

System Operation Managed Service Agreement

An NGT discussion note for the CIWG, 16th June 2004

1. Background

In its Roles and Responsibilities decision document Ofgem stated a preference for the "Option 1: Active DN" arrangements, subject to further work relating to the System Operation Managed Service Agreement (SOMSA):

Excerpt from Ofgem decision document

Ofgem considers that further work is required to ensure that the SOMSA arrangements establish clear lines of accountability and do not [unduly] discriminate. In particular, the following issues will need to be addressed:

- Should Ofgem regulate the prices charged under the SOMSA arrangements and any associated liability clauses?
- Should the SOMSAs be published in order to enhance transparency?
- Should changes to the SOMSAs be subject to consultation?
- Should Ofgem have a veto over any proposals to change the SOMSA?
- Should service standards be introduced with respect to the SOMSAs?

There were three main themes within the public responses to the RIA document:

- Accountability for safe operation of the distribution network
- The degree of regulatory oversight to ensure no undue discrimination
- Transparency of the terms and conditions

This note is intended to promote further discussion at the CIWG regarding the SOMSA arrangements.

2. NGT Overview

NGT agrees that gas transportation services should be delivered under the new multiple transporter industry structure with clear accountability and without undue discrimination.

A number of industry documents will ensure that this is the case, in addition providing assurance to consumers and shippers regarding the standard and cost of service:

- Safety case approvals by HSE ensure clear accountability for safe operation
- Network Code defines rights and obligations regarding the offtake of gas at system exit points
- GT Licences define obligations of transporters
- GT price controls ensure costs of service provision are regulated
- Offtake arrangements (and other measures) designed and operated to ensure undue discrimination is prevented

The SOMSA constitutes one link in the contractual chain that ensures the delivery of transportation services. It is a service contract through which a DN discharges an aspect of its Gas Transporter obligations and duties. The SOMSA does not detract from the DN's accountability for all aspects of network operation, as set out in Ofgem's preferred Option 1: Active DN model. Accountability for licence and safety case obligations remains with the DN owner notwithstanding the discharge by contract of certain functions relating to the remotely controlled and monitored part of the network.

In addition, the SOMSA is a transitional measure, and will operate only during the period until the DN owner has established its own system operation capability.

NGT believes it would be inappropriate for transitional service contracts such as the SOMSA to be regulated because there are sufficient industry safeguards to ensure that transportation services are not compromised. These safeguards are set out in the following section.

3. Industry Safeguards

The following table sets out the safeguards that ensure gas transportation services are delivered with clear accountability and without undue discrimination:

Aspect	Industry Safeguard
Accountability for safe operation	<ul style="list-style-type: none"> ▪ SOMSA arrangements a key aspect of DN safety case ▪ HSE must accept safety case and any material changes ▪ HSE may request sight of SOMSA or reports on operations under the SOMSA
Regulatory Oversight	<ul style="list-style-type: none"> ▪ Both SOMSA parties subject to safety and economic regulation ▪ Ofgem powers to request information regarding SOMSA operation ▪ If requested, NGT to provide Ofgem with copies of all SOMSA agreements and amendments, together with the regular reports produced in accordance with the agreement. ▪ See above regarding HSE and safety case
Undue Discrimination	<ul style="list-style-type: none"> ▪ Licence obligation on Transco ▪ Offtake Arrangements RIA addresses issues of undue discrimination ▪ Internal Transco processes and procedures to ensure no undue discrimination ▪ If requested, NGT to provide Ofgem with reports produced in accordance with its internal procedures regarding the operation of the SOMSA, compared to the operation of retained DNs. ▪ Regular Operational Forum meetings held by Transco provide a vehicle for industry discussion of all aspects of system operation, including operation of DNs.
Transparency	<ul style="list-style-type: none"> ▪ Five papers describing SOMSA already in the public domain, providing a clear description of the way in which the SOMSA will operate.

4. NGT Commentary on SOMSA questions

The table below provides an NGT commentary on the questions raised in the Ofgem decision document:

Question	NGT Commentary
Should Ofgem regulate the prices charged under the SOMSA arrangements and any associated liability clauses?	Consumers and shippers are already protected with regard to the costs of the SOMSA services, through the GT price control arrangements. Pricing and liability arrangements under the SOMSA are therefore a matter for the contracting parties.
Should the SOMSAs be published in order to enhance transparency?	It would be highly unusual to publish bilateral service contracts (c.f. Engineering Period Contracts). It is unclear how publication of these arrangements would supplement public industry documents such as GT Licences, Network Code and Offtake Code to the benefit of consumers or shippers.
Should changes to the SOMSAs be subject to consultation? Should Ofgem have a veto over any proposals to change the SOMSA?	Neither party has a unilateral right to modify the terms and conditions of the SOMSA. Changes are therefore by mutual agreement. It is anticipated that the parties will agree appropriate modifications in the light of operational experience. This may involve the HSE if material changes to the safety case are required. Industry and Ofgem involvement in the modification process could preclude the timely introduction of modifications sought by both parties to the agreement.
Should service standards be introduced with respect to the SOMSAs?	It is difficult to see how this would add to the existing protections for consumers and shippers contained within the GT Licences and Network Code. SOMSA service standards are a commercial consideration for the contracting parties.

5. Summary

NGT believes that regulation of the SOMSA would not be appropriate, in view of its nature as a transitional service agreement. There are a number of robust industry safeguards to ensure that transportation services provided to shippers and consumers are not compromised.