

DN Sales Agent Workgroup Meeting 1

20 January 2004

Minutes

Attendees

Iain Osborne	Ofgem (chair)
Nigel Nash	Ofgem
Roger Morgan	Ofgem
Ayesha Uvais	Ofgem
Steve Adcock	NGT
Kim Salmon	NGT
Sebastian Eyre	energywatch
Bill Gunshon	npower
Duncan Jack	Elxon
Alexandre Tedeschi	Gaz De France
Richard Street	Statoil
Martin Brandt	SSE
Steve Briggs	Centrica
Paul Davis	PA Consulting
Angela Love	Scottish Power
Afroze Miah	Powergen
Rodney Brook	Sohn Associates
Victoria Leitch	Gemserv
Steve Ladle	Total Gas Power

Apologies

Steve Rose	npower
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1. Welcome and Introductions

Ofgem opened the meeting and thanked delegates for their attendance. Ofgem explained that responses to the July consultation document were sceptical about the agency arrangements. The December 'next steps' document set out in more detail NGT's proposals to facilitate divestment by establishing an agent to provide amongst other things, SPA, billing and energy balancing services to networks retained by NGT and sold off. The Authority requested that Ofgem undertake further work before it makes a decision on whether NGT should be allowed to sell of its networks. In particular the Authority is concerned that:

- Change of Supplier services should not be adversely affected by agent arrangements;
- post hive down, agent arrangements should be flexible to the users of its services and a programme of reform should be delivered.

2. Role of Group

Ofgem asked for feedback on the proposed terms of reference for the workgroup the following questions/comments were raised.

Is the role of the agent workgroup to focus solely on SPA? *Ofgem suggested that the workgroup should examine all agent services.*

The terms of reference refer to agent services as retail/wholesale. Clarification was sought on this. *Ofgem concluded that a better description would be what governance arrangements should apply to the various services provided by the agent.*

Concerns were expressed about the volumes of papers that will be generated by the various workgroup. Clarification was sought on how quickly Ofgem intends to provide minutes for the agent workgroup and whether associated papers will be put on Ofgem's website. *Ofgem agreed to provide some clarity in this area. (ACTION:OFGEM)*

It was suggested that the terms of reference should refer to how the workgroup will resolve differences of opinion. *Ofgem agreed to take this away and consider. (ACTION:OFGEM)*

Ofgem agreed to amend the terms of reference to: provide clearer drafting about the workgroups objectives, include the need to liaise with GIGG and include reference to the production of a report which summarises the workgroup's progress. **(ACTION:OFGEM)**

Ofgem was asked whether the workgroups' deliberations on governance would be consider development in GIGG and whether SPAA would be put on hold until the workgroup concludes its discussions. *Ofgem concluded that it would not be appropriate to ignore developments in GIGG and that work on SPAA should continue.*

3. Workgroup Composition

Concerns were expressed about the composition of the workgroup. In particular, whether the I&C markets were adequately represented. The group concluded that each market sector was represented with a mix of shippers and suppliers representatives.

Ofgem was asked to write out to workgroup representatives and seek clarification on their role in the workgroup. **(ACTION:OFGEM)**

Clarification was sought on whether Ofgem should undertake workgroup administration. The group was comfortable with Ofgem undertaking this role.

Ofgem asked the group to consider whether the group should meet weekly or fortnightly? The workgroup concluded that in the first instance it may be necessary to meet weekly. It was suggested that Ofgem circulate proposed dates and times for future meetings. **(ACTION:OFGEM)**

4. Process for ensuring terms of reference are met

Set out below is Ofgem's views on what the workgroup should achieve/consider:

- Steering group will need an update to ensure that overlaps and gaps are covered;
- the development of a work programme;
- taking time to evaluate whether the right issues are being considered and discussed;
- Ofgem will need to give the Authority confidence that the work programme is progressing and will deliver.

5. NGT Presentations

NGT's presentation covered amongst other things, purpose of the agency, reform of SPA, a proposed gas industry framework encompassing Independent Network Owners, the agency service lines. NGT explained that the main aim of the agency is to minimise costs on shippers/suppliers and to avoid market fragmentation. On day one the agent would be funded through network owners price controls and each network owner would be a stakeholder in the agent.

NGT was asked whether the agent would provide services to IGTs. For example, CSEP updates process and customer switching. *NGT suggested that it was possible for the agent to be a service provider to IGTs and not just shippers/suppliers. However, from day one IGTs would not be included. NGT envisages that agent arrangements will evolve overtime.*

Ofgem suggested that the agent should be configured to respond to risks. For example, the governance arrangements should allow users of the agent services to pay for certain services.

Concerns were expressed about NGT's proposed agent model. It was suggested that the industry may not want to accept NGT's current proposals. *NGT explained that the agent should not inhibit any future reform if reform is required.*

Ofgem suggested that the incentives on the agent to be responsive and flexible to change was an important feature of the agent arrangements.

NGT was asked to explain what services the agent will not provide. *NGT explained that each DN will be responsible for credit management and collection of revenue. However, energy balancing services will be part of the suite of agent services. Theft of gas will be an agent service, however, shrinkage will be a network responsibility. RbD will continue to be managed centrally by the agent. Incident management for example, water ingress will be managed at network level.*

Governance arrangements

Concerns were expressed about whether it is necessary to examine agent services at wholesale/retail level. It was suggested that there is little evidence to suggest that the existing governance arrangements do not support change and if difficulties existed one way to resolve this is through the price control.

Ofgem acknowledged the concern but suggested that it is not appropriate to re-open the price control to facilitate changes. Ofgem suggested that understanding the costs of

services will aid decisions on whether change should be pursued. Ofgem explained that some responses to the July consultation set out concerns about how difficult it is to change NGT's SPA systems and that NGT is incentivised to avoid change. Ofgem explained that tackling agent incentives is not solely about governance but needs consideration to funding and ownership.

Ofgem sought clarity on whether the agency will undertake stewardship of codes for NGT's Transmission and distribution businesses. *NGT concluded that the agent will not undertake these functions these will sit with the GT business.*

Next Steps

Ofgem sought views on a work programme. One approach suggested further analysis of the agent service lines. For example, understanding which service line are SPA and non SPA. It may be possible to identify for service lines the stakeholders, funding and governance arrangements required to support service lines. NGT suggested that the inter – linking of its systems may make such analysis difficult. It may be possible to assess what governance arrangements were suitable to service lines and consider whether the SPAA is the most suitable arrangements.

Ofgem concluded that further analysis was required of agent costs. For example, NGT could spec out and assess before April the feasibility of detailed ABC cost analysis

Work Programme

Ofgem acknowledged that it may not be possible by April 2004 to resolve all of the issues discussed. However, confidence was required that by 2005 a programme of reform would not stop, therefore, a work programme is required. Ofgem agreed to sketch out a work programme and circulate to the workgroup in due course complete with NGT slides (**ACTION:OFGEM**).

Ofgem suggested that workgroup representatives would be required to volunteer time to aid the development of a work programme. Ofgem concluded that the workgroup will review work undertaken and make recommendations to the steering group or refer issues when necessary to the steering group.

6. A.O.B

No issues were raised.

7. Date of Next Meeting

28 January 2004 at 10am, Ofgem Offices, 9 Millbank.