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16 April 2014

Dear Joanna,

**SGN response to consultation on the legal and regulatory framework to establish new arrangements for the gas central service provider**

Thank you for providing Scotia Gas Networks (SGN) with the opportunity to respond to your consultation on the legal and regulatory framework to establish new arrangements for the gas central service provider (CSP).

This consultation details questions relating to the regulatory framework which will form the basis of obligations placed on industry parties for the provision of central services and where these obligations will rest, either with Gas Transporters (GTs) and/or Shippers, and whether these obligations require to be set-out within licence conditions or industry codes such as the Uniform Network Code (UNC). The consultation also centres on whether the CSP should become a party to the UNC in its own right and whether this would add value over and above the current service agreement in the form of the Agency Services Agreement (ASA).

In summary, SGN consider the current arrangements which place licence obligations on GTs for the provision of the Agency and the ASA should, post Xoserve funding governance and ownership (FGO) review, reside with both GTs and gas Shipper licencees. The rational for this position rests with the importance placed upon the services Xoserve provide now and in the future, which support the foundations of the commercial arrangements for the UK gas industry.

The requirement to establish and maintain Agency or CSP arrangements as opposed to the actual services themselves should rest in a licence environment as opposed to an industry code, such as the UNC, where change is more fluid and less certain. The fact that Agency services also satisfy obligations set-out in code areas other than the UNC, such as the Supply Point Administration Agreement (SPAA), also suggests that an overriding licence condition similar to the current Standard Special Condition (SSC) A15 should be in place for both GTs and gas Shippers or Suppliers to ensure that continuing requirements and obligations on both

sets of parties is continued to be met. The future potential for Independent Gas Transporters (IGTs) to utilise the services of the CSP to increase efficiencies in industry processes is also currently underway, and would in turn lend itself to a licence environment to ensure the importance placed upon these joint services continues to be undertaken by a CSP going forward.

The current arrangements which operate between the GTs and Xoserve, in relation to the provision of services managed between Xoserve and the GTs, ensure services continue to meet industry change requirements. We do not consider there to be any sizeable benefits to including the CSP as an entity itself within the UNC. The service agreement should be flexible enough to operate successfully between the CSP, GTs and Shippers to ensure code and licence obligations are fulfilled. With the modification of the UNC to align obligations to the most appropriate party, the service agreement would simply mirror these requirements and direct the costs associated with their provision to the respective party.

In relation to the four options set-out in the consultation document, SGN consider Option 2 to be the most appropriate in relation to providing a stable foundation to ensure the continuation of the vital services Xoserve provide, and also to ensure that the fundamental requirements of the FGO process are successfully delivered. We consider these requirements will ensure increased transparency over the services the CSP delivers, and also to ensure that the responsibility, risk and control over these services are equitably aligned to the correct parties.

We provide our detailed response to the two questions posed within the consultation document as follows:


***Can the UNC effectively 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?***

The current arrangements which require the GTs to collectively arrange for Agency services under SSC A15 provide for the delivery of licence condition requirements, UNC obligations and other obligated services such as those set-out in the SPAA. The services are delivered via the ASA which is a contractual agreement between each GT and the Agency (Xoserve) and satisfies the various conditions set-out specifically in SSC A15[1]. The UNC details many obligations which are both aligned to GTs collectively and Shippers individually concerning the commercial interactions which underpin the operation of the UK gas industry. Although the current Agency arrangements require GTs to ensure the provision of Agency services, this provision satisfies GT, Shipper and Supplier licence obligations and also the respective UNC requirements.

As the basis of the Xoserve FGO process was to analyse industry requirements stemming from the services provided by Xoserve, and also to better align the requirements of gas shippers to these services, the process looked at the individual services set out in the ASA. The FGO process grouped these services into categories which highlighted which industry group most relied or benefitted from the provision of these services, and also which group would benefit

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[1] This is in addition to other licence requirements such as SSC A31 (Supply Point Information Services), and Standard Licence Condition 14 (SPAA).

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from increased control over these services. The underlying theme which prevailed was to ensure increased control or influence over these services, with the risk and responsibility for their provision and the cost of these services residing with the relevant party. We therefore consider that to ensure respective parties have a sufficiently robust obligation to ensure services are provided and managed efficiently, an overriding licence obligation should rest with both GTs and Shippers to ensure these core requirements are met.

The high level funding principles and governance should also rest in an overriding licence condition on each party, with the intricacies of the services themselves and the charging methodology sitting in the service agreement and UNC respectively.

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

SGN do not consider there to be any additional benefits for including the CSP as an entity within the UNC over and above the extension of the service agreement to encompass shipper service requirements.

The ASA has operated successfully both in terms of delivering current requirements and in its ability to transform to meet new requirements. We consider that modifying the UNC to include the CSP as a party would be complex and would still require the costs associated with the various services to be set-out in the UNC itself. This would need to include which party would be responsible for paying for such services.

As a service agreement already exists, including a contract management framework, we consider the inclusion of Shippers within such an arrangement would be relatively straightforward.

Should you have any further questions on any aspect of our submission, please do not hesitate to contact either Colin Thomson at colin.thomson@sgn.co.uk or myself at paul.mitchell@sgn.co.uk .

Yours sincerely,

**Paul Mitchell**
Regulation Manager

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