

Agency Charging Statement

A Consultation Paper on Behalf of all Large Gas Transporters

1. Introduction

- 1.1 In December 2007 Ofgem published the Gas Distribution Price Control Review Final Proposals which proposed changes to the funding arrangements for xoserve by introducing a core services plus user pays approach. Under this approach, Ofgem stated that regulated services provided by xoserve would be classified as one of:

Core Services: Regulated services that it is appropriate to fund using price control allowed revenues. The costs associated with these services are spread across all customers through gas transportation charges.

User Pays Services: Regulated services that it is appropriate to fund using charges levied directly upon the user(s) requesting the service.

- 1.2 Ofgem stated in their Final Proposals that this funding arrangement would have the following benefits:
- (a) GDNs and NGG NTS would have an incentive to enter into dialogue with users to provide additional services and respond to their needs due to the opportunity to earn additional revenue above their costs;
 - (b) It gives users an incentive to manage the costs they impose on xoserve because they would pay for the additional services they request / use; and
 - (c) xoserve's cost forecasts include a significant amount of expenditure on an upgrade of UK-Link. User pays would help to make sure that the incremental capacity of these new systems is given to those who value it most.
- 1.3 In parallel, Ofgem published the GDPCR Second Licence Drafting Consultation Document which proposes amending Standard Special Condition A15 to enable this revised approach to the funding of xoserve. The proposed SSC A15.7 requires the Gas Transporters to jointly prepare an Agency Charging Statement (ACS) setting out the methodology for deriving charges for Agency user pays services, the charges associated with such services and the scope of core services and user pays services.
- 1.4 Before seeking approval for the Statement from Ofgem, the Gas Transporters are required to consult interested parties on the details of the Statement and furnish Ofgem with a report setting out the representations made and any changes made to the Statement as a consequence.
- 1.5 The purpose of this consultation document is to fulfil this requirement to consult on the Agency Charging Statement.

2. Background

- 2.1 An industry working group in conjunction with the Gas Transporters and xoserve considered the existing services provided by xoserve and identified a number of candidate user pays services. The proposed user pays services are described in Appendix 1 of the Agency Charging Statement.
- 2.2 For the purposes of the price control, the costs associated with these service lines have been netted off the revenue allowances proposed for the GDNs and NGG NTS in proportion to their individual share of xoserve's costs. Income from these user pays services will be treated as excluded services for the price control period.
- 2.3 The intention is to commence the new funding arrangements from 1st April 2008 in order to align with the start of the GDN price control period.
- 2.4 User Pays Services are categorised as Code Services or Non-Code Services. Code Services are those relating to certain Gas Transporter obligations contained in the Uniform Network Code. Non-Code Services are all other User Pays Services.

- 2.5 Charges for Code Services will be invoiced in the name of the relevant Gas Transporter who will collect the associated revenue in accordance with Section S of the Transportation Principal Document of the Uniform Network Code(UNC) and invoices will be issued by xoserve utilising the UNC invoicing processes.
- 2.6 For Non-Code Services, Conditions for the Provision of Services and Service Schedules have been published on the Joint Office website. Users of such services will request a service via a Service Request. Charges for Non-Code Services will be invoiced in the name of xoserve who will collect the associated revenue in accordance with the published Conditions. Invoices will be issued by xoserve, their frequency depending on the nature and use of the service.
- 2.7 There will be opportunities to review the operation of the user pays arrangements as experience is gained of the new regime. Where a particular user does wish an alternative service which is not contestable, it may request an Ad-hoc Additional Service on a bilateral basis with xoserve.

3. Implementation

- 3.1 The new funding arrangements for xoserve have been the subject of four consultation documents and three proposal documents published by Ofgem during the Gas Distribution Price Control Review.
- 3.2 An Industry Dialogue was initiated in 2006, involving shippers and other industry parties, to consider which services should be subject to user pays and the governance arrangements for user pays. A series of meetings were held to discuss these issues and a report was presented to Ofgem in March 2007. All information discussed by the Industry Dialogue and the final report are available on the Joint Office website.
- 3.3 Following publication of the GDPCR Initial Proposals and Ofgem's confirmation that it intended to proceed with a core services plus user pays approach to the funding of xoserve, a further industry group was established with the remit to consider and help develop a framework for the introduction of user pays arrangements from 1st April 2008 for a limited set of existing Agency services. The group has met regularly and been well attended. All information discussed by the group is available on the Joint Office website.
- 3.4 xoserve has held meetings with existing users to discuss the user pays arrangements and the likely demand for services. The information collected during these meetings has informed the design of the arrangements and the demand forecasts used to derive the charges.
- 3.5 xoserve intends to hold further meetings for all users in May and September to discuss the operation of the user pays arrangements and how they are progressing.

4. Justification

- 4.1 The Agency Charging Statement is required to set out the charging methodology, charges and scope of core and user pays services (SSC A15.7a):
 - (a) The methodology for deriving charges is described in section 3 of the Agency Charging Statement and the associated document 'Activity Cost Base (ACB) in xoserve, An Overview of the Methodology'.
 - (b) The services and associated charges are described in Appendix 1 of the Agency Charging Statement. Further detail on the services is available in the Uniform Network Code and/or the Service Schedules published by xoserve (available on the Joint Office website).
 - (c) The scope of core services and user pays services is described in section 2 and Appendix 1 of the Agency Charging Statement.
- 4.2 The charges for the user pays services are required, as far as reasonably practicable, to reflect the costs in providing the services (SSC A15.11). The charges shown in the Agency Charging Statement have been derived from a forecast of demand for each service and the forecast cost of providing the service.
- 4.3 Inevitably, when introducing new charges for a service that previously had a zero marginal cost to the user of the service, demand and associated revenue is uncertain. Every effort has been

made to ensure cost reflectivity, but it is unlikely that this will be met from day one for all services. Consequently, the Gas Transporters will review the charges no more than six months after commencement of the new regime and, if deemed necessary, propose modifications to the charges. The Gas Transporters are also expecting the reporting of user pays costs and revenues to be part of the PCR cost reporting to Ofgem.

- 4.4 The user pays charges must also not unduly discriminate or prefer any user(s). The charging methodology and Activity Cost Base methodology for determining xoserve costs on an activity basis ensures that this requirement is fully met.

5. Questions for Consultation

The question for consultation is:

- 5.1 Do you believe that the draft Agency Charging Statement meets the requirements of the proposed Gas Transporter Licence Standard Special Condition A15¹, sections 7 and 11?

6. Responses

- 6.1 Responses to this Consultation Paper should be sent to enquiries@gasgovernance.com to arrive by close of play on 22nd February 2008.
- 6.2 Questions on the content of the paper or the Agency Charging Statement can be directed to any of the following:-

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¹ GDPCR: Second Licence Drafting Consultation Document - 290/07 – Appendix 12