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29<sup>th</sup> August 2006

Dear Joanna,

**xoserve's response to Ofgem's second GPCR consultation document, ref 123a/06**

Thank you for the opportunity to respond to Ofgem's second consultation document on the Gas Distribution Price Control Review. We will be limiting our response to cover only those issues raised that relate to xoserve.

Our primary objective is to ensure that xoserve continues to receive adequate funding to:

- Support our operations
- Enable us to maintain fit for purpose systems
- Support industry change

This will enable us to carry on providing our customers with the good and reliable services they expect. We also want the services we provide to be funded by the appropriate parties and for there to be the right incentives for services to be scoped and utilised efficiently. It is important that this funding is transparent.

*Funding of xoserve*

In the section of the consultation document entitled – Funding of xoserve – you outline three funding options:

- Option 1 – do nothing
- Option 2 – do nothing except promote dialogue
- Option 3 – core services plus user pays

You go on to say that, following on from the second consultation document, you will select a set of options to be assessed in an impact assessment (IA). xoserve is supportive of this approach.

However, you do state that your early preference is for a core services plus user pays approach, Option 3. xoserve believes the core services plus user pays option outlined in the consultation does appear to have the potential to enable xoserve to achieve its primary objective of receiving adequate funding whilst ensuring that the funding comes from the appropriate parties with the right incentives in place to drive efficient usage.

Working alongside our customers and stakeholders, xoserve would expect to be a key player in developing the principles around “user pays” arrangements, such as identification of core services and definition of who pays and how.

#### *UK-Link rewrite*

xoserve is at the heart of the gas industry and any fundamental changes we make to our systems will involve many industry players. It is therefore imperative that we engage in industry dialogue.

We have demonstrated our openness to engage with the industry through the way we are managing the current UK-Link Technology Refresh. We have been out into the industry to make people aware of what we are proposing to do, and have promised to keep them involved and informed every step of the way. We anticipate that the UK-Link rewrite will take place towards the end of the next price control period, once the proposals have gone through the appropriate governance. To enable us to deliver the re-write we will engage with the industry.

xoserve expects to take a leading role in industry discussions on the scope of the UK Link re-write, in particular in the areas of the practicalities of how it will be done and the functionality of the system.

The re-write gives the industry the opportunity to put in place a system that reflects the requirements of today's gas industry. Indeed, it gives the industry the opportunity to revisit some of the proposed modifications that have been rejected in the past on the ground that the changes would have been too costly because they would have had to involve a re-write.

The re-write also gives xoserve the opportunity to fix some of the legacy issues associated with past regime changes, such changes include meter reading unbundling and meter unbundling. Any new system also has to be flexible enough to accommodate future change.

We acknowledge that the nature of the re-write and who pays is a key consideration for the allowed revenue for networks (both the gas distribution networks and National Grid's gas Transmission), and is also relevant to the discussions of the user pays concept.

We look forward to discussing these important topics with you and your team at the earliest opportunity. In the meantime, if you have any questions or comments about what we have raised in this letter please do not hesitate to contact myself or Nick Salter. We are happy for you to publish this letter as part of the consultation process.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jon Carlton', is centered within a light blue rectangular box.

Jon Carlton  
Chief Executive Officer  
xoserve Limited