






UNC Final Modification Report		At what stage is this document in the process?
<h1>UNC 0673 (Urgent):</h1> <h2>Amendment of UNC and DSC arrangements to enable Xoserve to bid for and provide CSS Services</h2>		<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center;">01 Modification</div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center;">02 Workgroup Report</div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center;">03 Draft Modification Report</div> <div style="border: 1px solid #ccc; padding: 5px; display: flex; align-items: center; background-color: #f4a460;">04 Final Modification Report</div> </div>
<p><b>Purpose of Modification:</b></p> <p>This modification creates the arrangements within the Uniform Network Code (UNC) and Data Services Contract (DSC) by which Xoserve can provide Data Communication Company (DCC) Services i.e. operate as the central switching system service provider.</p>		
	Panel consideration is due on <b>22 November 2018</b> (at short notice by prior agreement)	
	High Impact: None	
	Medium Impact: Shipper Users and CDSP	
	Low Impact: Gas Transporters	

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<b>Modification timetable:</b>			 <a href="mailto:trsaunders@northernngas.co.uk">trsaunders@northernngas.co.uk</a>
Ofgem decision on Urgency	24 October 2018		
Workgroup meeting	26 October 2018		
Consultation commences	31 October 2018		Systems Provider: <b>Xoserve</b>
Consultation Close-out for representations	19 November 2018		
Final Modification Report available for Panel	20 November 2018		 <a href="mailto:UKLink@xoserve.com">UKLink@xoserve.com</a>
Modification Panel recommendation	22 November 2018		
Ofgem decision	30 November 2018		

## 1 Summary

### What

The Central Data Services Provider (CDSP) arrangements set out in the UNC General Terms D and the DSC require amendment to enable:

- Xoserve (CDSP) to enter into the next phase of the DCC procurement and (if successful) be appointed as the central switching system service provider (by creating a specific class of service – CSS Services)
- The financial aspects of this activity is to be ring-fenced to Shipper Users.

### Why

UNC General Terms D and the DSC do not provide the commercial arrangements to permit Xoserve to enter into the next stage of the DCC procurement process for CSS Services and, if required, enter into a contract with the DCC. Without this change Xoserve will not be able to progress to the next stage of the procurement.

### How

Amendments are expected to be required to:

- UNC General Terms D
- CDSP Service Documents:
  - o CDSP Service Description
  - o Budget and Charging Methodology and Cost Allocation Methodology
  - o Transitional Arrangement Document.

These changes are to expand the definition of CDSP Services, and create the arrangements such that Xoserve can enter the next phase of the DCC procurement process and (if successful) be appointed as the central switching system service provider by creating a specific class of service (CSS Services). CSS Services will be structured under the DSC such that control, funding, liabilities and any revenue will be ring-fenced to Shipper Users.

## 2 Governance

### Justification for Urgency

Urgent status is requested on the grounds that without this modification, the CDSP is unable to progress in the bid process. There are significant commercial impacts on Xoserve, Shippers and other parties e.g. the DCC, that cannot be overcome without this modification.

Xoserve submitted a tender response for the CSS Services in late September. In order to progress further in the procurement process to the Best and Final Offer Stage (BAFO) in December 2018, Xoserve is required to be in a position whereby it can confirm it is able to enter into the contract with the DCC at the time of the BAFO submissions in early December. This modification is required to be implemented by the 30 November 2018 for Xoserve to prepare the final documents for submission in accordance with the DCC procurement timescales.

The Authority granted urgent procedures for this modification on 24 October 2018.

## Requested Next Steps

This modification should:

- Is to be treated as urgent and is proceeding under a timetable agreed with the Authority

The requirement for this modification has been discussed at DSC Contract and Change Management Committees.

## 3 Why Change?

Xoserve is bidding to provide DCC Service being tendered by the DCC. If successful, the CSS Services will be provided as a commercial service to the DCC. The control, funding, liabilities and any revenues of CSS Services are to be ring-fenced to Shipper Users only.

The UNC (General Terms D and respective CDSP Service Documents) does not support the arrangements required for Xoserve to enter into the next stage of the procurement process in December or to enter in to a contract to provide CSS Services to the DCC.

Amendments are expected to be required to:

- UNC General Terms D
- CDSP Service Documents:
  - o CDSP Service Description
  - o Budget and Charging Methodology and Cost Allocation Methodology
  - o Transitional Arrangements Document.

## 4 Code Specific Matters

### Reference Documents

The proposer welcomes Ofgem's comments with regard to addressing governance constraints that might make it difficult for Xoserve to bid.

<https://www.ofgem.gov.uk/publications-and-updates/switching-programme-outline-business-case-and-blueprint-phase-decision>

Outline Business Case Page 13 para 1.20

*“Consequently we have concluded that it is important that the procurement process should allow existing systems to be considered fairly alongside any new build options. We will work with DCC to ensure that the procurement process and the evaluation criteria do not unfairly benefit or penalise existing systems or discourage new entrants or existing providers from bidding. At the same time we will work with Xoserve to ensure that any governance constraints that might make it difficult for it to bid for, or operate, the CSS are addressed effectively.”*

### Knowledge/Skills

None

## 5 Solution

The purpose of this modification is to amend the UNC and DSC documents such that Xoserve can submit its bid for CSS Services and, if successful, be appointed as the CSS service provider. The amendment includes ring-fencing the financial aspects to DCC Shipper Users only. This is to be achieved by amending:

### General Terms – Section D

Defining CSS Services as services provided to the DCC under the DCC Contract and including CSS Services within the existing definition of CDSP Services;

### CDSP Service Description

Create CSS Services as a fifth class of service, and exclude from existing definition of Third Party Services;

### Budget and Charging Methodology

To ring fence charges relating to the DCC Contract by:

- Identifying Costs (including all liabilities flowing under the DCC Contract) which relate to the provision of CSS Services, as **DCC Service Costs**, or which relate to investment in the DCC Contract by way of infrastructure or change management processes regarding the development of CSS Services, as **DCC Investment Costs**;
- Identifying charges payable by the DCC to the CDSP – **DCC Service Charges** for the provision of CSS Services and **DCC Investment Charges** for undertaking DCC Investment;
- Identifying amounts payable by or to Shipper Users only, the net costs or revenues for providing CSS Services, **DCC Shipper Services Charges**, and the net costs or revenues for undertaking DCC Investment, **DCC Shipper Investment Charges**
- Establishing two new annual charging bases for calculating an annual DCC Service Charges base and an annual DCC Investment Charge base to be apportioned amongst Shipper Users only;
- allowing for differences in forecasting and the outturn for earlier years to be carried forward, for bespoke margins to apply and for bad debt to be rolled forward (i.e. amounts written off as bad debts in respect of DCC Shipper Service Charges and DCC Shipper Investment Charges) when calculating the base and therefore determining the monthly amounts payable by or to Shipper Users;
- for such amounts to be payable by or to Shipper Users on the basis of the existing Shipper Monthly Charging Share calculation;
- for separate invoicing of DCC Shipper Service Charges and DCC Shipper Investment Charges.

### Transitional Arrangements Document

Extend functions of CSS Bid Group to approve material terms of final CDSP bid for CSS Procurement process;

Create rules regarding establishment of CDSP Budget depending on timing of budget process in context of CDSP entering into DCC Contract;

Create rule to reverse all changes in event CDSP final bid is not successful.

## 6 Impacts & Other Considerations

### Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

No

#### Consumer Impacts

None. This modification does not amend any services that impact consumers. The modification creates arrangements between the CDSP and Shipper User only.

#### Cross Code Impacts

None. There is no equivalent modification required to the IGTUNC as the IGTUNC points across to the arrangements in the UNC.

#### EU Code Impacts

None

#### Central Systems Impacts

None. There are no impacts on central systems as a result of this modification. This modification creates the arrangements for Xoserve to operate as a CSS service provider to the DCC under the UNC and DSC.

## 7 Relevant Objectives

Impact of the modification on the Relevant Objectives:	
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.	None
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

This modification seeks to create specific arrangements that apply just to Shipper Users under the DSC. The use of a UNC modification to create these arrangements meets relevant objective (f) in that this modification is the most efficient way of making UNC and DSC changes to meet the required arrangements. The alternative would be a modification to undo much of the arrangements implemented in 2017 as a result of the Ofgem Funding Governance and Ownership review of Xoserve.

## 8 Implementation

There are no implementation costs associated with this modification.

## 9 Legal Text

### Text Commentary

This has been published alongside this document.

### Text

Legal Text has been published alongside this document.

## 10 Consultation

Panel invited representations from interested parties on 31 October 2018. The summaries in the following table are provided for reference on a reasonable endeavours basis only. We recommend that all representations are read in full when considering this Report. Representations are published alongside this Final Modification Report.

Of the 12 representations received 6 supported implementation and 6 offered qualified support.

Representations were received from the following parties:

Organisation	Response	Relevant Objectives	Key Points
BU-UK	Qualified Support	f - positive d - positive	<ul style="list-style-type: none"> <li>Qualified support for this modification because of governance concerns. In general, BUUK supports the implementation of this modification and is not against the CDSP bidding for and providing CSS services. However,</li> </ul>

			<p>concerned that the late notice, urgent status of this modification has meant that the modification hasn't benefited from significant and thorough engagement, which is ideally required considering the complexities.</p> <ul style="list-style-type: none"> <li>• Recognises that without this modification that Xoserve will be unable to progress to the next stage of the DCC procurement, so support it. However, BUUK draws attention to the need for Xoserve as the CDSP to provide greater assurance around the provision of core CDSP services. The proposal to utilise CDSP governance to form CSS services which will then be separated out into specific CSS services means that these will be distinctly different service areas. BUUK believes that the CDSP needs to be able to demonstrate how it will separate out CDSP services and CSS services.</li> <li>• Legal text should provide a consistent distinction between CDSP services and CSS Services.</li> <li>• Concerned about CDSP resources being diverted away from core CDSP services as set out in the DSC, to CSS services.</li> <li>• Would like assurances to be provided in terms of how Xoserve's operations will be separated to reflect provision of services as the CDSP and as a CSS provider.</li> </ul>
<p>Cadent Gas Limited</p>	<p>Qualified Support</p>	<p>f - comments</p>	<ul style="list-style-type: none"> <li>• Agrees that relevant objective (f) is facilitated to a limited extent.</li> <li>• Believes other relevant objectives are also impacted. Considers relevant objective d) to be of greater significance to this Modification. This is because the measures identified enable a customer switching service to be developed by the CDSP under the UNC at less cost to the industry. Supports the modification as Cadent believe the measures identified within the Proposal enable the CDSP, Xoserve to enter the next phase of the DCC procurement process and if successful to be appointed as the Central Switching System Service Provider.</li> <li>• Concerns in relation to governance. In particular, the lack of full industry scrutiny and testing against FGO principles. <ul style="list-style-type: none"> <li>○ Modification was raised with limited industry engagement or notice to the precise nature of its content but understand the necessity for rapid progression of the proposal.</li> <li>○ Believes the scope of the Modification is significantly wider than that of Modification 0666 in that it expands the definition of CDSP services by creating</li> </ul> </li> </ul>



			<p>a new service class, CSS Services.</p> <ul style="list-style-type: none"> <li>○ The Modification requires changes to UNC General Terms (GT) D and the CDSP Service Documents being the CDSP Service Description, Budget and Charging Methodology and Cost Allocation Methodology and Transitional Arrangement Document. The nature of these changes would ordinarily necessitate industry scrutiny to ensure consistency with Xoserve 'Funding, Governance and Ownership (FGO)' principles and to ensure there are no unforeseen consequences or undesirable precedents set.</li> </ul>
Centrica	Support	f - positive	<ul style="list-style-type: none"> <li>● Agrees with the proposer that the proposal meets relevant objective (f).</li> <li>● Supports modification as it is a critical enabler to the CDSP's ongoing engagement in the CSS procurement phase of the Faster &amp; More Reliable Switching programme.</li> <li>● Believes there is an opportunity to deliver a less complex industry solution as CSS provider and potentially one which will be less costly for end consumers by the utilisation of existing industry systems.</li> </ul>
Gazprom Energy	Support	f - positive	<ul style="list-style-type: none"> <li>● Supports this Modification as it seeks to put in place arrangements enabling Xoserve to provide the Central Switching Service (CSS) should it be successful in its bid. It should be noted that Shippers have already approved and funded Xoserve's participation in the procurement exercise to date.</li> <li>● Agrees that this modification is positive in respect of Relevant Objective (f) as Gazprom believe that this modification is the most efficient way of making UNC and DSC changes to meet the required arrangements.</li> <li>● Believes that the alternative option would be a modification to undo much of the arrangements implemented in 2017 as a result of the Ofgem Funding Governance and Ownership review of Xoserve.</li> <li>● In addition, Gazprom believe enabling Xoserve's (the "CDSP") ability to participate in broader market developments and opportunities such as the formation of the UIG Taskforce and Central Switching Service is consistent with the aspirations of the Funding Governance and Ownership (FGO) review.</li> <li>● Recognises and acknowledges some concerns over Xoserve's ability to continue to discharge some of its</li> </ul>

			<p>customers regulatory obligations. However, believes that developing a world class Central Data Service Provider able to support different market sectors equitably and effectively will only enhance its overall ability to provide core services by being able to benefit from enhanced economies of scale and access to a broader knowledge base that will arise.</p>
ICoSS	Support	f - positive	<ul style="list-style-type: none"> <li>• Believes it is appropriate that Xoserve should be allowed to fully participate in the CSS tender process as recognised by Ofgem in the outline business case.</li> <li>• Considers that this modification removes the barriers that would otherwise prevent Xoserve from engaging in the tender process and provide the CSS solution if selected.</li> <li>• Supports immediate implementation.</li> </ul>
National Grid	Qualified Support	f - positive	<ul style="list-style-type: none"> <li>• Supports Xoserve bid to provide Centralised Switching Service (CSS) for the gas and electricity markets. Agrees that implementation would better facilitate relevant objective (f) by utilisation of existing contractual frameworks to provide the capability for Xoserve to deliver the proposed services.</li> <li>• However, support is qualified to the extent that the proposed contractual framework does not increase commercial or regulatory risk to Transporters, or adversely impact the effective delivery of existing services Xoserve provides as the Central Data Services Provider.</li> <li>• No direct impacts on National Grid.</li> <li>• Believes that legal text would have benefited from greater industry input and suggests clarification is needed within the budget and charging methodology paragraph 1.4.1.</li> <li>• Raise three additional points in relation to various licence conditions (see response for details).</li> </ul>
NGN	Qualified Support	f - comments	<ul style="list-style-type: none"> <li>• Believes that it is difficult to determine which relevant objective is most furthered by this modification as none fully benefit from the solution the modification is proposing.</li> <li>• Does not believe that Relevant Objective f) is the ideal objective to assess this modification against but considers it to be the most suitable.</li> <li>• Acknowledges that there is a necessity for the CDSP to create a new service line to limit the funding, liability and revenue arrangements for the Central Switching Service (CSS) activities strictly to Shippers.</li> <li>• However, does not believe the assurance provided within the modification regarding proper segregation of the CSS bid and Data Services Contract (DSC) activities sufficiently</li> </ul>

			<p>addresses the potential risk to the core services provided under the DSC.</p> <ul style="list-style-type: none"> <li>• Concerned that there could be negative UK Link system impacts and related financial liabilities incurred by Uniform Network Code (UNC) parties should the CDSP fail to deliver core UNC services. Particularly as confirmation of UK Link as the delivery vehicle for CSS services has yet to be added to the central systems impacts section of the modification.</li> <li>• Believes there is the potential for a conflict of interest because the CSS will use UK Link as its delivery mechanism, creating a potential for conflict of interest between the core service and the CSS activities, including an impact on bandwidth.</li> <li>• In addition, considers that if the CSS bid was successful there is a further risk on both senior level focus and general resource being distracted by the demands of the implementation and ongoing service, with UK Link being used for both Gas and Electricity under the CSS activity.</li> <li>• Agrees that this modification could be implemented as soon as Authority approval is received.</li> </ul>
SGN	Qualified Support	f - positive	<ul style="list-style-type: none"> <li>• Supports this modification as it allows Xoserve as Central Data Service Provider (CDSP) to continue to participate in the Central Switching Service (CSS) procurement process. The modification will also allow the CDSP to provide the CSS if successfully appointed.</li> <li>• Does not consider that the legal text sufficiently addresses the associated indemnity arrangements, which SGN consider are not limited and/or aligned to the same restricted class of CDSP customers.</li> <li>• Are of the opinion that the DSC Terms and Conditions 12.5(a) Customer Indemnity specifying that all parties are expected to indemnify the CDSP remain un- appraised in this modification.</li> <li>• Reiterates previous concerns expressing that this service line falls outside current CDSP permitted services and, given it is a restricted class service in nature, the Indemnity should only refer to the restricted community to which this service line applies.</li> <li>• Concerned that the urgent status granted to this modification and also previously to Modification 0666 has meant that there has been limited opportunity for industry to fully explore and challenge the implications of the changes.</li> <li>• Furthermore, as a party to FGO and CDSP we believe that</li> </ul>

			<p>the inclusion of the new service line within the current CDSP function, does not represent the intention of the original FGO arrangements. In the absence of an adequate development timescale for these modifications, there has not been an opportunity for alternative arrangements to be explored.</p>
SSE	Support	f - positive	<ul style="list-style-type: none"> <li>• Supports modification as without its implementation Xoserve would not be able to enter into the next stage of the procurement processes for DSC services and, if successful, enter into a contract with the DCC.</li> <li>• Agrees with urgent timescales and implementation as soon as possible.</li> </ul>
Total Gas & Power	Support	f - positive	<ul style="list-style-type: none"> <li>• Supports the CDSP participation in the faster and more reliable switching programme.</li> <li>• Believes that the use of existing industry IT infrastructure should be explored.</li> </ul>
Wales and West Utilities	Qualified Support	f - positive	<ul style="list-style-type: none"> <li>• WWU are not in principle opposed to the CDSP bidding for and providing CSS services if this reduces overall costs for the industry and provides the best value for customers.</li> <li>• Concerns raised about the modification being raised as urgent, as this has prevented a full discussion on the important issues raised within the modification.</li> <li>• Also concerned that the modification does not acknowledge the potential risks to core CDSP services nor does it explain how the risks will be mitigated.</li> <li>• Suggests that if the modification had been subject to normal governance procedures concerns about the potential risks to core CDSP services could have been properly discussed, assessed and mitigated if necessary.</li> <li>• With regard to the relevant objectives, as presented, the modification proposes to put in place arrangements to allow Xoserve to provide CSS services. Without an explanation of the cost benefits the only justification is furthering relevant objective (f).</li> <li>• Additional observations provided in relation to the Assurance of continuing provision of core CDSP services. Since the primary role of the CDSP is to provide services related to the provision of Transportation Services to Shippers. Believes that the inclusion of CSS services as CDSP services and then carving out their governance from the established CDSP governance arrangements shows that CSS services are not in fact CDSP services as originally envisaged.</li> <li>• Three areas of concern are raised in relation to this:</li> </ul>

			<ul style="list-style-type: none"> <li>• The first is that resource may be diverted from core CDSP services to CSS services to the detriment of the CDSP's core customers.</li> <li>• The second is due to the CSS services being provided using UK Link which may lead to a risk that changes to enable CSS services may have an unintended impact on core CDSP services.</li> <li>• The third is that there should be some sort of separation to provide separate accounting to reflect that CSS services is a separate activity.</li> <li>• Additional comments also provided in relation to the Relevant Objectives. It is noted that this modification uses the same justification and argument as Modification 0666 in that it furthers relevant objective (f). Understands that the driver behind Xoserve bidding to provide CSS services is that it will reduce overall cost to Gas Shippers because the cost of providing CSS services is less than the sum of cost to Gas Suppliers of funding their share of CSS costs from another provider plus the cost to Gas Shippers funding the costs of the changes required to UK Link to communicate with a third party CSS. If this is the case, then a justification in terms of furthering relevant objective (d) (competition) on the basis that competition between relevant Suppliers is furthered if they collectively do not have to bear as much cost would have been expected.</li> <li>• Agrees with immediate implementation or by 30 November 2018.</li> </ul>
Xoserve	Support	f - positive	<ul style="list-style-type: none"> <li>• Supports this modification because it creates arrangements that permit Xoserve to bid for, and be appointed as, the Central Switching System (CSS) Service Provider. These arrangements are being established under the UNC and the Data Services Contract (DSC). The DSC was established as part of the Ofgem review of Xoserve Funding, Governance and Ownership (FGO). The definition of Central Data Service Provider Services is being extended to include CSS services.</li> <li>• In addition, believes that the establishment of these arrangements using the DSC is more efficient than creating the arrangements outside of the UNC and DSC, which would to a great extent undo the arrangements established under FGO for all parties.</li> <li>• Confirms that Xoserve will not incur any costs for the implementation of this modification.</li> <li>• Agrees with the timetable in the modification and would</li> </ul>

			expect implementation to immediately follow Ofgem's approval.
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Please note that late submitted representations will not be included or referred to in this Final Modification Report. However, all representations received in response to this consultation (including late submissions) are published in full alongside this Report and will be taken into account when the UNC Modification Panel makes its assessment and recommendation.

## 11 Panel Discussions

## 12 Recommendations

### Panel Recommendation

Members recommended that Modification 0xxx should [not] be implemented