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Dear Jon

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

Thank you for the opportunity to respond to Ofgem's consultation on IGT Single Service Provision ("IGT SSP"). We appreciate the steps that Ofgem is taking to close out the remaining uncertainties in the changes to the regulatory and contractual framework that underpin Project Nexus.

We set out below our observations on the proposed licence drafting, including the IGT Contribution Methodology ("the Methodology"), and on Ofgem's provisional views on the UNC Modification Proposals.

Proposed licence drafting

We support the principle that the IGTs should be required to enter into an Agency Services Agreement ("the iASA") for the common provision of IGT SSP services and systems by the Agency (Paragraph 2), to ensure that such services and systems are established, operated and developed on an economic and efficient basis (Paragraph 4(a)), and to ensure that they are provided on a common basis (Paragraph 5).

We note the proposed requirements of Paragraphs 4(b) and (c) that the Agency's services and systems costs should be determined on an activity cost basis, should be capable of being separately assessed and reported, and should be allocated on a transparent basis. We agree that it is appropriate for these requirements to be consistent with those included in Standard Special Condition A15 of the principal Gas Transporter Licence. We would expect to be responsible for giving practical effect to these requirements, recognising that amendment will be required to our Agency Services activity cost model, that the iASA will require the inclusion of a Charging Methodology, and that, to the extent that there are any residual costs to be recovered directly from Shippers, there will be a requirement for amendment to the Agency Charging Statement.

IGT Contribution Methodology

We note that the Methodology refers at Paragraphs 1.3 and 1.4 to the Agency Charging Statement ("the ACS"). To the extent that Agency costs are recoverable from the IGTs, we would expect these to be set out in the iASA Charging Methodology and Pricing Statement, with the ACS setting out the non-Code User Pays costs recoverable from Gas Shippers.

With regard to the relevant Agency costs included in the calculation of the projected 2015/16 maximum contribution per IGT Supply Point as set out in Paragraphs 3 and 4 of the Methodology:

- a) We acknowledge the concerns expressed in the consultation letter that Xoserve has not provided an indicative cost-reflective charge. We consider that historical cost information relating to the provision of equivalent services for GT Supply Points is a suitable proxy, and we are committed to providing indicative forward costs as we obtain greater clarity and understanding of support costs associated with the replacement UK Link system;
- b) The 2012/13 actual costs of £5.536m are exclusive of any Xoserve margin. Negotiations are ongoing regarding iASA terms and conditions, although it is our intention that we should have common commercial arrangements across all Xoserve contracts with Network customers;
- c) There would be upward pressure on the relevant Agency costs in the event that it proved necessary to introduce exception management processes for Annual Quantities calculated under the Project Nexus gas settlement rules; and
- d) There is a risk that, at a time of falling headline inflation, the application of a fixed 3% inflation rate for three years may overstate the relevant Agency costs.

There is a risk that the outworking of the Conclusions of Ofgem's review of Xoserve Funding, Governance and Ownership may cause the duration of the proposed interim period for funding arrangements to extend beyond the currently envisaged six months. Whilst the proposed arrangements would appear to be sufficiently robust for an extended interim period if required, we agree that the proposal to review the Methodology no later than six months after IGT SSP 'go live' would be appropriate.

UNC Modification Proposals

Given that the IGT SSP arrangements are an integral part of 'to-be' business processes and our new system design, we welcome the announcement that Ofgem is minded to accept UNC Modification Proposals 440 and 467 for the introduction of IGT SSP arrangements and the associated data preparation.

We are happy for you to publish this letter. If you would like to discuss further any of the points raised, please contact Martin Baker, External Affairs Manager on 0121 623 2692 or e-mail martin.baker@xoserve.com.

Yours sincerely

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