

Gas transporters and other  
interested parties

Date: 31 March 2017

Dear colleague,

**Direction pursuant to Special Condition 4C of the distribution licences and Special Condition 11C of the gas transporter licence held by NGG NTS to treat services in relation to the Central Data Service Provider (CDSP) for which gas transporters (GTs) get paid by another party, such as must reads, as Excluded Services<sup>1</sup>**

This letter sets out our decision on our proposal to require GTs to treat certain services in relation to the CDSP as Excluded Services from 1 April 2017. Excluded Services are services provided by the GTs for which they charge the customer directly, and as such are excluded from the allowed revenue set in the relevant price control so the GTs do not recover the cost of providing the same service twice.

**Background**

In July 2010 we undertook a review of Xoserve's funding, governance and ownership (FGO) arrangements in response to concerns raised that the arrangements were not fit for purpose and did not provide the required responsiveness and flexibility for future gas industry changes.<sup>2</sup> To implement the conclusions of our review<sup>3</sup>, on 28 April 2016 we published our decision<sup>4</sup> on the changes to the legal and regulatory framework needed to establish new arrangements for the gas CDSP, Xoserve. As part of our April 2016 decision, we concluded that licence changes should be proposed that will require GTs to deliver the new arrangements in full by 31 March 2017.

Following two informal consultations<sup>5</sup>, we issued a statutory consultation on 31 October 2016<sup>6</sup> (our October consultation) which consulted on modifying Standard Special Condition (SSC) A15 (Agency), introducing a new SSC A15A (Central Data Service Provider) and the

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<sup>1</sup> The term 'Excluded Services' has the meaning given to it in Special Condition 4C and in Special Condition 11C. The terms 'Excluded Services' and 'an Excluded Service' are used interchangeably in this letter and in the draft direction.

<sup>2</sup> <https://www.ofgem.gov.uk/ofgem-publications/48298/gdpcr2-july-2010-open-letter-final.pdf>

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/xoserve-decision-relation-new-funding-governance-and-ownership-arrangements-gas-transporters%E2%80%99central-agent>

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/xoserve-decision-legal-and-regulatory-framework-establish-new-governance-and-funding-arrangements-gas-central-service-provider>

<sup>5</sup> We issued informal consultations on the licence changes in December 2015 (<https://www.ofgem.gov.uk/publications-and-updates/informal-consultation-changes-standard-special-condition-a15-agency-gas-transporters-licence>) and April 2016 (<https://www.ofgem.gov.uk/publications-and-updates/informal-consultation-changes-standard-special-condition-a15-agency-gas-transporters-licence-0>)

<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-new-standard-special-condition-ssc-a15a-central-data-service-provider-and-changes-ssc-a15-agency-gas-transporter-qt-licence>

resulting consequential changes required in other parts of the GT licence. We published our decision on the licence changes on 16 December 2016<sup>7</sup>.

The consequential licence changes included changes to the Excluded Services Special Conditions<sup>8</sup>, which previously included 'user pays agency services' as Excluded Services. Under the current arrangements (before the new CDSP goes live from 1 April 2017), almost all of Xoserve's activities are funded by GTs through the RIIO GD1 and T1 price controls. Although, users, such as shippers, pay GTs for certain Xoserve related services which are termed as user pays agency services. Such certain services are excluded from the allowed revenue in the GT's price control to ensure consumers do not pay twice for the same service. For example, when a shipper fails to provide a valid meter read, GTs are required under the uniform network code to provide one using what is termed as the must reads process. The shipper then pays the GT for the provision of this service. This service is managed by Xoserve as the GT's agent and so it is currently considered a user pays agency service.

Under the new CDSP arrangements that will come into effect from 1 April 2017, all users will pay Xoserve directly for the CDSP services they receive. This is known as the 'user pays' principle. However, for must reads, for example, we understand that GTs will continue to charge the shippers directly for providing this service, which will still be managed by Xoserve. Following discussions with the industry as part of the consultation process to finalise the GTs' licence condition on SSC A15A for the new CDSP arrangements, we therefore identified that we would need to continue to treat services like must reads as Excluded Services. However, to avoid confusion with the 'user pays principle', we considered that it would be better to remove the user pays agency services category of Excluded Service in Special Condition (SC) 4C of the distribution networks' licences and SC 11C of NGG (NTS)'s licence. Instead we said we would consider it to be more appropriate to issue a Direction under SC 4C.11 of the distribution networks' licences and SC 11C of the NGG (NTS)'s licence for the GTs to treat services in relation to the CDSP for which GTs get paid by another party, such as must reads, as Excluded Services.

## Consultation

We issued an open letter consultation in February 2017<sup>9</sup> asking for views on the following questions:

1. Under the new FGO arrangements are there any other services apart from must reads in relation to the CDSP for which GTs get paid by another party and as such should be treated as an Excluded Service?
2. Do you consider that the draft direction at Annex 1 of the consultation delivers on the policy intent described in this letter and do you have any comments on the draft direction?

## Consultation responses

We received seven responses to our consultation from the GTs, Xoserve and one Shipper. We have reviewed and considered the responses in arriving at our decision. The respondents were supportive of our proposed approach.

The respondents did not identify any services other than must reads in relation to the CDSP which should be treated as Excluded Services.

<sup>7</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-new-standard-special-condition-a15a-central-data-service-provider-modification-ssc-a15-agency-and-other-consequential-modifications-gas-transporter-licence>

<sup>8</sup> The Excluded Services Special Conditions are Special Condition 4C of the distribution networks' licences and Special Condition 11C of NGG (NTS)'s licence.

<sup>9</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-proposed-direction-treat-certain-services-relation-central-data-service-provider-excluded-services-1-april-2017>

National Grid Gas Transmission noted that they do not engage with Xoserve on must read services, but agreed with the proposed direction as an efficient way to introduce new Excluded Services related to the CDSP to its licence in the event of future developments in the energy sector.

One GT suggested the wording "treated as" was unnecessary in the draft direction as the purpose is to define revenue which is excluded from the allowed revenue. The wording "treated as" is consistent with the wording in SC 4C of the distribution networks' licences and SC 11C of NGG (NTS)'s licence so we have decided not to make this change.


## **Decision**

Today we have decided to direct GTs that from 1 April 2017 services in relation to the CDSP for which GTs get paid by another party, such as must reads, are to be treated as an Excluded Service using Special Condition 4C.11 of the licences held by the distribution networks and Special Condition 11C.11 of the NGG (NTS) licence.

The direction is set out at Annex 1 of this decision. It is unchanged from the draft direction published alongside our open letter consultation in February 2017.<sup>10</sup> The direction will take effect from 1 April 2017 when the new Xoserve arrangements go live.

If you have any queries about this letter, please contact [Rebecca.Pickett@ofgem.gov.uk](mailto:Rebecca.Pickett@ofgem.gov.uk).

Yours faithfully,



**Kersti Berge**  
**Partner, Networks**

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<sup>10</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-proposed-direction-treat-certain-services-relation-central-data-service-provider-excluded-services-1-april-2017>

## **Annex 1: Direction**

### **To:**

National Grid Gas plc  
National Gas Distribution Limited  
Northern Gas Networks Limited  
Scotland Gas Networks plc  
Southern Gas Networks plc  
Wales & West Utilities Limited

**DIRECTION ISSUED BY THE GAS AND ELECTRICITY MARKETS AUTHORITY  
PURSUANT TO PARAGRAPH 11 OF SPECIAL CONDITION 4C OF THE SPECIAL  
CONDITIONS APPLICABLE TO THE LICENSEE (DN) AND PARAGRAPH 11 OF  
SPECIAL CONDITION 11C THE SPECIAL CONDITIONS TO NATIONAL GRID GAS  
PLC'S (NTS) GAS TRANSPORTER LICENCE TO ALL HOLDERS OF A GAS  
TRANSPORTER LICENCE GRANTED UNDER SECTION 7 OF THE GAS ACT 1986 (the  
'Direction')**

### **WHEREAS**

1. Each of the companies to whom this Direction is addressed ('the Licensee') is the holder of a gas transporter licence ('the Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act'). The Licences held by the Licensees in respect of the distribution networks are referred to as Licence (DN). The Licence held by National Grid Gas plc (NTS) is referred to as Licence (NTS).
2. Special Condition 4C (Services treated as Excluded Services) of the Licence (DN) and Special Condition 11C (Services treated as Excluded Services) of the Licence (NTS) provide for the Gas and Electricity Markets Authority ('the Authority') to give directions in respect of services provided by the Licensee that are to be treated as Excluded Services.
3. Services in relation to the CDSP for which GTs get paid by another party, such as must reads, were previously treated as Excluded Services under:
  - a) Special Condition 4C.10(e) 'ES5. User pays agency services' of the Licence (DN); and
  - b) Special Condition 11C.10 'ES6. User pays agency services' of the Licence (NTS).
4. Pursuant to the Authority's decision to introduce Standard Special Condition A15A ('SSC A15A') (Central Data Service Provider)<sup>11</sup>, user pays agency services will no longer be categorised as Excluded Services when SSC A15A comes into force.
5. The Authority is satisfied that services in relation to the CDSP for which GTs get paid by another party, such as must reads, should continue to be treated as an Excluded Service from 1 April 2017 under:
  - a) Special Condition 4C.11 'ES9. Services in relation to the CDSP for which GTs get paid by another party' of the Licence (DN); and
  - b) Special Condition 11C.10 'ES9. Services in relation to the CDSP for which GTs get paid by another party' of the Licence (NTS).

### **NOW THEREFORE**

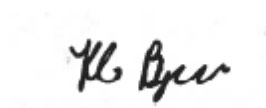
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<sup>11</sup> <https://www.ofgem.gov.uk/publications-and-updates/decision-new-standard-special-condition-a15a-central-data-service-provider-modification-ssc-a15-agency-and-other-consequential-modifications-gas-transporter-licence>

In accordance with the powers contained in paragraph 11 of Special Condition 4C of the Licence (DN) and paragraph 11 of Special Condition 11C of the Licence (NTS), the Authority hereby directs that services in relation to the CDSP for which GTs get paid by another party are to be treated as an Excluded Service.

The Direction will take effect from 1 April 2017.

This document constitutes notice of the reasons for the Direction as required by section 38A of the Act.



**Kersti Berge**  
**Partner, Networks**  
**Duly authorised on behalf of the**  
**Gas and Electricity Markets Authority**

**31 March 2017**