

Secretary of State, Gas  
Transporters, independent Gas  
Transporters, Gas Shippers,  
consumer representatives and  
other interested parties

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Date: 14 January 2015

Dear colleague,

**Project Nexus: Final Decision under Section 23(1) of the Gas Act 1986 to modify the Standard Conditions of the Gas Transporters Licence**

Further to the notice<sup>1</sup> dated 4 December 2014 (the Notice) in relation to the introduction of a common Agency, this letter sets out our decision to direct the modification of standard licence condition 11 (Agency) (previously not used) of the Gas Transporters (GT) Licence, attached as Appendix 1, required to implement our policy. The licence modification will come into effect on 12 March 2015.

**Background**

The UK Link central IT system(s) enables the exchange of information between Gas Shippers and the larger GTs which are, or were formerly, part of National Grid PLC. This therefore excludes the independent GTs (iGTs). UK Link is scheduled to be replaced in October 2015, presenting an opportunity to extend the scope of services provided by central systems to incorporate for the first time those supply points connected to iGT networks.

Whilst necessary changes have been progressed to both the GT and iGT network codes in order to facilitate the introduction of a common Agency to provide specified supply point administration services, we consider that it would be appropriate to commit the incumbent iGTs and any future market entrants to use those services.

The Notice therefore proposed to modify standard condition 11, which was previously not used, to introduce obligations in respect of a common Agency. This would bring the licence conditions of the iGTs into line with those which already exist for the larger Gas Transporters.

**Responses received**

We have considered the nine responses to our statutory Notice, all of which supported the licence modification, including those received from the relevant licensees, being the iGTs. None of the responses were marked as confidential. All responses have been published on the Ofgem website.<sup>2</sup>

There were few substantive comments on the detail of the drafting. However, both of the iGTs who responded noted the obligation to ensure that the Agency services are

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<sup>1</sup> [www.ofgem.gov.uk/publications-and-updates/statutory-consultation-licence-modifications-and-further-consultation-unc-modifications-introduce-igt-single-service-provision](http://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-licence-modifications-and-further-consultation-unc-modifications-introduce-igt-single-service-provision)

<sup>2</sup> See link above

established, operated and developed on an economic and efficient basis. They each suggested that their ability to discharge this obligation is limited as the appointment of Xoserve as the GT Agency and its subsequent operating costs are outside of their control

We have some sympathy with these views. Indeed, we noted in the Notice that 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 (FGO review)<sup>3</sup>. However, we consider that it would be appropriate to retain consistency with standard special condition (SSC) A15 (Agency) of the GT licence, bringing the iGTs into line with the other GTs.

Going forward, we would expect iGTs to play their part in ensuring that the Agency develops on an economic and efficient basis, particularly upon implementation of the FGO review's conclusions. In the meantime, we acknowledge that the development of the Agency services to date, including those supply point administration services within scope of standard condition 11, have been the responsibility of the GTs. This position is likely to hold true until the implementation of any conclusions of the FGO review or the scope of Agency services is changed through a future modification. In the latter case, the relative efficiency of the modification would be assessed at that time.

One respondent also requested some further clarity around the definition of *supply point* as referred to in paragraph 7 of the licence drafting. In particular, they suggested that supply points should only be counted for charging purposes where there is a registered Gas Shipper and a meter installed.

Both the Uniform Network Code (UNC) and the iGT UNC define a supply point as being a *supply meter point*<sup>4</sup> which is registered to a gas shipper or subject to a proposed registration.<sup>5</sup> We consider that this is an appropriate definition. We do not consider that the existence or otherwise of a meter is a relevant consideration in the application of supply point administration activities provided by the GT and/or its Agent. We have therefore not made any change to the licence drafting.

One respondent noted that the reference to "paragraphs 3 and 4" should instead read "paragraphs 4 and 5". We agree and have made this change. We have also taken the opportunity to address a number of typographical errors, reinserting a numbers of missing spaces in the drafting.

## Next Steps

The wording of the final licence drafting can be found at Appendix 1. This modification will come into effect on 12 March 2014.<sup>6</sup>

Yours faithfully,

**Rob Church**

**Partner, Retail Markets**

Signed on behalf of the Authority and authorised for that purpose

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<sup>3</sup> In October 2013 we set out 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](http://www.gasgovernance.co.uk/fgo)

<sup>4</sup> Itself defined in UNC J6.5.7 and iGT UNC CI 1.1 as being in a point at which gas may be offtaken from the pipeline.

<sup>5</sup> UNC clause G 1.1.1(a) and iGT UNC CI 1.1 respectively.

<sup>6</sup> Subject to appeal. Application to the Competition and Markets Authority for permission to appeal must be made within 20 working days of the day after the date of this decision.