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Your Reference: UNC Modification Proposal 0506/506A

## UNC Modification Proposal 0506/506A – Gas Performance Assurance Framework and Governance Arrangements

Dear Bob,

Thank you for your invitation seeking representation with respect to the above Modification Proposals. National Grid would like to support 0506A but does not support 0506.

### **Do you support or oppose implementation?**

0506 – Not in support  
0506A – Support

### **Please summarise (in one paragraph) the key reason(s) for your support/opposition:**

We believe that whilst both Modifications would establish the necessary arrangements for the creation of a Performance Assurance Framework, Modification 0506A would be simpler to implement, have less bureaucratic arrangements, would incur no up-front costs and due to its transitional nature would afford parties the opportunity to reflect on performance of the scheme prior to making arrangements of a more enduring nature.

### **Are there any new or additional issues that you believe should be recorded in the Modification Report:**

Modifications 0506 and 0506A are intended to establish arrangements for the creation of a Performance Assurance Framework overseen by a Performance Assurance Committee (PAC). The framework would be administered by a Performance Assurance Framework Administrator (PAFA). The fundamental differences between the two modifications are the inclusion/exclusion of the Transporter Agency, Xoserve as a party to the scheme and the method of appointing the PAFA. The length of time taken, being nearly 3 years, to move from the inception of the Performance Assurance Workgroup (PAW) (January 2013) to the consultation phase of both Modifications is indicative of the complexity inherent in developing and operating such a scheme.

There are considerable uncertainties and complexities still to be identified in operating Performance Assurance arrangements. Consequently our opinion is that Modification 0506 prematurely includes an unnecessary step of requiring a procurement exercise for a third party which could impose additional and unnecessary costs and risks to the industry; these would be incurred in delivering as yet unspecified requirements. Therefore we feel that it would be sensible, at least in the short term, to operate the simpler and less costly framework outlined in Modification 0506A by utilising Xoserve in the PAFA role whilst the new framework 'beds in' and future requirements and workload are fully understood.

We believe the solution identified within Modification 0506A would efficiently deliver the Performance Assurance Framework to a high quality but would incur no 'up front' costs in doing so. Additionally the three year 'transitional' nature of Modification 0506A would also afford UNC parties the opportunity to reflect on the performance of the regime prior to raising the necessary Modification required to introduce the most efficient enduring arrangements. Any decisions regarding the form of the enduring UNC terms could then be made based on the lessons learnt and experience gained from the previous 3 years operation of the framework.

There has been extensive discussion within the workgroup regarding Xoserve's role in administering a competitive tender if Modification 0506 were to be implemented. Transporters have made it clear that they would be likely to utilise Xoserve's skills and track record of successfully conducting competitive tenders on Transporters' behalf and that this would therefore effectively rule the Agency out of also bidding into the tender. Our view is that it would be inefficient for Transporters to be given an obligation under UNC to conduct such a tender but not utilise Xoserve to do so on our behalf. Were Modification 0506 to be implemented then employing Xoserve to perform the tender would also be the only practical way for Transporters to recover their costs, this being through the User Pays mechanism. Of interest Transporters suggested that Modification 0506 could be amended to afford Shippers with the opportunity of arranging the tender themselves thus removing the Xoserve 'issue'. However, this option was not taken up by the proposer.

In the event Transporters determined not to utilise Xoserve to perform the tender then it would still be inappropriate for Xoserve to bid for the PAFA role given that they would also be a party to the framework agreement which could (dependent upon the implementation of subsequent Performance Assurance measures) potentially impose incentives or other obligations and liabilities on them. If Xoserve were to be realistically considered for the PAFA role it is likely that they would need to implement business separation measures which may render their submission uneconomic and unsustainable.

Finally we note that should Modification 0506 be implemented Xoserve would be subject to the Performance Assurance regime but would not be a voting member of the PAC. This would effectively disenfranchise Xoserve from having an appropriate level of influence over the proposed governance arrangements.

### **Self Governance Statement:**

We agree that the Modification Proposal should not be subject to self-governance procedures given its material effect on consumers.

### **Relevant Objectives:**

Relevant Objective: 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.

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

As set out above we believe that the arrangements outlined within Modification 0506A are simple to implement, are a proportionate measure and given their transitional nature do not commit the industry to potentially inefficient enduring arrangements; consequently we believe they facilitate Relevant Objective f. Conversely we believe the arrangements outlined within Modification 0506 are unduly complex in nature and require interfaces which may give rise to additional risks such as data error; consequently we do not believe that Modification 0506 better facilitates Relevant Objective f.

We have concerns that if implemented Modification 0506 would introduce additional costs and risks to the industry as a consequence of the need for an additional significant process step, being the procurement by competitive tender of the PAFA. Those parties bidding into a procurement event would be doing so in absence of a portfolio or specification of work required. This is because, as presently specified Modifications 0506 and 0506A simply require establishment of the PAFA. It is also likely that under Modification 0506, process interfaces between the PAFA and Xoserve (were Xoserve not to fulfil the PAFA role) would add additional complexity and cost to the overall scheme. In this respect it is therefore our view that Modification 0506A would better facilitate Relevant Objective d.

### **Impacts and Costs:**

We agree with the statement in the Draft Modification Report concerning the funding of these Modification Proposals.

### **Implementation:**

We have identified that either Modification could be implemented with immediate effect following approval by the Authority.

### **Legal Text:**

NGD is satisfied that the legal text and commentary as published by the Joint Office within the Draft Modification Report meets the requirements of the Modification Proposals.

### **Is there anything further you wish to be taken into account?**

We trust that this information will assist in the compilation of the Final Modification Report. Please contact me should you require any further information.

Yours sincerely,

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