

Implementation of Changes to the gas central service provider, Xoserve

Workshop

Ofgem
6th December 2013

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1. Introductions and purpose of workshop
2. Project overview
3. Legal and regulatory framework
 - Options & assessment criteria
 - Overview of obligations
4. Other implementation requirements
 - Work streams & proposed timetable
 - Service allocation and charging
 - Board arrangements

We will publish a summary of today's discussions

- The purpose of today's workshop is to ensure a common understanding of new arrangements and to discuss steps required for implementation
- In particular our aims are -
 1. To ensure understanding of the **legal and regulatory framework** options and to have an open discussion on the characteristics and merits of each option
 2. To reach agreement on the **additional work streams** that we expect the industry to take the lead on, including a discussion around the timetable and the roles of individuals in delivery

- A review of arrangements for the gas transporters' central agent, Xoserve, commenced during the RIIO price control reviews for gas distribution and transmission
- The review has, through industry engagement, reached a number of milestones:
 - January 2012 – decision to implement a co-operative model
 - Nov 2012 to Feb 2013 - development of options
 - April 2013 – consultation on the details of a co-operative model
- We reached our conclusions on the details of the co-operative model in October

- Our conclusions in October summarised the changes that would be required:
 - **Delivery of services:** delivery by one body to be maintained. Consider rationalising the contractual framework for delivery.
 - **Budget setting, cost allocation and charging:** establish an inclusive annual budget process, collective & cost reflective funding method and transparent invoicing process.
 - **Corporate governance and ownership:** alignment of obligations, risk and control on all users including establishing new board arrangements.

Legal and regulatory framework

- Objectives
- Options
- Assessment
- Obligations
- Timeline

Objectives of the new framework

1. Facilitate a responsive and client facing IT and data service provider

2. Achieve alignment of obligations, risks and control

3. Ongoing operation of arrangements to be industry led

4. Be simple and practical to both implement and operate

5. Retain regulatory oversight to ensure the protection of public interest

The four proposed options

CSP not a party to the UNC

Amend GT licences

Option 1

- GT licence - high level requirements of CSP
- UNC - binds GTs and shippers (via rights and obligations) to joint arrangements & sets out the principles of arrangements
- Service agreement(s) - between CSP and users sets out service requirements from the CSP

Amend GT and shipper licences

Option 2

- Licences - binds GTs and shippers to certain aspects of the joint arrangements
- UNC - binds GT and shippers to the detail of arrangements
- Service agreement(s) - between CSP and users sets out service requirements from the CSP

CSP becomes a party to the UNC

Option 3

- GT licence - high level requirements of CSP
- UNC - binds GTs and shippers (via rights and obligations) to joint arrangements & sets out the principles of arrangements
- UNC - main depository for all CSP requirements

Option 4

- Licences - binds GTs and shippers to certain aspects of the joint arrangements
- UNC - binds GT and shippers to the detail of arrangements
- UNC - main depository for all CSP requirements

Mapping the legal framework to instruments

Element	Option 1	Option 2	Option 3	Option 4
Core requirements of the joint industry CSP regime	GT licences	GT & Shipper licences	GT licences	GT & Shipper licences
Shipper and GT obligations and rights in relation to the CSP	UNC	GT & Shipper licences & UNC	UNC	GT & Shipper licences & UNC
Principles of the governance and funding regime	UNC	GT & Shipper licences & UNC	UNC	GT & Shipper licences & UNC
Industry service requirements from the CSP	Service Agreement ¹	Service Agreement ¹	UNC ¹	UNC ¹
Charging methodology	UNC	UNC	UNC	UNC
Service charge application	Service Agreement ¹	Service Agreement ¹	UNC ¹	UNC ¹
Joint corporate governance arrangements	Articles of Association	Articles of Association	Articles of Association	Articles of Association
Requirement for CSP to provide code and non-code services	Service Agreement ¹	Service Agreement ¹	UNC ¹	UNC ¹

- Each option could meet the objectives outlined, therefore the question is which option best meets the objectives?
- Our initial view is that option 1 or 2 best meets the objectives
 - use of a service agreement(s) (SA) creates a contractual framework for service delivery more akin with similar commercial entities
 - regulatory oversight maintained via relevant licences
 - UNC modification process allows for adaptability (potentially stronger under option 1?). Additional modification process required to ensure SA remains in line with UNC
- Option 1 and 2 only differ in the use of the shipper licence versus the UNC to bind shippers into arrangements
- **Discussion - what are parties views of the options outlined?**

Example: Option 1 - obligations under a co-operative model

- Obligations do not vary by option but where they are placed will

Core requirements - in the GT licences

- Establish CSP as an entity – what is required from CSP regime

GT and shippers' obligations and rights - in the UNC/SA

- Enter into a service agreement (SA) with the CSP
- Take part in CSP's governance and operate it efficiently and economically
- Fund CSP for service delivery

CSP's obligations and rights – in the SA

- To deliver code and non-code services
- Service delivery standards

Joint corporate governance – in the UNC and articles of association

- Rights and obligations of owners restricted and non-owners given equal rights and obligations

- Confirm which option we will take forward
- Informally consult licensees on modifications
- Statutory consultation process
 - Notice of proposed modifications
 - Direction modifying licence
- After a short break we will discuss further work streams that we expect the industry to run in parallel to the licence modification process

**Next steps: Confirm option we will take forward and informally consult
Statutory consultation in Q4 2013-14**

Tea and coffee break



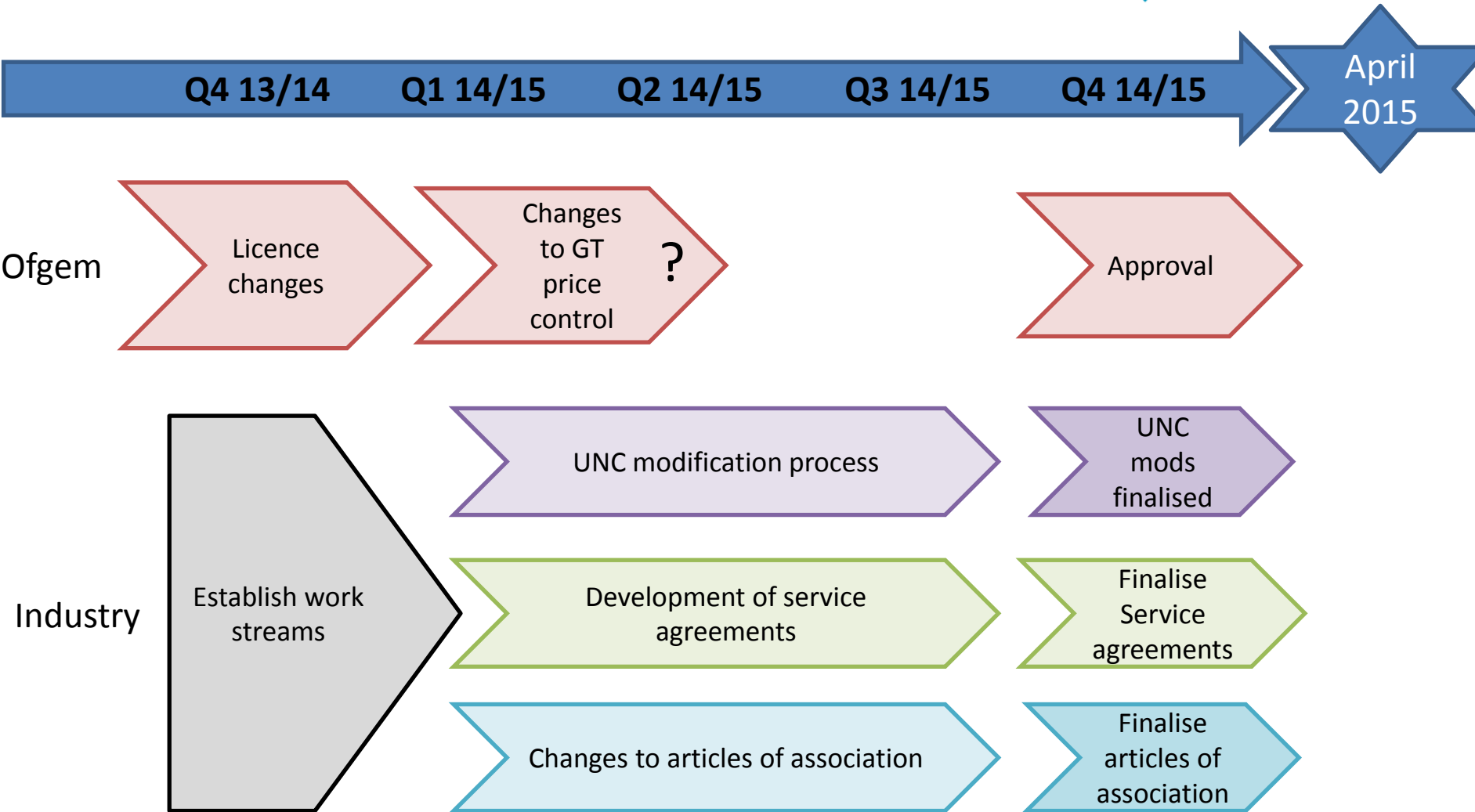
Other implementation requirements

- Work streams
- Proposed timetable
- Service allocation and charging
- Board arrangements

- **Service allocation** – contractual framework for delivery of code and non-code services
- **Annual budget process** – to be developed and defined
- **Cost allocation methodology and charging statement** – for code services this should be incorporated in the UNC
- **Invoicing arrangements** – options to be examined
- **Board process** – including required changes to the articles of association and UNC
 - Shadow board arrangements – creation of transitional arrangements
- **GT reopener** - review ex ante allowance for Xoserve's costs

Next steps: Industry to establish working group(s) to develop arrangements
Establish needs case for project management/consultancy support

Proposed timelines & deliverables



- Service allocation
 - current non-code services will need to be defined in new service agreement(s)
- Cost allocation methodology
 - cost reflective, transparent and not overly complex
 - adaptable – through the UNC modification process (for code services)
- Invoicing arrangements
 - mechanism must achieve transparency and accountability
 - divided opinion on most appropriate mechanism, therefore industry to consider further the costs and benefits of different approaches

- **Board composition**
 - independent chair, non-exec members, and executive member(s)
 - importance of relevant expertise and skills to be defined
 - consider appropriate size
 - appropriate remuneration to be provided
- **Transparent election process**
 - constituency voting arrangements (or alternative to be developed by industry)
 - importance of relevant expertise and skills to be defined
- **Accountability**
 - establish a performance evaluation process
 - transparent and robust process for dismissal of board members
- **Transitional arrangements**
 - industry to consider shadow board arrangements

Summary of key areas of work

Action	Lead	Initial next steps
Modify licences - opt. 1 or 3: GT only - opt. 2 or 4: GT and shipper	Ofgem	Decision on option Informal consultation Statutory consultation process
Changes to contractual arrangements	Industry (inc. Xoserve specific role)	Establish service agreement(s) between Xoserve and industry. Further changes to existing contracts may be required.
Develop cost allocation methodology and invoicing process	Industry	Work streams to be established, leading to changes to the UNC and service agreement(s)
Establish new board arrangements	Industry (inc. GT specific role)	Work streams to be established, leading to changes to the UNC and articles of association
Changes to the GT price control framework	Ofgem	Information required from GTs & Xoserve. Timing dependent on progress of other work streams

Closing remarks
Any other business?