

Gas transporters, independent gas transporters, gas shippers, gas suppliers, Xoserve and other interested parties

Date: 14 September 2016

Call for stakeholders to engage in implementing funding and governance changes to Xoserve, to create a central data service provider from 1 April 2017

In September 2015, the gas industry agreed a programme plan to implement the changes to the funding and governance structure of Xoserve. These changes will come into effect from 1 April 2017 with the creation of a central data service provider for the gas industry. We continue to believe that these changes once implemented will drive the right outcomes for customers of Xoserve and ultimately will benefit gas consumers.

These changes were initiated by us as a result of industry, and in particular gas shipper, concerns that Xoserve remains fit for purpose and provides the required responsiveness and flexibility in the context of future gas industry changes. In October 2013, we set out our view that the industry should lead on implementing our decision to establish a 'cooperative model' for Xoserve, under which gas transporters (GTs) and shippers will be required jointly to participate in Xoserve's governance and fund its activities¹.

Annex 1 to this letter sets out the programme plan agreed in September 2015. We are pleased to note that some of the key milestones of the programme have already been delivered by the industry, for example on 1 September 2016 Xoserve announced its four new shipper-nominated Directors for the Xoserve board².

The implementation of the Xoserve funding and governance reforms remains a priority for Ofgem. As set out in annex 1, industry needs to deliver a number of changes to meet this deadline. Given recent developments, including with Project Nexus, Ofgem recently asked the Programme Overview Board (POB) to review the timetable for implementation of the Xoserve reforms. We do not see any reason why the current date cannot be met. Therefore, we expect industry to continue to work together to deliver the programme of work on time for 1 April 2017.

POB recently updated the Stakeholder Engagement booklet setting out progress made to date, the implementation plan and what stakeholders need to do to prepare for successful delivery of the programme³.

¹ [Xoserve - decision in relation to new funding, governance and ownership arrangements for the gas transporters' central agent, October 2013](#)

² <http://www.xoserve.com/index.php/a-message-from-xoserves-chairman-nick-durlacher/>

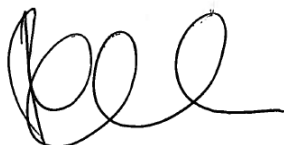
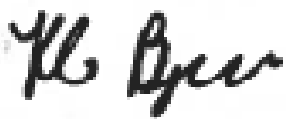
³ <http://www.xoserve.com/index.php/our-change-programme/xoserves-funding-governance-and-ownership-fgo-programme/>

Next steps

As you will note from the programme plan in **Annex 1**, the coming weeks will be crucial to the programme, with work being undertaken to ensure the detailed code changes, as well as charging and contractual arrangements, are delivered in time for the new central service data service provider to start functioning from 1 April 2017. For example, Shippers and GTs will be required to sign the new Data Services Contract with Xoserve ahead of 1 April 2017. It is therefore vital that Shippers, IGTs and GTs take steps now to understand what will be expected of them under the new arrangements and to actively engage in the ongoing industry processes to design and deliver these reforms.

Annex 2 of this letter sets out a high-level indication of how this will impact your organisation, and who you need to engage with over the coming weeks to participate in the implementation work. We expect all industry parties to play their full part to ensure the funding and governance reforms are implemented by 1 April 2017.

If you have any questions in relation to this letter please contact Rupika Madhura (Head of gas distribution policy) on Rupika.Madhura@ofgem.gov.uk.



Kersti Berge and Rob Salter-Church

Partner, Networks

Partner, Consumers and Competition

Annex 1: Xoserve funding and governance changes programme plan

What will be implemented for 1 April 2017?

On 1 April 2017 a new cooperative model will be introduced for Xoserve. This will provide increased transparency, inclusivity and engagement for all users of the Central Data Service Provider (CDSP) services. The new arrangements will include:

- New regulatory arrangements for the GT licence and price controls to enable the new cooperative model;
- Changes to the Uniform Network Code with clear responsibilities for Xoserve and each User;
- A new Data Services Contract (DSC) in place between Xoserve and each User;
- A new charging methodology and cost allocation approach, meaning that Users pay Xoserve for the services that they use;
- A revised Xoserve Board – made up of Directors nominated by the shipper, GT and IGT constituencies;
- Inclusive governance arrangements – with all users of CDSP services invited to take part in monthly meetings with Xoserve on contract and change management; and
- A revised annual budget and business planning process, involving all Users.

What has been delivered to date?

Since the industry agreed the programme plan in September 2015 good progress has been made in developing a model for the future funding and governance of Xoserve in line with Ofgem's requirements.

As of September 2016, the programme has delivered the following outcomes in relation to the high-level areas established by the programme:

Obligations & Contracts

- A UNC modification (UNC0565) has been raised under the UNC change governance processes; and
- As part of this, work is underway to develop the new data services contract (DSC) that will be in place between Xoserve and each User.

Central Data Services (CDS) governance

- CDS change and contract meetings have taken place monthly, with all IGTs and shippers invited to nominate representatives and attend meetings as part of the governance arrangements for Xoserve.

Corporate Governance

- Changes made to Xoserve's governing documents (Shareholders' Agreement, the Articles of Association and the Board Terms of Reference) to accommodate the first stage of FGO changes; and
- Four Shipper nominated Directors have been formally appointed to the Xoserve Board.

Business planning and budget setting

- The programme agreed on the annual process for Xoserve to undertake in order to engage with and involve all Users as part of the business planning and budget setting process. The process for 2016/17 is underway, with business plan principles endorsed by the Board in July, following consultation with industry through the CDS governance contract management group.

Charging and cost allocation

- The FGO workgroup agreed a set of principles to guide the development of charging and cost allocation outputs.

What is remaining and needs to be delivered by when?

- Shippers and GTs are to finalise the cost allocation and charging methodology that will be implemented from 1 April 2017, subject to Ofgem approval;
- Industry development of draft and final business plan and budget over the Summer/Autumn with final Board approval in January 2017;
- Finalisation of the Xoserve Board with GTs (GDNs, NTS and IGTs) to nominate four Directors, to be appointed to the Board by 1 April 2017;
- A modification of the IGT UNC to identify the requirement for the CDSP and CDSP services within the IGT UNC and to make corresponding changes in relevant obligations to reflect this;
- The submission of the Final UNC Modification Report to Panel review by November 2016 and to Ofgem for their consideration in December, with a decision by Ofgem currently expected by February 2017;
- Relevant users⁴ are required to sign up to the DSC, by the end of March 2017.

⁴ GTs and shippers; as noted above, IGTs are expected to sign upon the implementation of Nexus.

Annex 2: What does this mean for you?

This annex sets out a high-level indication of how this is likely to impact your organisation, and who you need to engage with over the coming weeks. This is not an exhaustive list and all parties are individually responsible for ensuring they take all necessary steps to ensure effective implementation of and compliance with the new arrangements from April 2017.

Shippers

You will need to:

- Sign the new DSC by March 2017, in order to continue to use Xoserve services from 1 April 2017;
- Be involved in the governance of Xoserve's services, including through monthly contract management and change management meetings;
- Help to shape and develop Xoserve's budget and business plan, through the revised annual process.
- Help to finalise the cost allocation and charging methodology for the CDSP, and be ready to implement any invoice changes needed to allow Xoserve to invoice Shippers directly for the services you use.

GTs

You will need to:

- Sign the new DSC by March 2017, in order to continue to use Xoserve services from 1 April 2017;
- Be involved in the governance of Xoserve's services, including through monthly contract management and change management meetings;
- Help to shape and develop Xoserve's budget and business plan, through the revised annual process;
- Help to finalise the cost allocation and charging methodology for the CDSP, and accommodate any changes resulting from Ofgem's decision on funding levels and mechanisms for GTs (expected in September).

Finalise the GT Xoserve Board Nomination process and appoint the four GT nominated Directors. This is expected to involve the GDNs nominating two Directors, NTS nominating one Director and the IGTs nominating one Director to the Xoserve Board.

IGTs

IGTs will become Users of Xoserve's services when Single Service Provision (SSP) Goes Live.

You will need to:

- Sign the new DSC with Xoserve in order to use CDSP services.
- Be involved in the governance of Xoserve's services, including through monthly contract management and change management meetings.

- Develop modifications to the IGT UNC as required to identify the requirement for the CDSP and CDSP services;
- Help to shape and develop Xoserve's budget and business plan, through the revised annual process;
- Nominate a Director to the Xoserve Board by 1 April 2017;
- Help to finalise the cost allocation and charging methodology for the CDSP, and be ready to implement any invoice changes needed to allow Xoserve to invoice directly for the services you use.

Who do you need to contact?

Group	Purpose / Remit	Contact details
Programme Overview Board (POB)	The POB was established to take forward the programme of work required to give effect to Ofgem's FGO Review conclusions as well as to achieve in a collaborative manner the transition from the prevailing to new arrangements.	To attend this group's meetings please contact: FGOprogramme@KPMG.co.uk
UNC 0565 Modification workgroup	This workgroup has been set up at the request of the UNC Modifications Panel and serves to debate and develop the UNC modification ready for submission to Panel, and then to Ofgem for decision.	To attend this group's meetings please contact: enquiries@gasgovernance.co.uk
Data Services Contract (DSC) workgroup	This workgroup operates as part of the UNC0565 workgroup and is responsible for debating and developing the data services contract (DSC) that will be part of the modification proposed under the final modification proposal for 0565.	To attend this group's meetings please contact: enquiries@gasgovernance.co.uk
Charging and Cost Allocation workgroup	This workgroup has been established as a sub-workgroup to UNC 0565 – specifically to develop a new cost allocation and charging methodology for CDSP services, which will also be included as part of the UNC0565 modification proposal.	To attend this group's meetings please contact: enquiries@gasgovernance.co.uk
CDS governance groups	The change and contract management workgroups take place on a monthly basis and are the primary vehicle for Xoserve's regular engagement with CDS Users (including business plan and budget setting review). All CDS users are invited to nominate representatives, and to attend these meetings.	To attend this group's meetings please contact: Martin.Baker@xoserve.com

Meeting dates and locations for all workgroups are available on the [Joint Office website](#) as well as the FGO SharePoint site.

All POB, workgroup and programme materials are available on the FGO SharePoint site.

On 15th September POB will be running its initial Stakeholder Webinar session, where industry can learn about the latest updates on the programme and ask questions of representatives from POB and Xoserve.

If you would like to:

- take part in the initial Stakeholder Webinar session,
- receive the FGO monthly update newsletter,
- receive login details for the FGO SharePoint site,
- register for additional stakeholder engagement events such as webinars; or
- have any additional queries

please contact FGOcentral@kpmg.co.uk.