

8th January 2015

By email only

Jonathan Dixon
Ofgem
9 Millbank
London
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Dear Jon

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

Brookfield Utilities UK ("BUUK") welcomes the opportunity to respond to the consultation on the licence modifications to implement agency services for Independent Gas Transporters (IGTs), along with the accompanying funding methodology. BUUK is the parent company of the Independent Gas Transporter licensees GTC Pipelines Limited ("GPL"), Independent Pipelines Limited ("IPL") and Quadrant Pipelines ("QPL").

In summary BUUK:

- Supports the principles outlined in the licence drafting to implement agency services for IGTs.
- Is supportive of the methodology and its content which is referenced within the licence to underpin agency services funding.
- Is supportive of both UNC0440 and UNC0467.

Our full response can be found in appendix 1.

BUUK fully supports the work to extend the scope of services provided by replacement systems for UK Link so that they incorporate supply points connected to IGT networks. With the replacement of the GDN UK Link system under project Nexus, an ideal opportunity has been presented to bring IGT supply points under the management of Xoserve as the current agency of the GDNs. Previously, development of arrangements for Single Service Provision has been prohibitive due to the limitations of the UK Link system and the prohibitively high costs that would have been imposed on IGTs to modify such systems.

BUUK (through its licensed entities) has committed significant effort to developing necessary changes to facilitate developments for Single Service Provision. This has included:

- Chairing the IGT UNC development group for IGT039 since its first meeting in October 2011 to establish a regulatory framework for IGT agency services and to introduce IGT agency services under the IGT Uniform Network Code ("IGT UNC"). This has required substantial redrafting of the IGT UNC. The development group concluded its work in December 2014 with IGT039 (at the date of this letter) being the subject of consultation under the IGT UNC change process.
- Developing the IGT Arrangements Document under UNC0440 as well as the wider drafting changes to TPD of the UNC.
- Providing input for the development of the licence and methodology via the Association of Independent Gas Transporters ("AIGT").
- Supporting the development of the IGT Agency Services Agreement as well as working with the Xoserve to assist in data preparation activities and the base lining of data flows.

BUUK recognises the significant work that has been carried out since 2011 and is appreciative of the collaborative manner in which this has been undertaken. There still remains a significant amount of systems' development work and contractual arrangements to be completed between now and October 2015.

BUUK remains committed to supporting the industry in driving the agency services project forwards to a successful and timely completion. BUUK is of the view that the success of agency services should not only be measured in terms of a timely and on budget delivery of agency services but also that the 1.7 million¹ IGT customers should see the benefit of the quoted £5.5m-£6.9m annual saving to Gas Shippers.

Should you wish to discuss any of the comments raised in this response, we would be happy to discuss these further.

Yours sincerely

Michael Harding
Head of Regulation

¹ Estimated number of customers at October 2015

Appendix 1

For ease of reading we have split our response into 4 sections as follows:

- IGT Agency Services Licence Consultation
- Agency Services Methodology Comments
- UNC 0440 Comments
- UNC 0467 Comments

IGT Agency Services Licence Consultation

BUUK supports the introduction of a licence condition for IGTs to use agency services. We are supportive of such an approach when compared to the sole use of setting out the requirement under network code due to the importance of the change and ensures that any future amendments to these requirements are subject to an Ofgem led statutory consultation. We also believe it is important for such requirement to be enshrined at licence level to make it clear for any future market entrants that agency services are a core requirement for the granting of a transporter licence.

Paragraph 4 of the proposed SLC 11 places obligations on all gas transporters, including IGTs, in respect of the economic and efficient operation of the service provider and on the determination and allocation of agency costs. We think that under current industry arrangements, we may not have the appropriate information to comply with the obligations placed on it as a licensee. We have some concerns around how this obligation sits in IGT licences. This is for the following reasons:

- Xoserve is a wholly owned subsidiary of the GDN licensees and set up by GDNs to provide the services described under SLC11 (or A15 of the GDN licence). IGTs have not been engaged nor had any powers in respect of appointing Xoserve as the agency, nor in the setting of the scope of the sub-contracting arrangements for the systems and services provided. IGTs also have little or no say in the operating cost of Xoserve for them to ascertain or enforce.
- We are not aware of any benchmarking or tendering exercises undertaken by GDNs or Ofgem to demonstrate that Xoserve operates at the economic and efficient frontier. We think that IGTs may not have sufficient information or vires to validate or enforce compliance with SLC 11.4 in respect of the provision of the systems and services described. We can only presume that given the costs associated with the provision of Xoserve feed directly into the GDN price control agreed between Ofgem and GDNs, Ofgem are satisfied that the provision of the services are compliant the proposed SLC 11.4.

Ofgem appears to acknowledge the "...limited extent to which IGTs will be able to exert influence". We agree that it may be possible to back off licence obligations in the Agency Service agreement developed under the Funding, Governance and Ownership (FGO) review of Xoserve (expected to conclude approximately 6 months after agency services are implemented). However given that the FGO review is unlikely to change the ownership of Xoserve, IGTs may have limited scope to shape the agency costs. We therefore have concerns that in the instance a shipper challenges agency costs and such costs are found

not to be economic or efficient, this would put IGTs in breach of their licence based on a situation which they have no control over.

In terms of the licence drafting itself, we have provided the below table with suggested amendments to address typographical errors:

Paragraph	Wording	Observation
2	systemsby	space missing between words
7	Relative Price Control)for	space missing between words
7	"the methodology".Such	space missing between words
7	orotherwise	space missing between words
9	means,for	space missing after comma
9	condition,the	space missing after comma
9	means,for	space missing after comma

Agency Services Methodology Comments

BUUK has contributed towards the development of the principles that underpin the agency services IGT contribution methodology during the IGT039 development group discussions as well as via the AIGT when reviewing the draft methodology proposal. We are appreciative of the constructive dialogue that has taken place across the industry to progress the development of the methodology to allow this consultation to take place. One of the concerns we have raised throughout this process is that, in moving to SSP, IGTs should not face the burden of additional costs which are over and above those they currently incur in operating services through their existing systems. This is particularly the case given that it is shippers and suppliers who will benefit financially from revised arrangements.

We note that the proposed methodology, and the principles that it is underpinned by, seeks to restrict charges levied to IGTs. However, we also note that this methodology will not apply once arrangements under the FGO review are implemented (expected in April 2016). Therefore, we urge that the methodologies and charges for providing agency services under FGO arrangements are confirmed at the earliest opportunity to allow both IGTs and Shippers to accurately quantify the financial impacts on their businesses.

BUUK supports the inclusion of a review of the methodology at the earlier of Project NEXUS implementation or the conclusion of the Xoserve FGO review. We believe this is particularly important given the impacts that the Xoserve FGO review is likely to bring to the agency funding arrangements which are currently unknown.

In terms of the methodology drafting itself, we have provided the below table with suggested amendments:

Paragraph	Wording	Observation
1.1	Transporters licence	Amend to "Transporter's licence"
3.1	GDNs price control	Amend to "GDNs' price control"
5.1	(schedule for 1 October 2015)	Amend to "(scheduled for 1 October 2015)"
5.2	one or more IGT	Amend to "one or more IGTs"

UNC 0440 Comments

Since the original UNC 0440 consultation, to which we provided qualified support, a great deal of progress has been made in other areas relevant to agency services which now allows for a "fuller" picture to be viewed. In particular, BUUK originally voiced concerns around the unknown costs of agency services to IGTs which did not allow BUUK to quantify the financial impacts of agency services on our licensees. The development of the methodology has now greatly allayed these concerns and BUUK is now able to provide full support for UNC 0440.

BUUK is still of the view that the modification better facilitates objective (f) *"Promotion of efficiency in the implementation and administration of the Code"* through the introduction of the IGTAD and consequent governance of IGT to GDN arrangements. We also believe that objective (d) *"Securing of effective competition between relevant Shippers and relevant Suppliers"* will be achieved on the basis that Shippers will only have to interact with one system for any meter point reference number, regardless of network. There is also the added potential benefit that efficiencies realised by Shippers (as quoted earlier in this response) should be passed through to consumers via Suppliers, enabling a more competitive environment.

UNC 0467 Comments

We note that neither the BUUK licensees nor any other IGT responded to the original UNC 0467 consultation. We are able to confirm that we are supportive of the proposal as though IGTs, GDNs and Xoserve have been working closely for some time, the proposal enshrines the requirement under the NExA for IGTs to be fully engaged with the GDNs and their agent in the preparation of data ready for agency services go live. As such we see UNC0467 as fundamental for the success of both IGT039 and UNC0440.

BUUK is of the view that modification UNC 0467 better facilitates the following objective:

(d) *"Securing of effective competition between relevant Shippers and relevant Suppliers"* as the work to be undertaken under UNC 0467 is fundamental to the success of agency services which will in turn promote competition between relevant shippers and relevant

suppliers through the implementation of a single system for all MPRNs regardless of network resulting in cost savings and reduced barriers to entry for new potential market entrants.