

26 June 2013

By email only, to [joanna.campbell@ofgem.gov.uk](mailto:joanna.campbell@ofgem.gov.uk)

Dear Joanna

Response to Ofgem Consultation: **“Consultation on implementing new funding, governance and ownership arrangements for Xoserve, the gas transporter central agent”**

BUUK is the parent company of IGT licensees GTC Pipelines Limited, Quadrant Pipelines Limited and Independent Pipelines Limited. To date our engagement with Xoserve is in many ways peripheral as IGTs undertake many of the services offered and provided by Xoserve to GDNs (e.g. change of supplier, use of system billing). Currently IGTs are in discussion with industry parties to move from the current arrangements to one where Xoserve acts as the single service provider for many of the services on IGT networks. Whilst the industry is broadly supportive of this a number of issues need to be resolved before further progress can be resolved.

Working on the basis that single service provision (SSP) will happen, it is important that changes to the funding, governance and ownership arrangements for Xoserve can accommodate IGTs and move to an SSP framework. It is with this in mind that we respond to Ofgem’s consultation.

IGTs currently provide information about IGT metering points to Xoserve. The requirements for this are covered by provisions in the NExAs between IGTs and the GDNs. Consideration needs to be given as to whether this is the appropriate mechanism under new arrangements for the central services provider.

In general we support Ofgem’s recommendations. We provide responses to Ofgem’s questions in Appendix 1.

Yours sincerely

Mike Harding  
Head of Regulation

## Appendix 1 – Response to Consultation Questions for

### *Service delivery*

1. *Do you agree that there are benefits in retaining the central service provider as one delivery body for all systems and services, including Gemini systems? Do you consider there to be an alternative structure with greater benefits? Please provide evidence of these additional benefits.*

Whilst we agree that there are benefits in retaining central services provider for many of the services and systems, we are not convinced that it is appropriate to mandate that all the services described by the Agency Services Agreement be provided by a central service provider to be for all services.

There should be flexibility with the arrangements so that certain services (e.g. billing ) could be offered on an optional basis. It would then be for the GT to determine whether it was more economic for Xoserve to provide the service when compared with doing it itself or procuring from another agency provider.

In conjunction with the above, a possible solution may be for a cyclic review to take place with the aim of conducting market testing to determine whether certain services may be undertaken more efficiently by other providers. This could be on a 5 year basis with Xoserve initially providing the services during the first 5 year period. This would provide a flexible approach to the delivery of the current services whilst also ensuring that the industry benefits from the most cost effective service delivery.

### *Budget setting, cost allocation and charging*

2. *Do you agree with our preliminary recommendation for how future budgeting, charge setting and invoicing arrangements should work? Do you consider there to be greater benefits in establishing other arrangements? Please state your reasons why.*

We agree that there should be wider engagement on budget setting and that this should involve all affected parties. We agree that it is appropriate for GDNs to recover such costs as a pass through under their price control. Should SSP arrangements be implemented for IGTs we would expect to see approaches with equivalent effect in respect of costs incurred by IGTs.

In setting the budget we think it is essential that there is a transparent process in place. We think such process should incorporate an appeals mechanism where parties opposed to changes can have their views fully considered. We believe it is also important that where the annual budget is increased for Xoserve and additional costs are recovered from IGTs, that IGTs are able to recover such costs. The current regulatory framework would not permit this though potentially such costs could be recovered through an amendment to the IGT's transportation charging statement.

We agree that invoicing should be directly from the central services provider and that costs should be subject to an open and transparent methodology. Parties receiving services should be able to propose changes to the methodology under the governance arrangements.

3. *What are your views on the measures we have identified to ensure regulatory oversight is maintained?*

We agree that there needs to be an appropriate obligation on those who control the central service provider “...to do so in an efficient and economic manner”. We understand that the central services provider, although owned by GTs, will be controlled by a board comprising both GTs and shippers. Therefore, obligations need to be placed on all parties to the extent that they are able to do so. We think that whilst such obligations could be incorporated into the UNC they are better placed in licences. Such licence condition could incorporate the requirements for a charging methodology and give Ofgem the rights to set budgets.

4. *Do you consider there to be further barriers to adopting a new cost reflective charging methodology which we have not considered? What would be the cost to you of establishing a new cost reflective charging methodology?*

As an IGT the key concern for us is, if we were to proceed to single service provision, that mechanisms are in place ensure cost neutrality. As an IGT we have a Licence obligation to operate in an economic and efficient manner and so would only be supportive of a charging methodology that does not result in higher charges than if the IGT had carried out the activity itself.

5. *Do you consider there to be further barriers of the central service provider directly invoicing users? What would be the cost to you of the central service provider directly invoicing users?*

In operating in electricity distribution we already receive invoices from service providers such as Elexon and MRASCo.

#### *Corporate governance*

6. *Do you agree with our preliminary recommendation to apply the full co-operative model with retained GT ownership? Do you consider there to be greater benefits in establishing alternative arrangements? Please state your reasons why.*

We support the full co-operative model.

7. *Do you agree or disagree with the principles of the Board structure we outline? Do you consider that these principles can be achieved through the arrangements outlined?*

We support the proposals, and in particular that arrangements should be sufficiently flexible to incorporate IGTs in the future.

8. *Do you agree or disagree with our initial view that the details of the establishment and ongoing affairs of the Board are best left for the industry to develop? If you disagree please state what areas you consider that we should require through licence obligations.*

We think the scope and objectives of the central services provider should be defined in licence conditions, along with any relevant reporting requirements (in addition to those required by company law).

### *Transition and implementation*

9. *Do you consider that a licence requirement should be placed on one or more parties to ensure that implementation is progressed? If so, what do you consider a reasonable timescale in which full implementation can be complete?*

We think a licence requirement should be placed on all relevant parties. This is essential in ensuring all parties and not just Transporters are involved in driving change forwards. There is a significant amount of industry change taking place in the next few years and it is important that implementation integrates with the wider industry. One of the reasons for this is that key people will be committed to other projects. Therefore, we suggest that the licence condition should require the development of a project plan which will be subject to approval by the Authority. This will enable parties to more widely consider how implementation can be coordinated with other competing priorities.

10. *Do you have any views on CEPA's estimated cost of implementation? Please provide evidence of any additional costs you consider should be accounted for.*

Not answered.

### *General*

11. *Do you have any other comments on any aspect of the CEPA report or this consultation letter?*

Not answered.