**GT thoughts on the treatment of liabilities in the transition to FGO**

The FGO programme will see a re-casting of the funding and control mould, delivering greater integration of iGTs and Shippers into a central data service provision business model. The model chosen by Ofgem and currently under development by industry parties, the “Cooperative model”, is mutual in nature with organisations and industry constituencies sharing funding and control of the service provider in proportion to their use of Xoserve’s services.

The mutual nature of the proposed business model is such that it is currently envisaged that most, if not all, performance related liabilities will be removed with industry parties instead engaging proactively with Xoserve to deliver improvements. This concept has broad, if not unanimous support throughout the Transporter & Shipper communities. It should be noted that this does not remove any tort liabilities from Xoserve and it is expected that these would be financed by the industry as a whole if required.

A question has been raised relating to the treatment of costs associated with Project Nexus, the strategic UK Link replacement programme which is currently over-running and incurring increased costs to Xoserve. Under the current arrangements, cost overruns are being charged to the GTs who look to fund these charges out of their pre-agreed Price Control Review (PCR) allowances. The programme is currently undergoing a re-planning exercise which is likely to see its initial implementation extended until February 2017 at the earliest, with further code deployment needed for non-core functionality (Retrospective Adjustments) at a subsequent date yet to be defined but which is likely to follow the implementation of the FGO business model.

**Our proposal**

We consider that it is appropriate, once the new funding arrangements are implemented, for these to apply to any in-flight programme of change. Under current industry proposals this will see, for instance, NGGT assuming 100% of all charges for the Gemini system. These charges are currently shared amongst the Transporters on the basis of, roughly, 64% to the DNs and 36% to NGGT. It should be noted that reduced charges to DNs will directly reduce DN charges to Shippers operating in the Retail gas market and see a proportionate increase to the share of Xoserve’s costs charged out to Stakeholders in the NTS. In our funding submission to Ofgem in January this year, the allowances were adjusted appropriately to reflect this change in funding. No industry party has challenged the planned switch over from one funding mechanism to another even though it will happen whilst another strategic change programme, EU Phase 4, is under development.

In the case of Project Nexus, however, it has recently become clear that the some parties are of the opinion that GTs should retain some residual liability for Project Nexus funding. They have suggested that GTs should continue to fund all Nexus costs, including those incurred following the implementation of Phase 2 of FGO in April next year. This proposal occurs against a backdrop which will see GTs’ allowances shared amongst the Shipper community and, to a lesser extent, the iGTs. We have countered this proposal with the following:

* It has not been suggested for any other in-flight investment
* It undermines the principles of switching to new Funding, Governance and Ownership arrangements.
* It does not align with the cost allocation proposals developed so far by the FGO programme
* Recent additions to Nexus scope have shown GTs inability to control the final size and shape of Nexus. It is, therefore, inappropriate to suggest that we should be the only parties to fund it following FGO implementation
* Strategic direction of the Nexus programme has not, for some considerable time, been under the sole control of the GTs. Shippers have been able to actively contribute to the decision making process since the introduction of the Project Nexus Steering Group a couple of years ago. This sharing of control across the industry was further reinforced following the intervention by Ofgem earlier this year. It is, therefore, our contention that Project Nexus is already under the control of the industry as a whole and that GT-only funding of its development should cease with the formal move to FGO arrangements in 2017

It has also been suggested by some representatives on the FGO programme, that the GTs should fund a post-implementation fix on fail service. We do not feel this is necessary as there is certain to be a period of Post-Implementation Support (PIS) provided by Xoserve and its business partners which will address immediate concerns with the new functionality. We are concerned that the scope of Project Nexus is inadequately defined such that calls for re-work could be confused with system errors, creating a never ending liability for ongoing change. We feel that the mutual nature of the FGO is such that relevant parties should be required to adapt to the new funding arrangements from such time as they are implemented. If the industry wishes for GTs to continue to fund Nexus until such time as it is fully implemented, then the legacy funding arrangements should remain in place as well. This would require the FGO implementation date to be deferred from its April 2017 plan. It will also inhibit investment on other change programmes for which there is a clear appetite for shared control and funding as a two-stream funding mechanism is unlikely to be manageable.

It should be acknowledged that there is an expectation amongst some Shippers that Nexus will be fully paid for by GTs. This expectation does not seem to take into account that, under current PCR arrangements, GTs can offset Nexus overspend against their overall Xoserve allowances. If FGO was not being implemented, this would have the net effect that Shippers would receive 100% of the charges as a component of their Transportation invoice. It is, therefore, the change to funding arrangements which is driving the need to reapportion Nexus costs immediately upon the implementation of the new FGO arrangements.