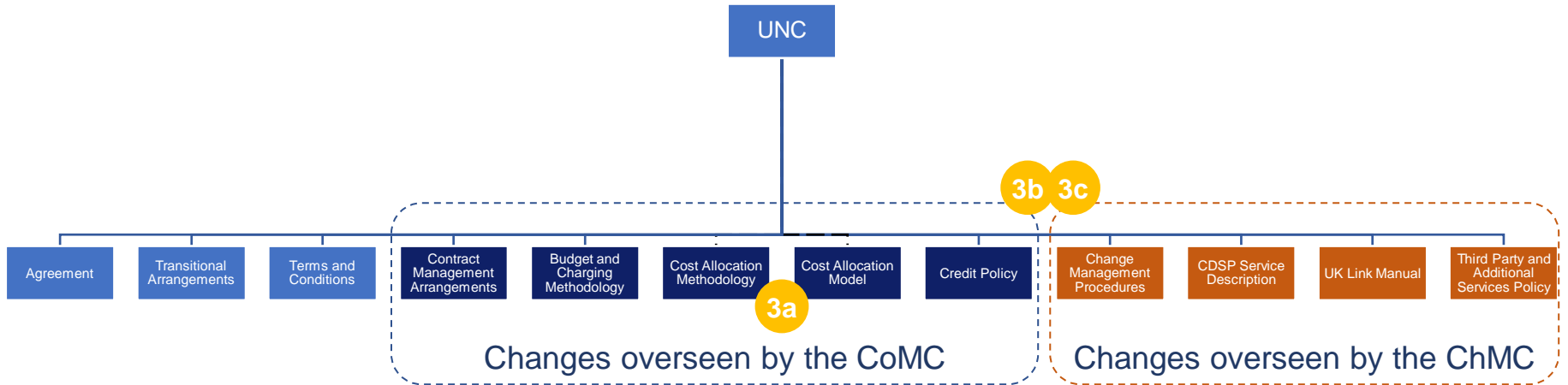
2. Create a set of business plan rules

	Existing conditions	Proposed conditions
UNC	-	<ul style="list-style-type: none">▪ Purpose of Budget and Charging Methodology is expanded to include specification of the business plan requirements
Budget & Charging Methodology	-	<ul style="list-style-type: none">▪ Business plan rules that specify the minimum requirements of the plan 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▪ 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

3. Changes to the DSC governance: existing



3. Changes to the DSC governance: proposed



3a. Change – designate Cost Allocation Methodology and Model as Service Documents

	Existing conditions	Proposed conditions
UNC	-	<ul style="list-style-type: none"> Cost Allocation Methodology and Cost Allocation Model are designated as CDSP Service Documents, making them subject to open governance
DSC T&Cs	-	<ul style="list-style-type: none"> Cost Allocation Methodology and Cost Allocation Model are designated as CDSP Service Documents, making them subject to open governance
Budget & Charging Methodology	<ul style="list-style-type: none"> Cost Allocation Methodology and Cost Allocation Model are 'owned' by the CDSP Obligation on CDSP to continually review these items These items are subject to Contract Assurance Audit 	<ul style="list-style-type: none"> 'Ownership' of the Cost Allocation Methodology and Cost Allocation Model is removed from the CDSP Obligation on CDSP to continually review these items remains in place These items are still subject to Contract Assurance Audit

3b. Change – revise DSC Change Proposal procedures

	Existing conditions	Proposed conditions
Change Management Procedures	<ul style="list-style-type: none">Amendment procedures cover “Other CDSP Service Documents”: Change Management Procedures, Contract Management Arrangements, Credit Policy, Third Party and Additional Services Policy, Budget and Charging Methodology	<ul style="list-style-type: none">Amendment procedures cover Change Management Procedures, Third Party and Additional Services PolicyChanges to these will be overseen by the ChMC
Contract Management Arrangements	-	<ul style="list-style-type: none">Amendment procedures in the Change Management Procedures are replicated and cover Contract Management Arrangements, Credit Policy, Budget and Charging Methodology, Cost Allocation Methodology and Cost Allocation ModelChanges to these will be overseen by the CoMC

3c. Change – revised Change Proposal routes

	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

3d. Change – testing charging-related Change Proposals

	Existing conditions	Proposed conditions
Budget & Charging Methodology	<ul style="list-style-type: none"> No requirement to test the merit of a proposed amendment to the Cost Allocation Methodology and Cost Allocation Model against any criteria 	-
Change Management Procedures	<ul style="list-style-type: none"> No requirement to test the merit of a proposed amendment to the Budget and Charging Methodology against any criteria 	-
Contract Management Arrangements	-	<ul style="list-style-type: none"> Proposer is required to explain how a proposed amendment that affects charges will better achieve the DSC Charging Methodology Objectives The Cost Allocation Methodology, Cost Allocation Model and some parts of the Budget and Charging Methodology are in scope Change Proposals that affect charges can be approved only by the Authority

3e. Change – testing non-charging related Change Proposals

	Existing conditions	Proposed conditions
Change Management Procedures	<ul style="list-style-type: none"> No requirement to test the merit of a proposed amendment to the Budget and Charging Methodology, Contract Management Arrangements and the Credit Policy against any criteria 	-
Contract Management Arrangements	-	<ul style="list-style-type: none"> Proposer is required to explain how a proposed amendment that affects charges will better achieve the DSC Objectives Contract Management Arrangements, Credit Policy and some parts of the Budget and Charging Methodology are in scope

Appendix: Specific Code & DSC changes in outline

1. Make explicit the requirement for efficient delivery

Intention	<ul style="list-style-type: none">▪ Require the CDSP and Parties to ensure Costs are efficient
Method	<p><u>UNC GTD</u> (with mirror change in IGT UNC)</p> <ul style="list-style-type: none">▪ 1.2 Interpretation: define new DSC Objective requiring costs to be efficient▪ 1.4 Agreement to engage the CDSP and be party to DSC: add requirement for parties to ensure costs are efficient▪ 3.1 Content of Data Services Contract: add reference to new clause in DSC T&Cs obliging the CDSP to ensure costs are efficient, define the Cost Allocation Methodology and Cost Allocation Model as Service Documents <p><u>DSC Terms and Conditions</u></p> <ul style="list-style-type: none">▪ 3 Key Provisions: expand obligation on CDSP to perform Non-Service Functions efficiently, place new obligation on CDSP to ensure costs are efficient▪ 6 UK Link: expand obligation on CDSP to operate UK Link efficiently

2. Create a set of business plan rules

Intention	<ul style="list-style-type: none">▪ Clarify the content requirements of the business plan so that the information required to scrutinise it is always made available by the CDSP to the required standard and level of detail▪ Provide to stakeholders data produced and analysis already conducted by the CDSP as part of its planning process in a clear, consistent and timely manner▪ Leverage business planning guidance used for other industry parties to meet similar standards
Method	<p><u>Budget & Charging Methodology</u></p> <ul style="list-style-type: none">▪ Insert new section: Section 11 Information that must be included in the CDSP Budget, containing minimum requirements for:<ul style="list-style-type: none">▪ 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 publication▪ Business case content and publication for investment proposals▪ Expenditure details provision, including the treatment of inflation▪ Cost allocation to Customer Classes▪ [Risk, uncertainty and assurance – which will be added to our current draft]▪ 1.5 Scope and Purpose: insert reference to Section 11 as part of scope▪ 4.7 Annual Process: add requirements for the CDSP to identify in the Budget and discuss with CoMC any issues of non-compliance with Section 11, with CoMC given right to demand actions to rectify from the CDSP <p><u>UNC GTD</u> (with mirror change in IGT UNC)</p> <ul style="list-style-type: none">▪ 3.3 Budget and Charging Methodology: add reference to the information that must be included in the Budget

3. Assign charging/budget changes to DSC CoMC (1/2)

Intention	<ul style="list-style-type: none">▪ Restrict existing modification procedures in the Change Management Procedures to be applicable only to the Change Management Procedures and the Third Party and Additional Services Policy▪ Create new modification procedures in the Contract Management Arrangements to be applicable to the Contract Management Arrangements, Budget and Charging Methodology, Credit Policy, Contract Management Arrangements, Cost Allocation Methodology and Cost Allocation Model
Method	<p><u>UNC GTD</u> (with mirror change in IGT UNC)</p> <ul style="list-style-type: none">▪ 3.1 Content of Data Services Contract: define the Cost Allocation Methodology and Cost Allocation Model as Service Documents, specify modification procedures in the Contract Management Arrangements and Change Management Procedure▪ 3.6 Contract Management Arrangements: specify the Service Documents to which the modification procedures will apply▪ 12.12 Interaction with DSC and CDSP: specify new modification rules in the Contract Management Arrangements▪ Insert new section 3.8 Cost Allocation Methodology setting out purpose of content▪ Insert new section 3.9 Cost Allocation Model setting out purpose of content <p><u>DSC Terms and Conditions</u></p> <ul style="list-style-type: none">▪ 3 Key Provisions: define the Cost Allocation Methodology and Cost Allocation Model as Service Documents <p><u>Change Management Procedures</u></p> <ul style="list-style-type: none">▪ 1.5 Scope and purpose: restrict modification procedures to be applicable only to the Change Management Procedures and Third Party and Additional Services Policy▪ 2.3 Monthly Change Management Report: restrict updates on modifications to the relevant documents in 1.5▪ 3.1 Amendment by Code Modification/3.2 Making amendments to CDSP Service Documents: restrict modification procedures to be applicable only to the Change Management Procedures and Third Party and Additional Services Policy▪ 4 Service Changes: identify that related mods to the Budget and Charging Methodology must be made according to the modification rules in the Contract Management Arrangements▪ 7 Amendment of Other CDSP Service Documents: restrict obligations to be applicable only to relevant documents in 1.5

3. Assign charging/budget changes to DSC CoMC (2/2)

Intention	<ul style="list-style-type: none">▪ Restrict existing modification procedures in the Change Management Procedures to be applicable only to the Change Management Procedures and the Third Party and Additional Services Policy▪ Create new modification procedures in the Contract Management Arrangements to be applicable to the Contract Management Arrangements, Budget and Charging Methodology, Credit Policy, Contract Management Arrangements, Cost Allocation Methodology and Cost Allocation Model
Method	<p><u>Contract Management Arrangements</u></p> <ul style="list-style-type: none">▪ 1.5 Scope and purpose: expand to include modification of the Budget and Charging Methodology, Credit Policy, Contract Management Arrangements, Cost Allocation Methodology and Cost Allocation Model▪ 3.1 Monthly reporting: expand content of monthly report to include updates on modifications to relevant documents in 1.5▪ 3.5 Audit: expand scope of audit to include the Cost Allocation Methodology and Cost Allocation Model▪ 4.1 Role and functions of the Committee: expand role of the CoMC to include a role in the modification of the documents in 1.5▪ Insert new section 7 Amendment of CDSP Service Documents to define the modification procedures for the documents specified in 1.5 <p><u>Credit Policy</u></p> <ul style="list-style-type: none">▪ 1.3 Amendment: update the modification route to that newly defined in the Contract Management Arrangements <p><u>Cost Allocation Methodology and Cost Allocation Model</u></p> <ul style="list-style-type: none">▪ Create both as Service Documents using the existing documents currently 'owned' by the CDSP▪ Insert heads of terms in both documents