

Gas Transporters, Shippers,
Independent Gas Transporters,
Xoserve and the gas industry

Date: 31 March 2017

Dear colleagues,

Xoserve: Completion of the Xoserve funding, governance and ownership (FGO) implementation phase

This letter is to inform the industry that the implementation phase of the Xoserve FGO programme is now complete and the new governance and funding arrangements will apply from 1 April 2017.

Xoserve provides a range of essential services to support the GB gas industry including billing services, managing the booking of capacity, running the gas settlement systems and managing the change of supplier process.

In July 2010 we¹ announced that we would review Xoserve's performance and FGO arrangements in response to concerns that the arrangements were not fit for purpose and did not provide the required responsiveness and flexibility for future gas industry changes.² We then consulted on options for changing Xoserve's FGO arrangements in September 2011.³

We concluded the review in October 2013⁴ and announced our decision that Xoserve would continue in its role as the Central Data Service Provider (CDSP) for the gas industry. We decided that a full co-operative governance model should be established to allow Xoserve's users to participate in its decision making process and to directly fund the delivery of services.

The gas industry was given responsibility for implementing the changes to establish the new arrangements. The Gas Transporters appointed KPMG as the implementation programme manager in December 2014. In September 2015 the gas industry agreed a two-stage programme plan, which aimed to implement the new FGO arrangements by 1 April 2017. We engaged with the industry through a Programme Overview Board (POB), which the industry established to oversee the detailed implementation work. A number of working groups were also set up to address five specific areas of implementation: the delivery of obligations and contracts, Xoserve corporate governance, Central Data Service governance, Xoserve business planning and budgeting, and charging and cost allocation.

¹ References to 'we', 'us' and 'our' are to the Gas and Electricity Markets Authority (the Authority). The terms 'Ofgem' and 'the Authority' are used interchangeably in this letter.

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

³ <https://www.ofgem.gov.uk/publications-and-updates/open-letter-consultation-review-xoserve>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/xoserve-decision-relation-new-funding-governance-and-ownership-arrangements-gas-transporters%E2%80%99-central-agent>

Delivery of the new arrangements has required a joint effort between various participants in the gas industry and, despite the programme having faced initial delays, we are pleased that the reforms have been delivered ahead of various upcoming changes to the gas sector.

We have already observed the positive impacts that the reforms are having on Xoserve and the wider industry and are hopeful that the new arrangements will stand Xoserve in good stead to deal with the future challenges in the gas sector. These include moving from the immediate "hypercare" arrangements for Project Nexus to "business as usual" operation of new UK Link, to supporting the roll-out of smart metering and improving the accuracy of gas settlement arrangements. The FGO arrangements and establishment of a more customer-focused, cooperative model will stand Xoserve in good stead for the wider reforms to code administration and central system delivery, which we are implementing following the recommendations from the Competition and Markets Authority.

We received a letter from Paul Rogers, Chair of the POB, on 31 March 2017, which confirmed the implementation phase of the FGO programme is now complete.⁵ We would like to thank the numerous industry representatives who have worked on implementing the FGO arrangements for their hard work to deliver the new arrangements. Now the new FGO arrangements have been delivered, we expect the industry to continue to work together to build on and improve the CDSP arrangements so that Xoserve works in the best interests of consumers.

The Annex to this letter provides more detail on what has been delivered to implement the new arrangements.

If you have any questions regarding the CDSP please contact Martin Baker on Martin.Baker@xoserve.com.

Yours sincerely,



Jonathan Brearley and Rachel Fletcher

Senior Partner, Networks
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⁵ We have published the industry letter confirming the completion of the implementation phase as a subsidiary document to this letter.

Annex 1

What has been delivered to implement FGO?

The FGO programme has delivered the following outcomes, which will be operational from 1 April 2017:

Governance arrangements

- Ofgem amended the GTs licence to require the GTs to deliver the new CDSP arrangements in full by 1 April 2017. To do so we introduced a new Standard Special Condition (SSC) A15A (Central Data Service provider), amended SSC A15 (Agency) and made a number of other consequential modifications to the GT licence.
- The Final Uniform Network Code (UNC) Modification Report for UNC565 and the alternative modifications UNC565A and UNC565B were submitted to Ofgem in December.⁶ The modifications proposed to amend the UNC to establish provisions relating to the appointment, functions and ongoing operation of the CDSP, the Data Services Contract (DSC), the basis on which DSC Committees are established and provisions in relation to the UK Link system. The modifications only differed on the arrangements for representation on the DSC Committees. On 19 January 2017 we published our decision to approve UNC565A.⁷
- Xoserve now has DSC or UK Link User Agreement (UUA) contracts for all current and future users of CDSP services. The DSC is the contract between the CDSP and Gas Transporters and shippers whereas the UUA is for users such as Trader users who only need access the UK Link service.
- New committees have been established on Change management, Contract management and Credit arrangements which all users of CDSP services have been invited to take part in.
- The new Xoserve Board has been finalised. Shippers, Gas Distribution Networks, National Transmission System and Independent Gas Transporters (IGTs) have each nominated Directors who have now been appointed to the Board. Xoserve's constitutional documents have been updated to reflect the new arrangements.

Funding arrangements

- All users of CDSP services will now pay the CDSP directly for the services they receive. This has been implemented through a new charging and cost allocation methodology which was developed by the industry and approved by Ofgem as part of the UNC565A modification.
- We decided to reduce the GTs total allowed expenditure for Xoserve costs by £111.6 million to reflect that all users of CDSP services will pay the CDSP directly and to reflect some efficiency savings.⁸
- Xoserve's business plan and budget was developed through a revised process which involved more stakeholder engagement and transparency. The final business plan and budget for 2017/18 was approved by the Xoserve Board in January 2017.

⁶ The Final Modification Report, UNC565, UNC565A, UNC565B and industry representations can be viewed on the Joint Office of Gas Transporters website at <http://www.gasgovernance.co.uk/0565>

⁷ <https://www.ofgem.gov.uk/publications-and-updates/unc-0565-0565a-0565b-central-data-service-provider-general-framework-and-obligations>

⁸ <https://www.ofgem.gov.uk/publications-and-updates/decision-our-review-gas-transporter-agency-xoserve-costs-riio-gd1-and-t1>

Independent Gas Transporters (IGTs)

Following the implementation of the upgrade to Xoserve's UK Link system, known as Project Nexus, IGTs will become users of CDSP services. The IGTs have therefore been involved in the FGO programme through attending work ground meetings, have nominated a Director to the Xoserve Board and have been invited to attend Committee meetings from 1 April 2017.

A project plan to implement FGO for the IGTs has been developed with KPMG's assistance and endorsed by the Programme Board. This will be monitored and delivered by IGTs and Xoserve in line with Project Nexus implementation.