Draft terms of engagement for industry dialogue on xoserve services

Objective

The objective of the dialogue is for industry to reach an agreed position on what central information system services are required, the level of costs, how the associated costs should be met, and the service standards that should apply to key services.

Group composition

The dialogue could take the form of a working group of industry representatives; however it is up to participants to decide how best to progress discussions.

We expect shippers, GDNs, National Grid NTS, xoserve and IGTs to participate in the industry dialogue. We would also expect other interested parties, in particular consumer representatives, to have the opportunity to participate if they wish. The group should comprise a diverse and balanced representation of different interests, including both large and small, domestic and I&C shipper representatives. Participants in the dialogue should be of a suitable level of seniority to able to represent their organisations.

Issues to be considered during the industry dialogue

We expect the industry dialogue to cover five key areas:

1. *Features of xoserve's systems* – the high level features of the gas industry central information systems following planned IS projects,

2. *Cost requirements* - the level of costs that dialogue participants are willing to incur in order to receive xoserve services,

3. *Xoserve funding arrangements* – which of xoserve's services should be funded through the price control,

4. *Service standards* - the service standards to be associated with core services, and

5. *Governance* – the governance arrangements that could be used to support a user pays approach to the funding of xoserve.

Features of the xoserve's systems

A key objective of the industry dialogue is to create an opportunity for GTs and shippers to reach an agreed position on the high level features of major IS projects planned for the price control period, in particular the project to replace key elements of the UK-Link suite of systems. In particular, shippers should have the opportunity to discuss what functionality they are willing to pay for through transportation charges and what functionality they consider imposes excessive costs on their business.

As part of this discussion, participants in the industry dialogue should also consider whether there are any services that should be explicitly excluded from the scope of the gas industry central systems, and whether any elements of the existing systems are redundant.

The project to replace UK-Link is not scheduled to occur until several years into the next price control period. Ofgem does not expect agreement on the detailed aspects of the

project. The dialogue should aim to achieve a sufficient level of detail to enable cost estimates to be prepared for the purposes of setting price control allowances.

Cost requirements

Both GTs and shippers should consider the costs associated with a given level of functionality. The industry dialogue should reach a view on a reasonable level of costs required to carry out the project to replace UK-Link and any other major IS projects planned for the price control period. It should also seek to quantify, at a reasonable level of detail, any reductions in xoserve's operating costs that could be expected to arise following the project.

In order to form a view on the expected level of costs, it may be necessary for relevant parties to make commitments regarding the process going forward. For instance, it may necessary to set a deadline for conclusion of negotiations on the detailed aspects of the project to replace UK-Link.

Xoserve funding arrangements

The GDPCR Second Consultation Document consults on a number of options for the funding of xoserve, including a user pays approach. In the event that a user pays approach is adopted, it will be necessary to decide:

- which of xoserve's services should be core services (and hence funded using ordinary price controlled allowed revenues) and

- which of xoserve's services should be subject to user pays (and hence treated as excluded services for price control purposes).

While Ofgem has not yet made a decision on the funding of xoserve, it is appropriate to develop a more detailed understanding of how a user pays option could look. The dialogue should consider the principles that should be applied to order to determine whether a service should be treated as a core service or a user pays services.

Once a view on the principles has been established, the dialogue should apply these principles in order to form a view on which should be treated as core services and which should be treated as user pays. It will be necessary to consider both xoserve's current set of services and, at a relatively high level, xoserve's future services during the next price control period (for instance following the project to replace UK-Link).

In addition, the dialogue should reach a view on what proportion of xoserve's costs should be attributed towards the provision of core services/user pays services (see below). It will be necessary to consider both the services that xoserve currently provides and, at a relatively high level, xoserve's future services.

Service standards

The RPI-X framework provides a strong incentive to reduce costs. This incentive can be balanced by specifying a range of outputs and standards of services which regulated entities are required to deliver.

The industry dialogue should form a view on the service standards that should apply to core services. Dialogue participants may decide that it is overly cumbersome to develop a formal service standard to apply to each individual core service, and develop an alternative set of arrangements.

As part of this process, dialogue participants should review the service standards set out in the UNC. GTs and shippers may conclude that it is appropriate to amend the UNC to reflect the outcome of discussions.

Governance

For a user pays model to be effective in promoting the introduction of services between price control reviews, the parties need to be able to agree:

- how much the service should cost, and

- who should bear the cost associated with the service.

We welcome the views on how the governance regime could work, including whether the arrangements would form part of the UNC, the SPAA or some other vehicle, and the process that would be followed in order to establish a user pays service.

Deliverables

Nominated representatives (including at least one transporter and one shipper representative) should provide a presentation to Ofgem during early December 2006. The presentation should describe the structure of the report to be provided to Ofgem, and progress so far.

The final product of the industry dialogue should be a report that:

1. describes how dialogue participants have fulfilled the terms of engagement,

2. sets out an agreed view on:

   a   the high level features of the central information systems following the project to replace UK-Link, including whether any existing features are likely to become redundant,

   b   the level of costs that Ofgem should include in price control allowances to fund the project to replace UK-Link,

   c   the level of GT operating efficiencies that are likely to be achievable following the project to replace UK-Link,

   d   the principles that should be used to determine whether a service should be treated as a core service or user pays (in the event that a user pays approach is adopted),

   e   which services should be treated as core services and which (if any) services should be subject to user pays,

   f   the proportion of xoserve's costs that should be associated with core services in the event that user pays funding arrangements are adopted,

   g   the service standards that should apply to core services,

   h   the governance arrangements that could support a user pays model, and

3. lists which companies and organisations agree/disagree with the views expressed in the report.

The deadline for the draft report is 19 January 2007, with the final report to be submitted by 23 February 2007.