

## Stage 04: Final Modification Report

# 0440:

## Project Nexus – iGT Single Service Provision

At what stage is this document in the process?



This modification is one of number of complementary modifications seeking to implement the requirements identified under Project Nexus. This modification identifies changes to the UNC to enable Independent Gas Transporters to utilise the services of the Transporters Agent Xoserve to administer relevant Supply Points downstream of the Connected Systems Exit Point (LDZ CSEP).



The Panel recommends implementation



High Impact: Users, Large and Small Transporters



Medium Impact: -



Low Impact: -

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## About this document:

This Final Modification Report was presented to the Panel on 17 April 2014.

The Authority will consider the Panel's recommendation and decide whether or not this change should be made.



Any questions?

Contact:  
**Code Administrator**



[enquiries@gasgovernance.co.uk](mailto:enquiries@gasgovernance.co.uk)



0121 288 2107

Proposer:  
**Chris Warner**



[Chris.warner@nationalgrid.com](mailto:Chris.warner@nationalgrid.com)



07778 150668

Transporter:  
**National Grid  
Distribution**

Systems Provider:  
**Xoserve – Andy Miller**



[commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)



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# 1 Summary

## Is this a Self-Governance Modification?

The Modification Panel determined that this is not a self-governance modification as it is likely to have a material impact on competition and proposes amendments to the Modification Rules.

## Why Change?

Proposed changes to iGT licence conditions require them to appoint a common agent for the provision of Agency Services. Shippers have requested that the common agent allows where possible the harmonisation of the administration of iGT Supply Meter Points with Transporter administration of Supply Meter Points.

The development of Business Requirements under Project Nexus for the replacement and enhancement of UK Link systems provide an opportunity to harmonise the administration of iGT Supply Meter Points with Transporter administration of Supply Meter Point.

## Solution

In August 2011, under independent Gas Transporter (iGT) UNC governance E.ON raised iGT UNC Modification Proposal iGT039 'Use of a Single Gas Transporter Agency for the common services and systems and processes required by the IGT UNC'. The iGT UNC Modification Panel subsequently established a Workgroup to identify and develop the requirements.

The output in terms of systems requirements have been published as a Business Requirement Document (BRD)<sup>1</sup>. Subsequent to this, the principal requirements for a contractual regime has been identified and discussed within the iGT 039 group. The proposed arrangements would require modification of the UNC and iGT UNC.

## Relevant Objectives

Implementation of the changes identified within this Modification Proposal would be expected to facilitate d) Securing of effective competition between Users and f) Promotion of efficiency in the implementation and administration of the Code by removing the process for administering the CSEP NEXA.

## Implementation

No implementation timescales are proposed. However, if the Authority issues a direction that this modification should be made, this text would take effect on the Project Nexus Implementation Date.

Implementation costs are expected to be in the region of £4,000,000 - £8,000,000 with benefits of: one off £2,140,000 – £3,740,000 and annual £5,610,000 – £6,915,000 (see appendix 1 for further details).

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<sup>1</sup> <http://www.gasgovernance.co.uk/nexus/brd>

## 2 Why Change?

### Background to Project Nexus

At the time of the current Gas Distribution Price Control Xoserve anticipated the need for a major IT systems investment programme. Stakeholder consultation was initiated, under the banner of 'Project Nexus' to inform the scope and nature of Xoserve's future services that IT systems would need to support – the detailed Business Requirement Documents that support this document form a key input to the design of that investment programme.

The initial phase of Project Nexus was a consultation exercise, in which interested parties were asked for their views on the long-term strategic requirements for Xoserve's services. The consultation also developed a preferred approach to further definition of stakeholder requirements.

Following the consultation phase of Project Nexus, an Initial Requirements Register (IRR) was compiled, identifying all the topics that respondents to the Consultation had raised.

Topics were grouped into three broad categories:

- UNC changes
- Independent Gas Transporter (iGT) services
- Data management

A UNC Workgroup was established to consider the UNC topics and develop requirements. In respect of iGT services, the requirements have been considered largely within the remit of iGT UNC governance.

### Development of Requirements

In 2009 the UNC Modification Panel agreed a Workstream (later renamed Workgroup) should be set up to define industry requirements for the development and enhancement of the UNC in areas that are relevant to Xoserve's services. The Initial Requirements Register (IRR) formed the basis of the discussions. Consultation responses were grouped into related topics and relevant as-is process models were reviewed and agreed. The Project Nexus Workgroup discussed the responses and reached a consensus on whether to carry forward or close the requirement. The outputs from the Workgroup Topic meetings were baselined Business Requirements Documents (BRDs) and to-be process models (i.e. future state processes).

### Overview of Business Requirements

The original comments in the IRR were grouped into a number of topics, loosely based on existing industry process areas. These topics were tackled in sequential order, to minimise the amount of re-work. The 8 topic areas covered under the UNC Project Nexus Workgroup were:

- Settlement (i.e. submission of Meter Readings and use in Daily Allocation)
- Annual Quantity

- Reconciliation
- Invoicing
- Supply Point Register
- Retrospective Updates
- Non-Functional requirements
- iGT Agency Services (Single Service Provision)

Business Requirements Documents (BRDs) have been documented for each of these topics and have been reviewed by stakeholders.

The scope of this Modification Proposal is limited to the following BRD:

- iGT Agency Services

Proposed changes to iGT licence conditions require them to appoint a common agent for the provision of Agency Services. Shippers have requested that the common agent allows where possible the harmonisation of the administration of iGT Supply Meter Points with Transporter administration of Supply Meter Points.

The development of Business Requirements under Project Nexus for the replacement and enhancement of UK Link systems provide an opportunity to harmonise the administration of iGT Supply Meter Points with Transporter administration of Supply Meter Points.

Modification 0440 creates the concept of the IGTS Supply Point being the end point of the iGT system (i.e. the emergency control valve) and for the purposes of the UNC the equivalent notional exit point from the GT system is known as the CSEP Supply Point. Modification 0440 therefore enables the services created under Modification 0432 Project Nexus Gas Demand Estimation, Allocation, Settlement and Reconciliation Reform, to apply to each CSEP Supply Point. Modification 0440 does this because every IGTS Supply Point has a corresponding CSEP Supply Point. Shippers can therefore nominate an IGTS Supply Point as Class 2, 3 or 4 as they see fit, for the GT transportation services.

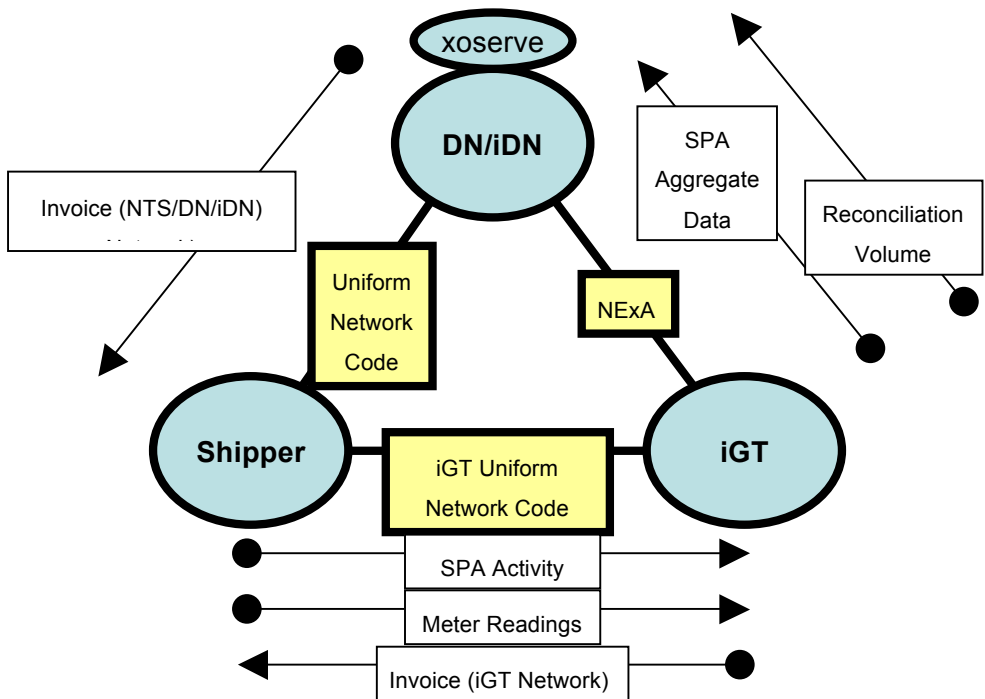
### 3 Solution

The BRDs identify detailed business rules, which form the foundation for the necessary changes to the UNC. The following BRD is relevant to this Modification Proposal:

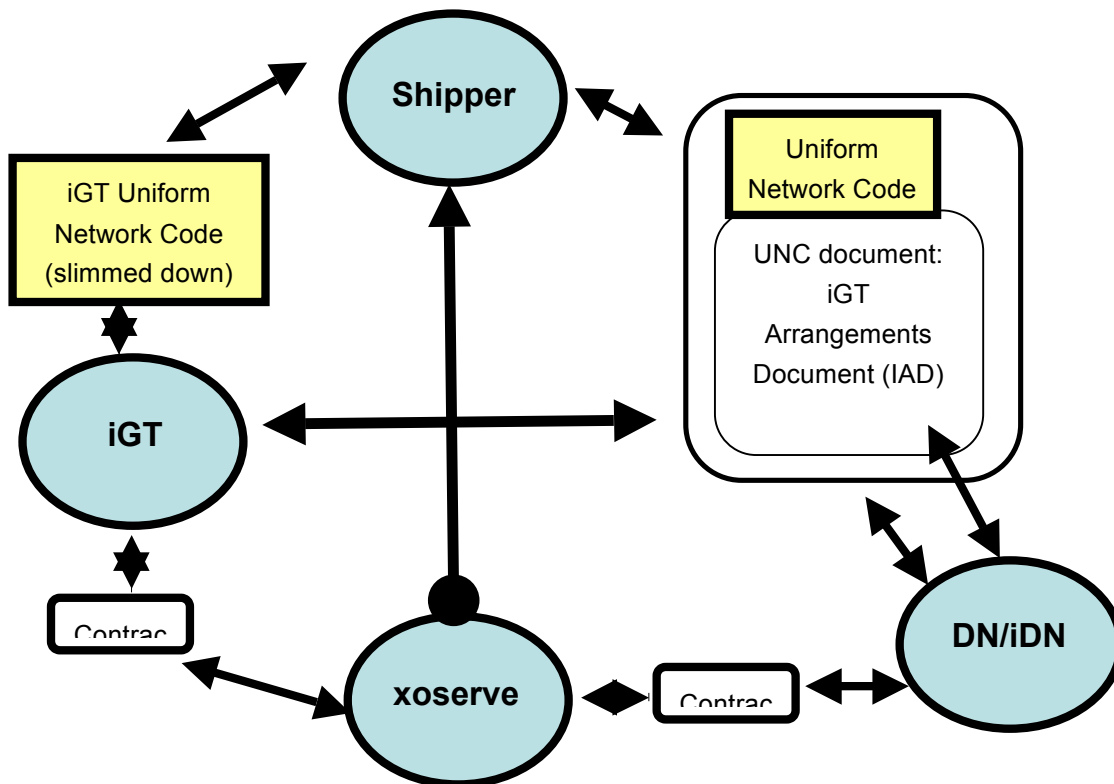
<i>Document Name</i>	<i>Version and Date</i>	<i>Current Location (12/09/12)</i>
Business Requirements Document for iGT Agency Services	v2.0 31/07/2013	www.gasgovernance.co.uk/nexus/brd

#### Introduction

The following information outlines arrangements under which the UNC would be modified to provide for arrangements with iGTs which are currently contained in Annex A of the Local Distribution Zone (LDZ) Connected System Exit Point (CSEP) Network Exit Agreement (NExA) which would enable iGTs to use the services of the Transporters agent Xoserve to administer both their relationships with Users and their relationships with Transporters. This is commonly termed 'Single Service Provision'. The current arrangements are known to be sub-optimal and inefficient. The existing contractual framework and principal data flows are shown below.



Modification of the UNC is required to remove the LDZ CSEP NExA and to replace this with a new framework which introduces a new UNC document being the iGT Arrangements Document (IAD). The following diagram illustrates this.



It is proposed that iGTs become signatories to the UNC through an iGT Framework Agreement.

Changes to the UNC Modification Rules would be required to facilitate iGT participation in governance of the new regime. These include amendments to the UNC Modification Panel constitution including providing voting rights to the iGT member and incorporation of an additional Shipper voting member.

Relevant provisions are required within the UNC Transportation Principal Document (TPD) for Supply Point Capacity, Output Nominations, User Daily Offtake Quantities (UDQO) determination and reconciliation to apply directly to Users having CSEP Supply Points. This would remove the need for LDZ CSEP NExA Annex A Part 12. Where relevant, the cited provisions of TPD would directly refer to CSEPs.

In the absence of a meter (and allocation agency) at the LDZ CSEP, the UNC rules for determination of End User Categories (EUCs) and calculation of (Annual Quantities) AQs must be applied. Instead of being contained in the LDZ CSEP NExA, it is proposed that these rules be incorporated within the UNC.

The LDZ CSEP NExA contains provisions for determining Connected System (CS) Shrinkage (presently contained within Annex A part 9). It is not proposed that relevant Shrinkage provisions are built into the relevant provisions of TPD other than identifying that this be treated as Unidentified Gas.

Elimination of Annex A part 13 (currently constituted in a document separate to Annex A) which provides for Transporters to provide Daily Metered (DM) services is also proposed. It is proposed that relevant provisions be incorporated within the UNC to reflect an on-going requirement for Transporters to provide DM read services for the limited number of iGT Supply Points subject to the Daily Read Requirement.

## IGT Arrangements Document (IGTAD)

The IGTAD would be created as a new document in the UNC (in addition to the Transition Document (TD), Transportation Principal Document (TPD), Offtake Arrangements Document (OAD), General Terms (GTs) and Modification Rules).

The IGTAD would be binding on GTs, iGTs and Users to the extent that it contains rules which affect them. Each Transporter would enter into a new Framework Agreement (iGT Framework Agreement) with the iGTs which binds the GT and iGTs to the GT's individual network code.

The IGTAD would replace the entire LDZ CSEP NExA (including Annex A).

The contents of the IGTAD have for convenience been divided into three sections below:

- Classification and general;
- Connection and offtake rules;
- Rules associated arrangements with Users.

### Classification and general

This would define a Supply Meter Point (SMP) CSEP and Supply Point (SP) CSEP as a 'virtual' CSEP (under UNC TPD A3.3.5) corresponding to each SMP and SP on the iGT System. It would also confirm the scope of the IGTAD – i.e. its application in respect of LDZ CSEPs.

General provisions governing the relationship between GT and iGT such as those in clause 4 and 5 of the LDZ CSEP NExA would be included.

It would also be necessary to include accession rules for new iGTs equivalent to UNC TPD Section V2.

### Connection and offtake

The IGTAD would allow iGTs to have their Connected Offtake System (COS) connected at LDZ CSEPs.

Generic provisions would be required addressing issues being:

1. Commissioning new CSEPs/COSs;
2. Required equipment, compatibility, modifications of plant, rights of inspection;
3. System validation, network load information exchange, etc;
4. Coordinated maintenance;
5. Liability as respects each other's systems;
6. Emergency cooperation;
7. Other information exchange;
8. CS Shrinkage.

The IGTAD would also include rules relating to aggregated offtake information to be provided by the iGT (as per LDZ CSEP NExA Annex A part 11).



## Arrangements with Users

These arrangements in the IAD would substitute for the current LDZ CSEP NExA requirements for the iGT to adopt and apply UNC rules for Supply Point classification, EUCs, AQs, Non-Daily Metered (NDM) and DM Meter Reading, etc. It would be required for the following reasons:

1. The existing requirement (at the LDZ CSEP) to enable Transporters to determine capacity, offtake quantities, etc using existing rules;
2. The requirement (at Supply Points on the iGT's system) for the iGT to have in force the rules which largely mirror those for Supply Points on the Transporters' system

The terms would replicate the existing LDZ CSEP NExA provisions which require the iGT to adopt and apply rules corresponding to those of the UNC.

There is a requirement for the Transporters and iGTs to exchange information, as currently provided in the LDZ CSEP NExA. For example, the Transporters are required to provide EUCs and the iGTs are required to provide the AQs and Supply Point numbers.

These data flows are required between GTs/iGTs as principles, even though they would be implemented by Xoserve within its own systems.

## Other Uniform Network Code Changes

### Treating CSEPs as Supply Points

Changes are necessary to the TPD such that the provisions of Sections B, C, E, F and H which provide for determining Supply Point Capacity, Output Nominations, UDQOs, NDM Reconciliation, etc would operate directly in respect of iGT CSEPs rather than through the medium of the LDZ CSEP NExA.

This would be done by deeming references to SPs, and SMPs in the relevant provisions of TPD to include SP CSEPs, SPC CSEPs and SMP CSEPs (and where necessary excluding Unmetered CSEPs from equivalent provisions which relate to CSEPs).

In respect of CS Shrinkage it is not proposed to include specific arrangements for the identification and treatment of such other than recognising that this would constitute Unidentified Gas.

As noted above, provisions equivalent to NExA Annex A part 12 'Network Code Application' would not be required, since the TPD would directly identify where it applies to a iGT CSEP.

## Changes to other relevant provisions of the UNC

Changes to several other provisions of the UNC would be required as outlined below.

### UNC Introduction

Add to Section 2 (UNC comprises) the IGTAD setting out arrangements between Transporters and iGTs

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Add to Section 4 that each Transporter's Network Code would be made binding between it and iGTs pursuant to the IGT Framework Agreement.

#### Transportation Principal Document

##### Section A

Add after A3.3.7 that where so provided in TPD a reference to a Supply Meter Point, or Supply Point includes a SMP CSEP or SP CSEP.

##### Sections B, C, E, F, H and M

Deeming of references to SMP CSEPs, etc.

##### Section J

In paragraph 1.5.4, Network Exit Provisions in relation to a CSEP are contained in the IGTAD.

Paragraphs 4.3.7 and 6.4 (modification of Network Exit Provisions) – amend to reflect the IAD arrangements for CSEPs.

Paragraph 6.1.3 – this may be unnecessary for CSEPS, since Users may be directly bound by relevant provisions of the IGTAD.

Paragraphs 6.5.3 to 6.5.7 can be deleted (because they are replaced by the IGTAD).

##### Modification Rules

These require modification so that iGTs participate in the UNC modification procedures in relation to modifications of:

1. the IGTAD;
2. any provisions of the UNC which are expressly referred to in the IGTAD;
3. other provisions of the UNC which bind iGTs including the GTs and relevant parts of the Transition Document;
4. the Modification Rules. It is proposed that the existing iGT Panel member is provided with voting rights and there would be an additional Shipper voting member.

##### General Terms

GTB – general – would be amended to refer to the IGTAD and the IGTAD Framework Agreement, to iGTs and possibly to Users in their capacity as iGTs Users. Party is extended to include iGT. Some other definitional and architectural changes would be needed.

##### Other documents

###### Agency Services Agreement

An agreement would be required between iGTs and Xoserve (note: this is outside of the scope of this Modification Proposal).

## User Pays

### Classification of the modification as User Pays, or not, and the justification for such classification.

Since substantial changes to central systems are envisaged in this modification, and those changes involve enhancements to the existing UNC regime, this modification technically could fall within the definition of a User Pays Modification. Xoserve has indicated that the additional costs of implementing this modification, over and above the cost of replacing UK Link systems on a like for like basis with existing functionality, amount to about £4 - 8m. The actual difference in costs between a like for like and enhanced systems development will never be known since only one procurement and development exercise will be undertaken, based on the identified requirements. Ofgem believes that all reasonably foreseen costs arising from the UK Link replacement have been considered when price controls were set, and funding provided. If significant additional costs beyond this can be demonstrated and justified, these should be considered in the context of the arrangements for funding which are in place following the review of Xoserve's governance and funding. On this basis, given this change is embedded with a wider system replacement it is not proposed to include a User Pays element in the funding equation.

### Identification of Users of the service, the proposed split of the recovery between Gas Transporters and Users for User Pays costs and the justification for such view.

Not applicable

### Proposed charge(s) for application of User Pays charges to Shippers.

Not applicable

### Proposed charge for inclusion in the Agency Charging Statement (ACS) – to be completed upon receipt of a cost estimate from Xoserve.

Not applicable

## 4 Relevant Objectives

Impact of the modification on the <b>Relevant Objectives:</b>	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code.	Positive
g) Compliance with the Regulation and any relevant legally binding decisions of the European Commission and/or the Agency for the Co-operation of Energy Regulators.	None

### d) Securing of effective competition

Implementation of the changes identified within this modification would be expected to facilitate the securing of effective competition between Users. Accurate cost allocations arising from a single database and associated Supply Point Administration and settlement processes for GTs and iGTs are a fundamental underpinning for effective competition and the changes are expected to lead to more accurate allocation of costs between Users, this results from making use of more accurate, timely and up to date information than is currently achieved.

Implementation of the proposed changes would also be expected to increase the predictability of cost allocations for individual Users. This would result from the use of more accurate and up to date data, such that costs allocated to a given portfolio would more accurately reflect actual consumption that the User would expect to be aware of. Increased predictability would reduce the risk and uncertainty faced by Users, and consequently could be expected to reduce risk premiums that may be reflected in tariffs and/or prices. This would therefore facilitate the securing of effective competition among existing Users.

In addition to facilitating competition for existing Users, the reduction in risk and uncertainty could reduce barriers to entry. Entrants could come to the market with

greater confidence that they could align their costs and revenues, and greater assurance that any changes they bring to the market through innovative approaches would be reflected in the costs allocated to them. This would also offer a similar benefit for new iGTs as the change in processes would reduce the barriers to entry, as the arrangements developed under this modification would allow new entrants to sign on to an existing regime without the need to develop their own systems and processes to the extent they need to do so now to comply with the CSEP NExA. Therefore facilitating the securing of effective competition.

**f) Promotion of efficiency in the implementation and administration of the Code**

Implementation of this modification will remove the generic LDZ Connected System Exit Point Network Exit Agreement (CSEP NExA), by placing the obligations within Code. This will have the advantages of making the process more transparent and reduce the administration required to make changes effective.

Implementation of this modification would provide a common approach to managing allocations, settlement and reconciliation processes downstream of the CSEP between iGTs and Users, which is consistent with large Transporters processes. This facilitates the replacement of existing dysfunctional arrangements undertaken between iGTs, Large Transporters and Users due to the mismatch in CSEP NExA and UNC obligations. Currently, iGTs send a weekly update for allocation to large Transporters, whereas Users are allocated on a daily basis by iGTs, which may create a discrepancy in allocation add to unidentified gas. These proposals will allow supply points to be allocated on a daily basis and therefore improving the efficiency and implementation of code.

Implementation of this modification offers the advantage of including iGTs as parties to UNC and its governance arrangements. It will introduce voting rights for the iGT Panel representative and add an additional Shipper User representative which will make the voting Panel Membership more representative and inclusive of industry and Code parties, leading to more representative determinations by Panel, furthering the efficiency and implementation of Code.

## 5 Implementation

No implementation timescales are proposed. However, if the Authority issues a direction that this modification should be made, this text would take effect on the Project Nexus Implementation Date. Consequently, following Authority direction (should this occur) the modified text would need to be monitored and amended as necessary as part of any relevant modification which may arise to ensure that it remains in line with the version of the Code applicable at any one time.

For the avoidance of doubt the Project Nexus Implementation Date proposed in Modification 0432 - Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform is 01 October 2015.

The Workgroup notes that there are a number of industry risks that may impact the implementation date for this modification, these include:

- i) Changes to Legislation and Regulations (including European changes) – these may include potential impacts on systems development and/or similar implementation timescales due to industry change congestion which may put the Project Nexus Implementation Date at risk;
- ii) This modification is dependant on the implementation of the new Settlement Regime proposed in Modification 0432 - Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform.

### Consideration of Wider Industry Impacts

See Appendix 1 for a view of industry benefits.

## 6 Legal Text

### Text

The Modification Panel requested Text at the November 2013 meeting. The Text has been prepared by National Grid Distribution and is published alongside this Final Modification Report. No issues were raised by the Workgroup regarding its content.

The Workgroup considers a transitional mechanism for providing the visibility of both current and future state legal text for Project Nexus modifications is required. The proposal will be for the UNC TPD Sections to reflect the prevailing state and will include footnotes and links to the future state Legal Text.

## 7 Consultation Responses

Representations are published alongside the Final Modification Report.

Of the 16 representations received 14 supported implementation and 2 offered qualified support.

Representations were received from the following parties:			
Organisation	Response	Relevant Objectives	Key Points
British Gas	Support	d) – positive f) – positive	<p>Expected to facilitate Single Service Provision for key retail processes across both Gas Transporters and Independent Gas Transporters. This will result in efficiencies of process and cost savings associated with only having to manage one interface for dealing with both GT and IGT supply points.</p> <p>Whilst this proposal in itself will not deliver all benefits, when coupled with iGT039 and associated licence changes, the suite of changes will deliver significant benefits.</p>
Co-Operative Energy	Support	d) – positive f) – positive	<p>Allows the iGTs to make use of Xoserve to administer their relationships with both Users and other Transporters would be expected to result in significant benefit to all industry parties from both a cost and efficiency point of view.</p>
DONG Energy	Support	d) – positive f) – positive	<p>The introduction of a Single Service provider across all Supply Meter Points will bring a consistent approach to the way data is managed and will bring efficiencies through harmonised processes.</p>
EDF Energy	Support	d) – positive f) – positive	<p>One of a suite of modifications being progressed through the gas industry codes to facilitate a single service provision for iGTs. This would enable the use of a single standard process and systems for iGT and GDN processes.</p> <p>Implementation of this and associated modifications will help to reduce industry costs of administering multiple gas system and processes. It will also help to improve data quality across iGTs and so help facilitate cost reflective charging which in turn should result in increased competition and customer choice.</p> <p>Some of the current arrangements in the CSEP NExA are inefficient, causing a mismatch between the iGT and GDN records as they are updated on weekly basis and rejections of updates are not processed effectively. There is also high level of manual administration associated with these processes for GDNs, iGTs and shippers. Implementation of this</p>

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			modification will therefore align iGT and GDN approaches to manage allocation, settlement and reconciliation, which will reduce the amount of manual administration. It is also expected to reduce the amount of unidentified gas that is caused by the current processes as there should no longer be any sites that are registered with the iGTs and not the GDN.
E.ON	Support	d) – positive f) – positive	This modification supports the delivery of single service provision for iGT supply points and ensures that all customers can benefit from the benefits established by Project Nexus changes, those of individual meter point reconciliation and rolling AQ.
Gazprom	Support	d) – positive f) – positive	This modification will deliver a centralised common agent for the provision of Agency Services and will harmonise the administration of iGT Supply Meter Points.
GTC <sup>2</sup>	Qualified Support	d) – positive f) – positive	GTC offers qualified support for this modification on the basis that the cost exposure for GTC as a result of Single Service Provision cannot yet be determined.  As far as relevant objective d): Securing of effective competition between relevant Shippers and relevant Suppliers is concerned, it has been well documented that the introduction of Single Service Provision will reduce costs for Shippers through the uniform use of file formats, processes and improved energy allocation procedures. However, such improvements will only promote competition if such savings are passed through to consumers. GTC believes that this relevant objective will only be achieved if this will be the case.
National Grid Distribution	Support	d) – positive f) – positive	NGD advocates implementation of this modification on the basis that they believe the proposed regime provides for vastly improved arrangements governing the allocation, settlement and reconciliation of Supply Point data at unmetered Connected Systems Exit Points (CSEPs).
National Grid NTS	Qualified Support	d) – positive f) – positive	Recognition of the potential benefits of harmonising the administration of iGT Supply Meter Points with Transporter Supply Meter Point administration, within the terms of this modification.
Northern Gas Networks	Support	d) – positive f) – positive	Implementation of this modification would allow Single Service Provision between Transporters and Independent Gas Transporters, creating a range of cost efficiencies and process improvements.  This would further secure effective competition and efficiencies in the administration of the

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<sup>2</sup> GTC on behalf of GTC Pipelines Limited, Independent Pipelines Limited and Quadrant Pipelines Limited.



			code.
RWE npower	Support	d) – positive f) – positive	It has long been acknowledged that Shippers incur more cost by operating bespoke arrangements for the management of MPRN's on iGT sites. The introduction of a single service provider will bring consistency to the management of data across all sites on the network. It will also enable Suppliers to improve the service to the end Consumer, by harmonising processes across the customer lifecycle. The mandatory roll out of Smart Metering across the UK, and the introduction of the DCC will require a robust framework to deliver the benefits of a 'quicker switching' environment. Introduction of a SSP will contribute toward this by unifying many integral processes in the commercial gas market.
Scotia Gas Networks	Support	d) – positive f) – positive	Implementation of this modification will deliver improved arrangements for the management of iGT data. The introduction of a single agent that administers supply points will benefit Shippers and End Users as processes will be aligned with existing arrangements that are in place for Distribution Networks.  Additionally, this modification plays a part in the success of the impending rollout of smart meters and the need to send information flows to the DCC.
ScottishPower	Support	d) – positive f) – positive	Implementation of this modification supported along with the full introduction of the Project Nexus package of reforms by October 2015. Noting that the Project Nexus initiative has been in development for over five years with the iGT element in progress for 3 years, ScottishPower do not believe that any slippage beyond the intended implementation timescale of October 2015 can be justified, especially when bearing in mind that the benefits of Project Nexus will ultimately accrue to customers.  Furthermore, implementation of this modification will go some way to achieving the long awaited reform of the current disparate arrangements between the GT Agent and the IGT that have prevailed in the market since the inception of iGT connections.
SSE	Support	d) – positive f) – positive	This modification provides a significant element of the changes to the UNC needed to deliver the modification raised under the iGT UNC to require the 'Use of a Single Gas Transporter Agency for the common services and systems and processes required by the IGT UNC'.  Together, this modification, iGT Modification 039 and licence conditions will ultimately deliver significant cost benefits through efficiency gains and ensure that all customers, regardless of the transporter network on which they are connected, will experience a uniform

			and common approach for processes such as change of supplier.
Wales & West Utilities	Support	No comment	Implementation of this modification will provide more efficient processes; however WWU regret that the opportunity was missed to address some outstanding issues relating to the operation of iGT systems.
Winchester Gas	Support	No comment	This modification is expected to allow a more efficient management of iGT sites by shippers due to the systems for dealing with these sites being mainly offline solutions and manually intensive especially with processes differing between iGTs.

Of the 16 representations received 14 supported implementation and 2 offered qualified support.

## Summary Comments

### Benefits

In its response, British Gas points out that it has provided quantitative costs and benefits of single service provision, in confidence, to both Xoserve and Ofgem.

BG believes that the benefits include:

Single interface reduces system and FTE costs.

- One set of business processes will reduce FTE costs.
- Future changes will only require one set of system changes and costs.
- Reduced attendance at multiple code work groups, as elements consolidated.
- Single repository of data improves visibility, access and query resolution speed.
- Better supports arrangements for smart metering and future switching reform.
- Improved customer experience due to ability to speedily resolve customer impacting SPA activities.

In its response, EDF Energy anticipates that there will be a number of changes required to their internal Settlement and billing systems which are difficult to quantify at this stage without further system design detail from Xoserve. However, EDF Energy remains committed to the implementation of this modification as part of a package to deliver a single common industry system. Although there are costs associated with the changes they believe that these are outweighed by the benefits of having a single common process to administer, improved data quality and more accurate energy allocation.

In its response, National Grid Distribution (NGD) noted that iGT Modification Proposal 0039 'Use of a Single Gas Transporter Agency for the common services and systems and processes required by the iGT UNC' continues to undergo development under iGT UNC governance. As the modification was raised in August 2011, NGD urge early conclusion of this work given the close association this modification has with UNC Modification 0440 so that the full benefits of both modifications can be realised.

In its response, National Grid NTS point out that the Modification Proposal indicates Implementation costs of £4,000,000 - £8,000,000 with 'one-off' benefits of £2,140,000 – £3,740,000, and annual benefits of £5,610,000 – £6,915,000. This level of benefits looks high in relation to costs, and it is not completely clear that the 'marginal' benefits only have been properly identified for this modification.

National Grid NTS believes that the basis of all initial capital and ongoing

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administration costs associated with the required changes to the Gemini system should be made available to those impacted by this proposal, as well as for other Nexus related modifications, via the completion of a Detailed Cost Analysis (DCA). National Grid NTS has previously requested that the UNC Panel and Proposer consider completing such a DCA. National Grid NTS considers that this is a necessary pre-requisite for consideration of Project Nexus related modifications in order that an accurate cost vs benefit assessment can be made by those responding to this consultation. National Grid NTS believes that the TPCR4 and RIIO-T1 allowances for Gemini Change Costs did not include any specific or incremental sums for delivering Project Nexus reforms.

In its response, ScottishPower identifies that there are 2 key areas that demonstrate benefits to shippers and their customers with the introduction of the modification, as follows:

## **1. Introduction of the role of Central Agent**

There is no doubt that the management by shippers of different IT functionalities and Data Transfer requirements to support iGT processes places a burden on the shipper and ultimately the customer in terms of Customer Service. SP anticipates that the implementation of Modification 0440 will ensure that the processes are more aligned (with the notable exception of New Connections as it currently stands). SP also believe that the introduction of the central agent will reduce the current complexities, and ensure a more streamline service. Many of the issues inherent to this area of the market have been caused by the requirement for Shippers to operate multiple systems and working practices to support iGT processes such as the use of different file formats to support the change of supplier process. The industry can now apply increased focus and scrutiny to improving Industry data from an end to end process perspective to deliver a better customer experience.

## **2. Introduction of Settlement reform (as per Modification 0432)**

ScottishPower anticipate that the introduction of the central agent will allow for all industry data to be reconciled, and allow shippers an increased level of certainty with regard to energy allocations. There are a number of system and operational practices inherent within the iGT CSEP update and reconciliation regime that particularly disadvantage SSP Shippers. These practices operate with limited validation, controls and reporting and result in mainly debit reconciliation energy volumes being moved between the LSP and SSP market sectors. In addition, the AUGER has identified a high volume of energy related to CSEPs which falls into the unidentified gas category. As this volume of energy is deemed as being temporary and potentially subject to future reconciliation, SSP Shippers incur the risk of reconciliation volume not being submitted in a timely and consistent manner. The introduction of central agent should increase market confidence by ensuring that there are greater controls around the data provision from shippers and iGTs.

In its response, SSE suggests that the modification cannot deliver the cost benefits identified through Xoserve's consultation in isolation and only acts as an enabler. The iGT modification 039 will direct which iGT processes will be fulfilled by the single agency, so it is important that this iGT modification includes all the processes that have been identified as contributing to the cost benefit case. Without this the full benefits will not be realised. Together the modifications must deliver uniform approaches to as many processes as possible to maximise the benefits and to ensure no customers experience a detrimental service.

## **Views on Implementation**

British Gas, Cooperative Energy, E.ON, EDF Energy, National Grid Distribution, Scottish Power and SSE would prefer implementation to be aligned to Modifications 0432 and 0434 currently planned for 01 October 2015.

DONG Energy and RWE npower would prefer the implementation date to be 01 April 2016.

GTC understands that the implementation date of Project Nexus is currently being reviewed in light of the risk of not being able to deliver Project Nexus and European

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gas market reform changes together in October 2015. GTC would not support an earlier implementation for Single Service Provision of October 2015 as they are currently awaiting a detailed specification from the Service Provider to be able to undertake a detailed analysis of the impacts on their systems. It is important to consider whether a standalone implementation of SSP ahead of Project Nexus will impact the cost to deliver single service provision. GTC does believe however, that for the maximum benefits to be realised from Single Service Provision, Modification 0440 should be implemented at the same time as Project Nexus to take full advantage of the new settlement arrangements.

National Grid NTS has concerns surrounding the level of industry change scheduled for implementation in time for Winter 2015 and as such has raised UNC Modification 0491 to delay Project Nexus Implementation. The changes currently planned for implementation in 2015 cover GB compliance with EU Third Package related Network Codes and Regulations, and also output from the current Gas Significant Code Review. If Project Nexus changes are implemented in 2015 it is imperative that there is careful assessment of any impact on other system changes.

Additionally, ScottishPower would find the 18 month lead time acceptable to allow for system changes, however, should there be any scope to bring these dates forward they would be happy to discuss this prospect.

SSE notes that if there is any slippage to UK LINK replacement delivery it would like some consideration to be given to delivering this modification ahead of other aspects of that delivery.

Winchester Gas state that they would like to see a minimum of 1 year lead time to allow for system development and changes.

## Additional Issues Identified in Responses

EDF Energy believes that it is important to emphasise again, even though Modification 0491 has been raised and is out for consultation, the potential conflict of timings of industry change deliverables that are being proposed to be delivered on or around the 1st October 2015, including;

- Change of Gas Day (Mod 0461)
- DCC go-live for smart metering
- Change of Supplier reform
- Other change due to other European network codes

They expect Xoserve to ensure that it manages the interactions of the delivery of so many systems change at once. They also wish to highlight that the impacts of quicker switching initiatives and change of supplier process changes, scheduled for delivery before October 2015, must be taken into account and adequately planned for by Xoserve.

National Grid NTS suggests that given the considerable resourcing required across the industry in order to implement Project Nexus, a programme management approach to delivery would be highly beneficial.

## Modification 0467

In its response the Co-Operative Energy states that they are uncertain as to the degree to which this modification is contingent on Modification 0467 - Project Nexus – iGT Single Service Provision – Data Preparation. They note that Modification 0467 has not yet been issued for consultation as the requirements on Shippers in relation to data are still under development. As a consequence, in their view it is not clear whether or not this modification can be successfully implemented without the successful implementation of Modification 0467.

RWE npower highlights that Modification 0467 (Project Nexus - iGT Single Service Provision; data preparation) outlines the process of data cleansing which is essential for a successful migration of iGT data, and has associated costs for Shippers. The requirements on Shippers to both provide data and cleanse data, are still in development, and if not completed, could impact the successful development of this modification - this was not referenced in the Draft Modification Report. Furthermore, RWE believes that a Licence Condition on iGT's to appoint a Single Service Provider is essential for the success of this modification to ensure participation across the networks.

## Data Cleansing

ScottishPower feel very strongly that the work currently being undertaken in relation to the data cleansing initiatives is a key deliverable ahead of 'Project Nexus' delivery. We would find it inconceivable for the industry to introduce a new multi-million pound system under Project Nexus (and the UKLINK replacement programme) with 'dirty' data. If data is not cleansed prior to the introduction of the new system and functionality then there is the potential that the benefits assumed will not be realised and that there will not be the expected return on investment. If data is not cleansed prior to migration into the Project Nexus functionality there is the potential to pollute and adversely impact the accuracy of the settlement process going forward (as is the case now).

They therefore believe that all industry parties, supported by Ofgem, should be fully engaged and accountable for ensuring that data is accurate before moving into the new regime. In addition to this ScottishPower feel that the introduction of a Performance Assurance Framework is required to ensure that Shippers are appropriately incentivised to ensure that data remains accurate and there is no future deterioration. The introduction of PAF should therefore be aligned with Project Nexus and have shared objectives and delivery dates. This will give the required confidence and assurance to industry parties that the anticipated benefits of Nexus (e.g. financial, process, and soft benefits) can be delivered.

## Other issues

EDF Energy commented that even though current arrangements to calculate shrinkage on iGT networks are not applied, they would welcome a review and application of these arrangements in the near future otherwise this shrinkage will continue to be treated as Unidentified Gas.

Wales and West Utilities believe that the modification presented the opportunity to address two issues that are clearly transporter responsibilities but which iGTs do not currently perform namely Daily Metering services and calculation of Shrinkage on iGT networks. WWU noted that shippers at workgroup meetings seemed reluctant to address either of these issues.

**Daily Metering** - Currently DNs provide this service to shippers on iGT networks. The service is price capped and currently DNs make a loss on each site that is daily metered. DNs are therefore providing a cross subsidy to iGTs with whom they compete for new connections. There are currently two service providers active in the market and it entirely feasible for iGTs to procure a service from one of these service providers, pay the economic cost of that service and charge shippers an appropriate price subject to any caps in their licences.

**Shrinkage on iGT networks** - Currently shrinkage on iGT networks is assumed to be zero and this is perpetuated in the drafting on IGTA C 1.2.1

*"At the Nexus Implementation Date there are no arrangements for the identification or estimation of iGTS Shrinkage or for its allocation as among CSEP Users."*

WWU recognises that iGT networks do not contain metallic mains and therefore their shrinkage will be lower than from DN networks; however they still experience theft and losses due to purging and therefore shrinkage will be non-zero. Appendix 1 of the Workgroup reports states that iGTs have approximately 1.5M supply meter points

which makes them larger in terms of supply points than the two LDZs in Wales (approximately 1M) and approaching the number in the Scotland DN (approximately 1.8M). WWU recognise that introducing shrinkage calculations and then the purchase of shrinkage gas would need careful consideration; however they would at least suggest that the drafting should contain a date by which such processes should be put in place or failing that a date by which shippers and IGTs will meet to agree a timeline for development of such processes.

## 8 Panel Discussions

The Panel Chair summarised that Modification 0440 is one of number of modifications seeking to implement the requirements identified under Project Nexus. This modification identifies changes to the UNC to enable Independent Gas Transporters (iGT) and iGT Users to utilise the services of the Transporters Agent Xoserve to administer relevant Supply Points downstream of the Connected Systems Exit Point (LDZ CSEP). The changes proposed would allow iGTs and iGT Users to benefit from the changes being implemented under Modification 0432 - Project Nexus – Gas Demand Estimation, Allocation, Settlement and Reconciliation reform.

The changes proposed would remove the generic LDZ CSEP NExA, by placing the obligations within Code. Offering the advantages of making the process more transparent and reducing the administration required to make changes effective.

It would provide a common approach to managing allocations, settlement and reconciliation processes downstream of the LDZ CSEP between iGTs and iGT Users, which is consistent with large Transporters processes.

The proposals offer the advantage of including iGTs as parties to UNC and its governance arrangements. It would introduce voting rights for the iGT Panel representative and add an additional Shipper User representative which will make the voting Panel Membership more representative and inclusive of industry and Code parties, leading to more representative determinations by Panel.

Members considered the representations made, noting that, of the 16 representations received 14 supported implementation and 2 offered qualified support.

Members agreed implementation would have positive impacts to relevant objectives (d) and (f) due to more accurate allocation of costs between Users and will remove the generic LDZ Connected System Exit Point Network Exit Agreement (CSEP NExA), by placing the obligations within Code.

Members voted unanimously to recommend implementation of Modification 0440.

## 9 Recommendation

### Panel Recommendation

Having considered the Modification Report, the Panel recommends:

- that proposed Modification 0440 should be made.

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## 10 Appendix 1 – iGT Agency Services Report

A report to the gas industry on the costs and benefits identified by the industry associated with the implementation of the iGT Agency Services arrangements is included below.

## **iGT Agency Services**

### **A report to the gas industry on the costs and benefits identified by the industry associated with the implementation of the iGT Agency Services arrangements.**

iGT Agency Services is the term used to describe the provision, by Xoserve, of services on behalf of iGT to Shippers equivalent to those provided by Xoserve on behalf of the GTs to Shippers as defined in the GT UNC V6.5, with the exception of sections (a) (vii) - transportation invoicing and (a) (x) – NTS UNC Section X

This report has been compiled and published for use by the industry to reference any regulatory change (iGT or GT UNC modifications, Licence Conditions etc). This report has been developed and approved at both GT and iGT industry workgroups.

The relevant extract from GT UNC TPD V6.5 is shown in appendix 1.

Final version December 2013



## Executive summary

This report has been compiled and published for use by the industry to reference any regulatory change (iGT or GT UNC modifications, Licence Conditions etc). This report has been developed at both GT and iGT industry groups.

The Shipper and Supplier businesses have set out a positive case for a single agent to provide the “common” services defined in GT and iGT UNCs e.g. change of supplier, supply point register etc. The GTs, iGTs and Ofgem are committed to establishing the IGT Agency Services arrangement, GT and iGT UNC modifications have been raised to give effect to this and Ofgem has indicated any necessary licence conditions will also be raised. Xoserve has included the industry requirements for iGT Agency Services in its UK Link Programme and is undertaking the systems development work.

To date, two essential modifications to create the iGT Agency Services arrangements have been raised, they are:

GT Modification 0440 Project Nexus iGT Single Service Provision

iGT UNC Modification 039 Use of a single Gas Transporter agency for the common services and systems and processes required by the iGT UNC

GT modification 0440 creates the arrangements between the GTs and iGTs to enable Single Service Provision, and iGT modification 039 creates the scope of the work in the iGT UNC to be performed by the Agent (Xoserve).

The industry has been consulted on the costs and benefits of the iGT Agency Services arrangements and this report has been published for reference by any relevant modification.

The industry provided, to Xoserve, benefits of:

- one off £2,140,000 – £3,740,000
- annual £5,610,000 – £6,915,000

Xoserve has identified costs of:

Systems development £4,000,000 - £8,000,000

Data preparation £400,000 - £650,000

Some qualitative cost areas have been identified by Shippers, and iGTs in the consultation process.

If the costs and benefits, as presented, are considered over a 5 year recovery there is a positive benefits case of between £25,790,000 and £37,665,000.

## **Contents**

1. Introduction
2. Overview of the iGT Agency Services initiative
3. iGT overview
4. Consultation approach and response summary
5. Cost benefit case summary

Appendix 1 GT UNC V6.5 extract

Appendix 2 Summary of shipper responses against the consultation document

Appendix 2 The original consultation document for reference

## 1. Introduction

This report has been prepared to assess the gas industry business case in support of the iGT Agency Services initiative.

The industry aspiration is that the iGT services mirror those of the GT services with regards to the scope of services provided by Xoserve as defined in UNC TPD V6.5 (see Appendix 1). The industry has been developing the requirements for iGT Agency Service. Xoserve commenced systems analysis work in February 2013 in anticipation of the supporting modifications being implemented.

In order to enable Xoserve (and others) to commit resources and commence systems / process development in a timescale that meets an intended 2015 delivery, a business case consultation was completed in March 2013. This is to provide a confidence factor to the eventual outcome of the modifications.

Modifications are required to each GT UNC and iGT UNC. A modification has been raised to each UNC to give effect to the arrangements. These are:

- GT UNC modification 0440 Project Nexus iGT Single Service Provision, and;
- iGT UNC Mod 039 Use of a single Gas Transporter agency for the common services and systems and processes required by the iGT UNC

In summary, GT modification 0440 creates the arrangements between the GTs and iGTs to enable iGT Agency Services, and iGT modification 039 creates the scope of the work in the iGT UNC to be performed by the Agent (Xoserve). It is expected there will be a licence condition equivalent to the GT Standard Special A15 condition, requiring the iGTs to use an agent for the performance of the common services.

The consultation document for the iGT Agency Services initiative as a whole (mods 0440 and 039) is shown in Appendix 2.

This report may be referenced by modifications related to the iGT Agency Services initiative.

Note: Xoserve has provided (in 2011 based upon the requirements as known at the time) a high level cost estimate of £20m for the suite of Nexus modifications; 0432 - Project Nexus Gas Demand Estimation, Allocation, Settlement and Reconciliation Reform, 0434 – Project Nexus Retrospective Adjustment and 0440 Project Nexus iGT Single Service Provision, for delivery as a single change. However, as requested by Ofgem, Xoserve has provided a “stand alone” cost for each modification for the purpose of completing the modification development. There are a number of economies of scale for the development / implementation of Nexus requirements as a single change over delivery as discreet individual changes. For example, each stand alone cost includes its project management costs. If the suite of functionality is to be delivered as one change the project management costs are more economical. The same principle is true for Shippers for example; they only need to incur one industry testing cost rather than several.

For the iGT Agency Services initiative as a stand alone delivery, Xoserve provided a cost range of £4m - £8m.

## **2. Overview of the iGT Agency Services initiative**

Xoserve will provide a range of services on behalf of iGTs to the gas industry. This includes the provision of a single supply point register containing all iGT and GT supply points against which Shipper activities with iGTs, GTs and between Shippers can be transacted regardless of GT type, e.g. the change of supplier processes, meter asset updates, meter read submissions etc, the AQ review process and other services. Standard file formats will be used for all transactions, changes will be required to accommodate some additional data needed to support iGT supply points, but from a Shipper perspective there will be a single interface with Xoserve for transactions regardless of GT type.

The iGTs will retain the transportation invoicing activity (calculation and submission to Shippers). There is no change to the GT and iGT transportation charging principles as a result of this modification.

The scope of the intended services is included in Appendix 3.

## **3. iGT Overview**

There are 10 iGT licences in operation with live CSEPs.

There are 5 iGT organisations under which are operated the 10 iGT licences.

There are approximately 40,000 CSEPs, of which 4,500 are nested.

There are approximately 1,500,000 supply meter points within the 40,000 CSEPs.

23 shipper organisations currently ship to supply meter points on CSEPs.

The shipper respondents to the consultation are responsible for shipping to approximately 98% of the supply meter points on all CSEPs.

The iGT market is fluid, with new iGT organisations entering the market, the acquisition of one iGT licence by another iGT organisation and the sale of CSEPs between iGT licence holders.

## **4. Consultation approach and response summary**

The consultation document was prepared with the industry at the Nexus Workgroup, Mod 0440 and Mod 039 workgroup meetings. Ofgem agreed to support the process and agreed to provide a statement to the industry on its views of the results of the consultation exercise.

The consultation document was issued to the industry on 26<sup>th</sup> November 2012 via the Joint Office website distribution lists, with notifications provided at other industry fora of the consultation. Written responses were requested to be provided by 18<sup>th</sup> January 2013.

The following organisations provided a written response to the consultation:

Shipper organisations:

British Gas

EDF Energy\*  
E.ON  
Npower  
Scottish and Southern Energy  
Scottish Power

iGT organisations

- ESP Pipelines
- Fulcrum Pipelines
- SSE Pipelines
- GTC (also now representing Inexus)\*

\*responses provided directly to Ofgem, any financial information provided by these organisations has not been provided to Xoserve nor is it included in this report.

In addition, a draft of the report was presented to the iGT 039 and Nexus Workgroups in April 2013 and November 2013 where all Shipper and Transporter organisations present confirmed support for the iGT agency services initiative.

The responses provided have been sufficient to develop the cost benefit case in section 5. In addition a number of shippers provided additional benefit areas to those described in the consultation document.

#### **4.1 Shipper responses summary**

All Shipper respondents supported the principle of the iGT agency services arrangements.

All Shipper respondents identified overall benefits to the iGT agency services arrangements.

Two shipper respondents expressly stated that the iGT agency services arrangements should be in place before or with the other Nexus functionality (settlement products, periodic AQ) is implemented, rather than afterwards, and provided cost and benefit information to support this.

#### **4.2 iGT responses summary**

All iGT respondents supported the principle of the iGT Agency Services initiative.

All iGT respondents have been actively involved in the development of the arrangements through the Project Nexus UNC Workgroup, iGT modification 039, GT modification 0440 and meetings with the GTs and Xoserve to develop requirements.

One iGT set out its case around the licence obligations under which iGT operate, particularly that they must operate in an economic and efficient manner.

The consultation document and the BRDs demonstrate that the extent of iGT services would be extended under the iGT agency services arrangements to cater for the requirements of shipper / supplier organisations e.g. to allow the settlement products to apply to the CSEP. All iGT respondents highlighted that the

beneficiaries of the iGT Agency services arrangements would be the shipper / supplier organisations.

Two iGT respondents drew attention to the present funding arrangements of the iGTs and that this did not provide a mechanism to recover additional costs placed upon them by the wider industry.

All iGT respondents stated the position that they must remain cost neutral in the iGT agency services arrangements, this would include costs they incur in the following areas:

- stranded systems
- development of new systems to allow the interfaces with Xoserve to be effective
- the migration to the new arrangements
- any new requirements for which the beneficiaries are other than iGTs

A number of iGTs referenced the information provided by Xoserve in the consultation document with regards to an illustrative ongoing cost for administering the iGT agency services of £1 per supply point. The consultation document made reference to the issues that the source for this funding is yet to be determined. One iGT respondent considered their operational costs were significantly lower than the illustrative figure provided by Xoserve, again reinforcing the point that if such costs were applied to the iGT, the iGT could not demonstrate operating in an “efficient and economic manner”.

A number of iGTs responded that they would still be required to perform a number of services and maintain systems to support these, for example invoicing, shipper registration, query resolution.

One iGT highlighted they would incur additional costs associated with the management of the third party service provider (Xoserve), both in the establishment of arrangements e.g. contract development, and the ongoing relationship management.

A number of iGTs highlighted that access to the UK Link Network is required to enable efficient communications with Xoserve. Whilst this may also be used for communications with shippers e.g. invoice submission, it was another area of costs associated with the iGT Agency arrangements for which the iGTs should be cost neutral.

A number of iGTs considered that there must be an acceptable outcome to the Ofgem Funding Governance and Ownership review of Xoserve that does not create additional risks for iGT Agency services arrangements.

## **5. Cost benefit case summary**

The information provided in the consultation is set out below in order to provide context to the cost benefit case summary.

From the consultation document:

“Xoserve has provided a high level estimate of the cost of UK Link systems development to deliver the Nexus Programme requirements (which includes

the iGT agency services) of circa £20m. There is potential that there may be system impacts beyond UK Link, and costs associated with those systems (for example, Gemini) are not included in this estimate.

Ofgem has requested that this overall £20m figure is disaggregated and a value provided for each of the UNC modifications, enabling a business case for each modification to be assessed. This has been done and for the purposes of this iGT agency services consultation the Xoserve developments costs are in the range £4m - £8m.

With regard to ongoing costs, to enable the industry to understand the scale of Xoserve ongoing costs for the provision of iGT Agency services Xoserve has assessed the services and broad cost areas for the provision of services on behalf of the Distribution Networks and scaled this accordingly to the services Xoserve will provide on behalf of the iGTs.

The assessment has indicated a cost of £1.00 per supply point per annum for the provision of the “common” services that are provided on behalf of the Distribution Networks. Based upon 1,500,000 iGT supply points this would equate to a cost of £1.5m. However, it does not necessarily follow that the addition of 1.5m supply points to a supply point register already holding 21.5m supply points would result in an increase in costs of £1.5m. This is because that, assuming UK Link is replaced with all Nexus requirements incorporated (cost estimate £20m for Nexus) it will be built for 23-24m supply points. However, the current system is being replaced and will cater for a range of new requirements and will be handling more data and processing a greater number of transactions so a like for like comparison is not possible.

It is probably prudent to proceed with an assumed ongoing cost of £1.5m pa for the provision of iGT agency services in order to move forward the benefits case discussion.

Please note that the cost figures are provided for the purpose of establishing the industry-wide cost benefit case, how (and from whom) it is funded is still to be determined.”

Shipper respondents were able to provide financial information for some of the areas listed in the consultation. Ofgem hold the details of each shipper’s financial data. For the purpose of this report the Shipper benefits and costs data provided to Xoserve has been aggregated and then an extrapolation exercise has been conducted to establish a total Shipper position. This exercise has only been conducted for the Shippers that responded (not all Shippers provided financial information for all the areas). Any cost benefit for the remaining 17 Shipper organisations has not been assessed, it is considered the benefits described by the respondents apply to all Shippers so there may be more benefits than those described below.

Not all financial information provided by Shippers was used, for example one Shipper described benefits that would be accrued from the new Nexus settlement products, these benefits were attributable to the settlement products not iGT agency services initiative (although it is accepted that iGT agency services better facilitates this for iGT supply points) and were therefore excluded.

## **5.1 Benefits**

Benefit area from consultation	Benefit range one off £000's	Benefit range ongoing per annum £000's
Single interface to Xoserve as the "agent" regardless of GT type.	340 - 640	2,000 – 2,600
Common business rules and processes / processing regardless of GT type.	1,800 – 3,100	3,300 – 3,800
Future change would be a single change to systems regardless of GT type	Included in above figures	Included in above figures
Greater visibility of iGT and GT charges	Included in above figures	Included in above figures
Will more easily support smart metering arrangements	Included in above figures	Included in above figures
Governance of GT and iGT services will be in a single place	Included in above figures	Included in above figures
Other benefit areas identified	E.g. reduced training requirements, reduced time preparing process descriptions, quality control documents etc.	310 - 515
<b>Total</b>	<b>2,140 – 3,740</b>	<b>5,610 – 6,915</b>

## 5.2 Costs

Some areas of costs were identified by Shippers and iGTs although the information was not consistent enough to develop an extrapolation.

### 5.2.1 Shipper observations

Shippers will need to migrate data from existing "offline" systems to "core" systems and decommission "offline" systems. "Core" systems changes would also be required to accommodate the new services.



## 5.2.2 iGT observations

iGTs would incur costs for:

- systems changes to move to the agency services arrangements
- stranded systems development
- IX connection
- implementation costs e.g. development of the commercial regime

## 5.3 Additional Xoserve costs identified after the draft consultation report presented in April 2013

During the analysis phase Xoserve identified a new requirement to prepare the iGT data to enable the agency services transactions e.g. change of supplier etc. This is an additional cost and funding is being sought from Shippers for this activity. The cost estimate for this work is in the range of £400k - £650k.

## 5.4 Cost benefit assessment

The industry identified benefits of:

- one off £2,140,000 – £3,740,000
- annual £5,610,000 – £6,915,000

Xoserve has identified costs of:

Systems development £4,000,000 - £8,000,000

Data preparation £400,000 - £650,000

If the costs and benefits are considered over a 5 year recovery there is a positive benefits case of between £25,790,000 and £37,665,000.

The costs were provided in 2010 and the benefits provided in 2013. The time value of the money (2010 – 2013) is not considered material to the business case for this modification.

## Appendix 1

### UNC TPD Section V

#### 6.5 Transporter Agency

6.5.1 The Transporters have engaged a person ("**Transporter Agency**") to undertake the Transporter Agency Activities.

6.5.2 The "Transporter Agency Activities" are:

(a) those activities necessary for:

- (i) the determination for each Gas Year of the Annual Quantity in respect of Supply Meter Points in accordance with Section G;
- (ii) the maintenance of the Supply Point Register and the performance of the Transporter's obligations in relation thereto in accordance with Section G;
- (iii) the generation of Supply Meter Point Reference Numbers;
- (iv) the performance of the Transporter's obligations in relation to demand estimation in accordance with Section H, including the derivation of the Composite Weather Variable, the development of Demand Models and End User Categories, the determination of NDM Supply Meter Point Demand and NDM Annual Quantities in respect of a Gas Year and daily demand forecasting;
- (v) the validation of Meter Readings in accordance with Section M;
- (vi) the notification by a Transporter of the failure to obtain a Valid Meter Reading in accordance with Section M3;
- (vii) the calculation of Invoice Amounts, the submission of Invoice Documents and the resolution of Invoice Queries in accordance with Section S;
- (viii) the implementation by the Transporters of Section U;
- (ix) the admission and termination of Shipper Users in accordance with Sections V2 and V4;
- (x) the implementation by National Grid NTS of Section X;

(b) the performance of the Transporter's obligations in Code in relation to:

- (i) the illegal taking of gas;
- (ii) the receiving and processing data to enable quantities of gas to be allocated to Users at NExA Supply Meter Points and Connected system Exit Points;

- (c) the transmission and receipt of Code Communications for the purposes referred to in paragraphs (a) and (b); and
- (d) the performance of the Transporters' functions in relation to the engagement of the AUG Expert under Section E9;
- (e) the provision, operation, maintenance and development of computer systems;
- (f) to support the implementation of Sections B, C, D, E, F, G, H, M, S, U and X;
  - (i) to the extent not covered in paragraph (i), for the purposes of supporting the implementation of the matters referred to in paragraphs (a), (b) and (c).

6.5.3 Where the agreement between the Transporters for the purposes of this paragraph 6.5 so provides, the Transporter Agency will act on behalf of the Transporters in respect of the exercise of any discretion or rights conferred on the Transporters, the performance of the Transporters' obligations and the giving and receiving of Code Communications in each case for the purposes of and in connection with the Transporter Agency Activities.

6.5.4 Any Code Communication given by the Transporter Agency in relation to the Transporter Agency Activities shall be deemed to have been given by and be binding on the Transporter and Users shall be entitled without enquiry as to the authority of the Transporter Agency to rely on such Code Communication.

6.5.5 Where there is a requirement in the Code that a User give for the purposes of the Transporter Agency Activities a Code Communication to the Transporters collectively, the User shall be treated as having complied with any such requirement where the User gives the Code Communication to the Transporter Agency.

6.5.6 Where for the purposes of Section U:

- (a) there is a requirement that the Transporters provide or make available to a User computer hardware, other equipment or computer software the Transporters shall be treated as having complied with the requirement where the computer hardware, other equipment or computer software is provided or made available by the Transporter Agency;

- (b) there is a requirement that a User returns computer hardware, other equipment or computer software to the Transporters the User shall be treated as having complied with the requirement where the computer hardware, other equipment or computer software is returned to the Transporter Agency.

6.5.7 Nothing in this paragraph 6.5 shall prevent or restrict a Transporter from appointing another person to be the agent of the Transporter for the purposes of the Code other than in respect of or in relation to Transporter Agency Activities and where a Transporter wishes to appoint an agent it shall give notice to each User specifying the identity of the proposed agent and the purposes in respect of which the agent is to be appointed.

6.5.8 Where a Transporter terminates the appointment of an agent it shall give notice to each User specifying the date from which the termination is to take effect.

## Appendix 2 Summary of shipper responses against the consultation document

Shipper response commentary summary			
Organisation	Benefit area	Benefit type	Shipper responses
Shipper / Supplier	System / Process	Single interface to Xoserve as the “agent” regardless of GT type.	<p>Shipper respondents suggested the following:</p> <p>Issues with current arrangements regarding interactions with iGTs:</p> <ul style="list-style-type: none"> <li>- Bespoke applications, processes and interfaces for each iGT organisation have to be maintained</li> <li>- There is a high degree of manual processes e.g. to attach / detach files to email communications.</li> <li>- These arrangements lead to a high degree of data quality issues, risk to the shipper / supplier business and dissatisfaction for the end consumer.</li> </ul> <p>These issues were considered to be resolved as a result of the iGT Agency Services initiative.</p> <p>The iGT Agency Services initiative, with the single interface regardless of GT type, would provide benefits in areas of:</p> <ul style="list-style-type: none"> <li>- reduction in operational costs</li> <li>- standard processes for all supply points (one set of systems, controls etc) leading to more efficient operations</li> <li>- improved data quality, quick data issue resolution</li> <li>- improved service to the end consumer</li> </ul> <p>It was noted that differences in the M Number Creation process would continue under the iGT Agency Services initiative due to the different nature of the iGT and GT businesses.</p> <p>In addition it was noted that without iGT Agency Services the proposed changes and benefits created by modification 432 Project Nexus Gas Settlement Reform, could not be achieved efficiently for iGT supply points e.g. use of the new Class types, rolling AQ etc.</p>

		<p>Shipper respondents suggested the following:</p> <p>Current arrangements:</p> <ul style="list-style-type: none"> <li>- Whilst business rules are already similar the processes for iGT supply points are manually intensive</li> <li>- Shippers reported different performance between Xoserve (on behalf of the GTs) and iGTs for example read submission rejections are higher (in proportion) on iGT supply point than on GT supply points, the same discrepancy occurs in the AQ amendment processes although for 2014 AQ review the iGT processes match the GT processes..</li> <li>- The iGT portfolio does not appear to match the portfolio data provided by the iGTs to the GTs for allocation and GT charging, leading to mis-allocation of costs. The estimated extent of the supply point mis-match between data used for iGT and GT billing is reported at the iGT:GT:Shipper:Xoserve industry meeting and updates are provided to the Gas Forum. The most recent update to the Gas Forum included the following information for supply point mismatch (the figures show the numbers of supply points used by the iGTs for iGT transportation billing are greater than the numbers of supply points provided by the iGT to the GT for GT transportation billing): <ul style="list-style-type: none"> <li>• Mismatch Nov 2012:- 25,712 (1.72%)</li> <li>• Mismatch Dec 2012:- 25,736 (1.71%)</li> <li>• Mismatch Jan 2013 :- 23,913 (1.58%)</li> </ul> </li> </ul> <p>Benefit areas:</p> <ul style="list-style-type: none"> <li>- With one organisation managing processes to consistent rules (regardless of GT type) Shippers should receive consistent performance</li> <li>- With Xoserve holding the “master” data set of iGT supply points there will cease to be a discrepancy between supply point numbers that will be used for allocation, iGT and GT charging.</li> <li>- Opening reads will be treated the same regardless of GT type, it is therefore expected that iGTs will not be charging for estimated opening meter readings, in the same way the GT does not charge</li> </ul>
	<p>Common business rules and processes / processing regardless of GT type.</p>	

		<ul style="list-style-type: none"> <li>- The bespoke processes and systems e.g. spreadsheets, email etc for iGT services would not be required</li> <li>- Numbers of processes are reduced. Process controls and process descriptions are improved and staff training becomes easier and more effective. Fewer “exception” rules to be learnt and applied.</li> <li>- Current GT AQ process is more efficient than iGT process, new post Nexus process expected to be better still. Single AQ process regardless of GT type will bring benefits.</li> <li>- Increased visibility of MPRNs comprised within the CSEP, expected more accurate portfolio match between our records and iGT records.</li> <li>- Common business processes for settlement for example will reduce delays in reconciliation. A central location for data would reduce time for obtaining data for analysis.</li> <li>- The customer is often impacted by the manual and varying nature of iGT processes and Suppliers impacted by reworking errors further increasing costs.</li> </ul> <p>In addition it was noted that without iGT Agency Service the processes needed to meet the changes and achieve benefits created by modification 432 Project Nexus Gas Settlement Reform, could not be achieved efficiently for iGT supply points e.g. rolling AQ services etc.</p>
	<p>Future change would be a single change to systems regardless of GT type</p>	<p>Shipper respondents suggested the following:</p> <p>Current arrangements:</p> <ul style="list-style-type: none"> <li>- Shippers systems have to manage both iGT and GT supply points. The business rules for iGT and GT supply points are not consistent leading to Shippers essentially having bespoke systems and processes for each iGT. One change to the iGT UNC leads to multiple system changes for Shippers.</li> <li>- The iGT and GT business rules differ e.g. SSP AQ Amendment tolerances, although in this example the rules are aligned for the 2014 AQ review.</li> <li>- The iGT and GT business rules change independently of each other.</li> </ul> <p>Benefit areas:</p> <ul style="list-style-type: none"> <li>- reduced cost of system and process change</li> <li>- change is easier / quicker to complete</li> </ul>



		<ul style="list-style-type: none"> <li>- Process controls are improved and staff training becomes easier.</li> <li>- Process alignment for iGT and GT services.</li> </ul>
Wholesale gas market	Greater visibility of iGT and GT charges	<p>Shipper respondents suggested the following:</p> <p>Current arrangements:</p> <ul style="list-style-type: none"> <li>- iGTs maintain their own supply point register (or similar) as the basis for their transportation billing to shippers</li> <li>- GT charges to the CSEP are calculated using aggregate data provided by the iGT.</li> <li>- There is evidence that the two data sets do not match and no supply point reconciliation is conducted.</li> <li>- If the data for the CSEP is not accurate this can lead to misallocated energy amongst Shipper parties.</li> </ul> <p>Benefit areas:</p> <ul style="list-style-type: none"> <li>- As one data set will be being used for both iGT and GT purposes there will be no further misallocation of energy at the CSEP.</li> </ul> <p>In addition it was noted that without iGT Agency Services the processes needed to meet the changes and achieve benefits created by modification 432 Project Nexus Gas Settlement Reform, could not be achieved efficiently for iGT supply points e.g. use of the settlement products etc.</p> <p>Shippers considered:</p> <ul style="list-style-type: none"> <li>- with Xoserve holding both iGT and GT supply point registers any tracking / progress reporting to industry parties will be undertaken efficiently</li> <li>- the iGT Agency Services arrangements will provide one interface and common file formats for the millions of asset exchanges to be undertaken, this making the update of smart metering information more efficient.</li> <li>- One Shipper responded that without the use of a single service provider, iGT meter points will not be settled on a daily basis (products 2 and 3 in Nexus). This means demand reduction (estimated at 5%*) made by our customers will not be reflected in our charges for gas consumption until approximately a</li> </ul>

			year later. (*Oxford Economics report on ‘The Value of Smart Metering to Great Britain’)
	Customer service		<p>Shippers considered:</p> <ul style="list-style-type: none"> <li>- Currently the key touch points of a customer experience have bespoke processes unique to the iGT which can lead to delay and confusion.</li> <li>- the iGT Agency Services arrangements would lead to more efficient internal processes, controls and data accuracy leading to improved customer service, including change of supplier and billing activities</li> <li>- Single systems and processes would reduce the training requirement for staff</li> <li>- Closer tracking on the cost to serve and increased cost reflectivity.</li> </ul> <p>Ofgem has some information to provide on whether shippers/suppliers apply a surcharge to end consumers to cover the additional administrative costs of operating a supply point on an iGT network.</p>
	Other benefit areas		
iGT	Operations	Reduced “front-office” operations. Minimal impact for any future changes in functionality, transaction volumes etc	<p>Shippers considered:</p> <ul style="list-style-type: none"> <li>- should improve iGT processes</li> <li>- The current issues with the larger supply point reconciliation process will cease to exist</li> </ul>

Xoserve	Operations	Remove current CSEP operations processes	Shippers considered: <ul style="list-style-type: none"> <li>- should improve processes and reduce resource costs e.g. the larger supply point reconciliation process will be automated.</li> <li>- The offline system and associated support will not be required as this will be handled by UK Link systems</li> <li>- The various workgroups and the provision of supporting information will not be required</li> </ul>
Industry wide	Governance	Governance of GT and iGT services will be in a single place	Expected reduction in costs for supporting industry meetings and the industry change processes. Effectively there will be one Code document covering the majority of “common” services.

Shippers	Implementation	Cost of systems development	Costs for system development and industry data cleansing.
		Costs if iGT Agency services is delivered <b>before</b> Settlement Reform	The optimum solution is the single service delivery outputs align with settlement reform delivery timescales. There would be a benefit if some iGT processes were able to be delivered before full roll-out, provided these were not further impacted by later changes.  We feel it would be more beneficial to have a single service in place before settlement reform takes place
		Costs if iGT Agency services is delivered <b>after</b> Settlement	Less benefit in terms of AQ – shippers will have to run two processes.  We anticipate this would generate additional IT change/cost internally

	Ongoing costs	Reform	
iGTs	Investment	Stranded costs of existing systems development	
	Ongoing costs	System costs to extract key data for Xoserve and maintain core business data	
GTs			
Xoserve	System investment	Part of the £20m Nexus functionality costs	
	Ongoing costs	£1.00 per supply point	
Other comments			

## **Project Nexus iGT Agency Services GT UNC and iGT UNC modifications consultation**

### **Key information**

**This is a consultation document on iGT Agency Services. Industry parties are requested to respond by 18<sup>th</sup> January 2013 to:**

**[commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)**

**Please complete the information request in Appendix 1 and provide any commentary for Section 4 Relevant Objectives. Any additional comments may also be included.**

#### **Introduction**

This document forms part of the consultation activity for the iGT Agency Services initiative. The iGT Agency Services arrangements are proposed to be delivered as part of the Nexus Programme functionality, which itself is intended to be delivered within the UK Link Programme.

Changes to the GT UNC and iGT UNC will be required to facilitate the iGT Agency Services activities. The supporting modifications to give effect to this are currently being defined and are not expected to be raised until later in 2013. Xoserve intends to commence the Nexus Programme analysis phase in April 2013. To ensure there is certainty that the relevant modifications will be approved a robust business case to support these modifications will be required before April 2013.

This consultation is being conducted in advance of the specific iGT services modifications being raised and the consultation report will eventually form part of the Final Modification Reports to be submitted to Ofgem. This document is structured broadly in the same format as the Final Modification Report.

Appendix 1 contains the benefit and cost template to be completed by respondents.

Appendix 2 sets out at high level, the scope of the iGT Agency Service proposition.

Under the Nexus Programme other functionality is planned to be delivered and modifications (see links below) to support these changes have been raised with the aim of achieving sufficient confidence to enable Xoserve to fund and invest in the development of the changes from April 2013 in order to achieve the implementation date of 2015.

<http://www.gasgovernance.co.uk/0432>

<http://www.gasgovernance.co.uk/0434>

## **1. Summary**

### **Why Change (context)**

As part of the outcome of the GDPCR1, it was agreed that the GTs should be funded for the replacement of the UK Link systems on a “like for like” basis, and that it would be appropriate to consult the industry in future service requirements ahead of undertaking the investment. Rather than asking Xoserve, as the GT agent, to procure replacement systems that deliver the existing functionality, there is an expectation that introducing new requirements at this stage would be the most economic time to implement any such change. This is particularly opportune since it is coincident with the development of smart metering, such that requirements can be specified that recognise changes to metering arrangements rather than any changes to accommodate smart metering being retrofitted in due course.

### **Solution (change proposal)**

The Modification Panel established the Project Nexus Workgroup (PN UNC) to support the development of potential UNC modifications to reflect these new arrangements. In addition Modification 039 was raised against the iGT UNC to establish the iGT Agency Services principle. Building on responses to an Xoserve consultation exercise and the iGT 039 modification, the Project Nexus Workgroup has considered a range of potential changes, and the output from these considerations have been published as a Business Requirement Document (BRD) (see [www.gasgovernance.co.uk/nexus/brd](http://www.gasgovernance.co.uk/nexus/brd)).

The key proposals are:

- Xoserve to provide an equivalent “agency” service to iGTs as they do for GTs
- Single interface between Shippers and all GTs (iGT and GT) for agency services.
- Services include; supply point administration, AQ review, supply point register, supply point reconciliation, possibly invoicing on behalf of iGTs
- Whenever the iGT Agency services are implemented they will utilise whatever existing UK Link functionality is in place at that time.

### **Impacts & Costs (Information Request)**

#### **i) Costs**

Xoserve has provided a high level estimate of the cost of UK Link systems development to deliver the Nexus Programme requirements (which includes the iGT Agency Services) of circa £20m. There is potential that there may be system impacts beyond UK Link, and costs associated with those systems (for example, Gemini) are not included in this estimate.

Ofgem has requested that this overall £20m figure is disaggregated and a value provided for each of the UNC modifications, enabling a business case for each modification to be assessed. This has been done and for the purposes of this iGT Agency Services consultation the Xoserve developments costs are in the range £4m - £8m.

All parties are requested to provide their best estimate of their costs for the iGT Agency Services initiative, if implemented independent of other Nexus Programme functionality.

## **ii) The Case for Change (benefits)**

All parties are requested to set out the benefits that will accrue to them from the suggested changes, and to provide an assessment of the expected impact on the relevant objectives.

## **iii) Implementation**

The planned implementation date for the proposed Nexus changes is 2015. It is anticipated that there may be a series of releases for the Nexus Programme functionality. All parties are requested to provide a view on the position of the iGT Agency services initiative in the release programme relative to the Settlement Reform modification.

## **2. Why Change (Drivers and Opportunity)**

Under the heading of Project Nexus, Xoserve has been consulting widely on future service requirements ahead of planned replacement of UK Link systems. If the services remain unchanged, Xoserve will update its systems to replicate the existing obligations. However, the expectation of a major systems upgrade provides an opportunity to step back and consider the functionality and obligations that are appropriate at the present time. If the industry concludes that change is desirable, the UNC will need to be modified to ensure the obligations and consequent requirements for systems functionality reflect industry requirements.

This reconsideration of system requirements is particularly opportune since it is coincident with the development of smart metering, such that requirements can be specified that recognise changes to metering arrangements rather than any changes to accommodate smart metering being retrofitted in due course.

The expectation is that this is the appropriate time to implement change rather than simply replicating existing systems and then introducing changed approaches over the forthcoming years, with a single change being the most economic and efficient means of introducing the required service changes.

## **3. Solution**

The Project Nexus Workgroup has considered a range of potential changes, and the output from these considerations has been published as a Business Requirement Documents (BRDs) (see [www.gasgovernance.co.uk/nexus/brd](http://www.gasgovernance.co.uk/nexus/brd)). These record the process changes that are envisaged, and on which views are being invited via this pre-modification consultation.

The benefits identified by the Project Nexus Workgroup and recorded within the iGT Agency Services BRD are:

- Creation of one service provider acting on behalf of all iGTs leading to reduced costs and increased efficiency of operation for Shippers operating on iGT Networks leading to improved customer service.
- The use of uniform standard code communication method (IX) for all Shipper: iGT communications regardless of type of GT.
- The use of uniform standard files formats for all Shipper: iGT communications regardless of iGT leading to future cheaper cost of change of systems.
- Enables all services to iGT supply points to be performed at supply and meter point level (rather than the aggregated position at present) leading to greater visibility of commercial data at meter point level
- Creates consistency of data between GT and iGT data at CSEP level leading to more accurate industry data.
- Creates the ability for Xoserve to provide other services on behalf of iGTs e.g. provision of data to Ofgem, leading to improved service to the recipient.
- Has the potential to facilitate the Smart metering regime more effectively than having discrete iGT services.

#### 4. Relevant Objectives

The table below is copied from the modification proposal and reports template. Respondents are requested to consider the impact of iGT Agency Services proposal on the relevant objectives.

Impact of the modification on the <b>Relevant Objectives:</b>	
Relevant Objective	Identified impact
a) Efficient and economic operation of the pipe-line system.	None
b) Coordinated, efficient and economic operation of (i) the combined pipe-line system, and/ or (ii) the pipe-line system of one or more other relevant gas transporters.	None
c) Efficient discharge of the licensee's obligations.	None
d) Securing of effective competition: (i) between relevant shippers; (ii) between relevant suppliers; and/or (iii) between DN operators (who have entered into transportation arrangements with other relevant gas transporters) and relevant shippers.	Positive
e) Provision of reasonable economic incentives for relevant suppliers to secure that the domestic customer supply security standards... are satisfied as respects the availability of gas to their domestic customers.	None
f) Promotion of efficiency in the implementation and administration of the Code	None
g) compliance with the Regulation and any relevant legally	None



## 5. Impacts and Costs

### Consideration of Wider Industry Impacts

The rollout of smart meters, and wider policy objectives to move to environmentally sustainable fossil fuel use, would be supported by the proposed changes since they seek to utilise the additional information available, and to ensure settlement and allocations respond more quickly to demand changes – such as through energy saving measures.

### Costs

#### Indicative industry costs – User Pays

##### Classification of the costs as User Pays or not and justification for classification

The proposals extend the existing services and involve changes to central systems. As such, they meet the definition of a User Pays Modification.

##### Identification of Users, proposed split of the recovery between Gas Transporters and Users for User Pays costs and justification

It is proposed that the costs are met 100% by Shippers. This accords with the User Pays Guidelines when facilitating competition is the Relevant Objective achieved. In addition, it should be noted that the requirements have been identified and requested by Shippers.

##### Proposed charge(s) for application of Users Pays charges to Shippers

It is proposed that any User Pays charges are allocated to Shippers based on their share of transportation charges. This aims to spread the costs proportionately among all Shippers on an established, cost reflective, methodology. Views on whether it would be preferable to develop transactional charges, for example reflecting the use made of differing products, would be welcome.

Views would also be welcomed on potential remedies for IGT cost recovery should IGT costs increase under IGT Agency Service provision. A suggestion has been that a core set of principles should be adopted for such costs;

1) That IGTs should be cost neutral under IGT Agency Service provision.

That parties who benefit from cost savings under IGT Agency Service provision and are able to offset the risk of such costs should fund such increase.

##### Proposed charge for inclusion in ACS – to be completed upon receipt of cost estimate from Xoserve

To be determined.

### Impacts

#### Impact on Transporters' Systems and Process

Transporters' System/Process	Potential impact

UK Link	<ul style="list-style-type: none"> <li>• Extensive changes required</li> </ul>
Operational Processes	<ul style="list-style-type: none"> <li>• To be determined</li> </ul>
User Pays implications	<ul style="list-style-type: none"> <li>•</li> </ul>

Impact on Users	
Area of Users' business	Potential impact
Administrative and operational	<ul style="list-style-type: none"> <li>• Extensive change required</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>• To be determined</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>• To be determined</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>• None</li> </ul>

Impact on Transporters	
Area of Transporters' business	Potential impact
System operation	<ul style="list-style-type: none"> <li>• None</li> </ul>
Development, capital and operating costs	<ul style="list-style-type: none"> <li>• To be determined</li> </ul>
Recovery of costs	<ul style="list-style-type: none"> <li>• See above</li> </ul>
Price regulation	<ul style="list-style-type: none"> <li>• To be determined</li> </ul>
Contractual risks	<ul style="list-style-type: none"> <li>• None</li> </ul>
Legislative, regulatory and contractual obligations and relationships	<ul style="list-style-type: none"> <li>• None</li> </ul>
Standards of service	<ul style="list-style-type: none"> <li>• To be determined</li> </ul>

Impact on Code Administration	
Area of Code Administration	Potential impact
Modification Rules	<ul style="list-style-type: none"> <li>• None</li> </ul>
UNC Committees	<ul style="list-style-type: none"> <li>• None</li> </ul>
General administration	<ul style="list-style-type: none"> <li>• None</li> </ul>

Impact on Code	
Code section	Potential impact
All	The scale of potential changes is expected to involve a large volume of change across the UNC

Impact on UNC Related Documents and Other Referenced Documents	
Related Document	Potential impact
Network Entry Agreement (TPD I1.3)	None

Impact on UNC Related Documents and Other Referenced Documents	
Network Exit Agreement (Including Connected System Exit Points) (TPD J1.5.4)	None
Storage Connection Agreement (TPD R1.3.1)	None
UK Link Manual (TPD U1.4)	Extensive change likely to be required
Network Code Operations Reporting Manual (TPD V12)	None
Network Code Validation Rules (TPD V12)	Change likely to be required
ECQ Methodology (TPD V12)	None
Measurement Error Notification Guidelines (TPD V12)	None
Energy Balancing Credit Rules (TPD X2.1)	None
Uniform Network Code Standards of Service (Various)	Change may be necessary

Impact on Core Industry Documents and other documents	
Document	Potential impact
Safety Case or other document under Gas Safety (Management) Regulations	None
Gas Transporter Licence	None

Other Impacts	
Item impacted	Potential impact
Security of Supply	None
Operation of the Total System	None
Industry fragmentation	None
Terminal operators, consumers, connected system operators, suppliers, producers and other non code parties	More accurate cost allocation in settlement are expected to feed through to other parties

## 6. Implementation

The planned implementation date for the proposed changes is 2015. All parties are requested to provide their view of an optimal implementation timetable, and to set out any views on priorities for the order in which the elements should be implemented – together with supporting explanations for the views expressed. Particularly, we would be interested in views on when IGT services should be implemented i.e. at the beginning, phased or at the end of the Nexus programme, and whether the different implementation approaches would result in different costs.

## 7. Next Steps

All parties are requested to submit supporting information for this pre-modification consultation to [commercial.enquiries@xoserve.com](mailto:commercial.enquiries@xoserve.com)

The close-out date for responses is 18 January 2013.

## **Appendix 1 Cost benefit table**

### **1. Development costs**

For the purposes of this consultation the Xoserve developments costs are in the range £4m - £8m.

### **2. Ongoing costs**

With regard to ongoing costs, to enable the industry to understand the scale of Xoserve ongoing costs for the provision of iGT Agency Services Xoserve has assessed the services and broad cost areas for the provision of services on behalf of the Distribution Networks and scaled this accordingly to the services Xoserve will provide on behalf of the iGTs.

The assessment has indicated a cost of £1.00 per supply point per annum for the provision of the “common” services that are provided on behalf of the Distribution Networks. Based upon 1,500,000 iGT supply points this would equate to a cost of £1.5m. However, it does not necessarily follow that the addition of 1.5m supply points to a supply point register already holding 21.5m supply points would result in an increase in costs of £1.5m. This is because that, assuming UK Link is replaced with all Nexus requirements incorporated (cost estimate £20m for Nexus) it will be built for 23-24m supply points. However, the current system is being replaced and will cater for a range of new requirements and will be handling more data and processing a greater number of transactions so a like for like comparison is not possible.

It is probably prudent to proceed with an assumed ongoing cost of £1.5m pa for the provision of iGT Agency Services in order to move forward the benefits case discussion.

### **3. Costs v Funding**

Please note that the cost figures are provided for the purpose of establishing the industry-wide cost benefit case, how (and from whom) it is funded is still to be determined.

### Consultation questions

1. All parties are requested to provide a view on the position of the iGT Agency services initiative in the release programme relative to the Settlement Reform modification to determine if there is an optimum implementation schedule.
2. The tables below provide some structure to the benefits/costs information. If possible respondents are requested to provide information in this template to enable Xoserve to compile the industry response for the Consultation Report.

<b>Benefit areas</b>					
<b>This section identifies the potential benefit areas of the iGT Agency Services proposal. Respondents are requested to provide a brief description of how the benefit area would appear as a benefit and to put a financial value (either a single value or range) on this benefit. Please indicate if this is a one-off or ongoing benefit, and where ongoing provide benefits as an annual amount</b>					
Organisation	Benefit area	Benefit type	Benefit description to the Organisation	Benefit value (£ range) One Off	Benefit value (£ range) Ongoing
Shipper / Supplier	System / Process	Single interface to Xoserve as the “agent” regardless of GT type.  Common business rules and processes / processing regardless of GT type.  Future change would be a single change to systems regardless of GT type			

	Wholesale gas market	Greater visibility of iGT and GT charges						
		Will more easily support smart metering arrangements						
	Customer service							
	Other benefit areas							
iGT	Operations	Reduced “front-office” operations. Minimal impact for any future changes in functionality, transaction volumes etc						
Xoserve	Operations	Remove current CSEP operations processes						
Industry wide	Governance	Governance of GT and iGT services will be in a single place						
	Any other comments							

Cost areas						
This section identifies the potential cost areas of the iGT Agency Services proposal. Respondents are requested to provide a brief description of how the cost area would appear as a cost and to put a financial value (either a single value or range) on this cost. Please indicate if this is a one-off or ongoing cost.						
Shippers	Implementation	Cost of systems development	Cost description to the Organisation	Cost value (£ range) One Off	Cost value (£ range) Ongoing	
		Costs if iGT Agency services is delivered <b>before</b> Settlement Reform				
		Costs if iGT Agency services is delivered <b>after</b> Settlement Reform				
	Ongoing costs					
iGTs	Investment	Stranded costs of existing systems development				
	Ongoing costs	System costs to extract key data for Xoserve and maintain core business data				
GTs						
Xoserve	System investment	Part of the £20m Nexus functionality costs			£1.5m per annum	
	Ongoing costs	£1.00 per supply point				
Any other comments						



## Appendix 2 scope of iGT Agency Services.

The table below details the scope of services and where differences in iGT and GT processes may exist.

Lifecycle activities	Additional notes
1 iGT lifecycle	
1.1 iGT migration to new arrangements	
1.2 New iGT to new arrangements	
1.3 iGTs merge / de-merger / sell all or some portfolio	
1.4 iGT goes out of business	Planned
	Unplanned
1.5 iGT terminates licence etc	Planned
2.1 Shipper accedes to GT UNC	Shipper can accede to UNC for sub-set of Distribution Networks
2.2 Shipper accedes to iGT UNC	Shipper must have acceded to all Distribution Networks UNC Shipper must accede to relevant iGT short form Network Code
2.3 Shipper breaches GT UNC	GT applies sanctions to stop growth on GT Network
2.4 Shipper breaches iGT UNC	iGT applies sanctions to stop Shipper portfolio growth on all of its CSEPs
2.5 Shipper voluntary withdrawal from iGT UNC	
2.6 Shipper voluntary withdrawal from UNC	Can only happen with accompanying voluntary withdrawal from iGT UNC
2.7 Shipper merger	
2.8 Shipper de-merger	
2.9 Shipper termination triggered by GT or EBCC	Will automatically result in termination to the iGTs as well
2.10 Shipper termination triggered by iGT	Can happen in isolation to any GT termination
3.1 CSEP : GT set up	
3.1 CSEP creation	
3.2 Nested CSEP creation	
3.3 CSEP “sale” between iGTs	
3.4 CSEP Adopted by GT	
3.5 CSEP natural life ends	
3.6 Duplicate CSEP created in error	
3.7 GT “nests” off iGT Network	
4. Supply point register and invoicing	
4.1 MPRN Creation	GT – UIP contacts Xoserve to set MPRN “live” (note process may be subject to change in the future)
	iGT submits file of expected MPRNs to the CSEP including address, either the AQ or the means for the AQ to be derived, and the nomination confirmed shipper id (or ids (more than one shipper may be signed up))

4.2 Supply point confirmation	GT LSP - nomination file followed by confirmation file SSP - confirmation file
	iGT Domestic – iGT submits meter install record to Xoserve Xoserve submits “auto confirmation” file (including asset, address and any other supply point updated data) to confirmed CSEP shipper
	iGT I&C site – Shipper obtains MPRN from iGT to arrange meter fit, Shipper submits nomination, confirmation and asset file
	iGT DM
4.3 Supply meter point first asset install	GT Shipper / supplier initiated, Shipper submits ONJOB
	GT Customer / meter worker initiated, Xoserve receive C&D Notification
	iGT Domestic – already done as part of confirmation I&C customer or domestic third party meter install Shipper provides asset details
4.4 Supply meter point asset exchange	Shipper / supplier initiated submits ONJOB Customer initiated via meter worker – C&D notification Gas escape emergency initiated asset exchange (data needed to initiate PEMS arrangements)
4.5 Supply meter point meter asset removal	Shipper / supplier initiated submits ONJOB (sets isolation flag to Y) (Will trigger GSIU visit 12 months after removal date (unless new meter installed in the period)) Customer initiated via meter worker – C&D notice Gas emergency initiated asset removal
4.6 Supply meter point meter clamp	Shipper submits ONUPD (sets isolation flag to Y) Triggers Network site visit 12 months after CL status set (unless changed in the period)
4.7 Supply Point Data	Emergency contact information. Update process (shipper data) MAM Id. Update process (shipper data) Gas Act Owner (GAO). Update process (shipper data) Supplier id Update process (shipper data) Market sector code Update process (shipper data) Meter read frequency change Update process (shipper data) Priority Consumer status Update process (shipper data) Vulnerable customer information Update process (shipper data) Meter location

	Update process (shipper data)
	Address
	Update process (shipper or transporter data)
4.8 Supply point events	Change of supplier
	Capacity increase request (no change to GT process)
	Withdrawal (requires Isolation Flag to be Y)
	Theft of Gas event
	An event (e.g. fire etc) causes service pipe to be removed/ relayed/ repositioned
	GSIU event - Supply point is set to Dead by transporter
	Failure to supply gas event
4.9 Meter reading	
	Opening read (asset install)
	Opening read (CoS event incoming)
	Estimated opening read (CoS event)
	Cyclic read
	Must Read SSP
	Must Read LSP
	Meter inspection
	Shipper Agreed Read
	Closing read (asset removal)
	Closing read (CoS event outgoing)
4.10 AQ event	
4.11 Transportation charging event	GT
	iGT Xoserve will hold the data to either calculate and issue the invoice on behalf of the iGT or pass the relevant data to the iGT for them to calculate and issue the invoice.
	iGT invoice back-up data. Sent by Xoserve over the IX in common format.
4.12 Energy charging event	GT
4.13 Commodity and energy reconciliation event	Same process regardless of transporter type
4.14 Failure to Supply Gas incidents charges	
5. Query process	
Duplicate CSEP	iGT only
Duplicate MPRN	iGT and GT
Found MPRN	iGT and GT but different process
M Number creation	iGT and GT but different process
Consumption adjustment	iGT and GT but different process
Isolation query	iGT and GT but different process
Meter asset query	iGT only
Found CSEP	iGT only
Crossed meter	iGT only
6. Non-Code User Pays services	To be provided on behalf of GT and iGT

7. Services on behalf of GT and iGT e.g. Ofgem request under LC 24	Provided on behalf of both
8. Services to GTs and iGTs	E.g. portfolio reports etc
9. iGT support to services	E.g. assistance with query resolution, meter reading provider, transportation charges etc
10. Maintain iGT transportation charges	iGT only – optional service