Dear Rob,

**Resolution of issues affecting the current progress of iGT039 Single Service Provision**

At the iGT039 workgroup meeting held on the 22nd September 2014, attendees again discussed the situation with regard to the arrangements for the funding by iGT parties of costs associated with the running of Single Service Provision by Xoserve and also any required iGT licence changes relating to the contribution method to be employed by iGTs in relation to such costs. The current status and background to these concerns is summarised in Appendix 1 to this letter.

The concerns expressed by the majority of the workgroup were such that it requested the iGT UNC Panel to review the issues raised and, if in agreement, to highlight these concerns to the Authority. Subsequently the Panel has agreed that these concerns are of such importance that a formal letter should be sent to seek an Authority view on the issues. To the Panel’s knowledge no consultations have as yet been published by Ofgem on these matters despite both an apparent agreement on a way forward reached in principle in July 2013 and updates from Ofgem suggesting that a final decision would have to be made before the end of October 2014.

The Panel therefore, on behalf of the work group, is requesting that Ofgem provide an immediate update on when their decisions on the funding and licence issues can be expected together with their views on whether the modification proposal can continue to the consultation stage without these issues being resolved.

Yours sincerely

Steve Ladle  
iGT UNC Panel Chairman
Appendix 1

Current status of iGT039

IGT039 is now considered by the workgroup to be approaching the end of its development work. The proposed changes to the iGT UNC legal text are being externally legally reviewed by a party appointed by the iGTs and once the review is complete there will be a full industry review of the text. The expectation is that this will be completed during October/November 2014 and the Modification will then be sent to the December iGT UNC Panel for a decision on whether it should be sent out for industry consultation.

However, the majority of the iGT UNC workgroup parties believe that the decisions on the associated issues with regard to funding and related licence changes must also be available for such consultation to be appropriate and that without these decisions, parties will not be able to fully respond to the modification proposal. It is the workgroup’s understanding that the decisions on these issues rest with the Authority.

Background

iGT039 was raised in August 2011 and the first workgroup meeting was held on the 8th November 2011. Regular meetings have been held since then and Ofgem attendees have attended the majority of the meetings including the first.

The issue of how the costs that will be incurred by xoserve for the provision of a Single Service have been discussed since March 2012. In the first half of 2013, a cost benefit analysis was carried out by Ofgem on behalf of the Industry to look at the benefits that parties would gain from the introduction of a single service operation to harmonise the administration of iGT Supply Meter Points with Transporter administration of Supply Meter Points with Xoserve as the agent. The result of the analysis, based on costs put forward by xoserve for development of the single service operation as part of the larger Nexus project, showed that there was a very positive case for the change to the Single Service concept.

During early 2013 various options as to what proportion of the Agent's costs would be met by iGTs and hence what remaining costs would be met by shippers were set out. In June 2013 a cost neutrality option whereby iGTs would contribute up to the level that they currently expend on providing those services to shippers that would in future be provided by xoserve directly, was discussed in detail. In July 2013 an alternative revenue based approach put forward by Ofgem,
was first discussed in detail. At the same meeting it was discussed whether a licence condition would be required for IGTs to implement SSP and to determine their cost contribution.

Since then the issues have been covered on the Agendas and have in general been consistently deferred pending formal proposals and decisions from Ofgem. As there were always a significant number of other issues being progressed this was not considered to be a major problem on the assumption that the funding position would be clear by the time the modification proposal was ready to be consulted on. The group has also raised from time to time whether a User Pays mechanism is required for the iGT UNC but has always postponed this discussion pending the Ofgem decision on the funding and cost recovery mechanisms.

However, whilst the workgroup now believe most of the outstanding issues have been resolved and that once the proposed final legal text has been reviewed, the modification proposal should be ready to be submitted for industry consultation, the workgroup is conscious that no final decisions have yet been received from Ofgem on the funding and licence issues. During the lifetime of the workgroup, it is recognised that the Ofgem view on funding may also have potentially changed as a result of the ongoing Xoserve Funding, Governance and Ownership project.

An update was provided at the July 2014 meeting following a further conversation between Gethyn Howard (iGT039 workgroup chair) and Jon Dixon as follows:

- **Annual cost of Agency Services and cost split**

  It is expected that a methodology will underpin the IGT contribution to Agency Services which is being developed by Ofgem. This will be based on the equivalent allowance IGTs receive for agency services under RPC. It is anticipated Ofgem will provide a formal update on this and any potential consultation regarding IGT licence conditions.

- **Agency costs for future modifications**

  Though subject to confirmation, it is anticipated that future Agency development costs would be recoverable using existing industry mechanisms i.e. User Pays. As such, IGTs would not require User Pays specifically in the IGT licence or IGT UNC. Again, It is anticipated Ofgem will provide a formal update on this in due course.

  The underlying approach to the revenue based approach would be to determine the IGT contribution based on the GDN revenue allowance for Xoserve conducting such
activities. This was to ensure that Shippers were not effectively paying for the service
twice

At the August 2014 meeting (meeting no 26) shippers again queried whether it was expected that
the funding aspects would be agreed before IGT039 was sent to consultation. The majority view
of the workgroup was that publication of the Ofgem decisions would be necessary in order for
parties to be aware of the cost implications on their businesses. Such cost implications would
form an important aspect of their consultation responses to IGT039. At the same meeting an
Ofgem update was provided which said that the consultation for the IGT licence condition and
associated funding methodology was now slipping into Sept, but cannot be any later as they
want to make decisions on the licence mod, UNC440 and UNC467 before the end of Oct to meet
critical date on Xoserve’s planning. The workgroup and Panel therefore believe that the
consultation and consequent decision must take place imminently to avoid any undue delay to
iGT039 and requests that Ofgem provide an immediate update on when their decisions on the
funding and licence issues can be expected together with their views on whether the modification
proposal can continue to the consultation stage without these issues being resolved.