

CODE REVIEW PROPOSAL No 0334
Post Implementation Review of Central System Funding and Governance
Arrangements
Version 1.0

Date: 17/09/2010

1 Nature and Purpose of Proposal

It is proposed that the industry undertaking a review of the current Central System Funding and Governance Arrangements that have been in place since GDPCR.

Development of Current System Funding and Governance Arrangements

As part of the DN Sales process a transporter agency was created to ensure that transporters could continue to provide a common service and system interface to Code Parties. Though at the time of the DN Sales the funding arrangements for central system was maintained, it was Ofgem's belief whilst undertaking the Gas Distribution Price Control Review (GDPCR) in 2008 that "*the current funding model may provide poor incentives both on the GTs to provide anything more than a minimum level of service and on users (primarily shippers and suppliers) to manage xoserve's costs*".

To resolve this issue, GDPCR separated funding for xoserve into two discrete areas; Core services, where the current funding arrangements would continue and User Pays services where charges are levied upon the User requesting the change. To allow Code Parties to assess the implications of any change, xoserve would provide a Rough Order of Magnitude (ROM) cost, with a Detailed Cost Analysis (DCA) undertaken if the modification was implemented.

These two changes fundamentally altered how Code Parties interact with central systems, in particular when looking to alter how services are provided, either via UNC modification proposals or User Pays Services outside of the UNC.

To support these new arrangements a suite of documents and operating procedures were developed. In addition to the UNC, these documents include:

- Agency Services Agreement(ASA)
- Agency Charging Statement (ACS)
- User Pays Guidance Documents
- Contract for Non-code User Pays services

These processes have remained fundamentally unaltered since they were implemented as a result of GDPCR.

Review Timing

The current regime has been in operation for two years. During that time several major changes to the UNC have been progressed and funded through both Core Services and the User Pays regime. This has provided useful

practical experience in how the new regime operates. In addition industry developments (Project Nexus, the Smart Metering Implementation Programme and the forthcoming GDPGR) will be impacted by the current System Funding and Governance arrangements. It therefore seems germane to assess the current arrangements to see whether any lessons can be learned from past experience and identify improvements to the current framework.

Review Scope

The current funding and governance arrangements for central systems have a significant bearing on many aspects of the UNC. In light of this any review will require a wide scope. It is suggested that the following areas are examined:

- Funding of central systems, in particular cost allocation and recovery.
- Governance framework of central service provision
- Transparency and accountability of the current regime.
- Cost calculation, in particular how costs are incurred and calculated and the timescale they are provided in.
- Impact on change process of current regime.

Review Aim

The aim of the review is to assess the current funding framework, identifying areas of good practice, as well as those areas that may require improvement. Particular attention will be given to previous experience of how the current regime has operated since it was implemented.

Efforts will be made to identify both short-term solutions, as well as more fundamental reforms.

These findings will be then be summarised in the review group report.

2 User Pays

a) Classification of the Proposal as User Pays or not and justification for classification

This proposal is intended as a review of System Funding and Governance arrangements and will not, in itself, attempt to alter any of the current funding arrangements. This modification is not User Pays.

b) Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

No User Pays charges identified.

c) Proposed charge(s) for application of Users Pays charges to Shippers

No User Pays charges applicable to Shippers.

d) Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from xoserve

No charges applicable for inclusion in ACS.

3 Any further information (Optional)

Suggested Terms of Reference

- Review of the current UNC process including:
 - Initial identification of funding requirement,
 - Apportionment of Funding
 - ROM & DCA process, including transparency and timescales.
 - Development and levying of charges.
- Review of funding frameworks operated by the transporter agent.
- Comparison of industry practices (gas and electricity) to identify possible improvements that can be applied to gas.
- Comparison of current process with commercial best practice.
- Examination of previous Modifications progressed under the current regime to identify good practice, as well as areas of improvement.

Suggest Aims and Outputs

It is envisaged that this Review Group will produce a report detailing its findings, recommending any necessary changes to the UNC, any other industry code or organisation working practices. It is recommended that the Review Group completes its work within a 6 month period. If necessary this could be extended by seeking agreement of the Modification Panel.

It is not expected that this Review Group should attempt to develop detailed modification proposals as part of the final report.

4 Code Concerned, sections and paragraphs

- a) Uniform Network Code
- b) Transportation Principal Document

Section(s)

Proposer's Representative

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