

Representation - Modification UNC 0673 (Urgent)

Amendment of UNC and DSC arrangements to enable Xoserve to bid for and provide CSS Services

Responses invited by: 5pm on 19 November 2018

To: enquiries@gasgovernance.co.uk

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| Representative: | Phil Lucas |
| Organisation: | National Grid |
| Date of Representation: | 19 th November 2018 |
| Support or oppose implementation? | Qualified Support |
| Relevant Objectives: | f) Positive |

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

As noted in our representation to Modification Proposal 0666 (*'Establishment of a CSS Bid Group for CDSP central switching system bid activities'*) National Grid supports the development of an Xoserve bid to provide Centralised Switching Service (CSS) for the gas and electricity markets and we therefore, in principal, support the creation of the contractual framework which would enable Xoserve to operate this service (if their bid is successful).

However, this support is qualified to the extent that the proposed contractual framework does not or increase commercial or regulatory risk to Transporters, nor adversely impact effective delivery of existing services Xoserve provides as the Central Data Services Provider. Notwithstanding this caveat, we agree 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.

Implementation: *What lead-time do you wish to see prior to implementation and why?*

There are no direct impacts on National Grid and therefore we do not require any lead time for implementation.

Impacts and Costs: *What analysis, development and ongoing costs would you face?*

Recognising that the CSS bid is a shipper funded activity, we do not anticipate that National Grid will incur any direct analysis, development or ongoing costs.

Legal Text: *Are you satisfied that the legal text will deliver the intent of the Solution?*

We recognise the drivers for this Proposal being subject to Urgent procedures (and acknowledge these were outside the control of the Proposer and Xoserve), however, we believe that both the Proposal and the legal text would have benefitted from greater industry input and scrutiny that would typically be afforded to non-Urgent Proposals which advocate this scale of change.

Consequently, given the minimal opportunity to raise questions and concerns, we believe the text would benefit from clarification in the following areas:

Within the **Budget and Charging Methodology**, we note that paragraph 1.4.1 defines 'Costs' as '*any cost, expense, liability or other outgoing of the CDSP, however arising or incurred*' and that within paragraph 2.3.1, 'DCC Service Costs' are defined as '*Costs...in respect of the provision of CSS Services*'. However, it is not explicit that indirect costs associated with provision of CSS services (for example overheads such as property costs, insurance costs, support services costs, board costs etc) fall within the definition of DCC Service Costs. We believe the text should be explicit regarding the inclusion of indirect costs incurred in provision of CSS services within the term DCC Service Costs.

Are there any errors or omissions in this Modification that you think should be taken into account? *Include details of any impacts/costs to your organisation that are directly related to this.*

We have not identified any such errors or omissions above and beyond the points raised elsewhere in this representation.

Please provide below any additional analysis or information to support your representation

National Grid is mindful of its obligations under the Gas Transporter Licence and believe it is pertinent to raise the following points:

Standard Special Condition A15A (Central Data Service Provider) requires National Grid (and other Transporters) to comply with certain conditions regarding the establishment and ongoing operation of the CDSP. Paragraph 8(d) of this condition requires that Transporters ensure that the CDSP publish a charging methodology and charging statement which "*results in charges which reflect the costs incurred by the CDSP for the provision of the CDSP Services*". We would have a greater level of confidence that this requirement is addressed if our suggested changes to the **Budget and Charging Methodology** (in respect of overhead costs) were reflected in the DSC text.

Standard Special Condition A36 (Restriction on Activity and Financial Ring Fencing) limits National Grid from undertaking any activity other than those falling within the "*permitted purpose*". Given that the DCC activity (which does not fall with the permitted purpose) would be undertaken by Xoserve (of which National Grid holds 11% of the shares) this would need to be conducted as a "de minimis" activity. Our interpretation is that the *de minimis* criteria are met in this case as the investment by National Grid is/will be zero (with all costs of the bid and operation of the service being borne by Shippers) thus below the 2.5% of aggregate turnover limitation.

Standard Special Condition A37 (Availability of Resources) requires National Grid to secure that it has available to it the resources to properly and efficiently carry out the transportation business and comply with obligations under the licence. Our concerns regarding maintenance of Xoserve's capability to deliver its core services on behalf of Transporters (and more broadly for other gas stakeholders), whilst undertaking DCC related activities, are to some extent driven by the need to comply with this Condition.