

To: Gas Transporters;
Independent Gas Transporters;
Gas Shippers;
Consumer representatives; and,
other interested parties



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Date: 4 December 2014

Dear colleague

Project Nexus: statutory consultation on licence modifications and further consultation on UNC modifications to introduce IGT Single Service Provision

This letter comprises a statutory consultation on a proposed licence change to oblige independent gas transporters (IGTs) to use the common services of an Agent, bringing them into line with the existing obligation upon other gas transporters (GTs).

In addition, we have received the Final Modification Reports for two Uniform Network Code (UNC) modifications which seek to extend the provision of certain services set out in the UNC to the IGTs. This letter also seeks views on our current position of being **minded to accept**:

- UNC440: Project Nexus – IGT Single Service Provision, and
- UNC467: Project Nexus – IGT Single Service Provision data preparation.

We would welcome responses to our consultations on or before **9 January 2015**.

Background

The UK Link is an IT system which enables the exchange of information between Gas Shippers and GTs, relating to supply point administration, the balancing of the gas system and other matters. UK Link is operated by Xoserve as the Agent of the Gas Transporters (GTs) is scheduled to be replaced in October 2015. This presents an opportunity to extend the scope of services provided by that system, to incorporate for the first time those supply points connected to independent GT (IGT) networks.

IGTs operate independently from the regional monopoly Gas Distribution Networks (GDNs) and compete with them to provide connections.

Both the GTs and IGTs are obliged under the terms of their respective licences to operate in accordance with the Network Code, which incorporates by reference the UNC and the IGT UNC respectively¹. Both GTs and IGTs are obligated to provide certain services relating to supply point administration, which encompasses functions such as customer switching.

However, the manner in which they discharge those obligations can vary greatly. This causes additional cost and inefficiencies for those shippers who operate across the different

¹ All of the current and former National Grid PLC networks are governed by the UNC. Each of the IGTs, which came into being with the Gas Act (1995) previously operated in accordance with its own Network Code. These individual Network Codes remain, but now incorporate by reference the IGT UNC, which was created in 2007 to align, as far as practicable, the arrangements of the IGTs. To date, the UNC and the IGT UNC remain entirely separate documents, though several industry processes are common to both.

networks and have to adopt differing back office systems and procedures to carry out what is effectively the same function. It may also preclude gas suppliers from offering a uniform service to their whole customer base, resulting in differing standards of service for those customers connected to IGT networks. New entrant gas suppliers have also told us that the disparity in GT and IGT arrangements acts as a barrier to them making offers to customers on IGT networks.

When considering the sale by National Grid of four of its GDNs, we were concerned that the new ownership may lead to a similar fragmentation of IT systems and services. In order to prevent this, those functions were divested from National Grid and retained in an Agency that would continue to act on behalf of all the GT owners. That commitment was underpinned through the introduction of a new Standard Special Condition A15: 'Agency' (SSC A15). Xoserve performs the role of the Agent introduced by this condition.

Project Nexus

The need for the GTs to replace their aging UK Link systems was first identified and funding provided as part of the 2008-2013 Gas Distribution Price Control Review. Our Final Proposals² stated that:

*"the replacement of UK Link towards the end of the price control period provides a cost-effective opportunity for the industry to rationalise and put in place revised systems that are fit for purpose. It is expected that Xoserve will be consulting with industry during 2008 on the potential scope and design for the new systems. This will provide opportunities to consider future user driven developments, such as changes required due to smart metering. There may also be **opportunities for IGTs to consider their existing systems and where appropriate utilise a common industry platform**".*

A process to identify and develop the industry requirements that go beyond a straightforward like-for-like replacement of existing systems has been undertaken as **Project Nexus**. The extension of central systems to the IGTs has been an integral part of Project Nexus, with the aim of delivering efficiencies for both IGTs and the Shippers who currently often duplicate their efforts when dealing with differing arrangements between networks. The industry have therefore developed modifications under both the UNC and the iGT UNC as part of Project Nexus.

These are summarised as follows:

- UNC440 seeks to establish within the UNC the concept of a Single Service Provision (SSP). This will extend the scope of the Agency's services relating to supply point administration, to include those supply points connected to IGTs, which are currently excluded from the scope of the UNC and the Agency.
- UNC467 seeks to facilitate the cleansing and migration of relevant data currently held by each of the IGTs to the common Agency.
- iGT039³ seeks to complement UNC440, replacing those sections of the IGT UNC relating to services which will no longer be provided by each of the IGTs, and instead incorporating by reference the relevant sections of the UNC.

We have received Final Modification Reports for UNC440 and UNC467. We understand that the IGT039 working group has now completed its report on the proposal and that it will be considered at the December meeting of the IGT UNC Panel. Together, these modifications would establish a framework for extending the scope of the Xoserve's services to the IGTs.

² See: '[Gas Distribution Price Control Review Final Proposals](#)' Ofgem ref: 285/07.

³ IGT039: 'Use of a Single Gas Transporter Agency for the common services and systems and processes required by the iGT UNC' available at: <http://www.igt-unc.co.uk/Modifications/Open+Modifications/iGT039DG>

However, before deciding upon the implementation of, and investment in, UNC440 and UNC467 to introduce the common Agency services, we consider that it would be appropriate to commit the incumbent IGTs and any future entrants to the IGT market to using those services. This would make the licence obligations of the IGTs consistent with those of the GTs with whom they compete, as far as they relate to Agency services. We are therefore consulting on a **modification to the Standard Conditions of the GT licence**.

Proposed licence drafting

The proposed licence change would introduce a new Standard Condition 11: 'Agency', which largely replicates that which is already in effect for Gas Transporters which were formerly part of National Grid Gas, as Standard Special Condition A15: 'Agency' (SSC A15). By introducing the requirements with the standard conditions of the licence we seek to ensure that the accession of all incumbent IGTs and any future new entrants to an agreement with a single Agency, ensuring a common service for shippers, irrespective of which network their registered supply point is connected to.

However, we also want to ensure that the new obligations are applicable only to the relevant licensees, i.e. the IGTs. **Paragraph 1** of the proposed condition therefore clarifies that it is applicable to licensees for whom Standard Condition 9 (Network Code and Uniform Network Code) is in effect. This definition will therefore exclude the GDNs and National Grid (NTS), as well as those holders of a GT licence (typically storage operators) which have the majority of standard conditions, including Standard Condition 9, *switched off*.

Agency services governance

The first obligation, as set out in **Paragraph 2**, is that the IGTs shall enter into an agency services agreement for the common provision of services and systems by the agency. The text then states that the scope of those services and systems will be set out within the Uniform Network Code. In this context, this is reference to the iGT UNC and the work to define the scope of these services is currently being progressed as iGT039.

Paragraph 3 is carried over from SSC15 and is intended to ensure that there is adequate transparency of the AS Agreement.

Paragraph 4 sets out some of the charging principles for the Agency. In this respect it is important to note that the Agency will not be a licensee or subject to direct regulation. We consider that this provision will ensure that the systems continue to be operated and developed on an economic and efficient basis, and that the cost of individual activities is known and understood. We expect the licensees will seek to ensure that these principles are backed off in any contract they have with the Agency. However, we recognise the extent to which the IGTs will be able to exert influence over the Agency may depend, at least in part, upon the outcome of the Xoserve funding, governance and ownership review(Xoserve FGO review)⁴.

Our aim is to align the supply point administration arrangements of all GTs and IGTs as closely as practicable, thereby reducing the costs and complexity to shippers and ensuring a consistent switching experience for the consumer. This principle is ensured through the obligation to maintain common provision of services, as set out in **Paragraph 5**.

However, we do not seek to preclude the possibility of licensees innovating and offering a service which is either more efficient or offers added value to that of the common agent. **Paragraph 6** would provide the IGTs with a mechanism to offer such services without the licensee being in breach of their licence or other obligations. We consider that, in practice,

⁴In October 2013 we set our conclusions that Xoserve should operate under a cooperative model, replacing its regulated revenue funding mechanism with one based upon collective and cost-reflective funding, i.e. the ability for Xoserve to invoice all of its customers directly. For details and progress see: www.gasgovernance.co.uk/fgo

it would be both necessary and appropriate for such a request to come in the form of a modification proposal to the IGT UNC and/or the individual Network Code of the relevant licence and that our consent would, if applicable, be provided as part of any decision on such a proposal. We therefore do not consider that a further and entirely separate mechanism to seek our consent is necessary and have not included the equivalent of SSC A15 (6) as part of our proposals.

Agency services funding

A key concern for parties participating in the development of the Single Service Provision (SSP) has been the appropriate allocation of costs between IGTs, which currently provide and receive funding for those services, and the gas shippers who are likely to be the main beneficiaries of the proposed modifications. This has been further complicated by the fact that Xoserve has so far been unable to determine its likely costs of operating the SSP, and has therefore not provided an indicative cost-reflective charge.

IGT revenues are not regulated in the same manner as the GDNs, which are subject to a full price control. Instead, Special Condition 1 (*Charging of Gas Shippers – Relative Price Control*), of the IGT licence establishes a Relative Price Control (RPC) which requires the IGT transportation charges to be set at a level broadly consistent with the equivalent GDN charge⁵. Supply point administration activities are included within the bundled transportation charge.

Several different funding options were considered during the development of IGT039, with the emerging objectives being to:

- a) avoid a double recovery - i.e. to ensure that IGTs do not retain revenue for services they no longer provide and that gas shippers do not pay twice for the same service;
- b) ensure that the IGTs are able to finance their regulated activities⁶;
- c) avoid a cross-subsidy between the GDNs and the IGTs.

Whilst we consider that each of these objectives must apply to the eventual Agency charges, we may not know the level of those charges until the relevant systems to facilitate the SSP have been built and/or are close to their implementation. In the meantime, parties reasonably want to understand and plan for their exposure to these charges.

A methodology has therefore been developed which seeks to determine the maximum contribution, per supply point, that IGTs will be required to make to the costs of operating the SSP (development costs having been accounted for within the UNC modification proposals). This figure is derived from Xoserve's actual costs of providing comparable services via its existing systems. As the GDNs currently receive an allowance for Xoserve's costs, they will be reflected in the GDN transportation charges and will in turn contribute to the equivalent IGT allowance under RPC. The methodology, as set out in further detail in Annex 2, therefore seeks to ensure a level playing field for GTs, IGTs and shippers, as far as practicable in advance of the actual Agency costs of SSP being known.

For those sites that pre-date the introduction on RPC in 2004 (legacy sites⁷), IGTs continue to charge under the legacy arrangements until they migrate to the RPC, though these are relatively few in number. We consider that the additional complexity involved in developing a separate funding methodology would be disproportionate to the effect it would have on the allocation of costs. We therefore propose that there will be a single methodology applicable to both RPC and legacy sites. This has been reflected in **paragraph 7** of the proposed licence modification.

⁵ See: www.ofgem.gov.uk/ofgem-publications/48892/rpc-guidance-may-consultation-final29.05.13.pdf

⁶ Consistent with the Authority's duty under the Gas Act 1986.

⁷ This term, as defined Special Condition 1 (3) of the IGT Licence, covers those sites which were connected or agreed to be connected before 1 January 2004.

User Pays

We have not incorporated into the proposed licence condition those elements of SSC A15 covering *User Pays* funding, which relate to the recovery of costs to the Agency of providing certain non-core services that are not otherwise funded through price controlled revenue. These provisions are not directly relevant to the IGTs.

Whilst we accept that the Agency may in future be required to provide additional non-core services that are equally applicable to GT and IGT connected supply points, there is a short period between the anticipated implementation dates of Project Nexus (1 October 2015) and the introduction of the new funding arrangements following the Xoserve FGO review (April 2016⁸). We therefore do not anticipate any significant modification to the SSP activities in this interim period, but can revisit this if the need arises.

UNC modification proposals: our current thinking

Having considered UNC440 and UNC467 against the relevant objectives of the UNC and with regard to our own statutory duties, we are minded to accept those proposals. Our reasons are set out in Annex 3.

However, we are mindful that respondents to the earlier UNC consultations, the first of which concluded in March 2014, did not have the benefit of being able to consider the proposed SSP framework in its entirety. We also note that whilst the IGTs are able to submit responses to Joint Office consultations on UNC modification proposals, only one has done so. That respondent provided qualified support to UNC440, raising a concern that the costs of the SSP were not known. Furthermore, although UNC467 seeks to place new obligations upon the IGTs with respect to the transfer of data, there were no IGT respondents to the consultation on that proposal.

Should the IGT UNC Panel issue IGT039 for consultation later this month as expected, this will allow all of the component parts of the SSP framework, including our own proposal to modify the GT licence, to be considered holistically for the first time.

Given the above, and our intention to await the outcome of the statutory consultation before issuing any decision, we consider it is appropriate to also invite views on our current thinking in respect of the UNC modification proposals. This will provide an opportunity for respondents to consider all of the related proposals together, and revise any earlier views they provided, if appropriate.

Next steps

Both the proposed licence modification and accompanying IGT contribution methodology have been circulated to IGTs for comment via the Association of IGTs and we are grateful to the AIGT for its input.

Responses to this consultation should be sent to on or before **9 January 2015** to Jon Dixon at: jonathan.dixon@ofgem.gov.uk. We will publish consultation responses on our website. Please mark your response as confidential if you do not want it to be published.

Yours faithfully,

Rob Church

Partner, Retail Markets

Signed on behalf of the Authority and authorised for that purpose

⁸ See: www.gasgovernance.co.uk/sites/default/files/FGO%20Review%20PME%20FINAL%2020140616.pdf

Annex 1: Statutory consultation on modifications to the Gas Transporters Licence

NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority ("the Authority") hereby gives notice pursuant to section 23(2) of the Gas Act 1986 ("the Act") as follows:

1. The Authority proposes to modify all gas transporter licences granted or treated as granted under section 7 of the Act by inserting a new Standard Condition 11 (Agency) as set out in the Schedule. This condition will apply only to those relevant licensees, being the independent Gas Transporters, for whom Standard Condition 9 (Network Code and Uniform Network Code) is in effect.
2. The reason the Authority proposes to make this licence modification is to improve efficiency and standards of service in the provision of supply point administration arrangements such as the customer switching process, which underpin the competitive gas market. Further detail is set out in our letter *"Project Nexus: statutory consultation on licence modifications and further consultation on industry code modifications to introduce IGT Single Service Provision"* published 4 December 2014.
3. The effect of the proposed modification is to require that the Independent Gas Transporters procure certain services and systems through a common Agent, and to set out the methodology for determining the maximum contribution each licensee shall make to the funding of such an Agent.
4. This modification does not affect the operation of the Relative Price Control, where applicable to each relevant licensee, under Standard Special Condition 1 (Charging of Gas Shippers – Relative Price Control) of their licence.
5. A copy of the proposed modifications and all other documents referred to in this notice are available on the Ofgem website: www.ofgem.gov.uk
6. Any representations on the proposed licence modifications may be made on or before 9 January 2015 to:

Jon Dixon, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE

or by email to jonathan.dixon@ofgem.gov.uk
7. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
8. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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Rob Church

Partner, Retail Markets

Duly authorised on behalf of the Gas and Electricity Markets Authority

4 December 2014

Schedule

Standard Condition 11: 'Agency'

1. This Standard Condition 11 (Agency) applies to all relevant licensees.
2. The relevant licensee shall, together with the other relevant gas transporters, by the 1 October 2015 (unless the Authority consents otherwise in writing), have entered into an agency services agreement ("**AS agreement**") with the other relevant gas transporters providing for the common provision of services and systems by the agency (as defined in paragraph 4 below) of such services and systems, the scope of which are set out within the uniform network code.
3. The relevant licensee shall, together with other relevant gas transporters procure, or cause to be procured:
 - (a) that the Authority is provided with a copy of the AS agreement and each amendment thereof; and
 - (b) the publication of the AS agreement as modified from time to time, with the exception of any information agreed in writing as being confidential by the Authority.
4. Where services and systems are sub-contracted to a common service provider (the "**agency**") by all relevant gas transporters including the relevant licensee (unless the Authority has otherwise consented pursuant to paragraph 6), the scope of such sub-contracting arrangements (except in respect of the methodology) shall be set out in the uniform network code, and the agency and the agreement referenced in paragraph 1 shall, without limitation, be based on the following principles:
 - (a) such services and systems shall be established, operated and developed on an economic and efficient basis;
 - (b) the costs of the agency shall be determined on an activity cost basis such that the services and systems costs associated with each activity, as set out within the uniform network code as being within the scope of the agency, are separately assessed and reported; and
 - (c) the costs of the agency shall be allocated on a transparent basis.
5. Where services and systems are to be provided pursuant to the uniform network code by the agency, the relevant licensee shall, together with other relevant gas transporters, ensure that all such services and systems are provided or otherwise procured (including without limitation on a sub contracted basis) on a common basis pursuant to the AS agreement.
6. In respect of the services and systems to be provided by the agency under paragraphs 3 and 4 of this condition, the relevant licensee shall be under an obligation to use or procure the use of such services and systems from the agency and shall not elect either expressly or by its conduct not to use nor to procure the use of the agency as the provider of such services and systems without the prior written consent of the Authority, as may be provided under Standard Condition 9 (Network Code and Uniform Network Code).

Agency Services Funding

7. For each relevant year, the relevant licensee will contribute no more than the amount determined to have been allowed under Special Condition 1 (Charging of Gas Shippers – Relative Price Control) for the activities to be carried out by the agency as may be set out in **“the methodology”**. Such contribution will be made for each supply point connected to the relevant licensee’s pipe-line system regardless of whether the supply point is subject to charging arrangements under Special Condition 1 (Charging of Gas Shippers – Relative Price Control) or otherwise.
8. Notwithstanding the provisions of paragraph 7, the relevant licensee’s contribution for each connected supply point shall be the lesser of;
 - a) the amount determined by the methodology; and
 - b) the relevant charge set out in a charging statement produced by the agency, as may be revised from time to time.
9. In this condition:

“methodology”	means, for the purposes of this condition, the methodology, titled “iGT Agency Services: iGT contribution methodology”, as may be published from time to time by the Authority, for the purposes of determining the relevant licensee’s contribution for agency services.
“relevant licensee”	means, for the purposes of this condition, a licensee to whom Standard Condition 9 (Network Code and Uniform Network Code) is in effect.
“relevant year”	means, for the purposes of this condition, a year beginning on 1 April of each calendar year and ending on 31 March of the following calendar year.

Annex 2

IGT Agency Services: IGT contribution methodology

1. Introduction

- 1.1 This document is produced pursuant to Standard Condition 11 (Agency) of the Gas Transporters licence.
- 1.2 The purpose of the methodology is to determine the maximum contribution to the operating costs of the agency services constituting the IGT Single Service Provision.
- 1.3 This document does not seek to establish the level of the Agency's operating costs, which are not currently known but will be set out in due course in the Agency Charging Statement. It is expected that the relevant operating costs of 'Project Nexus' systems will be lower than those of the systems that they replace and that the Agency charges will therefore be lower than the maximum contribution determined by this methodology. However, in the event that Agency costs are higher than the methodology provides for, the residual costs will be recovered from gas shippers by the Agent, via User Pays charges.
- 1.4 The contribution of each IGT will be determined on the basis of connected supply points and will be lesser of:
 - a) the amount determined by this methodology; and
 - b) the relevant charge set out in the Agency Charging Statement

2. Methodology

- 2.1 The purpose of this methodology is to determine the appropriate contribution from IGTs to the costs of those Agency services set out in the AS agreement¹ pursuant to Standard Condition 11 of the Gas Transporters licence.
- 2.2 IGTs currently provide certain services to gas shippers in accordance with the terms of the GT licence and the IGT UNC. IGTs are subject to a Relative Price Control (RPC)², which regulates IGT transportation charges at a level broadly consistent with the GDN equivalent charge. Therefore, regardless of the cost to each IGT of providing the obligated services, they will be entitled to recover revenue only at a level that is broadly equivalent to that of a GDN, for each connected supply point.
- 2.3 Upon the implementation of IGT Single Service Provision, many of the supply point administration services currently carried out by each IGT will instead be provided by the Agency.
- 2.4 There is no requirement under RPC for the IGTs to report costs for the provision of supply point administration services. However, information provided to Ofgem by

¹ Also known as and referred to in IGT039 as the "iASA"

² Pursuant to Special Condition 1 (*Charging of Gas Shippers – Relative Price Control*)

the IGT039³ working group demonstrated that there are substantial differences in each IGTs cost structure, and as such it was not possible to determine a robust generic cost to IGTs of providing these services.

Methodology objectives

- 2.5 Given the above and in the absence of change to the RPC arrangements and/or conclusions of the Xoserve Funding, Governance and Ownership review, the objectives of the contribution methodology are as follows:
- a) avoid a double recovery of Agency costs – ensure IGTs do not retain revenue for services they no longer provide;
 - b) ensure that the IGTs are able to finance their regulated activities⁴;
 - c) avoid a cross-subsidy between the GDNs and the IGTs.
- 2.6 A revenue neutral approach, basing the IGT contribution to Agency costs upon the level of revenue they currently receive for providing those services themselves, will meet these objectives. It will also ensure that to the extent there is any residual cost to be recovered directly from shippers this will be at a uniform level regardless of the historic costs of the IGT network to which the supply point is connected.
- 2.7 The methodology therefore seeks to establish how much of the RPC allowed revenue relates to those services which will in future be provided by the Agency and use that as the basis for the IGTs maximum contribution.
- 2.8 This approach requires no change to the existing RPC arrangements.

3. Agency costs

- 3.1 Whilst the Agency is not directly regulated by the Authority, its costs form part of the GDN (and NTS) price control allowance. They are therefore submitted to the Authority as part of the GDNs price control submissions.
- 3.2 The Agency has submitted to the Authority its actual costs for the financial years 2012/13. Of those, the cost of service lines which most closely match those of the AS agreement was **£5,536,000**. Those service lines were as follows:

High Level Core Service Line	Service Line
1A – Provide and maintain a supply point register	Manage supply point register
	Provide query management
	Record and submit data
2 – Provision of services in relation to obligations under the GT licence	Provision of supply point information services and other services required to be provided under the GT licence

³ IGT UNC modification proposal 039:

⁴ Consistent with the Authority's duty under the Gas Act 1986

- 3.3 Services that are currently provided by the Agency under User Pays arrangements are excluded from this assessment as they are already directly funded by users of the services (generally, shippers).
- 3.4 The IGT Agency services are scheduled to commence 1 October 2015. The relevant Agency costs have therefore been adjusted for inflation (at a rate of 3% p.a.), to **£6,049,337**. In order to ensure that there is no cross-subsidy, these costs will be allocated on an equal basis across all supply points which receive those services, regardless of whether they are connected to an IGT or a GDN.

Supply point growth

- 3.5 Growth in IGT supply points has averaged 8,000 per month over the previous 2 years and this is expected to continue. The population of Supply Points connected to Gas Distribution Networks is currently around 21.8m. Based on current rate of growth, IGT connections are expected to number around 1.8m by April 2016. For the purposes of this methodology the aggregate number of Supply Points has therefore been estimated at 23.6m by 1 April 2016.
- 3.6 The contribution methodology is therefore:

$$\frac{\text{Relevant Agency costs} * \text{Inflation}}{\text{Aggregate connected Supply Points}}$$

4. Contribution

- 4.1 Using the methodology set out above, the projected 2015/16 maximum contribution per supply point will be as follows:

$$\frac{£5,536,000 * 1.092727}{23,600,000^5} = £0.2563 \text{ p.a.}$$

5. Revision to the methodology

- 5.1 This methodology will be reviewed no later than 6 months after the implementation of Project Nexus (schedule for 1 October 2015), or upon the conclusion of the Xoserve Funding, Governance and Ownership review, whichever is sooner.
- 5.2 If, following such a review, this methodology remains relevant it may be amended at the request of one or more IGT and with the consent of the Authority, following such consultation as it considers appropriate.
- 5.3 If the methodology remains relevant and in the absence of any applicable request for amendment, the contribution determined under Paragraph 4 shall be revised in line with the annually adjusted RPC transportation charge.

⁵ Projected total of 23.6m supply points

Annex 3: Provisional view on UNC modifications

UNC440: Project Nexus – Independent Gas Transporters (iGT) Single Service Provision

Project Nexus aims to ensure that the rebuild of UK Link systems and associated data processes that underpin much of the competitive gas market meet the current and anticipated business requirements of participants in that market.

UNC440 seeks to incorporate the independent GTs, which currently sit outside of the UK Link framework, into the replacement systems. This Single Service Provision (SSP) will introduce efficiencies for both the iGTs and the Shippers, who often must duplicate their efforts when dealing with differing arrangements between networks.

Integration of the iGT connected supply points within the replacement systems will allow them to benefit from the reforms to settlement arrangements introduced via other Project Nexus modifications. For instance, all supply points would be capable of being reconciled on a daily basis if the shipper so chooses.

A new document will be inserted into the UNC to govern the relationship between the GTs and the iGTs. The 'iGT Arrangements Document' would replace the existing LDZ CSEP NExA¹, and bring the governance arrangements between GTs and iGTs more into line with the inter-GT governance of the Off-take Arrangement Document, which also forms part of the UNC.

As iGTs would become party to the UNC, representation will be provided through the modification rules and a dedicated seat on the UNC Panel. A further UNC Panel seat will also be created for a shipper in order to maintain the current balance of representation.

UNC Panel² recommendation

At its meeting of 17 April 2014 the UNC Panel voted unanimously to recommend the implementation of UNC440. The Panel considered that UNC440 would better facilitate relevant objectives d) and f) of the UNC.

Our view

We note that responses to the Joint Office's consultation on UNC440 were overwhelmingly in support of its implementation, with fourteen of the sixteen responses received offering full support and the remaining two offering qualified support.

NG NTS raised concerns about the lack of clarity over the changes required to Gemini³ and associated funding, together with concerns at the implementation timescale. We considered the funding issues as part of our decisions on UNC432 and UNC434 and do not repeat them here. We understand that subsequent to the UNC440 consultation, concerns over the potential impacts on Gemini have largely subsided as Xoserve confirms that both the changes to Gemini that are a consequent of Project Nexus and

¹ A Connected System Exit Point (CSEP) is a point where gas may flow out of the relevant Gas Transporters (GTs) system, typically from a Local Distribution Zone (LDZ) into the network of an Independent GT (iGT). Whilst the relationship between the GT and each gas shipper is governed by the relevant Network Code, the relationship between the upstream GT and an iGT is currently managed through a separate document known as the CSEP Network Exit Agreement (NExA).

² The UNC Panel is established and constituted from time to time pursuant to and in accordance with the UNC Modification Rules.

³ Gemini is the IT system through which energy balancing and system entry and exit capacity booking activities are undertaken.

those required in order to discharge European Network Code obligations are on schedule⁴.

The other respondent to offer qualified support, an iGT, was concerned that the costs to it of adopting the SSP were not known. We consider that we have addressed those concerns as far as practicable. Whilst Xoserve's final costs and therefore its cost-reflective charge for SSP services are not yet known, we have sought to establish a methodology for determining the maximum costs that an IGT will face. This is referenced in the proposed SC 11 and appended to this letter. The methodology seeks to ensure that the IGTs contribute no more than they are themselves entitled to receive for equivalent services under the RPC arrangements.

UNC440 represents one of the key elements of the Project Nexus proposals, the integration of iGT supply points under a common service provision. In keeping with normal modification procedures, Xoserve has provided an individual costs estimate for each proposal, with UNC440 estimated to costs in the region of £4m-£8m if implemented on a standalone basis. However, the intention is to deliver all of the Project Nexus modifications as an integral package, the aggregate costs of which are expected to be in the region of £20m.

Set against these costs, the FMR suggest that there would be direct one off savings of £2m-£3.7m, followed by **annual benefits in the region of £5.5m-£6.9m**. These figures were based on a shipper submissions to a draft cost-benefit assessment conducted by Xoserve in late 2013 and subsequently approved at both the UNC440 and iGT039 working groups. Therefore, whilst there may be some optimism bias in these figures, even assuming a large margin of error they comfortably outweigh the expected costs.

Further, we note that the SSP will allow all supply points to utilise any of the four gas settlement products introduced by UNC432. The quantitative benefits of UNC432 was assessed to be in the region of £2.9m per year, to GDN connected supply points alone. Assuming equivalent benefits could be realised for the circa 1.6m IGT connected supply points, this would be around £200k per annum of further benefit.

Perhaps more importantly than the costs savings, we consider that the introduction of a common Agency will ensure that all consumers achieve the same standards of service around functions such a switching, and reduce barriers to entry for new entrants wishing to service IGT connected consumers. Both of these can be expected to improve competition and deliver significant benefits for those IGT connected consumers.

Given the above, our current view is that the implementation of UNC440 would further relevant objective d). **We are therefore minded to accept UNC440.**

UNC467: Project Nexus - iGT Single Service Provision; data preparation

UNC467 seeks to obligate iGTs to participate in a data preparation exercise that will facilitate the implementation of the SSP regime proposed by UNC440. This will include the resolution of any missing or inaccurate data wherever possible. In order to achieve this, bespoke systems will be built to handle the transition and cleansing of iGT data. The costs expected to be incurred by Xoserve are in the range of £400,000-£650,000. The implementation of UNC467 would also allow Xoserve to recover these costs from the relevant Users as a non-code User Pays service. Charges will be allocated on the basis of each shipper's market share of iGT connected supply points.

UNC Panel recommendation

⁴ www.gasgovernance.co.uk/sites/default/files/COB%20Dashboard%20November.ppt

The UNC Panel considered UNC467 at its meeting of 21 August 2014 and unanimously recommended that it be implemented. The Panel considered that UNC467 would better facilitate relevant objective d).

Our view

We note that all eight of the responses to the Joint Office's consultation supported the implemented of UNC467. A common theme was the need to cleanse and prepare data ahead of the anticipated implementation of UNC440.

We agree that the preparation and cleansing of data currently held by several different iGTs will be crucial to the effective integration of iGT connected supply points under a common service provision.

We note that work on all aspects of Project Nexus, including the development of the iGT SSP has continued in anticipation of these modification proposals being accepted. We welcome the commitment of industry parties, including the iGTs, to deliver Project Nexus. We would therefore anticipate that even in the absence of the proposed CSEP NExA obligation set out in UNC467, the iGTs will continue to demonstrate this commitment and cooperate with the submission of data. However, we agree that codifying this commitment will provide greater certainty to all stakeholders.

We also acknowledge that the cleansing and migration of data outwith that already held by Xoserve has not been necessitated by the replacement of UK Link systems. Further, whilst the integration of iGT supply point administration services is a core part of the added value that Project Nexus has sought to gain from the replacement of UK Link systems, this did not necessarily require the responsibility and associated costs for the preparation and cleansing of iGT data to fall to Xoserve.

However, we agree that this appears to be an efficient way of handling the migration and that it will mitigate future data discrepancies that would otherwise need to be addressed by Users, at potentially greater cost. Therefore, whilst the UK Link replacement and associated Project Nexus UNC modifications have been fully funded, we consider it reasonable for the costs of this preparation exercise and associated transitional systems, which are technically outwith the UNC arrangements, to be recovered directly from relevant users as a non-code User Pays service

Given the above, our current view is that the implementation of UNC467 would further relevant objective d). **We are therefore minded to accept UNC467.**