




UNC Workgroup Report	At what stage is this document in the process?
<h1 data-bbox="134 322 655 412">UNC 0841:</h1> <h2 data-bbox="129 452 1094 663">Introduction of cost efficiency and transparency requirements for the CDSP Budget</h2>	<div data-bbox="1209 309 1469 622"> <div data-bbox="1209 309 1469 383">01 Modification</div> <div data-bbox="1209 389 1469 463">02 Workgroup Report</div> <div data-bbox="1209 470 1469 544">03 Draft Modification Report</div> <div data-bbox="1209 551 1469 624">04 Final Modification Report</div> </div>
<p data-bbox="129 707 507 745">Purpose of Modification:</p> <p data-bbox="129 763 1465 920">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 and greater transparency of the Budget.</p>	
<p data-bbox="129 965 308 1003">Next Steps:</p> <p data-bbox="129 1019 1449 1146">The Workgroup recommends that this Modification should not be subject to Self-Governance The Panel will consider this Workgroup Report on 16 November 2023. The Panel will consider the recommendations and determine the appropriate next steps.</p>	
<p data-bbox="129 1202 399 1240">Impacted Parties:</p> <p data-bbox="129 1256 293 1294">High: None</p> <p data-bbox="129 1310 1410 1348">Medium: CDSP, Shippers, Distribution Network Operators, Independent Gas Transporters</p> <p data-bbox="129 1364 373 1402">Low: Consumers</p>	
<p data-bbox="129 1442 389 1480">Impacted Codes:</p> <p data-bbox="129 1505 647 1543">Independent Gas Transporters UNC</p>	

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Timetable		
Modification timetable:		
Pre-Modification Discussed	16 February 2023	
Date Modification Raised	03 March 2023	
New Modification to be considered by Panel	16 March 2023	
First Workgroup Meeting	20 March 2023	
Amended Modification considered by Workgroup	22 August 2023	
Workgroup Report to be presented to Panel	16 November 2023	
Draft Modification Report issued for consultation	17 November 2023	
Consultation Close-out for representations consider longer consultation period (20 days)	08 December 2023 / 15 December 2023	
Final Modification Report available for Panel	11 December 2023 / 08 January 2024	
Modification Panel decision	14 December 2023 / 18 January 2024	


 Any questions?


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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 demonstrate that the expenditure proposed is efficient and economic 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.

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 Annual Budget is fit for purpose. The CDSP is obliged under the Data Services Contract (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 multiple CDSP Annual Budget. The lack of transparency and the exclusion of relevant information have been consistent themes in the appeals of the CDSP Annual 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.

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 Transporters' Licences (the CDSP Licence Condition).

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 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 and the performance of Non-Service Functions 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 the costs incurred to deliver CDSP Services and to perform Non-Service Functions are efficient and economic, and
- Create a set of business plan information rules that specify the information that the CDSP must include in the CDSP Annual Budget.

2 Governance

Justification for Authority Direction

This Modification will require Authority Direction as it seeks to make changes to governance arrangements.

Requested Next Steps

This Modification should:

- be considered a material change and not subject to Self-Governance; and
- 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 Annual 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 Annual Budget engagement cycle is provided in the table below:

Date	Modification milestone	CDSP Budget milestone
Mar 2023	Modification formally raised	
Mar-August 2023	Workgroup development	
Jun 2023		Publication of Business Plan 2024/25 Draft Principles & Approach, consultation
Jul 2023		
Sep 2023	Draft Modification Report & Consultation	

Oct 2023	Implementation of UNC changes	First Draft Business Plan 2024/25, consultation
Nov 2023	Implementation of DSC changes	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

Workgroup’s Assessment

The Workgroup reviewed the Self-Governance criteria and agreed that it is likely that this Modification does not meet the criteria due to the ROM costs and potentially affecting the rights of the industry to be engaged in proposed changes to the UNC. The latter point was related to the process involved with DSC Contract Committee agreeing the level of detail to be included in the Business Plan, which would be a restricted group.

3 Why Change?

Business plan requirements:

Each central services provider is a monopoly in its relevant segment of the energy value chain. Industry parties are dependent on these appointed monopoly central services providers to perform processes that facilitate the delivery of energy. Industry parties are legally mandated to utilise the services provided by the monopoly central services providers and cannot procure those services from other providers. Central services are funded by their users as part of the costs they incur to operate. Supplier scrutiny of monopoly central service providers’ expenditure plans by industry parties is an established way of mitigating the risk of consumer detriment that could arise as a result of central service providers being monopolies. Ensuring value for money for consumers across all parts of the energy value chain, including from the costs incurred by monopoly 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 Annual 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 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 CDSP Annual Budget.

There is a route for Appeal to the Authority if Parties do not consider the final CDSP Annual 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 Annual 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.

Business plans requirements for other monopoly providers in the energy value chain:

Greater clarity and transparency of information in the CDSP Annual 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. Many other monopoly central services providers in the energy value chain are provided with clear guidance from the Authority, in some detail, of the expectations for the content of their annual Business Plans. For example, the Authority issued guidance to the Electricity System Operator (ESO) and the electricity and gas network companies relating to their RIIO-2 business plans. Also, additional guidance was issued to the ESO relating specifically to proposed IT investments.

The guidance was intended to facilitate scrutiny and challenge of budgets by the Authority and all stakeholders. The guidance stipulated the minimum expectations of the companies' business plans such as specific cost breakdown requirements, cost-benefit analysis methodologies, the treatment of uncertainties, robust stakeholder engagement and transparency of the information presented in their plans. The guidance made clear that the information in the business plans should be presented in sufficient transparency and granularity to allow scrutiny. For example, in the ESO's IT Investment guidance, the Authority included the following requirements:

- "...For these topic areas, we will require the ESO to share granular detailed information (e.g. as detailed as data on individual tasks) to provide us with micro-level snapshots of how money is spent. This in-depth review will provide us with insight as to whether the ESO's methods for delivering IT represent value for money"
- "We require access to a sufficient quality of information regarding the ESO's planned BP2 IT investments to ensure that our analysis allows for robust decision making and assurance. This information will provide transparency about the current ("as-is") and future ("to-be") states of the ESO's IT, as well as the specific means by which the as-is state will be evolved and adapted into the planned to-be state."

The guidance was issued in accordance with the relevant conditions in their licences. Where provisions of the guidance required compliance of the monopoly central services providers, they were required to comply with the guidance as if it formed part of their licences. The guidance documents have enabled the companies to present plans that facilitate scrutiny and provide comfort that allowed expenditure allowances are in consumers' interests. We believe adopting a similar approach for the CDSP Annual Budget will be beneficial.

Change processes:

The procedures for changing the CDSP Service Documents (such as the BCM) are defined in the Change Management Procedures.

Change processes and governance routes for Service Documents were originally included in and discussed as part of this Modification. Some workgroup members suggested that the practical reality of the governance processes may differ from that written into the DSC. A Review Group will explore these issues separately to this Modification 0841.

The overall package of proposed changes will be effected in a hierarchy, through changes to the UNC with related and consequential changes to the DSC suite of subordinate documents.

4 Code Specific Matters

Reference Documents

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

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

[UNC Modification 0813 – See Legal text explanation table](#)

[UNC Modification 0666 – See 29 August 2018 Legal Text Explanatory Document 0666](#)

[PAC Documents 5 6 7 Confidentiality Documents v2.0.pdf \(gasgovernance.co.uk\)](#)

[RIIO-2 Business Plan Guidance](#)

[RIIO-ED2 Business Plan Guidance](#)

[ESO Business Plan Guidance](#)

[Decision on IT Guidance for ESO Business Plan Guidance](#)

Documents to be amended in line with the Modification intention and requirements:¹

1. [UNC GTD - Uniform Network Code – General Terms Section D](#)
2. [DSC Terms & Conditions](#)
3. [CDSP Service Doc - Contract Management Arrangements](#)
4. [CDSP Service Doc - Budget and Charging Methodology](#)

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 two elements, which will:

- Make explicit the requirement that the costs incurred in the delivery of CDSP Services and the performance of Non-Service Functions should be efficient and economic, and
- Create a set of Business Plan Information Rules that specify the information that the CDSP must include in the CDSP Annual Budget.

For the avoidance of doubt the required changes to UNC Code and DSC Changes will be effected in a hierarchy, through changes to the UNC with related and consequential changes to the DSC suite of documents subordinate. In other words, it will be necessary to include terms to the DSC to render the UNC changes, and cross-reference

¹ Housekeeping changes only are proposed to the suite of CDSP Service Documents. These changes are not material and therefore are not included in the list.

between the two documents. The Modification shall be progressed holistically due to the interlinked nature of the solution.

Documents to be amended in line with the Modification intention and requirements:

1. [UNC GTD - Uniform Network Code – General Terms Section D](#)
2. [DSC Terms & Conditions](#)
3. [CDSP Service Doc - Budget and Charging Methodology](#)
4. [CDSP Service Doc - Contract Management Arrangements](#)

We anticipate that changes will be needed to the Cost Allocation Methodology as it will be part of the BCM CDSP Service Document

Context:

Many other monopoly services 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.

This Modification intends to provide similar helpful Business Planning Information 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 provide a test for, the demonstration of cost efficiency within the new DSC Objective contained in the UNC. The rules will include content and additional process requirements.

Each element of the solution and required changes are described below. Note that the nature of this proposal means that the Proposer prepared change-marked versions of the documents to support in Modification development and Legal Text provision. These changed-marked documents are superseded by the below Business Rules for this Modification, demonstrating the intended change. A draft of the proposed Business Plan Information Rules has been appended in addition to Business Rule 4. Additional explanatory text and a diagram has also been provided below as supplementary commentary to the proposed amendments.

Business Rules:

1. Make explicit the requirement that the CDSP's Costs shall be efficient and economic.

Introduce a new DSC Objective at UNC General Terms Section D (GTD), Interpretation, which will require the expenditure incurred in the delivery of CDSP Services and the performance of Non-Service Functions to be both efficient and economic.

Extend the current DSC Objectives within UNC GTD 1.2.2 to specify that the costs incurred in the delivery of CDSP Services and the performance of Non-Service Functions should be efficient and economic, to help facilitate the efficient and integrated operation of the gas industry.

2. Introduce a requirement on all Parties to ensure that the CDSP's Costs are on efficient and economic.

Introduce a new requirement into the UNC on all Parties to ensure that the CDSP's Costs are efficient and economic, 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').

3. Amend obligations on the CDSP in the DSC Terms and Conditions to require that the CDSP also ensures that Costs are efficient and economic.

Consequentially reflect the new requirements in Business Rules 1 and 2 above in the DSC Terms and Conditions by requiring the CDSP to:

- ensure that CDSP Costs are economic and efficient,
- efficiently, economically and effectively perform Non-Service Functions, and
 - to (or procure that third parties shall) efficiently, economically and effectively establish (where practicable) and operate UK Link.

4. Create the Business Plan Information Rules.

Create the Business Plan Information Rules, the purposes of which are:

- to require the CDSP to conduct robust and high-quality engagement with stakeholders to inform the content of the Statement of Planning Principles and the CDSP Budget
 - to require the CDSP to publish the drafts and final versions of the Statement of Planning Principles and CDSP Annual Budget
 - to specify the minimum information requirements that the CDSP shall ensure are satisfied in the draft and final versions of the CDSP Annual Budget and that the Contract Management Committee shall use to assess whether the draft and final versions of the CDSP Annual Budget meet these requirements.
- Specify the minimum information requirements in the Business Plan Information Rules, which shall include requirements relating to:
- transparency,
 - stakeholder engagement,
 - current performance,
 - outputs,
 - Investment proposals
 - Costs and expenditure
 - allocation of Costs to Customer Classes
 - assurance
 - a 'Redaction Statement' if any information is considered confidential and, therefore, should not be made publicly available.

The Business Plan Information Rules shall be created as the same or equivalent legal standing to the UNC or DSC.

The CDSP shall be required to satisfy the requirements contained within the Business Plan Information Rules.

[Explanatory note: we append draft Legal Text proposals for the Business Plan Information Rules to address these points.]

5. Create the process by which the Business Plan Information Rules can be amended.

Create a process by which the Business Plan Information Rules can be amended that involves a proposed amendment being submitted to the Contract Management Committee and that Committee assessing the proposed amendment, consulting Customers and approving the proposed amendment if certain criteria are met (described below).

Introduce a new clause that permits any Party to the DSC to propose an amendment to the Business Plan Information Rules.

Specify the minimum requirements that the proposing Party must ensure a proposed amendment satisfies:

- A proposed amendment must include a description of the need for the amendment and an assessment of how the proposed amendment better meets the DSC Objectives; and
- A proposed amendment must not represent a material change in the balance of commercial or legal risk under the DSC as between the CDSP and Customers, or as between different Customer Classes (or Customers within a Customer Class).

Specify the responsibilities of the Contract Management Committee in relation to the proposed amendment. That Committee:

- shall consider the proposed amendment;
- shall assess whether the minimum requirements have been satisfied and invite the proposing Party to re-submit or withdraw the proposed amendments if the minimum requirements have not been satisfied;
- may invite the proposing Party to discuss the proposed amendment;
- shall send a consultation report to all DSC Parties and request responses, including the notice of the proposed amendment from the proposing Party and the Committee's views of the proposed amendment
- shall invite DSC Parties to respond within 20 working days; and
- review any feedback received from DSC Parties.

Specify that the Contract Management Committee may approve the proposed amendment if, taking account of the consultation responses, the Committee is satisfied that the proposed amendment:

- better meets the DSC Objectives; and
- does not represent a material change in the balance of commercial or legal risk under the DSC as between the CDSP and Customers, or as between different Customer Classes (or Customers within a Customer Class).

[Explanatory note: Business Rule 4 does not specify the location of the Business Plan Information Rules. Further approval of an amendment may be required in addition (e.g. UNCC) (or an alternative approval route may need to be specified), depending on the status and location of the document as produced by the Legal Text provider following this Business Rule 5.]

6. Amend the Annual Process for establishing the CDSP Budget to require that the CDSP also takes account of the Business Plan Information Rules and to require that the Contract Management Committee also takes account of whether the CDSP has met the requirements of the Business Plan Information Rules

Amend the Annual Process in the Budget and Charging Methodology to require the CDSP to agree with the Contract Management Committee at the start of the Annual Process the minimum level of detail for the relevant information items the CDSP shall present to satisfy the Business Plan Information Rules.

Amend the Annual Process in the Budget and Charging Methodology to require the CDSP, in the draft CDSP Annual Budget, to:

- identify each instance in which the information requirements pursuant to the Business Plan Information Rules is not met;
- explain the reason(s) why the information requirements of the Business Plan Information Rules are not met; and

- describe the step(s) it will take, in so far as practicable, to ensure each subsequent draft CDSP Annual Budget will meet the information requirements of the Business Plan Information Rules;

Amend the Annual Process in the Budget and Charging Methodology to require the Contract Management Committee to assess the draft CDSP Annual Budget to determine whether the information requirements in the Business Plan Information Rules have been met.

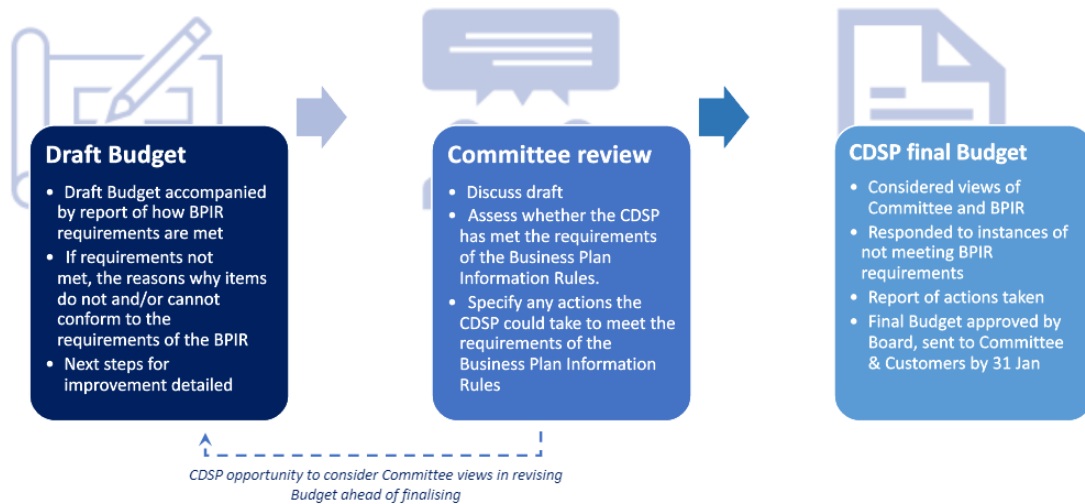
Amend the Annual Process in the Budget and Charging Methodology to require the CDSP and the Contract Management Committee to discuss the Committee's assessment of whether the CDSP has met the requirements of the Business Plan Information Rules.

Amend the Annual Process in the Budget and Charging Methodology to require the Contract Management Committee to specify the action(s) the CDSP could take to meet the requirements of the Business Plan Information Rules if the Committee, having discussed its assessment with the CDSP, concludes there remain steps the CDSP could take to meet the requirements of the BPIR.

[Explanatory notes to the process – for the legal text provider:]

- *The CDSP shall use its best endeavours to ensure transparency concerning the development and content of the CDSP Budget. The CDSP shall ensure the minimum level of transparency that DSC Parties and other interested stakeholders require in order to meaningfully scrutinise the draft and final versions of the CDSP Budget.*
- *It is imperative that the CDSP will take responsibility for addressing any shortfall, doing what is best to meet the requirements (i.e. provision of information as requested or explanation of why it cannot meet the requirements).*
- *The requirements in this Business Rule do not change, impact or duplicate the existing governance processes for the approval of the CDSP Annual Budget. Instead, this Business Rule creates the information requirements for the CDSP Annual Budget, to support stakeholder and CDSP engagement with business plan development.*
- *The Contract Management Committee, as representatives of the wider industry constituencies, will provide review and feedback to the CDSP on the drafts of the CDSP Annual Budget against the Business Plan Information Rules.*
- *The CDSP may incorporate this feedback in subsequent drafts, as per its customary stakeholder engagement cycle, prior to presenting its final draft to its Board for approval.*
- *This process provides the CDSP with the opportunity to explain to the Contract Management Committee the reasons why certain business plan items do not and/or cannot conform to the requirements of the Business Plan Information Rules, and for the Committee to respond.*
- *The diagram below shows how the CoMC engagement is intended to function (also see accompanying slides dated 13 Jun 2023).]*

Business Plan Process in summary



7. Amend the Annual Process for establishing the CDSP Budget to permit the CDSP to disclose relevant information considered confidential to the Contract Management Committee only

Amend the Annual Process in the Budget and Charging Methodology to permit the CDSP to disclose relevant information/content of the draft or final CDSP Annual Budget or support material considered confidential to the Contract Management Committee only.

Specify that, if the CDSP chooses to disclose some information to the Contract Management Committee only, the CDSP must include a 'Redaction Statement' in the publicly available version of the draft or final CDSP Annual Budget that explains:

- descriptions of the information that has been excluded;
- the reasons and justification for the exclusions;
- the interest, commercial or otherwise, that the CDSP considers would be prejudiced by disclosure;
- the CDSP's opinion of the extent to which the exclusions will curtail assessment of the CDSP Annual Budget; and
- descriptions of the alternative ways in which the CDSP has sought to enable scrutiny of the CDSP Annual Budget in lieu of the exclusions.

8. Amend the Contract Management Arrangements to permit the CDSP to require members of the Contract Management Committee sign a non-disclosure agreement to facilitate disclosure of CDSP Annual Budget information considered confidential

Amend the Contract Management Arrangements to permit the CDSP to require members of the Contract Management Committee to sign a non-disclosure agreement to facilitate disclosure of CDSP Annual Budget information considered confidential if the CDSP chooses to disclose some information to the Contract Management Committee only.

9. Create a standard non-disclosure agreement to facilitate disclosure of CDSP Annual Budget information considered confidential

Create a standard non-disclosure agreement that the CDSP can require members of the Contract Management Committee to sign to facilitate disclosure of CDSP Annual Budget information considered confidential if the CDSP chooses to disclose some information to the Contract Management Committee only.

10. Amend the Contract Management Arrangements to permit closed sessions for discussion of confidential aspects of the CDSP Annual Budget

Amend the Contract Management Arrangements to allow for meetings of the Contract Management Committee to include closed sessions for the purpose of discussing content of the draft or final CDSP Annual Budget or support material considered confidential and was not included in the publicly available version of the draft or final CDSP Annual Budget.

Amend the Contract Management Arrangements to restrict attendance of closed sessions during meetings of the Contract Management Committee to only its members and their alternates.

11. Amend the TOR for the DSC Contract Management Committee

Amend the terms of reference for the DSC Contract Management Committee to require Committee members and their alternates to sign a non-disclosure agreement.

Housekeeping changes and corrections

Finally, the Modification will seek to make minor amendments to current drafting, in order to correct errors, update links to other documents, update reference tables and examples and align with UNC formatting

The following list covers the changes that are proposed.

Document	Summary changes
UNC GTD	<ul style="list-style-type: none"> 1.2.2 (ii) – Amend the reference from “paragraph 8(d)(ii) of the CDSP Licence Condition” to “paragraph 6(d)(ii) of the CDSP Licence Condition” for accuracy
All CDSP Service Documents	<ul style="list-style-type: none"> Administrative change to replace all occurrences of CSDP to CDSP
Contract Management Arrangements	<ul style="list-style-type: none"> 3.1.1 (a) – Numbering and formatting error to be corrected Administrative change to replace all occurrences of CSDP to CDSP

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 as no SCR is currently in progress.

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
<p>Improved quality of service</p> <p>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.</p>	Positive
<p>Benefits for society as a whole</p> <p>None</p>	None

Workgroup review of Consumer Benefit Areas

A Workgroup Participant agreed that this Modification could improve the service, assuming scrutiny of the budget impacts the level of services. Another Participant challenged that at best it can be a marginal impact. There are some services that the CDSP does purchase which impact consumers (e.g. switching) and therefore those investments may be better/improved as a result of the budget being scrutinised. The Workgroup agreed that consumer benefits would be marginal.

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

Rough Order of Magnitude (ROM) Assessment

https://www.gasgovernance.co.uk/sites/default/files/ggf/book/2023-09/ROM%20Response%20UNC%200841%20V3.0%20Post-September%20WG%20%28clean%29%20%28002%29_0.pdf

Rough Order of Magnitude (ROM) Assessment <i>(Workgroup assessment of costs & lead times)</i>	
CDSP Assurance Resource	£50,000 - £70,000
3 rd Party Assurance – Efficiency review scope	£330,000 - £530,000
3 rd Party Assurance – Audit Scope	£100,000 - £180,000

Performance Assurance Considerations

No impact on risk to Settlement.

Initial Representations

Initial Representation received from Xoserve (see link)

[Xoserve initial response to Mod0841 V1.0 \(3\).pdf \(gasgovernance.co.uk\)](#)

Panel Questions

Q1. How is efficiency defined

The term efficiency is used in the Licences and in the UNC. It is a known and frequently used term, which is well understood.

Q2. How does this Modification interact with the current Appeal and the Appeal process

The Modification does not interact with the current Appeal and the Appeals process.

Workgroup Impact Assessment

Workgroup discussed the Modification on the following occasions:

- [Workgroup 0841 19 September 2023](#)
- [Workgroup 0841 22 August 2023](#)
- [Workgroup 0841 26 July 2023](#)
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20 March 2023

The Proposer introduced the Modification and explained the proposal aims to 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. With the Modification proposing changes to UNC, IGT UNC and DSC which are required 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.

The Workgroup reviewed the list of proposed documents alongside the timetable, noting it may be challenging to bring this to Panel in June 2023 due to the work involved and that at least one full meeting will be required to review the Legal Text.

17 April 2023

Discussions around alternative means to achieve the objective took place with the Proposer pointing out that all current routes available had been exhausted (i.e., multiple Appeals, escalation etc) and therefore, they deemed this Modification necessary.

There was general consensus amongst the Workgroup that the proposed changes would have a positive impact by providing greater transparency around costs incurred.

The Proposer shared a list of documents that would require changes as a result of this Modification and then took the Workgroup through the proposed changes. It was noted that the legal text provider had not produced the amended documents and therefore a full line by line review of the legal text will be required by the Workgroup once it became available.

It is hoped that the changes will take effect in time for the next CDSP Budget 2024/2025.

Workgroup briefly discussed the CDSP Efficiency Review and concluded this will run separately to the Modification but its results will be of interest to those involved in the Workgroup. More information can be found in the documentation for the DSC Contract Management Committee.

<https://www.gasgovernance.co.uk/dsc-contract/140623>

Governance of documents

A Workgroup Participant noted that currently CDSP Service Documents only go to DSC Change out of courtesy and agreed it should be DSC Contract rather than DSC Change.

A Workgroup Participant advised that Third Party and Additional Service should sit under DSC Contract.

22 May 2023

Discussions around a proposed alternative approach, the introduction of a Guidance Document, which was put forward by the CDSP took place (see minutes for detail: [Workgroup 0841 22 May 2023 | Joint Office of Gas Transporters \(gasgovernance.co.uk\)](#)). A Workgroup Participant suggested that a Guidance Document would allow the CDSP more flexibility, however, the Proposer pointed out that this would rely on the CDSP 'doing the right thing' but without having any obligation to adhere to the Business Plan rules. It was also pointed out that having codified rules, about how a Business Plan should be put together, is not unique and is a recognised approach across the industry.

A CDSP representative challenged that being able to get the Business Plan right the first time each year is difficult due to the subjectivity of requirements. The Proposer clarified it is *how* decisions are made and that being able to demonstrate full transparency is the intention of the Modification. The Proposer explained the process: the Business Plan will be presented to the DSC Contract Committee; the DSC Contract Committee will provide suggestions for Xoserve to consider; the DSC Contract Committee will consider if Xoserve has complied or if further work is required. In practice, the Committee will go through the Business Plan line by line and agree on each aspect of it.

It was noted that the Workgroup cannot pre-judge what the Committee will do. What the Committee thinks is required also depends on the quality of the plan that is delivered, and that the DSC Contract Committee's concern will be around the uncertainty, what the baseline point is, and the rules. The Proposer suggested that this is nothing new in terms of what Xoserve already do, it is about documenting it within the Business Plan.

A view was sought from those Workgroup participants that are also DSC Contract Committee members:

One member agreed in principle, stating transparency will be useful but has similar concerns as to how this will work in practice. Another member stated that there is a key concern that the Xoserve Board is not prevented from setting a budget and fulfilling their duties and there seems to be a risk of a continual loop, if so, there is a risk of the Xoserve Board not being able to set the budget.

The Proposer clarified that this Modification would introduce a process:

- Provides a list of requirements that Xoserve is required to conform to that;
- The draft of the Business Plan goes to DSC Contract Committee;
- The DSC Contract Committee provides suggestions to Xoserve.
- All discussions are documented.

The Proposer confirmed that there is no interaction between the Board's decision making process and the process being introduced as a result of this Modification. However, some Workgroup Participants noted that it does introduce additional decisions at the DSC contract committee which could shift the current dynamic. Some Workgroup Participants was also noted that this introduces a level of rigour that is required. Some Workgroup Participants believe the Mod introduces additional opportunities for other parties to engage with the Business Planning process.

If Xoserve ignores the advice, there could be an appeal. Some Workgroup Participants believe that this Modification could reduce the chances of an appeal being required by providing greater transparency within the Business Planning process. Some Workgroup Participants believe that this Modification could actually increase the risk of Appeals being raised.

21 June 2023

A Request is due to be raised by Centrica which will incorporate some of the original considerations under this Modification which have since been removed (see amended Modification). This means that there will be no change to where the documents are reviewed under this Modification. Charging related tests will be introduced into the Change Management Procedures as part of this Modification.

Workgroup discussed whether the Business Plan Information Rules (specifying the minimum contents of the business plan and how the Business Plan should be drafted) should form part of the UNC or whether it could form a UNC Related Document. If it were a UNC related Document, the governance for this document was then further discussed noting that the Proposer was very keen to ensure that there should be a wide ranging, robust industry consultation to publicise changes proposed. The document itself can specify the process to change it,

potentially including a DSC consultation route (with potential review by a DSC Committee) prior to it going to UNCC for approval. Workgroup and the Legal Text Provider appeared to be content with this suggestion.

A Workgroup participant asked whether there would be any change to the current Appeals process. The Proposer confirmed there are no planned changes being introduced with this Modification.

Workgroup reviewed the draft Business Plan Information Rules. Discussions covered the transparency requirements and how this might work in practice. The CDSP representative noted that the CDSP is aiming to meet as many of the requirements set out in this document ahead of the Modification being implemented.

26 July 2023

The Workgroup considered the changes made to Section 3 'Why Change'. A CDSP representative wished to note, that as the CDSP, they have no control over what costs/savings are passed onto consumers (via Shippers/Suppliers) and that this Modification may not result in cost savings for consumers. The Proposer stated that providing greater transparency should have a positive effect on ensuring costs are efficiently controlled.

The Workgroup reviewed the Business Plan Information Rules. A Workgroup participant enquired about the granular level of information and the comparison to the Authority guidance provided to licenced entities such as the Electricity System Operator (ESO). Another Workgroup participant noted that obligations required under licence conditions would be different to that of service providers and that licenced parties are required to provide suitable scrutiny, but not all information is in the full public domain. Therefore, they were not sure if the micro-level snapshots of how money is spent was suitable, noting organisations like Elexon and other service providers do not have this level of scrutiny.

A CDSP representative also asked about the ESO comparison challenging this was not a like-for-like comparison with the CDSP being a service provider. It was suggested a comparison to Elexon would be more suitable in terms of the nature of service. The Proposer explained the intention is to increase the level of scrutiny and challenge of budgets, and that the reference tools, used in other areas of the industry offer examples of good practice. The examples / tools discussed were considered relevant for a monopoly Service Provider and therefore did not only apply / be relevant for a network company or a licenced party.

The Workgroup discussed how the costs would be assessed. The Proposer explained how confidential and non-confidential information could be managed through the current DSC Contract Management Procedures, with the use of confidentiality agreements similar to those signed by Performance Assurance Committee (PAC) members. It was noted that confidential meetings can be managed similarly to PAC where member-only meetings are held when reviewing commercially sensitive data. The Workgroup considered that the role of DSC Contract Management Committee Representatives would not need to change, however, the meeting arrangements may need to be adapted to avoid public access to cost information.

The Proposer summarised the change process for amending the Business Plan Information Rules to ensure amendments are controlled and appropriately approved. It was envisaged this would be approved by either the UNCC or DSC Contract Management Committee with certain parameters in place.

22 August 2023

The CDSP Representative shared the CDSP's view of the Business Plan Information Rules, explaining they had completed a high level assessment of whether the requirement could be met (on a reasonable endeavour basis), possibly/maybe met, or could not currently be met for the Business Plan Year 2024/2025.

The Workgroup discussed the difference between the Business Plan Information Rules and the DSC Contract Committees role in agreeing the level of information to be included in the Business Plan. The Proposer explained

that the Business Plan Information Rules sets out the **type** of information required to be included in the Business Plan, whereas the DSC Contract Committee would agree the **level** of information to be included. The Modification also introduces the process to make amendments to the Business Plan Information Rules document, which is expected to be UNC Related Document.

There was a discussion around whether the Modification would reduce the risk of an Appeal being raised. A Workgroup Participant questioned whether the level of detail being agreed could open the door to more Appeals, considering that the level of detail is to be agreed in a committee that is only attended by a small number of representatives. A CDSP Representative agreed, commenting that one person may feel something is very well evidenced and another may not, which could actually increase the risk of an Appeal.

A discussion around what was meant by the DSC Contract Committee having to ‘agree’ the level of detail to be included in the Business Plan and whether a vote was required; and what would happen if agreement couldn’t be reached and whether this would delay the budget process. The Proposer explained that the way in which the DSC Contract Committee comes to an agreement will not change as result of this Modification.

The Proposer stated that the goal of the Modification is not to reduce Appeals per se; it's hoped that fewer Appeals will be a consequence of improved ability to scrutinise the Business Plan, and referred to the purpose of the Modification:

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 and, greater transparency of the Budget.

It was also noted that the current Business Plan Consultation process was not changing as a result of this Modification.

Review of ROM

The CDSP shared the draft ROM with the Workgroup explaining that there were two elements which made up the cost:

	Estimated Range	
Element	Low	High
CDSP Assurance Resource	£50,000	£70,000
3rd Party Assurance	£330,000	530,000
Total	£380,000	£600,000

There was a challenge from some of the Workgroup Participants around why the costs were so high considering this should be a process that is already being carried out. A CDSP Representative explained that there was uncertainty around the detail required to ensure adherence to the ‘Third-party assurance activities’ as outlined in the Business Plan Information Rules.

A Workgroup Participant suggested that assuring Business Planning activities is something that other parties do as part of their Business Planning process (e.g., A professional auditing company certifying a Board budget, independent verification of the budget etc). Other Workgroup Participants agreed.

The Proposer explained that the expectation was for the CDSP to develop a Business Plan based on the Business Plan Information Rules and then have a third party assure against the activities undertaken, noting that other monopoly organisations do this. The Proposer then shared an extract from another party that follow a similar Business Plan assurance process [Talkbook template \(www.utilities.co.uk\)](http://www.utilities.co.uk):

a review of compliance with Ofgem's Business Plan guidance and guidance in their Sector Specific Methodology Decision document; a series of checks to validate the accuracy and consistency of the numbers presented in the main Business Plan narrative.

Legal Text

The Legal Text provider was asked whether the Business Rules within the Modification were sufficient to commence work on the Legal Text. They agreed that they would discuss the Business Rules with the lawyers and feedback to the next Workgroup. They did point out that BR11 may need to be removed and therefore a revised version of the Modification may be required. However, it was agreed that the feedback from the lawyers would be considered first.

A discussion around whether the Business Plan Information Rules document would be approved by DSC Contract Committee or UNCC. The Legal Text provider stated that they expect the document to be reviewed by the DSC Contract Committee, but approval would be via the UNCC. They also confirmed that they expected the document would become a UNC Related Document. A Workgroup Participant did raise a query around General Terms D and whether DSC Committees are independent of UNCC.

19 September 2023

The CDSP representative explained that the ROM had been reviewed but an updated version was not available for the meeting but it would be updated and ready to publish w/c 25 September 2023. The revised ROM costs, circa. £100k - £180k, are based on an Audit scope with the costs being circa. £330k - £530k for an Efficiency review type scope. A Workgroup participant highlighted, in relation to the Third Party Assurance and requirement for a full third party audit to be conducted on a yearly basis, that this was not economical, and an audit would usually be on request or targeted to a specific area. The Proposer highlighted this would not require an extensive review and would merely be a sense check to ensure the efficiency and robustness of process. It was discussed amongst the Workgroup what it was specifically that is being audited, with the Proposer confirming it was the output of the process as opposed to the process itself. A discussion took place on whether the use of the internal audit team could be used in conjunction with an external audit team as a hybrid, the Workgroup agreed that this could be an option.

A Workgroup participant raised some queries around the wording, specifically the use of 'best endeavours' and 'shall' and whether the use of 'reasonable endeavours' and 'may' could be better options. They suggested the revised wording would eliminate any absolute requirements and potential avoid conflicts that may arise in relation to obligations within other contracts.

The Workgroup discussed these points with some of the Workgroup participants raising concerns around what could be deemed as "watering down" some of the requirements. The Proposer acknowledged the points made but confirmed that they would not be changing any of the terminology in the Business Plan Information Rules.

A Workgroup participant raised the wording of "minimum level of detail" being used in Business Rule 6, highlighting that when read in conjunction with the Standard Special Condition A15 (3C) of the Gas Transporter License, this could cause a conflict, suggesting the wording be amended to read "to give opportunity to the Committee". The Proposer disagreed with this point, stating that there is nothing to prevent the CDSP from providing more detailed information or less in the form of a summary. Further, there does not appear to be anything preventing the CDSP from responding to both the requirements of the UNC and Business Rule 6.

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

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,² and the minimum requirement for economic, efficient and transparent charging for the provision of the CDSP Services.³ 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.

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

² Gas Transporter Standard Special Condition A15, 4 (c) (i).

³ Gas Transporter Standard Special Condition A15, 6 (d) (ii).

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.

Workgroup Assessment of Relevant Objectives

The Workgroup must provide an assessment of how the Relevant Objectives are furthered and respond to what the proposer has provided

Insert text here

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.

Q. How will it work in practice as halfway through the yearly process

Q. Will we need transitional legal text

Q. 1 October 2023 no longer feasible

9 Legal Text

Legal Text has been provided by [name] and is [included below/published alongside this report].

Workgroup Assessment

Workgroup's Assessment of the proposed changes and how these meet the intent of the Solution.

The Workgroup has considered the Legal Text and is satisfied that it meets the intent of the Solution.

Text Commentary

Insert text here.

Text

Insert text here.

10 Recommendations

Workgroup's Recommendation to Panel

The Workgroup asks Panel to agree that this Modification should proceed to consultation.

11 Appended Representations

Initial Representation – Xoserve