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Dear Rachel,

Gas Distribution Price Control Review – Review of Process

Thank you for the opportunity to respond to Ofgem's review of the Gas Distribution Price Control Review process. We felt that the analysis of our costs was in general an effective process, although we have some observations which we feel could improve the process. The review of agency funding reached some key early decisions, giving welcome clarity, however the process for the development of user pays funding principles through the later stages of the GDPCR had a number of shortcomings.

We welcomed the opportunity to have a direct relationship with Ofgem during the GDPCR process and, whilst we were not party to the formal bilateral and working group sessions between Ofgem and GDNs, we felt that the level of our direct engagement and access to Ofgem throughout the process was very positive. Due to the review of funding arrangements as well as our costs per se, the level of contact was perhaps disproportionate relative to the significance of our costs.

Analysis of Expenditure and Investment Plans

The early decision of Ofgem to seek a BPQ from xoserve and to interact directly on questions of clarification worked well and made the process more efficient. We would be keen to continue with this arrangement in the future. However, on occasions xoserve was treated as if it were a 9th DN without fully recognising the differences between xoserve and GDN businesses. This was evident in the standard format of the BPQ and follow-up questions that did not always take these differences into account.

We worked closely with GDNs on providing information to Ofgem, although on occasions some confusion was caused where consultants had analysed disaggregated xoserve related information which may have been better understood if taken directly from xoserve's BPQ. It would be helpful if at an early stage when consultants are engaged they were given a briefing on xoserve, how it fits

into the gas industry and the different nature of xoserve and GDNs. We would be very happy to support these briefings.

In the context of xoserve's proposed investment in the UK Link systems, Ofgem initiated an Industry Dialogue on xoserve services. xoserve was happy to support the dialogue, but it had ambitious objectives which, with respect to providing a view on the cost of replacing UK Link, were not fully met. However, overall the dialogue was worth undertaking and is an approach that xoserve would support in future processes.

Review of Agency Funding

The review of funding was identified as a matter for an early decision and certain key principles were established following the Initial Consultation. This early clarity regarding, for example, xoserve's regulatory status, was welcome. Whilst clarity was established on certain key regulatory principles, the concept of "user pays" was discussed throughout the GDPCR consultations and it was not until the Final Proposals that the principles were clearly defined. There was not a consistent understanding across the industry of some of the user pays principles in the Final Proposals and this may have contributed to a number of ongoing issues associated with the development of the user pays framework.

With regard to the specific questions relating to the consultation, we feel that in handling the development of user pays principles there were process shortcomings in two areas:

Timeline – detailed user pays principles were addressed too late in the GDPCR process and

Regulatory consistency – the Final Proposals included some user pays principles that had not been clearly signalled at earlier stages in the consultation and indeed appeared at odds with principles discussed in meetings with Ofgem during the GDPCR process.

Overall, we felt that xoserve's involvement in the process contributed to its success, but some earlier engagement on the different nature of xoserve and DNs, and Ofgem's objectives in relation to xoserve would have been useful.

Yours sincerely

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xoserve