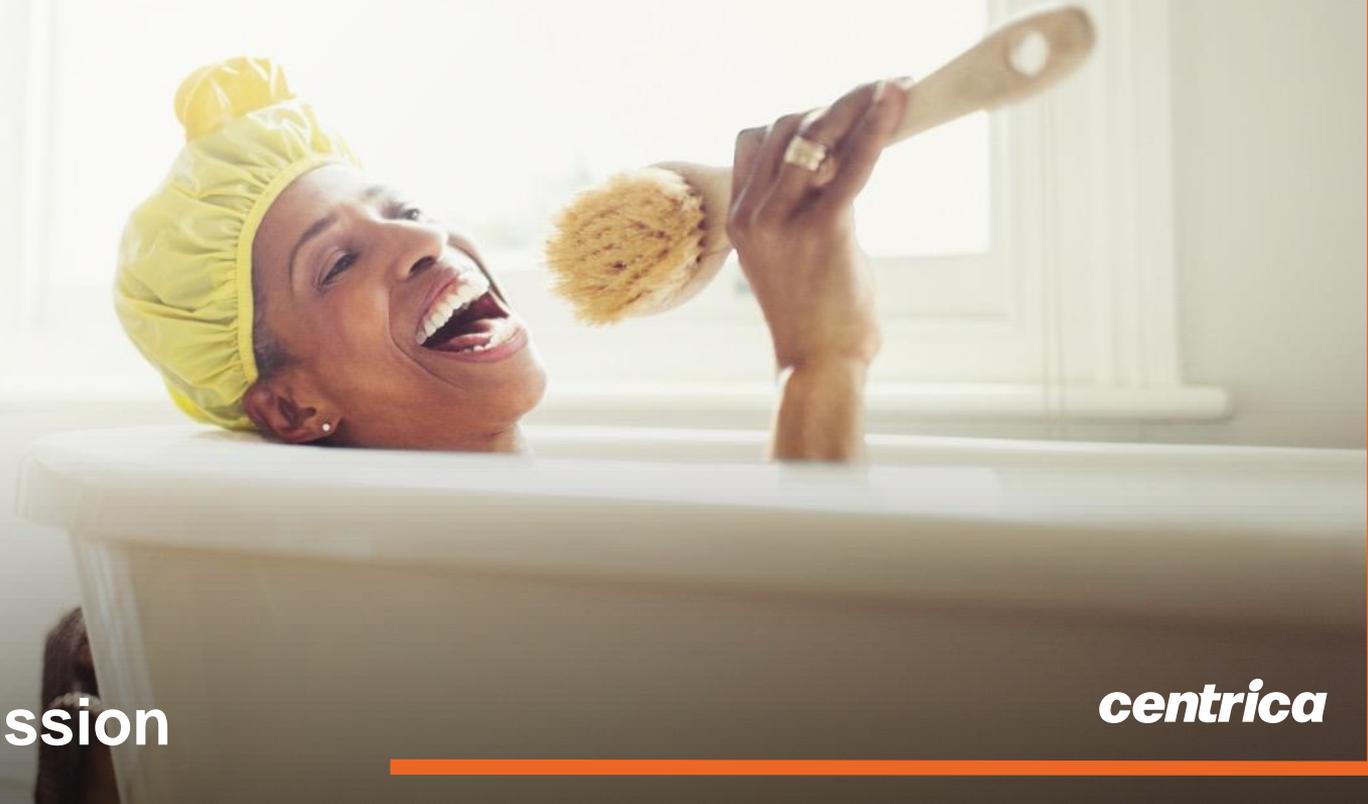


# UNC0XXX: Introduction of cost efficiency and transparency requirements for the CDSP Budget

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 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**

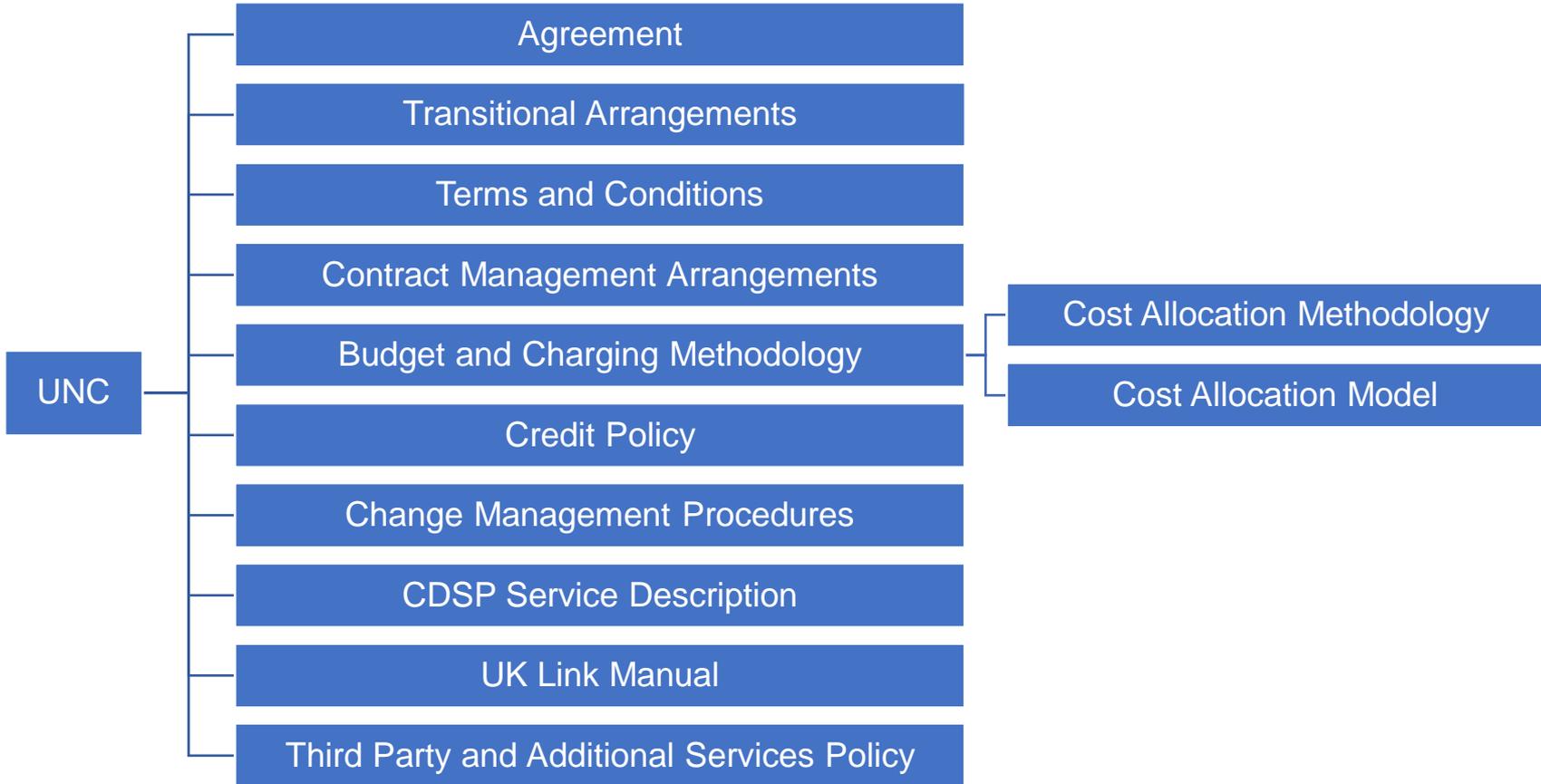
- 1** Make explicit the requirement that services are delivered efficiently
- 2** Create a set of business plan rules
- 3** Re-work the change processes so that anything contract/finance related is handled by the DSC Contract Management Committee and specify criteria for testing DSC change proposals

# 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



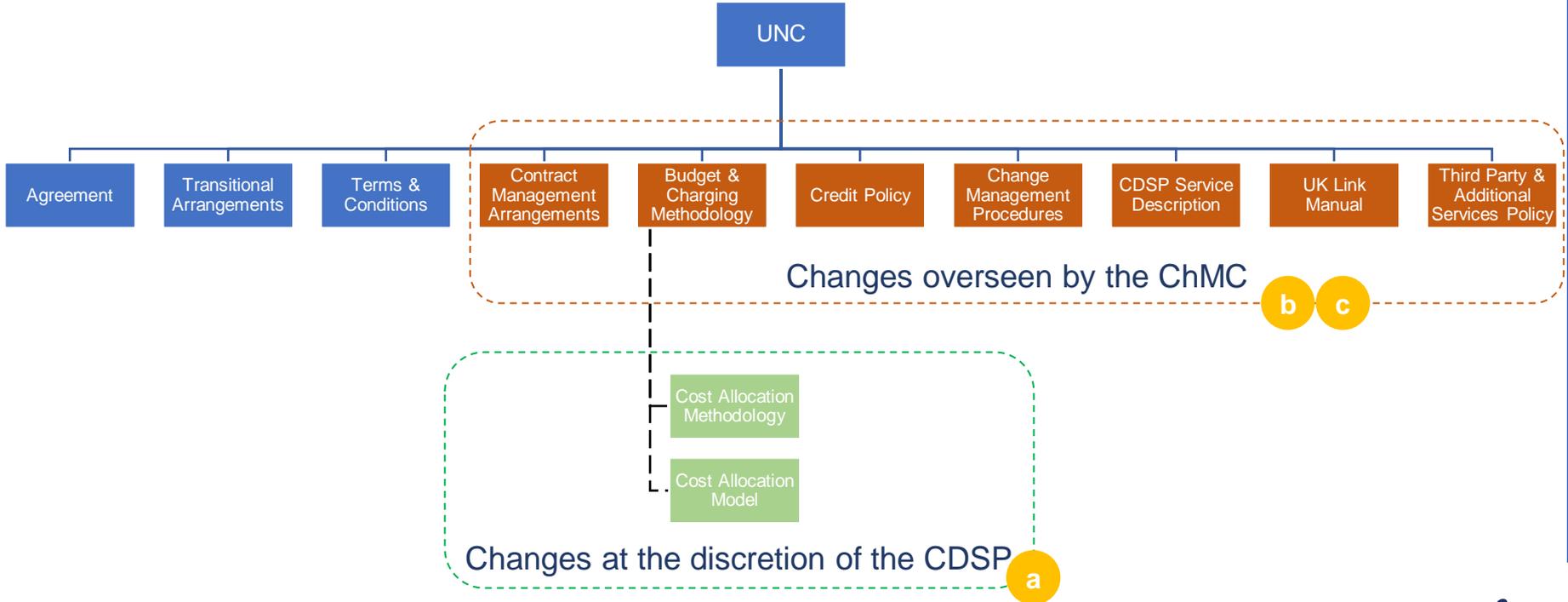
# 1. Make explicit the requirement for efficient delivery

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

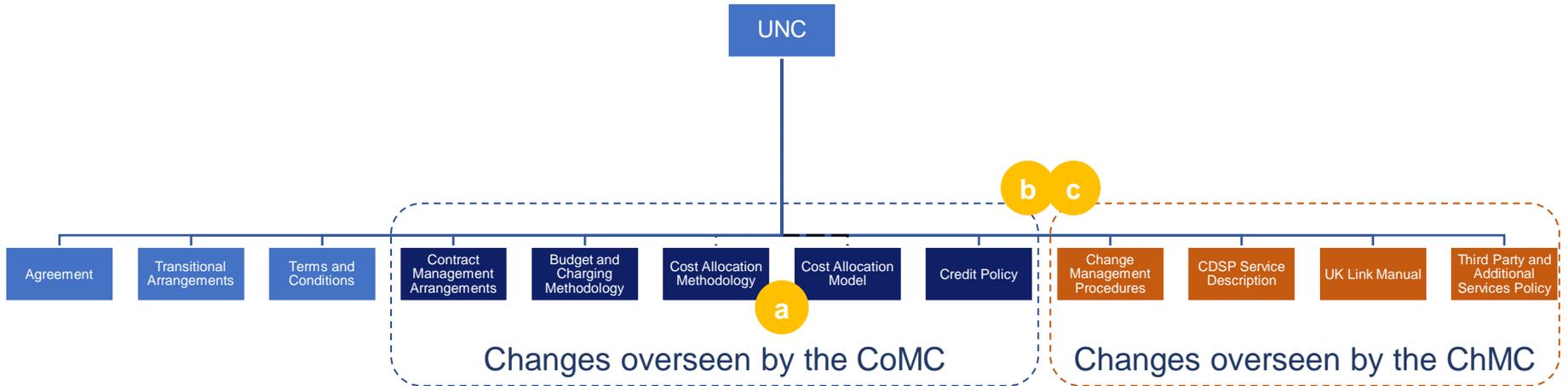
## 2. Create a set of business plan rules

	Existing conditions	Proposed conditions
UNC	-	<ul style="list-style-type: none"><li>▪ Purpose of Budget and Charging Methodology is expanded to include specification of the business plan requirements</li></ul>
Budget & Charging Methodology	-	<ul style="list-style-type: none"><li>▪ Business plan rules that specify the minimum requirements of the plan e.g. data granularity, evidence, etc</li><li>▪ Requirement for the CDSP to explain why and how the draft Budget does not comply with the business plan rules</li><li>▪ 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</li></ul>

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

## 3b. Change – revise DSC Change Proposal procedures

	Existing conditions	Proposed conditions
<b>Change Management Procedures</b>	<ul style="list-style-type: none"><li>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</li></ul>	<ul style="list-style-type: none"><li>Amendment procedures cover Change Management Procedures, Third Party and Additional Services Policy</li><li>Changes to these will be overseen by the ChMC</li></ul>
<b>Contract Management Arrangements</b>	-	<ul style="list-style-type: none"><li>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 Model</li><li>Changes to these will be overseen by the CoMC</li></ul>

## 3c. Change – revised Change Proposal routes

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

# 3d. Change – testing charging-related Change Proposals

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

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

	Existing conditions	Proposed conditions
<b>Change Management Procedures</b>	<ul style="list-style-type: none"> <li>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</li> </ul>	-
<b>Contract Management Arrangements</b>	-	<ul style="list-style-type: none"> <li>Proposer is required to explain how a proposed amendment that affects charges will better achieve the DSC Objectives</li> <li>Contract Management Arrangements, Credit Policy and some parts of the Budget and Charging Methodology are in scope</li> </ul>