

Modification proposal:	Independent Gas Transporter Uniform Network Code (IGT UNC): Use of a Single Gas Transporter Agency for the common services and systems and processes required by the IGT UNC (IGT039)		
Decision:	The Authority ¹ directs ² that this modification be made		
Target audience:	IGT UNC Panel, Parties to the IGT UNC and other interested parties		
Date of publication:	11 March 2015	Implementation date:	1 October 2015

Background

Independent Gas Transporters (IGTs) operate independently from the regional monopoly Gas Distribution Networks (GDNs) and compete with them to provide connections. Both the Gas Transporters (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 Uniform Network Code (UNC) and the IGT UNC respectively. 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. This causes additional cost and inefficiencies for those shippers who operate across the different 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.

On 14 January 2015 the Authority directed a modification to the Standard Conditions of the GT licence.³ The effect of the modification is to require that the IGTs procure certain services and systems through a common Agent, bringing them into line with the existing such obligation upon the other GTs. The licence modification also gives effect to a methodology for determining the maximum contribution each licensee shall make to the funding of the Agent.

We also directed the implementation of UNC440⁴ and UNC467⁵. UNC440 established within the UNC the concept of Single Service Provision (SSP), bringing IGT connected supply points into the scope of the supply point administration services provided by the GT Agency. The incorporation of IGTs into central systems forms part of Project Nexus, under which existing UK Link⁶ systems are scheduled to be replaced on 1 October 2015.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work. This decision is made by or on behalf of GEMA.

² This document is notice of the reasons for this decision as required by section 38A of the Gas Act 1986.

³ www.ofgem.gov.uk/ofgem-publications/92454/projectnexusletterfinal.pdf

⁴ UNC440: 'Project Nexus – IGT Single Service Provision' – www.gasgovernance.co.uk/0440

⁵ UNC467: Project Nexus – IGT Single Service Provision data preparation' – www.gasgovernance.co.uk/0467 '

⁶ 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).

The modification proposal

IGT039 is complementary to UNC440. It seeks to replace those sections of the IGT UNC which relate to services that will no longer be provided by each of the IGTs, and instead incorporates by reference the relevant sections of the UNC.

IGT UNC Panel⁷ recommendation

At its meeting of 18 February 2015, the IGT UNC Panel voted unanimously to recommend that IGT039 be implemented. The Panel concurred with the comments submitted as part of the consultation process that IGT039 would better facilitate the relevant objectives of the IGT UNC, particularly objectives (d) and (f).

The Panel also voted unanimously that the implementation of IGT039 should be aligned with the Project Nexus implementation date of 1 October 2015.

Our decision

We have considered the issues raised by the modification proposal and the Final Modification Report (FMR) dated 20 February 2015. We have considered and taken into account the responses to the industry consultation on the modification proposal which are published alongside the FMR.⁸ We have concluded that:

- implementation of the modification proposal will better facilitate the achievement of the relevant objectives of the IGT UNC;⁹ and
- directing that the modification be made is consistent with our principal objective and statutory duties.¹⁰

Reasons for our decision

There were seven respondents to the consultation on IGT039, all of whom supported its implementation. We agree with the respondents and the Panel, who considered that the implementation of IGT039 will better facilitate relevant objectives (d) and (f). We further consider that IGT039 will further objective (c) as set out below, and be neutral against all other objectives.

Relevant objective (c) - the efficient discharge of the licensee's obligations under this licence

We agree with the respondent who suggested that the implementation of IGT039 would facilitate the discharge of the licensees' obligations. Specifically, it facilitates new governance arrangements which would enable all relevant licensees to act in concert to procure the service of an Agency, pursuant to modified Standard Condition 11: 'Agency'. The Agent would be referred to in the IGT UNC as the *Pipeline Operator Agency*.

⁷ The IGT UNC Panel is established and constituted from time to time pursuant to and in accordance with the IGT UNC Modification Rules

⁸ IGT UNC modification proposals, modification reports and representations can be viewed on the IGT UNC website at <http://www.igt-unc.co.uk/>

⁹ As set out in Standard Condition 9 Gas Transporters Licence, available at: <http://epr.ofgem.gov.uk>

¹⁰ The Authority's statutory duties are wider than matters which the Panel must take into consideration and are detailed mainly in the Gas Act 1986.

Relevant objective (d) - the securing of effective competition between relevant shippers and between relevant suppliers

Along with the complementary UNC440, IGT039 represents a key element of the Project Nexus proposals allowing, for the first time, central systems and processes for the administration of supply points to extend to all networks. As mentioned in the IGT039 FMR, the fragmentation of such systems and processes has long been a concern for all stakeholders, leading to additional costs for shippers and suppliers, and contributing to poorer standards of service for those consumers connected to IGT networks. However, earlier attempts to address these issues have been thwarted by the expense of developing bespoke systems to deal with them. Xoserve has estimated that the cost of extending central systems to the IGTs as a standalone project would have been £4m-£8m. However, the long-scheduled replacement of UK Link systems has presented an opportunity to develop a holistic supply point administration function, at marginal cost. Indeed the development of the Project Nexus modifications has been undertaken as an integral package, and as such the actual cost of incorporating the IGTs has not been separately identified, and no additional funding for this element of the project has been sought.

In our decision to accept UNC440 we referred to the direct, one-off, savings for shippers, based upon their own estimates, of £2m-£3.7m followed by annual benefits in the region of £5.5m-£6.9m. These figures were submitted by shippers as part of a cost-benefit assessment conducted by Xoserve in late 2013 and subsequently approved at both the UNC440 and IGT039 working groups.

Given the complementary nature of UNC440 and IGT039, it would be difficult to attribute a proportion of the expected cost saving of SSP to either of the individual component modifications required to give it effect. We also recognise that the IGTs will incur costs in implementing IGT039, though the extent of these costs has not been identified. However, notwithstanding the cost to them individually, the IGTs have recognised that it will be outweighed by the substantial efficiencies of SSP. While the focus of these efficiencies has been primarily on shipper supply point activities, we would also expect IGTs' own operational costs to be reduced as the SSP relieves them of much of the administrative burden. To the extent that these cost savings will give scope for efficient shippers and suppliers to offer lower tariffs to consumers, we consider that SSP will facilitate competition.

To the extent that each IGT's requirements may differ from standard systems and processes, even if only marginally, such deviation may introduce delay in functions such as customer switching and impose additional cost on the shipper and supplier. These additional costs may be disproportionate to the marginal revenue initially gained from an IGT-connected customer, making them a less attractive acquisition for some suppliers. We therefore consider that in addition to the direct benefits to competition arising from the cost savings mentioned above, SSP would allow the same standards of service to be offered to all consumers, and reduce barriers to suppliers, particularly new market entrants, wishing to service IGT-connected consumers. We therefore consider that IGT039 would better facilitate relevant objective (d).

Relevant objective (f) - the promotion of efficiency in the implementation and administration of the IGT UNC

Since the implementation of the IGT UNC, shippers and IGTs have striven to maintain consistency with the UNC. Whilst this has been welcome, it has generally required parallel modifications to be raised to both documents. This has been an inefficient process, leading to difficulties over divergent timescales and requiring a large degree of duplicated effort on the part of shippers and Ofgem, when such modifications are submitted to us for a decision. Of greater concern is that it could lead to sub-optimal outcomes, with some stakeholders and their issues being excluded from consideration by the governance of one or other code.

UNC440 and IGT039 would together revise the governance of the relationship, not only between IGTs and the Agency, but between IGTS and GTs. Upon implementation of UNC440, the UNC will be modified to incorporate the IGTs and set out the provisions relating to SSP. The 'IGT Arrangements Document' will form part of the UNC, replacing the existing LDZ CSEP NExA¹¹. Around 20% of the current IGT UNC would be removed, and instead incorporate by reference the relevant sections of the UNC. These measures would reduce the burden upon all parties in administering and complying with the relevant governance, particularly in the event of a future modification to the supply point administration arrangements, which could now be progressed through a single holistic proposal.

We consider that the revised governance arrangements will be a significant improvement on the current situation, leading both to greater efficiency in the administration of the respective codes, but more importantly, better outcomes for consumers. We therefore agree with those respondents and the Panel who considered that the implementation of IGT039 would further relevant objective (f).

Decision notice

In accordance with Standard Condition 9 of the Gas Transporter Licence, the Authority hereby directs that modification proposal IGT039: *'Use of a Single Gas Transporter Agency for the common services and systems and processes required by the IGT UNC'* be made.

The legal text for IGT039 covers the IGT UNC in its entirety. For the avoidance of doubt, when the modified text comes into effect 1 October 2015 we would expect it to incorporate any modifications that have been approved and due to be implemented on or by that date.

Rob Church Partner, Retail Markets

Signed on behalf of the Authority and authorised for that purpose.

¹¹ 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).