



Xoserve, GTs, gas shippers, gas suppliers and other interested parties

Promoting choice and value for all customers

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Dear Colleague

Review of xoserve Agency Charging Statement

Introduction

On 28 March 2008 we approved the charging methodology set out in the Agency Charging Statement (ACS). In our letter we also asked xoserve¹ to address a number of concerns regarding the level of detail and transparency contained within the methodology by no later than 1 October 2008.

In light of our stated expectations set out in the approval letter, xoserve submitted a modified Agency Charging Statement² (ACS) and an ACS Review Report to Ofgem on 29 August 2008. Having considered the contents of both documents we are satisfied that xoserve has addressed the points raised in our approval letter.

Background

As part of the Gas Distribution Price Control Review³, we decided to change the funding arrangements for xoserve - the transporter agency which provides a common system and service interface between transporters and industry. Under the new arrangements, which took effect on 1 April 2008 xoserve provides user pays services which are funded directly by the user of the service.

Implementation of user pays services required a modification to Standard Special Condition A15 (SSC A15): *Agency*, of the Gas Transporter (GT) licence. In accordance with SSC A15 it also required our approval of the charging methodology contained in the first ACS, which we gave on 28 March 2008. In giving our approval we were satisfied that the charging methodology broadly met the relevant objectives of user pays charges being cost reflective and non-discriminatory.

However, to address concerns expressed by respondents during the ACS consultation with regard to the level of detail and transparency contained within the charging methodology, our letter also confirmed that we expected xoserve to take the following actions by no later than 1 October 2008:

¹ Issued on behalf of the Gas Distribution Network (GDNs) operators.

² To take effect from 1 October 2008

³ Gas Distribution Price Control Review -Final Proposals, December 2007

- 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; and
- amend the Charging Statement to better illustrate the relationship between total costs, forecast demand and actual charges.

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

Revised ACS

On 29 August 2008 xoserve submitted a modified ACS, an ACS Review Report and a summary of the feedback received from their customers during the consultation on the two draft ACS documents. Both the ACS and ACS Review Report had been revised to take account of some of the comments made by respondents.

While the method by which charges are determined has not been changed, we consider that xoserve has provided greater clarity in the charging methodology on the process for deriving and keeping up to date forecast demand. It also added an additional section in the ACS on updated forecast demand figures for the current financial year for each of the six service lines. The revised ACS will take effect from 1 October 2008.

In making these changes it is clear that xoserve has taken on board the actions we expected to be taken as set out in our March 2008 approval letter. The ACS Review Report also sets out xoserve's:

- review of the level of charges in light of actual demand to end June 2008 and updated forecast demand provided by customers for the rest of the financial year. The combined result saw for example, charges for Internet Access to Data (IAD) services being revised downwards to £8.75 per account based on higher demand;
- downward revision of its total costs from £3.5m to £3.2m for the provision of user pays services based on the actual cost for the first three months to 30 June 2008 and forecast costs for the remainder of the financial year; and
- allocation of costs per service line in percentage terms.

Conclusion

Having reviewed the modified ACS and the ACS Review Report we are satisfied that xoserve has met the requirements to better illustrate the relationship between total costs, forecast demand and actual changes. We are also satisfied that the changes that have been made provide greater detail and transparency.

Going forward, we would expect xoserve to continue to review its costs in delivering user pays services on a regular basis, and whether they remain proportionate to the level of demand for services. We also expect xoserve to keep the ACS under review in light of further industry developments

If you would like to discuss this letter further please contact Indra Thillainathan on 020 7901 7294.

Yours sincerely,

**Rachel Fletcher
Director, Distribution**