

REVIEW GROUP TERMS OF REFERENCE
CODE REVIEW PROPOSAL No 0334
Post Implementation Review of Central Systems Funding and Governance
Arrangements
Version 1.0

Date: 05/11/2010

Nature and Purpose of Proposal

It is proposed that the industry undertakes a review of the current Central System Funding and Governance Arrangements that have been in place since the last TPCR and 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*". (Para 8.3, [www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/final proposals.pdf](http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Documents1/final%20proposals.pdf))

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

To support these new arrangements Standard Special Condition A15 Agency of the Gas Transporter Licence (see http://epr.ofgem.gov.uk/document_fetch.php?documentid=14192) requires the establishment of an Agency, and a suite of supporting documents and operating procedures have been developed. In addition to the UNC, these documents include:

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

These processes have remained fundamentally unaltered since they were implemented.

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 RIIO) 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 Group Terms of Reference

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:

- Overview of transporter agent funding arrangements.
- Review of the current UNC process including:
 - User Pays Guidance Document
 - Initial identification of funding requirement
 - Apportionment of funding
 - ROM & DCA process, including transparency and timescales
 - Development and levying of charges
 - The process for ACS changes.
- Review of the current non-Code User Pays Service process.
- 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, especially where central systems are used and the associated change process.
- Examination of previous Modifications progressed under the current regime to identify good practice, as well as areas of improvement.
- Consideration of the impact of the Code Administration Code of Practice and the associated changes to the Modification Rules.

Suggested Aims and Outputs

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, such as the scope for competition in meeting service requirements.

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.

The Review process will also support the Transporters' stakeholder engagement processes as

part of the forthcoming RIIO review of price control allowances.

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

Scope and Deliverables

The Review Group shall focus on changes to the UNC but also identify where improvements could also be made to related matters outside of the UNC.

The Review Group is to consider recommendations based on evidence provided during the meetings.

Limits

The Review Group will focus on developing recommendations that efficiently address any issues identified in a proportionate and cost effective manner. The Review Group will consider changes required to procedures and processes within UNC, however it will not develop changes for non-code processes but will request reports from review group members who can influence changes with the appropriate industry body.

Composition of Review Group

This review group is open to all Transporters and their agents, Code Users, Ofgem and consumer representatives.

A Review Group meeting will be quorate provided at least 2 Transporter and 2 User representatives are present.

Timetable

It is proposed that a period of six months be allowed to conclude this review, however given the complexity of the issues this may need to be extended depending on how this review develops.

Although the frequency of meetings will be subject to review and potential change by the Review Group it is suggested that the initial frequency of the meetings be monthly.

Meetings will be administered by the Joint Office and conducted in accordance with the Chairman's Guidelines.

Review Group Workplan	
Meeting Number	Topics for Discussion
1 – 05/11/10	Review terms of reference
2 – 22/11/10	Overview of existing funding arrangements (Transporters to present)

Joint Office of Gas Transporters
0334: Post Implementation Review of Central Systems Funding and Governance Arrangements

	Pass-through of costs (WWU to present) Review of current User Pays process for Code services (xoserve to present) Identification of Proposals which merit examination (ICOSS to propose)
3 – 15/12/10	To be confirmed
4 – 07/01/11	To be confirmed
5 – 26/01/11	To be confirmed
6 – 16/02/11	To be confirmed
7 – 09/03/11	To be confirmed
8 – 30/03/11	Review of progress, including actions, recommendations and finalising report