

Joanna Campbell
Ofgem
9 Millbank
London
SW1P 3GE

16 April 2014

Dear Joanna

Re: Xoserve - consultation on the legal and regulatory framework to establish new arrangements for the gas central service provider

Thank you for the opportunity to respond to your consultation. Northern Gas Networks has been actively involved with the developments relating to Xoserve as the central service provider and we have provided responses to your specific question below.

It is important that delivery of such a project does not try to take short-cuts, and as noted in previous consultation responses a key aspect of this change will be to consider realignment of Uniform Network Code (UNC), and possibly other codes, obligations between shippers and transporters. NGN believes that inclusion of the role of the Central Service Provider (CSP) would enable a more transparent set of arrangements, particularly for services which are currently delivered directly for shipper benefit.

Realignment of obligations will be a time consuming task to ensure that it is done thoroughly and correctly. The original target of April 2015 would now seem unachievable for this work which will require extensive industry engagement and UNC governance processes. A target of April 2016 would seem more achievable. Although a further year would be required to carry out fully enduring changes, early transparency of costs, budgets and change programmes would ensure that some of the benefits can be achieved in advance of the full enduring solution and is possible to some extent without the full governance required for the enduring position.

NGN believes that the extent of shipper engagement in the process will be a key to successful completion of these changes, and would encourage Ofgem to further consider use of Licence obligations to ensure that shippers take appropriate action to engage in both the development of the new regime, and the enduring arrangements when implemented.

The Transporters, together with Xoserve, are keen to ensure that the transition to a new regime is undertaken with the full engagement of the shipper community, and other relevant parties such as Independent Gas Transporters. Use of existing communications and governance arrangements such as the Xoserve Change Overview Board and UNC Modification Panel and workgroups will be key for discussion and decisions about the necessary changes.

It should further be noted that the term CSP is already used in the Smart Energy Code for the Communications Service Provider and it may be preferable to use a different term to avoid confusion going forward.

I hope you find these comments useful and please contact me should you require further information.

Yours sincerely,



Joanna Ferguson
Network Code Manager



Questions

Can the UNC efficiently require parties to jointly participate in the governance and funding arrangements or is it more appropriate to include these requirements in each party's licence?

For an efficient and effective future it is important that all classes of party, and parties, take suitable levels of responsibility for the governance and funding of Xoserve as the Central Service Provider (CSP). There are examples of other codes where a Licence obligation is used to require accession to the code, and then the governance and funding is set out entirely within the code itself. In particular, the Smart Energy Code (SEC) has used this route to ensure that all parties required to participate are acceded to the code.

This approach has the benefit of using a light Licence obligation, and at present all of the shipper and Transporters are already acceded to the UNC. It is clear, however, that not all parties to the UNC undertake active participation within the code and it is likely that this would also apply to any new UNC obligations on shippers to participate in governance, and the extent to which individual parties need to be actively involved in the governance will vary between parties.

While the UNC may be sufficient for many aspects it is NGNs belief that if Licence obligations are used for one party category this should be reflected across all party categories to ensure fair and equitable obligations exist. On the whole, it would seem appropriate for a range of regulatory tools to be used to enable the most appropriate levels of control. This could be carried out in the following way:

1. Licence obligation to participate and ensure that economic and efficient processes are maintained;
2. UNC obligations providing additional detail about the specific areas for which each party is required to show compliance; and
3. Contractual arrangements to facilitate non-UNC arrangements such as discharge of other code arrangements (e.g. SEC) and commercial activities (e.g. reporting, data analysis, etc)

Are there additional benefits in Xoserve becoming a party to the UNC, when compared to the service agreement approach?

In order for the review to create the desired co-operative model it is vital that current obligations are realigned with the party to whom benefit resides. There are a number of obligations within the UNC where the Transporter acts as counter-party to shipper-to-shipper transactions, but has little interest in the transaction other than its eventual outcome. The change of shipper process that is currently facilitated by Xoserve is an example of such a process, and realignment of obligations in this area of the code should be predominantly shipper facing, but still requires a counter-party to make the contract effective. The use of the CSP as the named counter-party would ensure that the obligations remain clear and the parties named are the ones that undertake the necessary activities to discharge those obligations.

Including the CSP as a UNC party it would provide an opportunity to create clear counter-parties to rights, obligations and transactions rather than using the Transporter as a default, particularly where the impacted parties are both within the same party category. The principle of non-licensed parties within the UNC already exists for Traders, and therefore it is not a necessity to also Licence Xoserve for this to be facilitated. Use of the new party category to create clear processes would be more transparent to smaller parties and allow operating costs and changes to be more clearly targeted at the most appropriate parties.

By becoming a party to the UNC there would be greater levels of perceived surety that Xoserve can both be held responsible to areas which are under its control, and have the necessary protection of cash flow for provision of UNC services. Extension of existing arrangements for

invoicing and credit control would ensure that Xoserve has clear rights and obligations in relation to its main revenue stream, and create symmetry with the existing Transporter arrangements with which the shippers are familiar. The use of clear and transparent rights and liabilities ensures that the industry continues to respond in a non-discriminatory manner between parties.

It is important that whatever arrangements are ultimately used, that Xoserve remains capable of being able to offer both Agency and contractual services outside the governance of the UNC where necessary.