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Xoserve Funding, Governance

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Dear Jonathan and Rachel,

**Completion of the Xoserve Funding, Governance and Ownership (FGO) programme.**

I am writing to you in my capacity as Chair of the Programme Overview Board (POB) for the FGO programme. I am delighted to confirm that the FGO programme is now complete and that the final elements of the new arrangements will go live on the scheduled date of 1 April 2017.

Delivery has been a significant achievement for the industry, involving a great deal of commitment, hard work and negotiation between parties from the GDNs, NTS, Shippers, IGTs, Xoserve, KPMG, the Joint Office, Dentons and Ofgem. Notably, as one of the major industry change programmes of recent years, the industry has delivered what it committed to in August 2015 by the date the industry promised. Uniquely, and perhaps even more remarkably, this was designed and governed as a truly collaborative arrangement, with the Programme Board having no formal constitution or regulatory status.

It is therefore with real gratitude that I would like to record my thanks and congratulations to all of those who have taken part in the programme and assisted with its successful implementation.

**What we have delivered**

The FGO programme was established to define and deliver a blueprint for the future funding and governance of the central data services provider (CDSP) for the gas industry. The programme has been guided by Ofgem's FGO review conclusions document (published in October 2013) and subsequent publications, including the decision on the legal and regulatory framework (April 2016) which set out that the aim of the FGO programme was to, "ensure Xoserve is fit for purpose and provides the required responsiveness and flexibility in funding in the context of future gas industry changes, a full co-operative governance model should be established. This model means that Gas

Transporters (GTs) and Shippers will be required to jointly participate in Xoserve's governance and fund its activities.<sup>1</sup>

Overall, the FGO programme has aimed to deliver a fully cooperative model with all users taking a share in the control of the CDSP. This cooperative model will deliver benefits in terms of driving changes in, "responsiveness, flexibility and transparency<sup>2</sup>" for all users of CDSP services. Consumers will also benefit from CDSP users being better able to influence the central data services they will need in the future.

The arrangements that will Go Live on 1 April 2017 are summarised below.

### ***A revised governance structure***

Xoserve has been appointed as the CDSP from 1 April and will operate with a revised Board. Nine Board Directors are in place, including the Chairman, with eight having been nominated by the Shipper, GDN, NTS and IGT constituencies. Constitutional documents have been revised to accommodate the new cooperative governance model.

All CDSP Users now have a direct contract in place with the CDSP. This is either the Data Services Contract (DSC) or the UK Link User Agreement (UUA). The DSC broadly replaces the Agency Services Agreement (ASA) that was in place between Xoserve and GTs (NTS and GDNs), and the User Pays agreement in place between Xoserve and Shippers. The UUA is a shorter contract, targeted at CDSP Users whose services are restricted to the UK Link information exchange service only. These are typically Trader users.

Three new committees have been established focussed on the key areas of Change management, Contact management and Credit arrangements. New governance arrangements have been established, providing clear decision making processes on matters where a consensus view cannot be reached. All Users of CDSP services ("Users") have been invited to take part in these committees and to shape and influence the future delivery of the CDSP.

Amendments have been made to the Gas Transporter Licence<sup>3</sup> and to the Uniform Network Code<sup>4</sup>, to give effect to the outcomes of the FGO programme.

### ***Revised funding arrangements***

All Users of CDSP services will now pay directly for those services they use. This will be implemented through the revised charging methodology and cost allocation model which have been developed through industry workshops and consultation.

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<sup>1</sup> <https://www.ofgem.gov.uk/ofgem-publications/100344>

<sup>2</sup> Xoserve - decision in relation to new funding, governance and ownership arrangements for the gas transporters' central agent.  
<https://www.ofgem.gov.uk/ofgem-publications/86614/xoservedecisionoct13.pdf>

<sup>3</sup> Ofgem introduced a Standard Special Condition A15A (Central Data Services Provider) with effect from 11 February 2017. The aim of the new condition was to implement the outcome of the FGO programme.  
[https://www.ofgem.gov.uk/system/files/docs/2016/12/decision\\_on\\_a15a\\_stat\\_con.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/12/decision_on_a15a_stat_con.pdf)

<sup>4</sup> Ofgem directed that UNC modification 565A 'Central Data Services Provider – General framework and obligations' be made from 1 April 2017. This modification includes details on the appointment and operation of the CDSP, the Data Services Contract (DSC), the establishment of Committees and provisions relating to UK  
[https://www.ofgem.gov.uk/system/files/docs/2017/01/0565\\_modifications\\_d.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/01/0565_modifications_d.pdf)

All Users have received a charging statement, setting out the charges that they can expect to incur for the CDSP services that they plan to utilise. Users will receive invoices directly from Xoserve for those services.

In recognition of the new contract and charging arrangements, the business plan and budget for the CDSP was consulted upon with all funding parties acknowledging that a greater proportion of CDSP charges will no longer be a sub set of GT regulatory allowances. The transparent and cooperative transitional process followed during 2016/17 has allowed us to test the approach and learn lessons for 2017/18. This revised process has enabled parties to review the CDSP's planned outputs and involvement from industry and has enabled a better understanding of how costs are built up. The process for 2017/18 will be shaped by the experience in 2016/17 and will be developed through the cooperative arrangements under the Contract Management committee.

We have set out in Appendix One, a more detailed summary of the key delivery areas for the programme and how we have delivered against them.

### **Independent Gas Transporters (IGTs)**

IGTs will become Users of CDSP services once single service provision is implemented as part of the Nexus programme. This is scheduled for 1 June 2017. The IGTs have been involved with the FGO programme throughout the process. The revised Board from 1<sup>st</sup> April includes a Director nominated by the IGT constituency and the IGTs have been invited to attend the Committee meetings<sup>5</sup> from 1 April 2017. The IGTs will need to accede to the DSC prior to Go Live, and discussions are already underway to ensure that this is completed on schedule including the implementation of the IGT modification (IGT086). KPMG have developed a plan for implementation of FGO for the IGTs and Xoserve, and this was endorsed by POB on 3 March 2017 and then handed over to those parties to track and monitor delivery.

### **Next steps**

From 1 April 2017, the CDSP will be operating under the new FGO fully cooperative arrangements. All Users have been engaged in the implementation process and so are aware of what to expect.

One of the key tests of the revised arrangements will be that they are flexible to change and continual improvement, as Users gain more experience in the new cooperative governance model. There are systems and processes in place to enable changes to be proposed and implemented by the industry where these will be of benefit to Users and ultimately to gas customers.

We will be conducting a lessons learnt exercise in May, seeking views from all stakeholders on the programme and aiming to identify areas of best practice and potential improvements that could be of use to other significant industry change programmes. Given the level of industry change on the horizon for the gas industry, not least the implementation of the CMA code remedies, we believe that there will be real value for the industry to reflect on the experience of implementing FGO and to use this to build on for future programmes of work.

Overall, the FGO programme has been a success, the realisation of its benefits will come over the coming months and years and will rely not only on the governance, but on the manner in which participants embrace the arrangements. We will implement a set of arrangements on 1 April 2017 that fully meet Ofgem's requirements. The FGO programme has been shaped and developed by a

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<sup>55</sup> IGTs have been invited to attend the Committee meetings for Contract, Change and Credit from 1 April 2017.

wide range of stakeholders who had different interests and objectives, but who have focussed on the overall aims of the programme to deliver a more cooperative, transparent and inclusive set of arrangements for all Users and for consumers.

Yours sincerely,

Paul Rogers

By email

Programme Overview Board Chair

CC. David Gray

Dermot Nolan

Rupika Madhura

## Appendix One – Completion of the key delivery areas

Key delivery area	Confirmation of completion
Xoserve to be appointed as central data services provider (CDSP).	GTs appointed Xoserve as CDSP on 13 February 2017.
The new Data Services Contract (DSC) signed by all DSC Users and operational.	143 of the 145 eligible parties signed the DSC by the deadline of 15 February 2017. Dentons triggered the execution date for the DSC on 17 February 2017. The remaining 2 parties subsequently acceded to the DSC on 14 March 2017.
All DSC Users receiving the services that they have ordered.	All parties were invited to order any specific or additional services that they wanted to receive from the CDSP from 1 April 2017. Xoserve has finalised terms with all of them to provide these services.
UK Link User Agreement (UUA) signed by all Traders and operational.	26 eligible parties signed the UUA by the 1 April 2017 deadline.
CDSP focussed on delivery of the business plan developed through engagement with Users, and approved by the Board.	The CDSP Board approved the budget and business plan at their meeting on 19 January 2017. This business plan and budget was developed through a revised process, involved greater engagement and transparency for all users. Future processes will learn from the initial year, and will be taken forward through the Contact Management Committee.
All Users have agreed credit and invoicing arrangements in place, and are ready to pay for invoices issued in line with their charging statement for those services that they use – building on the budget developed with Users and approved by the Board.	<p>Most Users (both UUA and DSC signatories) have credit arrangements in place with the CDSP. Of the 5 parties remaining, the process of agreeing security is progressing well and is expected to finalise imminently. There is no impact on the overall programme framework now in place.</p> <p>All Users have been issued with a charging statement, setting out their expected charges for the services that they will take from the CDSP.</p> <p>The CDSP has confirmed the format and mechanism for invoices with all Users.</p>
Changes made to the constitution of the CDSP – to give effect to Ofgem’s licence requirements and the overall objectives of FGO.	The final set of Constitutional Documents has been approved by Shareholders and the Board, and will take effect from 1 April 2017.

Key delivery area	Confirmation of completion
Revised Board established, with Directors nominated by CDSP Users in place and ready for the first meeting in April.	The revised Board is in place. Four Directors have been nominated by the Shipper constituency, two by the GDNs, one by NTS and one by the IGTS. All Directors have equal voting rights <sup>6</sup> .
Committees established for Contract, Change and Credit – with all Users understanding the purpose of each Committee, their role and how they can engage, understand and influence CDSP services.	<p>The Joint Office has completed the election process for both Contract and Change Management Committees and appointments have been made</p> <p>The Credit Committee will be implemented during April 2017. The current DSC Credit Committee will continue to operate until the new Committee is established.</p>

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<sup>6</sup> There are two Reserved Matters, where the GDNs and NTS, as Shareholders, can make a decision without agreement from the Board. These relate to implementing any budget appeal that has been upheld by the Gas and Electricity Markets Authority (GEMA) and to any requirement for the GDNs and/or NTS to respond to a formal request for information issued by Ofgem under Standard Special Condition A26 of the GT Licence.