

DN Sales Agent Workgroup Meeting 6

27 February 2004

Minutes

Attendees

Iain Osborne	Ofgem (Chair)
Nigel Nash	Ofgem
Roger Morgan	Ofgem
Steve Adcock	NGT
Lee Foster	NGT
Francis Blackwell	npower
Helen Bray	EDF
Duncan Jack	Elexon
Richard Street	Statoil
Steven Briggs	Centrica
Alex Travell	Powergen
Victoria Leitch	Gemserv
Andrew Pearce	BP
Marie Clark	Scottish Power
Sue Macklin	Scottish and Southern

1. Apologies

Angela Love	Scottish Power
Martin Brandt	Scottish and Southern Energy

2. Minutes and actions from previous meeting.

Action Update -

1 – Action on NGT to explain why it chose not to develop a UNC model which identified geographical areas is being considered by DISG. NGT explained that this is being considered by DISG. **ACTION:CLOSED**

2 – NGT to circulate its analysis of Settlement and Reporting matrix. **ACTION:OPEN**

3 – NGT to circulate its paper which addresses amongst other things, stability of arrangements. **ACTION:OPEN**

4 – NGT to circulate its description of system dependencies before next agent workgroup. **ACTION:OPEN**

5 – Ofgem circulated NGT presentation. **ACTION:CLOSED**

6 – Ofgem legal has raised questions about agency acts, omissions and defaults with NGT legal. Awaiting response from NGT legal. **ACTION:OPEN**

7 – Risk tables amended by Ofgem and circulated to workgroup. **ACTION:CLOSED**

8 – Workgroup discussed mitigating actions. **ACTION:CLOSED**

3. Work Programme

Ofgem circulated responses to the mitigation tables and asked the group to consider the most appropriate way to analyse responses. Ofgem discussed two approaches:

- the group consider the mitigation for each risk or;
- discuss and capture wider mitigating actions i.e ownership, governance arrangements and then refer back to the risk tables to ensure that mitigations adequately cover the risks identified.

The group chose to analyse each risk and capture the common themes emerging. Before, the group discussed the mitigating actions Ofgem asked whether all risks arising from the agent model had been identified. No other risks were identified by the workgroup.

The group sought clarification on whether DISG had concluded its discussions about the various DN sales system operator responsibility models. Ofgem explained that this was still being considered and that the views of the agent workgroup were made clear to DISG.

Analysis of risks tables

1.1 Increase in costs for shippers.

It was suggested that NGT is selling networks for commercial gain and that the costs of implementing change should be covered by contractual arrangements. Also, it was suggested that NGT should have incentives to minimise costs on shippers and suppliers.

NGT explained that the agent represents a minimum change solution and establishes an environment to support multiple DNs. NGT added that governance arrangements should minimise change and complexity. NGT concluded that change should be managed robustly to prevent unnecessary costs on shippers/suppliers.

Ofgem suggested that costs could be controlled by closer regulation i.e Ofgem scrutinises all changes or by allowing users of services to manage change. Ofgem explained that the management of change control by the users of services may enable more informed decisions through increased visibility of the costs associated with change.

The group discussed non-agent activities i.e shipper/supplier services that fall outside of the agent. For example, connections, metering and emergencies. It was suggested that further clarification is required about how these activities will be undertaken. One recommendation was that each of these activities is discussed thoroughly to ensure that shippers/suppliers understand the proposed arrangements. Ofgem asked the workgroup to consider whether DISG should consider whether the AWG has the right skills and personnel to consider these issues in more detail. For the AWG to take this work forward would require an amendment to the workgroup's terms of reference. Ofgem suggested that an analysis of these services might entail identifying the associated risks and mitigating actions. The group supported this approach. Ofgem agreed to table this proposal to DISG. **(ACTION:OFGEM)**

1.1a Separate network code administration

The workgroup agreed to suspend further discussion on the various DN Sales models until DISG concluded its deliberations. Once this decision is made the group agreed to consider what adjustments and changes will be required to AWG analysis undertaken so far.

The majority of workgroup members concluded that contracting with one party would negate the need for short form networks codes. Ofgem suggested (in the event that short form codes is a feature of the DN Sales model) that codes should be aligned as much as possible and if supported by the industry managed by a central secretariat service on behalf of all DNs.

1.2 & 1.3 Credit arrangements/financial control

There was general support for central credit arrangements. It was suggested that the agent's role could be extended to manage credit or that this activity could be undertaken by another party. The group discussed the role of BSC Clear which undertakes central credit activities in the electricity industry.

1.4 Splitting of accountability for resolving issues

The group discussed unifying DN/agent accountability. Ofgem suggested that problems may be difficult to resolve without clear accountability. The workgroup considered whether shippers should have a stake in the agency and or a seat on the agency board. The workgroup sought clarification on how much a stake in the agency would cost. Ofgem added that if shippers/suppliers wished to be agency stakeholders then they would need to understand the associated costs. NGT suggested that DNs will have a stake in the agent and this would be a condition of network sale. NGT suggested that the agent will have a book value but this wouldn't be significant because the systems are fully depreciated. The agent's main assets would be fixtures/fittings and its workforce.

NGT agreed to consider the implications of shippers/suppliers becoming agency stakeholders. **ACTION:NGT**

1.4a/1.6/1.6a agency performance/network code standards

The workgroup discussed standards of service and whether these should sit in a licence or in contracts. The workgroup concluded that a well drafted contract negates the need for further incentives. The group agreed that the agent should be subject to a set of clearly defined standards of service.

1.5 Conflict of interest lead to poor service

It was suggested that shippers/suppliers require comfort that on day one the network code suitably supports service provision. Then consideration should be given to whether alternative governance arrangements for services should be considered in a controlled manner. Ofgem suggested that codifying all services may be cumbersome and may make it difficult at a later date to unravel services that shippers/suppliers may wish to control. An alternative approach is the agent contracts with shippers/suppliers

via bi-lateral contracts which allows shippers/suppliers to control the services and charges for services and would facilitate the removal of these services from the price control.

The group concluded that poor service could be mitigated if ungoverned services were defined as working practices schedules and became a feature of the SPAA or appended to the UNC.

Ofgem explained that the Authority will require assurances that progress is being made to develop reform in SPA services. An industry work programme may be required so that further development in this area is progressed. Ofgem concluded that further reform may be delivered via the SPAA or an alternative arrangement.

1.7 Industry data degradation

The group discussed data accountability and concluded that work to append ungoverned services into the code or UNC should refer to which party is accountable for data.

1.8 Existing systems

It was suggested that non-agency systems will require changes and clarification was sought on the governance arrangements to support such changes. Ofgem suggested that it was reasonable for shippers to be able to understand the costs of system changes. The workgroup suggested that visibility of agency finances would provide some comfort i.e ABC analysis and the costs associated with implementing modifications.

Other mitigations

It was suggested that a mechanism should be developed to monitor and ensure that the RIA assumptions materialise. Ofgem agreed to capture this point as a mitigating theme. Also, it was suggested that the agent arrangements should be kept as simple as possible.

The workgroup discussed DN failure. NGT explained that its paper which discusses amongst other things, stability of agent arrangements, will not discuss DN failure. NGT clarified that its paper makes clear that in the event of DN failure agency services will resume. Ofgem suggested that the energy bill allows the government to ensure that gas will continue to be provided in the event of a DN failure.

Next Steps

Ofgem agreed to identify all the shippers/supplier services that fall outside of the agency arrangements and circulate to the workgroup for discussion in the next AWG meeting on 5 March 04. **ACTION:OFGEM**

6. A.O.B

No issues were raised.

7. Date of Next Meeting

5 March 2004 at 10am,Ofgem's Offices, 9 Millbank.

