

Gas Network Sales: Agent Workgroup

Identification of Risks (BGT npower Total Statoil SSE Powergen)

1) Risks associated with initial (Day 1) operation of the Agency (Assumption that Agency will cover all current shipper facing services)

Risk No.	Risk	Description/Comments	Impact on shipper/supplier	Risk generated by Agency Model?	Risk generated by DN Sales model?	Risk Assessment (1 = lowest 5 = highest)		Risk Weighting (1 = lowest 5 = highest)	
						Impact	Likelihood	Impact	Likelihood
1.1	Increase in costs for shippers	Adapting to multiple DN billing and new interfaces. Adapting to multiple DN billing, credit arrangements, account management, network code governance and other new interfaces. Costs associated with billing	Increased size and complexity of administration. Some changes identified on invoicing and CD Rom, but not considered significant (although file formats not yet available) Connections is this a national service?	No Will be Yes if transportation invoices change either in format or multiple bills sent	Agency issuing separate transportation bills on behalf of each DN. Separate DN account managers. Separate Network codes to administer.	1, 2, 2-3, 4 5 – awaiting clarification of interfaces file formats etc Low impact if Agency manage this on behalf of DN's otherwise could be 4 or 5	5, 5, 5, 5, 5, 4	3	5
1.1a	Separate network code administration	Management of DN short form network codes	Increased associated administration, complexity	No	Yes			3	5
1.2	Credit arrangements	Each DN requiring separate credit arrangements for transportation billing	Increased cost and complexity, plus higher level of risk of default but shippers should pay on time! Extra administration required, Credit arrangements will multiply by the number of DN's. Impacts on new entrants	No Will be yes if each DN's credit arrangements vary of increase in overall costs exposure	DN anticipated to manage their credit arrangements. Is there scope for consolidation of credit cover across DN's	2, 1, 4, 4, 5 – will there be Balancing & Trans - credit arrangement Increased costs if no consolidation could be 4	5, 2, 5, 5, 5, 4	4-5	5
1.3	Financial Control (linked to 1.1 & 1.2)	Adapting to separate invoicing and payment activities.	Increased complexity of administration	Credit Control staying with NGT	Separation of invoicing and payment arrangements	5 – awaiting clarification of dispute resolution processes	5		

1.4	Splitting of accountability for resolving issues	Shipper will have increased difficulty where problems requiring resolution between Agency and DN are not solved.	<ul style="list-style-type: none"> Poor customer service Increased costs Unclear routes for escalation Layers of agreements (Short Form Code, UNC) lead to lack of clarity 	<p>Agency model seeks to provide single point of contact for shippers and DN's</p> <p>However: escalation route for issues of service with the agency is not clear. Boundaries between services provided by the agency, the DN and NT are not clear and will lead to additional costs in resolving issues.</p> <p>Yes. By having a problem managed by someone other than the DN ownership of the issue is split from the individual asset owner. However a single point of contact could also help to mitigate the effect of multiple DN's.</p>	Multiple DNs under different management regimes inevitably leads greater complexity in issue resolution.	3, 1, 2-4, 5, 4 3 – greater relationship management required	4, 2, 4-5, 4, 3, 4	3	4
1.5	Conflict of interest lead to poor service	<p>Incentives acting upon DNs and Agency are considered to be:</p> <ul style="list-style-type: none"> Unclear Inappropriate Perverse 	<p>Agency and/or DNs are not properly incentivised to deliver appropriate services.</p> <p>Tension between shareholders could result in lack of direction for the agency.</p>	<p>Agency incentives set by DN & NT owners. Will be affected by SO structure</p> <p>Yes. Agency is a</p>	Agency services defined by UNC & Gas Transporter Licence	5, 4, 3-4, 3, 3 3/4 - conflicts between DN's & NT?	1, 4, 4-5, 2, 3-4, 4	5	2

			<p>Requirement for revision of incentive arrangements on each party</p> <p>What extent will introduction of agency impact on stds of service</p>	<p>non-regulated company who like all companies will aim to make a profit for its owners. That is not unusual. However its customers are also it's owners which is less usual. These customers are regulated monopoly businesses who are purchasing a service that will be provided to a third party. This is even less usual and could lead to the Agency acting in a manner which although absolutely in its commercial interest is not in the best interests of the users of its service.</p>						
1.6	Network Code Standards of Service	Standards of service may not be adequate or set correct incentives.	Standards of Service fail to set adequate incentives or are sufficient to compensate for service failure	Agency will pay charges related to failure to meet SoS to shippers on behalf of DNs, however these standards have been set so low as to offer little incentive in comparison to the loss of revenue for	Costs of Standards of Service will be paid by DN who fails the standard. Standards of Service are agreed and set under the UNC. If properly covered by UNC. Standards of service are agreed and set under the UNC	5, 2, 2-3, 4, 2 3/4 - possible complexity of administration and dataflows	1, 1, 5, 4, 3, 2	1	1	

				large I&C sites. Requires review of SOS currently within Code	however these standards have been set so low as to offer little incentive in comparison to the loss of revenue for large I&C sites ..				
1.6a	General Standards not referenced in code	Formal stds of service do not cover all service lines operated by agency. Creates lack of incentive to maintain support for that service line.	Reduce quality of service to shippers without compensation	Yes	Yes			3	2
1.7	Industry data degradation	Creating an additional party (Agency) means more parties have to be kept in the communication loop	Service degrades because Agency is either not kept up to date or fails to inform shippers	Yes	Yes	4	4	4	4
1.8	Existing Systems (NGT to consider) Mixed ownership of UK Link	Unclear who will own the existing systems and intellectual rights. Could be a disconnect between obligations of stakeholders and rights to IT systems Understand that some elements will be owned by Transco NTS and some by Transco and DNO's	Lack of clarity over funding undermines any future enhancements. Who determines when to replace a system? Will Transco retain a pot of money for operating and developing systems or will costs and allowable revenue be identified and transferred to the Agent Increased risk of IT problems/delays to change/ deterioration in IX etc performance	Yes Increased risk of IT problems/delays to change/ deterioration in IX etc performance	No Cost pressures cause conflicts between system performance requirements of different owners/owner groups	5 3	5 4		
1.9	Cost allocation (NGT to consider)	The same information might be required by the system operator for system balancing, the Agent for billing and settlement and the Network Operator	How would costs be allocated/funded if the Agent is carrying out functions for multiple parties. If this is not transparent the	Yes	No	5	5		

			performance of the Agent will be impacted.						
1.10	Additional complexity in some areas (NGT to consider)	Potential for multiple siteworks and isolation agreements	Increased cost and complexity. Uncertainty about arrangements	No	Danger that performance deteriorates to the level previously experienced when regions tended to operate their own individual standards	3	5		
1.11	Opacity of services provided	Unclear what services being provided by Agency	Uncertainty of market arrangements	Not all shipper facing services covered	Agency services not fully defined or clear	4	4	5	4
1.12	Connections	Unclear about connections arrangements	Managing different connection arrangements with each DN	Yes	Yes				

2) Risks associated with on-going operation of the Agency/ change management

Risk No.	Risk	Description/Comments	Impact on shipper/supplier	Risk generated by Agency Model?	Risk generated by DN Sales model?	Risk Assessment (1 = lowest 5 = highest)		Risk Weighting (1 = lowest 5 = highest)	
						Impact	Likelihood	Impact	Likelihood
2.1	Increase in costs for shippers Charging methodology divergence	Adapting to differentiation resulting from DNs diversifying operation methodology.	Increased complexity of administration, but not seen as significant. Increased credit costs. Management of different methodologies. Different charges for customers on different networks	Boundaries between services provided by agency, the DN and NT are not clear and will lead to additional costs in resolving issues. No, No No	Short form Network Code permits DN to introduce variation from UNC Yes Yes	5, 1, 2-3, 4, 5 3-4 will occur overtime	5, 1, 5, 5, 4 5- confident from experience that this will happen at some point	5	5
2.1a	Increase in complexity for Agency and hence shippers (linked to 2.1)	DN decides to deviate from the common standard	Shippers have to maintain different processes for different DN's	No but model doesn't prevent it	Short form Network Code permits DN to introduce variation from UNC	4	3		
2.2	DN's opting out of Agency arrangements (NGT to consider)	DN decides to sources some or all services offered by the Agency through an alternative route	Requirement for shippers to manage multiplicity of arrangements	Agency model permits a DN to exit from Agency arrangements	Short form Network Code permits DN to introduce variation from UNC	5, 5, 5, 5, 5 3 comforted by 12 month notice period	1 (3-4), 1, 2-3, 2, 1 3 – not going to happen for at least 4 years	5	2
2.3	Degradation in service provision	<ul style="list-style-type: none"> Shippers do not have adequate definition or control over the Agency service provision. Service provision is not adequately defined or governed by the Network Code or Standards of 	<ul style="list-style-type: none"> Loss of key service needed to support business. Reduction in quality of service Increased costs of operating in market 	Shippers/suppliers have no direct control over Agency services	Agency service derived from UNC & Gas Transporter Licence.	5, 3, 2-4, 4, 2/3, 4	4, 3, 4-5, 3, 4 4/5 – possibly over time degradation will occur as staff move on and goodwill is replaced by work requirements to contract etc.	4	4

		<p>Service</p> <ul style="list-style-type: none"> • Loss of key staff? • Loss of focus due to greater profit being made from other services (possibly not gas related) 	<ul style="list-style-type: none"> • Business separation could reduce the flexibility to call on staff working in other areas • Requires robust governance process to maximise commonality 						
2.4	Increase barriers to entry	Additional complexity deters new entrants and drives out existing players	<p>Impact is to customers of shippers/suppliers and their confidence in the market. Struggle to see how Agent does this – complex governance/contractual arrangements could!</p> <p>The existence of a more complex regime would make entrance more difficult. The complexity would also make it more difficult to understand the commercial benefit to market entrance.</p>	<p>No</p> <p>Adds complexity in a DN sale environment</p>	No	2, 1, 1-2, 2, 2	2, 1, 5, 2, 2	3	4
2.5	DN Sells its stake in Agency	Transco terminated or sold their interest	Could seriously impact entire market	Yes	Articles of association	5	?	3	1
2.6	Failure of a stakeholder (NGT to consider)	A stakeholder goes bust	Serious impact on Agency performance (Energy Bill)	No		4	?	3	2
2.7	Increase in Agent costs which have to be provided for	Whether the relationship between the Agent and it's owners/customers will really drive down costs	Higher costs will be fed through to end consumers	Yes	No	2-4	4-5		

	through the Gas Transportation Price Controls (linked to Conflict of Interest)	is at question.							
2.8	Opacity of services provided	Unclear what services being provided by Agency	Uncertainty of market arrangements	Not all shippers facing services covered	Agency services not fully defined or clear	4	4	5	4
2.9	Governance arrangements	Not all services clearly have governance or change management controls in place	Process not robust	<p>Certain services missed from governance process</p> <p>Yes, However clarity is required</p> <p>- as an example any plan to change billing or credit arrangements would be a change to the Network Code and would have to be approved through the mod process. If approved through the current Network Code mod process, costs would just be smeared across Shippers. This would mean that there would be no incentive or mechanism to ensure the DNO proposing the changes picks up the cost and therefore there is no mechanism for ensuring only efficient changes are proposed and implemented. This calls in to question how the UNC will be governed. Will all network operators have a say in the UNC governance process? Would the UNC need to be split out in to System Operator and Network Operator activities so DNOs would only have a say in relation to network bits of the network code ?</p>	Shipper services do not have formal gov process	4	3	4	4

2.10	Siteworks (NGT to consider)	Shippers unclear of market arrangements	Process unclear	No formal governance process	Agency services do not manage services	4	4		
2.11	Uniformity	The Agency will provide a standard service from standard systems which will restrict innovation	Unable to benefit from any improved billing and credit arrangements that a DNO might want to offer	Yes	No	3	3	3	3

3) Opportunities identified arising from Agency model

Opp No.	Opportunity	Description/Comments	Impact on shipper/supplier	Opportunity generated by Agency Model?	Opportunity generated by DN Sales model?	Opportunity Assessment (1 = lowest 5 = highest)	
						Impact	Likelihood
3.1	Develop governance arrangements	<ul style="list-style-type: none"> Introduce governance arrangements to ensure that shippers/suppliers have appropriate level of visibility and control over Agency services. New governance (SPAA??) introduced to enable increased industry ownership of issues (reduced role for Ofgem compared to Network code) 	<ul style="list-style-type: none"> Agency services fully defined . Shippers and suppliers have clear visibility of service lines, obligations and standards. Change management fully visible and rights of parties defined. Clear and controlled definition of data items and flows Governance focussed on appropriate party (i.e. Supplier participation in SPA defined through SPAA) Clear accountability 	<p>Opportunity to operate services out of the price controlled arena for suppliers and hence motivation to support SPAA</p> <p>No</p> <p>No. Could be done anyway. Would like to understand the incentive on Agency to develop these.</p> <p>Yes, Agency could be introduced without a DN sale.</p> <p>Will require detailed work to separate out SPA areas that could be managed by suppliers/DNs and NC areas that must be managed by shippers/NGT/Transco/DNs</p>		<p>3 , ?, 4-5, 5</p> <p>Creation of an Agency by itself does not create an opportunity</p> <p>No</p>	<p>2, ?, 2-4, 4</p> <p>Creation of an Agency by itself does not create an opportunity</p>
3.2	Shippers and Suppliers to have greater control over (some) Agency services	Changes introduced to governance arrangements (Licences, Network Code, SPAA ??) that give shippers and suppliers greater influence over (some of) the Agency services.	<ul style="list-style-type: none"> Possibility of differential services designed and paid for according to need – are there 'level playing field' issues here? – NGT and DNs will still be monopolies Clear accountability Cant see this as Agency not owned by shippers 	<ul style="list-style-type: none"> Agency has greater freedom to operate stemming from its independence from Transco. Not constrained by Network Code 	Governance (UNC) restricts development due to numbers of GTs now involved to pass changes.	4, 1, 3-4, 5	1, 1, 1-2, 3

3.3	Agency becomes more responsive to customer needs	New agency management permits greater freedom and innovation in service delivery	Improved service	Agency has greater independence in service delivery (agency is contracted to deliver what its stakeholders want)	DNs seek greater efficiency (this is a threat not an opportunity) and higher standards	4, 1, 4-5, 4	2, 1, 2, 3
3.4	iGTs	iGTs have services (e.g. SPA) delivered by Agency	Standardisation of communications with all GTs – in particular SPA arrangements (not just SPA but also RGMA metering flows, transportation invoicing, gas demand allocations to NT, AQ reviews etc)	Agency systems developed to provide services for all GTs, but problem is Sites and Meters is an old system suspect difficult to adapt from experience with RGMA. Not a short term deliverable	Introduction of a UNC that could include IGTs? No Potential gain from process	5, 3, 1-2, 4, 3	3, 1, 4-5, 2 (short term), 3
3.5	Differential service provision I don't see this as different to 3.2 and 3.3 (linked to 3.2 & 3.4)	Service designed and developed to meet industry needs	Different SPA processes to meet requirements of I&C and domestic markets. Would not see this as a benefit, could create a barrier to entry. Concern that we will still be forced to use Agency for the provision of new services. It is highly unlikely that we will be able to go to tender outside the Agency for changes that affect cross industry systems and processes		Requires robust governance process to maximise potential for commonality (as 2.3)	3, 1, 5, 5	3, 1, 2-3, 3
3.6	Greater transparency of costs	Unravelling Agency costs from price control – is this likely? Agency is probably going to be unregulated with its funding (initially) provided for through the regulated price controls of NGT and the DN's. Only its owners are likely to see the full cost picture.	<ul style="list-style-type: none"> Focus costs on those who have the requirements Greater efficiency? However, it is stakeholders who will see the costs not shipper 			3, 1, 3	2, 1, 3

		Opportunity is to develop service pricing					
3.7	Agency offers services outside of the gas industry	Agency could diversify its portfolio and offer services to other customer/industries.	This could have a positive influence if this allows for greater economies of scale and brings a fresh perspective.	Yes	No	1	2-4