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Dear Bob,

### **Revenue forecast for xoserve charges to UK Transmission**

As part of the Transmission Price Control Review a new term (IX) has been included to cover charges levied by xoserve, and a value of £6.6m (in 04/05 prices) has been included for 2007/8. Figures now need to be agreed for the remaining years of the price control period, and therefore I am writing to you as we discussed with National Grid's proposals for the value of this term for the next four years.

#### Commentary

Attachment 1 contains our forecast of the charges that will be levied by xoserve, based on the latest submission that xoserve provided directly to you in July. The costs are shown in 04/05 prices for consistency with the other variables in our licence, fall into three broad categories:

- Operating costs
- Software developments
- Industry Framework Changes

xoserve has forecast annual operating costs that are stable at around £5m per annum. £2m relates to our share of GEMINI operating costs, based on the current sharing factors with the other transporters. For consistency we have provided numbers based on xoserve's submission, and have not made any adjustment to reflect the recently published Ofgem updated proposals document for the Distribution Price Control.

The software development costs break down as follows:

- £5.6m contribution to UK Link and other non-GEMINI system refreshes;
- £10.7m for GEMINI infrastructure refresh in 2009/10;
- £0.3m per annum for the Change Budget, including £90k per annum for non-GEMINI changes

The forecasts for the various system refreshes are high level estimates at this stage, and more detailed estimates will be produced during initiation of the respective projects. As part of the Distribution Price Control discussions it is being proposed that the allowance for the UK Link system Refresh should be finalised prior to sanction of the full project, and we propose that the same approach is adopted for Transmission's share of those costs and for the GEMINI infrastructure refresh that is scheduled for 2009/10.

The allocation of £0.3m per annum for the Change Budget is sufficient to cover one maintenance release of GEMINI per annum and minor changes to other systems. It does not include any allowance for unknown or unscoped Industry Framework changes, which is consistent with our approach during the Transmission Price Control review.

Attachment 2 contains our view of Industry Framework changes that could need to be implemented during the remaining years of the price control period. We recognise that it is unlikely that all of these changes will be implemented, and therefore propose discounting the allowed funding for the latter years.

In addition to the GEMINI maintenance release, we have included allowance for a further release per annum to implement any changes necessary as a result of shipper raised Modification proposals. This is in line with our recent experience, as the xoserve part of the costs for GEMINI release 3 and 4 were £500k and £415k respectively.

#### Proposed funding arrangements

We have prepared the attached numbers on the basis of including fixed numbers into the transmission licence for the IX term for the remainder of the price control period. Clearly, given the uncertainty about the costs for software developments and Industry Framework changes, other options could be considered, and we would welcome the opportunity to discuss these options with you.

The attachments show the current sharing factors that are applied to xoserve costs to determine the charge to Transmission. It is possible that these may change over the next few years, and therefore we would wish to have a provision included within the licence to allow for the numbers to be re-visited should the sharing factors be amended up or down.

If you would like to discuss the content of this letter then please contact me or I would be happy to meet with you and/or your colleagues.

Yours sincerely,

**Chris Bennett**  
**Regulatory Frameworks Manager**  
**UK Transmission**

Enc     Attachment 1 – Forecast of xoserve charges to Transmission  
         Attachment 2 – Forecast of future expenditure with xoserve for Industry Framework changes