



xoserve, GTs, shippers, suppliers
and other interested parties

*Promoting choice and
value for all customers*

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Dear Colleague

Xoserve Agency Charging Statement

Introduction

In accordance with the proposed drafting of Standard Special Condition A15 (SSC A15) of the Gas Transporter (GT) Licence, the licensee must, by 1 April 2008 have received approval from the Authority of the charging methodology by which user pays charges are determined. Both the methodology and the charges themselves are set out in an Agency Charging statement (ACS) published by xoserve.

Background

The concept of a transporter agency was an important aspect of the industry restructuring that occurred as part of the DN sales process during 2005. The purpose of the agency was to provide a common system and service interface between transporters and the industry, to mitigate against possible cost and competition impacts following DN sales. xoserve currently fulfils this agency role and is responsible for a variety of functions such as invoicing shippers for use of the transportation system, and managing the change of supplier process. Xoserve currently provides services on behalf of the GDNs and NGG NTS in accordance with the terms of the Agency Services Agreement.

User Pays Arrangements

As part of the recent Gas Distribution Price Control Review¹ (GDPCR), we decided to change the funding arrangements for xoserve. Under the new arrangements the services provided by xoserve are classified as either being core services funded through the price control, or user pays services funded directly by the user of the service. We considered that these funding arrangements would have the following benefits:

- it gives GDNs and NGG NTS (xoserve) an incentive to find out what services users require and to offer new and improved services to earn additional revenue;
- it gives users an incentive to manage the costs they impose on xoserve because they would pay directly for the services they request / use; and

¹ Gas Distribution Price Control review – Final proposals, December 2007
<http://www.ofgem.gov.uk/NETWORKS/GASDISTR/GDPCR7-13/Documents1/final%20proposals.pdf>

- it encourages efficiency within xoserve. Their cost forecasts include a significant amount of expenditure on an upgrade of UK-Link. User pays would help xoserve understand what total additional system capacity customers are willing to pay for and will help them to make sure that the incremental capacity of these new systems is given to those who value it most.

The new arrangements will be brought into effect by a modification of SSC A15: Agency², of the GT Licence by direction of the Authority on or before 31 March 2008. Amongst other things this requires the publication of an Agency Charging Statement (ACS), incorporating a statement of the charging methodology used to derive the charges for individual user pays service lines. Prior to these charges becoming effective from 1 April 2008 the charging methodology requires approval by the Authority.

Consultation Process

In accordance with the proposed drafting of SSC A15, a draft Agency Charging Statement (ACA) and charging methodology was published on 31 January 2008 for consultation.

None of the respondents to the consultation considered that the proposed ACS fully met the requirements of the proposed licence condition. They considered that the ACS was lacking in transparency and as such was unable to demonstrate cost reflectivity. They cited the charge for the Internet Access Data (IAD) service – a monthly charge per account of £40 - as evidence of charges not being cost reflective. Furthermore, the methodology was considered by some to be too high level and lacking in detail, which prompted three respondents to call for an audit to ensure the correct application of the charging methodology.

In response the GTs considered the methodology to be cost reflective. However taking note of the concerns voiced by respondents regarding estimated level of future demand for IAD service, the GTs adjusted the monthly charge from £40 to £16 per account. Furthermore the GTs believed that as the costs and revenues associated with the user pays services would be submitted to Ofgem as part of the price control cost reporting process this would ensure that charges remain cost reflective.

Subsequently on 29 February 2008 xoserve submitted a consultation report³ and revised Agency Charging Statement to the Authority for approval.

Our Decision

The decision of whether or not to approve the methodology is determined by an assessment of it against the objectives of a charging methodology as stated in SSC A15. These objectives being that charges resulting from application of the methodology should:

- as far as reasonably practicable, reflect the costs in providing the services; and
- do not unduly discriminate between or unduly prefer any person or class or classes of persons.

In accordance with the proposed licence drafting an Activity Cost Base methodology has been used to allocate costs between the various service lines. We are satisfied that the application of the methodology in this instance is reasonable and cost reflective, (i.e. that the cost base has been split and common costs allocated to each user pays service on a reasonable basis). Total allocated costs for each service line are converted into individual charges by division of forecast demand. While cost reflective charges should result from

² Modification is to take effect on 1 April 2008

³ Ten respondents submitted representation

this simple approach we note that these demand forecasts were a major source of disagreement between relevant parties.

We are satisfied that the methodology broadly meets the relevant objectives as set out in SSC (A15) and consequently have decided to give it our approval. In making this decision however, we recognise the level of concern expressed by respondents to the consultation with regard to the level of detail and transparency contained within the methodology. In order to address the concerns expressed during the consultation process we expect xoserve to take the following actions by no later than 1 October 2008;

- review the level of charges in light of actual demand for the various services;
- give greater clarity in the charging methodology to the process by which it derives and keeps up to date forecast demand forecast; and
- amend the Charging Statement to better illustrate the relationship between total costs, forecast demand and actual charges.

We also expect xoserve to keep under regular review its costs in delivering user pays services and whether these are proportionate to the level of demand for the services.

Concerns raised by shippers suggest that there are issues underlying the broader governance of xoserve and Ofgem will need to consider whether these issues should be addressed in the context of the codes governance review. There is clearly scope for xoserve to improve upon the manner in which it has consulted with users under the User Pays framework and more generally with respect to recent system changes. We therefore welcome the commitment to establish a regular User Pays User Group meeting and would encourage all Users to actively engage in this process. Whilst recognising there are currently operational meetings to discuss matters such as the relative performance of other xoserve services, there may also be merit in discussions around these established services being given a wider airing, not least in the context of the UK Link rebuild, through customer groups or elsewhere.

Ultimately, xoserve should not lose sight of the fact that where acting as the Agent of the Gas Transporters, it must continue to discharge the GTs obligations under licence and the relevant codes, i.e. the Uniform Network Code and the Supply Point Administration Agreement.

Decision Notice

In accordance with Standard Special Condition A15 of the Gas Transporters' licence, the Authority has decided to approve the methodology by which user pays charges are derived as set out in the Agency Charging statement.

Rachel Fletcher
Director, Distribution

Signed on behalf of the Authority and authorised for that purpose.