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15 December 2015

Dear Mick,

Informal consultation on Standard Special Condition A15 of the Gas Transporter Licence

Thank you for the opportunity to comment on the informal consultation on Standard Special Condition A15 of the Gas Transporter Licence. This response is on behalf of both National Grid's gas distribution and gas transmission businesses and is provided on a non-confidential basis. Further observations on specific elements of the licence drafting are included within the enclosed annex and we would also draw your attention to the following points for consideration.

On-going Charging Methodology and Statement

Paragraphs 20-22 of the draft licence condition place various obligations on the Transporters with regard to the charging methodology and statement, their contents and any update to them. These obligations are continuing obligations post April 2017 where the Transporters (as a group or individually) will no longer be in control of Xoserve as the licence requires joint control with the other users of Xoserve's services. Whilst we understand the desire for Ofgem to want oversight of the charging methodology and statement, the obligation should not fall on the Transporters alone as they are not in a position to deliver it unless the obligation is amended so that it recognises that the Transporters are not in control of delivering the obligation. This could be done by the obligation being qualified by the Transporters using their reasonable endeavours to ensure the obligations are met, recognising that they do not control the CDSP.

Board Arrangements

At the Programme Overview Board on 11 December and in response to options presented on "not for private gain" models and governance arrangements, Ofgem expressed an initial preference that Xoserve Ltd should be not for private gain and the Board should encompass both CDSP and Xoserve Ltd activity. In relation to private gain, we fully support the notion that (Gas Transporter) shareholders should not receive profits nor be exposed to loss from 1 April 2017 as this is a key principle of FGO. However, Xoserve Ltd could be discouraged from taking on non CDSP services that might otherwise be of value to the energy industry without a profit incentive. We certainly would not wish to preclude the provision of

additional services and would anticipate the new Board controlling this as part of normal governance arrangements.

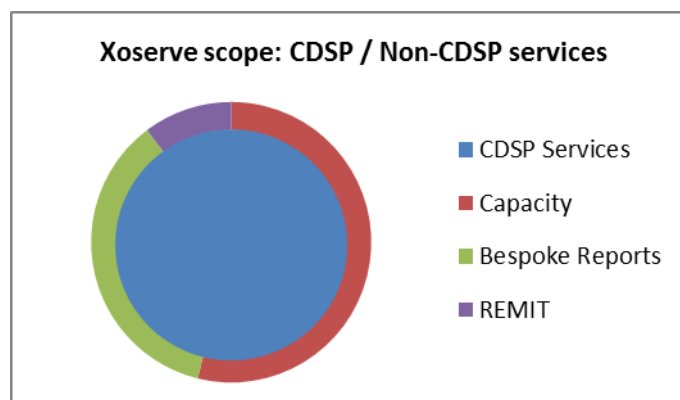
Non-CDSP Services

Whilst the draft licence condition focuses on defining the shape of the Central Data Service Provider (CDSP) and its evolution from status quo to full implementation of the FGO requirements in April 2017, we are concerned that the question of how non-CDSP services are to be managed post April 2017 remains unresolved. Specific examples of non-CDSP services include the NTS Capacity functionality (essential for the management of NGGT's revenue stream) currently operating on the Gemini Platform, the proposed REMIT reporting arrangements needed to meet ACER's requirements, and the number of bespoke reports (estimated at approximately 10% of Xoserve's current workload) which have been developed on a bilateral basis over the years to meet the competitive demands of individual members from the Shipper community.

The main benefit of the dual, yet complementary, arrangements described above lies in the additional flexibility which can be achieved, enabling "owners" of non-CDSP services to manage the detail of their contractual relationship on the basis of individual regulatory / commercial imperatives, thus promoting competition and efficiency. We have had strong industry input at FGO workgroups confirming a desire to see non-CDSP costs segregated from the CDSP budget in order to avoid issues with accountability, control and cross-subsidisation.

One solution which has been discussed for these functions is that Xoserve be allowed to continue to offer such services on a bilateral basis, outside the ring-fenced CDSP cooperative model, see Figure (please note, this diagram is intended for illustrative purposes only and no inferences should be drawn from the scales used to show individual elements of the footprint).

We see no issues with the new Board arrangements incorporating both CDSP and non-CDSP activities as both service types already sit within the scope of Xoserve's business model. Similarly, it is anticipated that the Change management of such services can be successfully carried out in parallel with the proposed CDSP Change and Contract management governance functions.



In light of the above, we feel that it would be appropriate that the licence condition acknowledge non-CDSP services and mandate that developing separate yet complementary arrangements for these is permitted.

Should you need to discuss any of the points raised in this letter or the enclosed annex, please contact Sean McGoldrick sean.mcgoldrick@nationalgrid.com or Ruth Cresswell ruth.cresswell@nationalgrid.com.

Yours sincerely,

Paul Rogers
Stakeholder Delivery Manager
By email

ANNEX
National Grid Gas plc

Comments for informal consultation on New Standard Special Condition A15A (Agency) of the Gas Transporters Licence

| Paragraph Reference | Proposed Change | Explanation |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | Insert “person as” before “central data service provider (“CDSP”)” in line one | Clarifies that a separate legal person (which would include a legal entity) is to be appointed as the CDSP |
| 2(a),(b) and (c) | Delete “minimum” | The word “minimum” confuses the drafting. The obligation contained in the licence condition are those which the Transporters must comply with |
| 6. | Amend as follows: “The licensee shall, together with the other <u>relevant</u> gas transporters which own shares in the agent that appoints the CDSP (relevant gas transporters) ¹ appoint the CDSP to provide CDSP services and systems (together referred to as “CDSP services”) and systems ² as set out <u>or referred to</u> ³ in the uniform network code (UNC) in compliance with the minimum requirements set out in Part A of this condition. This appointment shall be made and the CDSP shall be operational on the phase 1 implementation date (unless the Authority, following consultation with interested parties, consents otherwise in writing) ⁴ . | <ol style="list-style-type: none"> 1. “relevant gas transporters” is already a defined term in all the Transporters’ licences and it refers to the correct parties (NTS and the DNs). 2. “and systems” is repetitive 3. The UNC will not necessarily “set out” all the services but will may refer to them (eg SPAA) 4. This wording is already included in the definition of “phase 1 implementation date” in paragraph 3 |
| 7. (First paragraph) | Delete “1 April 2016” | This date is already included in the definition of “phase 1 implementation date” in paragraph 3 |
| 7(a). | Insert “(to the extent bound by the UNC)” after “CDSP services” | Only those companies which are a party to UNC (ie Shippers and iGTs) should be involved in the appointment of directors |
| 8. (First paragraph) | Insert “(or a separate services agreement defined in the UNC)” before “sets out from” in line 2 | There is likely to be a separate services agreement which will include part of the agreement between Xoserve and the Users and in particular we envisage this will contain the obligation to pay Xoserve (which will be necessary as it is not the intention to make Xoserve a party to the UNC). The UNC will need to define this services agreement. |
| 8(a)(ii) | Delete “and systems (together referred to as “CDSP services”)” | This is a repeat of the definition in paragraph 6 |
| 8(b) | Replace “circumstances” with “grounds” | For consistency with paragraph 15 |
| 10(b) | Amend as follows: “be a company the <u>primary</u> purpose of which is to primarily provide the CDSP services <u>and other services (whether or not such services are set out in the UNC) to its users and the purpose of which is not to without</u> returning a profit | Amendments for clarity and to make it clear that Xoserve will be able to offer non-CDSP services (eg capacity to NTS, bespoke reports to Shippers etc) |

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|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|
| | (whether income or capital) through its share capital....” | |
| 10(c)(i) | Amend as follows: “...and by other users of the CDSP services on a <u>basis accepted by the Authority as</u> transparent and equitable” | Allows Transporters to know whether or not what they are proposing is in accordance with the licence condition |
| 12 (First paragraph) | Delete “provider” after “CDSP” on line 4 | The word “provider” is not required as “CDSP” is a defined term |
| 18(b) | Replace “years” with “year” | The budget is an annual budget therefore will only apply to one year |
| 20 | Delete | See covering letter |
| 21-22 | Amend to reflect the fact that the charging methodology and charging statement will be produced/amended by Xoserve and the board of Xoserve will be jointly controlled by the Shippers and Transporters | See covering letter |