

PRE-MARKET ENGAGEMENT

IMPLEMENTATION OF CHANGES TO FUNDING, GOVERNANCE AND OWNERSHIP ARRANGEMENTS FOR XOSERVE

1. Introduction

This document, which is being issued by the Energy Networks Association (“the ENA”), is seeking information in respect of the implementation of changes to the funding, governance and ownership arrangements for Xoserve.

This document constitutes a pre-market engagement process. It does not constitute part of a formal tender process, although responses to this document may be used as part of that tender at a later date. Responses to this document will not be used to select the parties that are invited to participate in the formal tender process. No party that responds to this Pre Market Engagement document is obligated to participate in the tender process, and a non-response does not preclude participation in the subsequent tender.

2. Background

Xoserve is appointed by the principal Gas Transporters (“the GTs”) as the Transporter Agency (“Agency”), with responsibility for discharging the GTs’ Licence and Uniform Network Code obligations in respect of transportation transactional services. The range of services includes transportation and energy balancing invoicing services, managing the booking of capacity, running the gas settlement systems and managing the Change of Supplier process. Appendix 1 sets out the key features of Xoserve’s prevailing funding, governance and ownership arrangements.

During 2012-13 Ofgem undertook a review of Xoserve’s funding, governance and ownership arrangements (“the FGO Review”). The objectives of the FGO Review were:

- (a) To promote increased Agency proactiveness for the benefit of the broader industry;
- (b) To support the transparency and efficiency of Agency costs;
- (c) To position funding, risk and control of Xoserve and the central services it provides in the most appropriate way to support these objectives;
- (d) To implement governance arrangements that recognise the importance of Xoserve services to a broad range of stakeholders and are consistent with new regulatory arrangements for GTs for Agency Services; and
- (e) To vary Ofgem’s role in the setting of business plans and budgets for Agency Services.

Ofgem published its FGO Review conclusions in October 2013¹, in which it confirmed its preliminary recommendation that it would require changes to be made to the prevailing funding and governance arrangements so as to establish a co-operative model. This model requires GTs and Shippers to participate jointly in the governance of Xoserve and in the funding of its central services. Ofgem's decision also confirmed that the GTs will continue to own Xoserve, although the governance arrangements will ensure that they cannot have an undue influence over how Xoserve is run.

Alongside the FGO Review conclusions, Ofgem also published a report² prepared by Cambridge Economic Policy Associates that set out a range of options for changing the legal and regulatory framework in order to give effect to the decision to establish a co-operative model. In February 2014 Ofgem published a consultation paper³ on these options. At the time of preparation of this document, decisions in respect of this consultation have not been published.

3. FGO Programme Overview Board

In order to take forward the programme of work required to give effect to Ofgem's FGO Review conclusions, the industry has established the FGO Programme Overview Board ("the FGO POB"), comprising representatives from the GTs, Shippers, Xoserve, independent Gas Transporters ("iGTs") and Ofgem.

The goal of the FGO POB is to achieve in a collaborative manner the transition from prevailing to new arrangements for the funding, governance and ownership of Xoserve consistent with Ofgem's FGO Review conclusions.

The initial view of the FGO POB is that it would be reasonable to target final delivery for April 2016, with phased delivery where practicable in the run up to this date.

FGO POB documentation is available on the website of the Joint Office of Gas Transporters⁴.

4. Services to FGO POB

At its inaugural meeting on 2 June 2014, the FGO POB agreed to tender for services to enable the delivery of the programme.

Successful service providers, who may be individuals, organisations or a consortium, will be accountable to the FGO POB, and will be required to play a key role in leading and coordinating the programme.

¹ See <https://www.ofgem.gov.uk/ofgem-publications/86614/xoservedecisionoct13.pdf>

² See <https://www.ofgem.gov.uk/ofgem-publications/84185/decisionappendixbcepareportonthelalandregulatoryimplementation.pdf>

³ See <https://www.ofgem.gov.uk/ofgem-publications/86146/xoserveframeworkconsultationfeb14.pdf>

⁴ See <http://www.gasgovernance.co.uk/FGO>

5. Pre Market Engagement

The FGO POB also agreed to undertake a Pre-Market Engagement process prior to issuing a formal Request for Proposal (“RFP”), and has engaged the ENA to administer the Pre Market Engagement Process.

The purpose of the Pre Market Engagement is to assist the FGO POB in gathering views and ideas in respect of:

- (a) The scope and nature of the required programme activities; and
- (b) Effective programme approaches that can support the FGO POB in the achievement of its goal.

6. Service Requirements

Service providers will potentially be required to deliver one or more of the following:

- (a) Programme management services, specifically including effective engagement of multiple stakeholders, not only within the FGO POB but also across a wider group of interested parties; and
- (b) Advisory services in respect of changes to regulatory, legal and commercial frameworks and other technical issues arising out of Ofgem’s FGO Review conclusions.

In order to achieve the transition to the new arrangements, there are a number of work streams that need to be defined, developed and delivered. Ofgem’s FGO Review conclusions provide overall direction, but there is still a significant amount of detailed work required across a number of work streams to deliver the transition. The FGO POB considers that there are a number of potentially complex interdependencies between the work streams, and that these will need to be carefully managed and coordinated.

Interested parties are also invited to consider how they would achieve effective collaboration in the event that the FGO POB chooses to appoint multiple service providers.

The FGO POB does not require interested parties to submit firm commercial and financial information into this Pre Market Engagement process, however an indicative view of costs would be welcome.

7. Responding to this Pre Market Engagement

The FGO POB is inviting interested parties to respond to this document, and in particular to provide views and ideas in respect of:

- (a) The key programme management services;
- (b) Programme and work stream structures, and associated key deliverables (noting that finite resources in stakeholder organisations will limit the capacity for parallel work stream meetings);

- (c) The management of interdependencies between work streams;
- (d) How to achieve effective stakeholder engagement for a programme of this scale and complexity; and
- (e) The scope and nature of advisory services in respect of changes to regulatory, legal and commercial frameworks and other technical issues.

8. Status of Responses

This is a pre-market engagement process. It does not constitute part of a formal tender process, although responses may be used as part of that tender at a later date. Responses to this Pre Market Engagement will not be used to select the parties that are invited to participate in the formal tender process. No party that responds to this document is obligated to participate in the tender process, and a non-response to this document does not preclude participation in the subsequent tender.

9. How to Respond

Interested parties are requested to submit written responses by 5pm on 18 July 2014, and to send these by e-mail to:

Clare Cantle-Jones
Gas Regulation and Futures Executive
Energy Networks Association
6th Floor, Dean Bradley House
52 Horseferry Road
London
SW1P 2AF
Email: clare.cantle-jones@energynetworks.org

Telephone: 020 7706 5150

10. Questions about the Pre Market Engagement

In order to assist with the preparation of responses to this document, the FGO POB has arranged an open forum where interested parties may meet with FGO POB representatives to raise questions and seek clarifications.

The open forum will be held at 10.00am on 2 July 2014 at Holiday Inn Solihull, 61 Homer Road, Solihull, West Midlands, B91 3QD. Interested parties wishing to attend the open forum are requested to send their details to Clare Cantle-Jones at the ENA by 5pm on 27 June 2014.

Questions may be submitted by e-mail to clare.cantle-jones@energynetworks.org ahead of the open forum, and responses will be provided on the day.

11. Timetable

The FGO POB has agreed the following timetable for the Pre Market Engagement Process.

16 June 2014	Publication of the Pre Market Engagement Document
27 June 2014	Interested parties register with the ENA to attend open forum
2 July 2014	Open forum for interested parties to meet with FGO POB representatives
18 July 2014	Deadline for submission of responses to Pre Market Engagement

Following completion of the Pre Market Engagement process, the FGO POB will confirm its requirements for services and conduct a formal tender process. The FGO POB aspires to complete the tender process and confirm appointment(s) by the end of September 2014.

Appendix 1 - Xoserve's prevailing funding, governance and ownership arrangements

Gas Transporter Obligations

Each GT has a Licence obligation to appoint a common service provider, and to ensure that its services and systems are established, operated and developed on an economic and efficient basis.

Xoserve has been appointed as the Transporter Agency (commonly referred to as the GT Agent), and the provision of common services is governed by the Agency Service Agreement between Xoserve and the GTs.

GT Agent Services

GT Agent services, outputs and service standards delivered by Xoserve are defined by reference to the GTs' service obligations as set out in their Licences and in the industry governed Uniform Network Code. The principal GT Agent services provided by Xoserve are the maintenance of a national register of gas supply points, including updates to the register when consumers switch gas supplier, the preparation and issue of transportation and energy balancing invoices, and a range of information provision and enquiry services. Xoserve also undertakes extensive investment in its IT estate to ensure service reliability and respond to market reform.

Funding

The *ex-ante* allowed revenues for the provision of common services for 2013 – 2021 have been set through the RIIO-GD1 and RIIO-T1 Price Control Reviews. These were subject to the RIIO requirement on Networks to prepare “well justified Business Plans”, and reflected stakeholder feedback on required service outputs and future market reform.

Xoserve recovers the large majority of its common service provider costs from the GTs. The Agency Services Agreement and a supporting Charging Methodology and Pricing Statements set out the rules that determine the proportion of common service provider costs recoverable from each GT and the means by which these costs are recovered. GT recovery of common service provider costs is through transportation charges levied on Shippers, limited by the value of *ex-ante* allowed revenues.

Under the “User Pays” arrangements, a small proportion of common service provider costs incurred by Xoserve are recovered directly from Shippers. An industry agreed framework governs the “User Pays” services and costs.

Ownership and Governance

Network businesses hold shares in Xoserve, and shareholders nominate Directors to the Xoserve Board. An independent Chairman oversees the running of the Xoserve Board, which delegates authority for the day to day management of the business to the Chief Executive Officer.

The Xoserve Board approves an annual Business Plan and sets budgets for the following Financial Year. The *ex-ante* allowed revenues incentivise the GTs to ensure that common service provider costs are controlled, whilst at the same time having regard to industry defined output requirements, service standards and market reforms.