

51 Homer Road  
Solihull  
West Midlands  
B91 3QJ  
[www.xoserve.com](http://www.xoserve.com)

Joanna Whittington  
Director of Gas Distribution  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Jon Carlton  
e: [Jon.carlton@xoserve.com](mailto:Jon.carlton@xoserve.com)  
t: +44 (0) 121 713 5128  
f: +44 (0) 121 713 5174

25<sup>th</sup> April 2007

Dear Joanna,

**xoserve's response to Ofgem's fourth GDPCR consultation document, ref 49/07**

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

Sections 3.42 to 3.46 of the Consultation Document refer to LECG's review of our information system and property support functions. We were disappointed that the comments and opex adjustments are based on a draft report and no account has been taken of our detailed review of the draft report. The Consultation Document makes no reference to these being draft findings.

xoserve's IS activities are separately managed from National Grid's, yet assumed efficiency savings for National Grid have been applied to xoserve without any consideration of the different activities being undertaken. Although part of the same Group, National Grid has little influence over the management of our IS costs as a majority of costs are cost pass through from suppliers. We consider it to be inappropriate to apply an identified efficiency saving for one organisation to another without benchmarking the activities actually undertaken.

For example, National Grid is planning to realise IS savings resulting from current diseconomies relating to the end of FOMSA, savings arising from their new ERP systems and savings from a reduction in expected project work. None of these apply to xoserve.

On the contrary, for xoserve the number of transactions continues to increase each year, the level of commercial change is continuing at a high level (increasing operating costs by an estimated 5% of development costs each year) and we are planning a significant and increasing project

programme. Given this level of activity, to contain costs within our forecast reducing IS spend is already a significant challenge.

Because the Consultation Document is based on a draft LECG report, the opex adjustments for xoserve's property management costs are based on incorrect data and inappropriate comparisons. The corrected data demonstrates that xoserve's rental costs are at benchmark, total property costs are 91% efficient and occupation rates 144% efficient when compared with the TOCS benchmarks. The LECG report also compares property costs between data centres and conventional office accommodation, and GDNs and xoserve which we believe to be inappropriate.

Section 3.47 refers to the opportunity with the proposed replacement of UK Link to identify ways to incorporate all GTs. We believe that the replacement of UK Link presents many opportunities but these will only be realised with full clarity of funding arrangements. We welcome the commitment to further consider this issue in the initial proposals.

We look forward to receiving the revised report from LECG which we are confident will demonstrate the efficiency of our support functions. 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