



**Association of  
Independent  
Gas Transporters**

Wood Howe, Keldwyth Drive, Troutbeck Bridge, Windermere, Cumbria, LA23 1NJ

Tel: 07790 877148 E-mail [john.barrett@aigt.org.uk](mailto:john.barrett@aigt.org.uk) Web: [www.aigt.org.uk](http://www.aigt.org.uk)

27<sup>th</sup> May 2016

Rupika Madhura  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Rupika

**FGO - Query on Licence Changes and Comments on Informal Consultation on Addition of SSC A15A and Amendment of SSC A15**

Thank you for your email dated 20<sup>th</sup> April regarding potential changes required to support Funding, Governance and Ownership (“FGO”) arrangements of Xoserve. IGTs have been asked to outline potential changes to SLC11 to support FGO arrangements (with effect from phase 2 onwards) and to provide these in light of the informal consultation on the addition of SSC A15A and amendment of SSC A15. They are happy to provide the following comments.

- It is very difficult to comment on the changes required to SLC11 without knowing how GT Xoserve allowances will be treated post FGO phase 2, as such treatment will largely shape the extent that IGTs are able to recover CDSP costs.
- Knowing the treatment of such costs will establish the level of risk that IGTs are exposed to regarding CDSP funding and will determine the level that IGTs need to be represented in FGO arrangements in order to balance that risk. This will be a contributing factor as to how SLC11 may need to be changed.
- With parts of the FGO programme moving under the vires of the UNC (through UNC0565), IGTs have concerns that much of the work undertaken under the FGO work streams is being unpicked and undermines the position that IGTs had sought to achieve.
- With the FGO work progressing in this direction, IGTs feel they will not be able to effectively participate in CDSP services which IGTs are required to deliver and pay for; most importantly not allowing IGTs to manage the risks presented to them as CDSP users. AIGT members do not believe this is in line with the spirit of FGO and consequently see the only way to offset such risk is to be allowed to pass through CDSP costs or for the CDSP to levy IGT CDSP charges directly to Shippers.
- AIGT members also highlight the importance of a timely completion of the UNC0565 in order to allow IGTs to draft any required changes to the IGT UNC and implement these in time ready for Phase 2 go live in April 2017.

AIGT members provide their full thoughts and reasoning for this in Appendix 1 and outline high level comments on the SLC11 drafting in Appendix 2, and would welcome the opportunity to discuss the issues raised in this letter further with you at a mutually convenient date and time.

Yours sincerely,

A handwritten signature in black ink that reads "John Barrett". The signature is written in a cursive style with a large initial 'J'.

John Barrett  
Secretary, Association of Independent Gas Transporters

## **Appendix 1**

### **Funding/Cost allocation**

1.1 It is important to note that IGT income is generated on a per supply point basis and investments have been made for all existing supply points based on costs incurred at that time. FGO has the potential to greatly increase costs for industry systems (FGO indications on current costs were approximately £0.38p per supply point per annum with potentially the same amount again for CDSP investments costs) which will be initially funded from supply points that already have sunk investments made. With IGTs expecting to make little to no savings under SSP (though potential increases cannot be ruled out), SSP/FGO costs will effectively be taken from the bottom line. This highlights the need for all aspects of FGO funding to be discussed openly coupled to an inclusive governance framework to ensure all parties that are presented with the risk of costs are able to effectively participate in FGO arrangements to manage such risks and exposures.

1.2 We have experienced a lack of progress and delivery from Xoserve in determining their costs and cost drivers to support FGO/UNC0565 discussion around funding and cost allocation. This area is of great importance as understanding how the CDSP costs are driven will ultimately shape the CDSP charging methodology. Such lack of progress is delaying discussion on the future project and investment costs which is reminiscent of the issue experienced at the end of January which resulted in the FGO work streams not being able to discuss cost allocation for CDSP project and strategic funding. The consequence of this was that the CDSP strategic and future investment costs as part of GT submission had no formal discussion under the FGO programme with Xoserve deciding how costs should be smeared across the industry. This was of particular concern to IGTs (with IGTs being allocated a share of NEXUS overspend and business debt) with an AIGT member writing to Ofgem to voice concerns over the approach on January 28th 2016.

1.3 We also are of the view that there is a more fundamental issue with the GT cost submission as the costs submitted will be based on pre NEXUS rather than post NEXUS costs. Price controls will therefore be amended and potentially reduced, but not by the costs of the services post NEXUS. Post NEXUS costs will only realistically be known once the CDSP has been operational for 12 months or more, giving the CDSP time to evaluate their costs. We would recommend consideration is given to allowing one year of post NEXUS CDSP costs to be evaluated prior to the opening of the GT price control with IGTs contributing the amount referenced within SLC11 until such time. Should such approach not be preferable, we believe that a pass through approach is the only way of offsetting the uncertainty of post NEXUS costs as any other approach would be based on predicted and not actual costs.

1.4 We are therefore in a position where we do not know how the GT price controls will be treated with no idea of the cost exposure to IGTs as a result of FGO. We are therefore unlikely to fully understand the cost impacts on IGTs until October 2016. Notwithstanding our comments on determining costs in paragraph 1.3 above, we believe the only way to offset such risk is to be allowed to pass through CDSP costs or for the CDSP to levy IGT CDSP charges directly to Shippers who will have a far greater say in the running of the CDSP and also have the ability to pass on costs.

### **CDSP Contract Governance**

2.1 With much of the FGO work transferring across from the FGO programme to UNC0565, we are seeing the initial FGO proposals regarding CDSP contract management being rejected by parties who have only participated in UNC discussions. This has largely been on the basis that they either could not attend the FGO development work or do not recognise or support the FGO work on the basis that it has no regulatory standing. This has resulted in a "start from scratch" to contract governance arrangements consequently

condensing the time for delivery in April 2016 (driven by an October 2016 mod completion target date). This squeezing of modification development time is increasing the risk of solutions being driven through to meet mandated deadlines without being fully reflective of all participants' views.

2.2 This is extremely concerning for IGTs as current FGO discussions are heading in a direction that looks to treat IGTs in the same category as GDNs where it comes to voting on contract and change management (unless purely a GT and IGT matter) and does not therefore differentiate between IGTs and GDNs. This is a result of UNC industry discussion which is unpicking what was developed under the FGO work streams whereby IGTs had their own constituency for voting on changes to the CDSP contract.

2.3 Our concern is that IGTs will effectively have little to no say in CDSP arrangements and will consequently lose any ability to control costs imposed on IGTs i.e. if GDNs support a change, it will be imposed on IGTs regardless of our views. We believe this is against the core principle of FGO, namely the co-operative inclusive model for the running of the CDSP.

2.4 As IGTs are not currently a UNC signatory, we are unable to raise an alternate modification to the arrangements currently being proposed. We believe this further weakens our ability to influence discussions under UNC0565 as cannot raise and develop an alternative modification should we feel necessary (the threat of an alternate mod would appear to be a main driver for the re-evaluation of FGO arrangements).

2.5 Due to the lack of ability to control risk based on the above and the concerns outlined in section 1, IGTs strongly believe that CDSP costs should be treated as pass through or for the CDSP to levy IGT CDSP charges directly to Shippers as a party that can better control their risks under FGO arrangements.

### **IGT UNC Changes to Support FGO Arrangements**

3.1 IGTs are likely to need to make changes to the IGT UNC to support the implementation of FGO arrangements and are currently providing FGO/UNC0565 updates via the IGT UNC work stream meetings to ensure parties are aware of FGO/UNC0565 developments.

3.2 In order to develop the required legal text to implement FGO arrangements, IGTs are dependent on the UNC completing drafting changes to the UNC not only to ensure consistency in the regulatory framework but also so that the impacted parts of the IGT UNC point to and reference the correct parts of the UNC.

3.3 The dependency on the UNC drafting to be completed will place timing pressures on IGTs to deliver the required changes ready for phase 2 (April 2017) and therefore highlights the importance of a timely completion of the UNC0565 modification. The key issue at present however is that (on the basis of an October 1st NEXUS go live) the UNC0565 drafting needs to be based on the post NEXUS UNC drafting (comprising of UNC0440 and UNC0432). This base NEXUS text however is out of date and requires amending before accurate UNC0565 legal text can be produced. IGTs require all of the NEXUS text to be completed and the FGO drafting completed based on this in order to draft the relevant changes to support FGO arrangements in the IGT UNC. Any delays beyond the UNC0565 October target date for completion of the modification may inhibit the ability of IGTs to implement the consequential changes required in the IGT UNC ready for 1st April 2017. We have raised this potential issue at UNC0565 to ensure the UNC drafting work (for both NEXUS and FGO) aims to progress as swiftly and efficiently as possible.

## **Comments on SSC A15 and SSC A15A**

4.1 We are supportive of the proposed changes to SSCA15A to implement FGO arrangements. We believe however that there needs to be a balance of ensuring the framework developed for FGO is sufficiently developed (taking into account parties' views) against a solution being rushed through by a subset of parties on the basis of a 1st April 2017 implementation target. We note that there is text in the proposed licence condition to allow for consent to be provided by the Authority for a different date but will continue to participate in FGO development work to ensure an efficient implementation is met.

4.2 We note that SSC A15A is proposed to cease to have effect from 1st April 2017. Under FGO discussion, it has been proposed that in a small number of cases, a number of GT activities will be undertaken by the GT agent. We believe this is something that needs to be reviewed to ensure consistency with the licence if Xoserve is to act as an Agent of the GTs in a subset of areas.

## **Appendix 2**

### **Condition 11: (Agency)**

1. This Standard Condition 11 (Agency) applies to all relevant licensees.
2. The relevant licensee shall, together with the other relevant gas transporters, by the 1 October 2015 (unless the Authority consents otherwise in writing), have entered into an agency services agreement (“AS agreement”) with the other relevant gas transporters providing for the common provision of services and systems by the agency (as defined in paragraph 4 below) of such services and systems, the scope of which are set out within the uniform network code.
3. The relevant licensee shall, together with other relevant gas transporters procure, or cause to be procured:
  - (a) that the Authority is provided with a copy of the AS agreement and each amendment thereof; and
  - (b) the publication of the AS agreement as modified from time to time, with the exception of any information agreed in writing as being confidential by the Authority.
4. Where services and systems are sub-contracted to a common service provider (the “agency”) by all relevant gas transporters including the relevant licensee (unless the Authority has otherwise consented pursuant to paragraph 6), the scope of such sub-contracting arrangements (except in respect of the methodology) shall be set out in the uniform network code, and the agency and the agreement referenced in paragraph 2 shall, without limitation, be based on the following principles:
  - (a) such services and systems shall be established, operated and developed on an economic and efficient basis;
  - (b) the costs of the agency shall be determined on an activity cost basis such that the services and systems costs associated with each activity, as set out within the uniform network code as being within the scope of the agency, are separately assessed and reported; and
  - (c) the costs of the agency shall be allocated on a transparent basis.
5. Where services and systems are to be provided pursuant to the uniform network code by the agency, the relevant licensee shall, together with other relevant gas transporters, ensure that all such services and systems are provided or otherwise procured (including without limitation on a sub contracted basis) on a common basis pursuant to the AS agreement.
6. In respect of the services and systems to be provided by the agency under paragraphs 4 and 5 of this condition, the relevant licensee shall be under an obligation to use or procure the use of such services and systems from the agency and shall not elect either expressly or by its conduct not to use nor to procure the use of the agency as the provider of such services and systems without the prior written consent of the Authority, as may be provided under Standard Condition 9 (Network Code and Uniform Network Code).

### **Agency Services Funding**

7. For each relevant year, the relevant licensee will contribute no more than the amount determined to have been allowed under Special Condition 1 (Charging of Gas Shippers – Relative Price Control) for the activities to be carried out by the agency as may be set out in the methodology. Such contribution will be made for each supply point connected to the relevant licensee’s pipe-line system regardless of whether the supply point is subject to charging arrangements under Special Condition 1 (Charging of Gas Shippers – Relative Price Control) or otherwise.

8. Notwithstanding the provisions of paragraph 7, the relevant licensee's contribution for each connected supply point shall be the lesser of, a) the amount determined by the methodology, and b) the relevant charge set out in a charging statement produced by the agency, as may be revised from time to time.

9. In this condition: "methodology" means, for the purposes of this condition, the methodology, titled "iGT Agency Services: iGT contribution methodology", as may be published from time to time by the Authority, for the purposes of determining the relevant licensee's contribution for agency services.

"relevant licensee" means, for the purposes of this condition, a licensee to whom Standard Condition 9 (Network Code and Uniform Network Code) is in effect.

"relevant year" means, for the purposes of this condition, a year beginning on 1 April of each calendar year and ending on 31 March of the following calendar year.