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Dear Mark,

Code Governance Review: Charging methodology governance options

Thank you for the opportunity to respond to Ofgem's consultation on charging methodology governance options. We are responding in our capacity as the Gas Transporters' agent with responsibility for the production of gas transportation invoices that allow Networks to recover their allowed revenues, and as the provider of change analysis and delivery services to the systems that support invoice production.

We have limited our response to comments on the potential cost, efficiency and risk impacts of the different charging methodology governance options on the xoserve business, including the effectiveness of the proposed risk mitigation measures, and have also provided relevant financial information in response to the Network element of the cost questionnaire. However, we have not commented on the governance options themselves as we are not party to the prevailing governance arrangements and we consider it unlikely that we would be party to any of the alternative arrangements outlined in the consultation. We have also considered the potential impacts of the proposals on our systems investment programme.

Efficiency and Risk Impacts

Other than Option 1 "Maintain status quo", all options increase the number of industry participants that would be permitted to raise charging methodology change proposals. This would increase the likelihood of greater variability in charging methodologies, and might give rise to an escalation of counter-proposals. It is likely that greater numbers of more frequent change proposals that have less predictability will have a disproportionately adverse impact on both efficiency and risk. The extent to which this impact might be contained by the proposed risk mitigation measures is considered below.

xoserve seeks to deliver its change programme in an efficient, cost effective and controlled manner, and the potential for increased numbers of charging methodology changes that are difficult to predict gives rise to a number of risks to successful change delivery, including:

- a) Greater complexity in both the planning and delivery of the change programme;
- b) Upward pressure on change costs arising from potential step changes in charging methodology as compared to the costs of achieving gradual, planned change;
- c) An increasing proportion of change analysis effort and cost that is expended on an increasing number of proposals that do not progress to delivery; and
- d) Shortened useful lives for delivered changes as subsequent methodologies take effect.

There would also be consequent risks to the stability of our transportation invoice production services and to the switching mechanism that provides transportation rate information to incoming Shippers as part of the supply point offer process. It may also be necessary to increase our training and awareness activities to ensure that Shippers have a sound understanding of the impacts of pricing methodology changes on their systems and processes.

With regard to the individual options, we note that:

- a) The principle of methodology divergence between Networks included in Option 4 “A new charging methodology change management code” has the potential to significantly increase costs, risk and complexity in both our operational and change services; and
- b) Under Option 3 “Industry Code Governance”, the provisions of UNC Modification Proposal 213V “Introduction of User Pays Governance Arrangements into the UNC”, if implemented, could have the effect of containing the number of charging methodology change proposals raised by non-Network UNC signatories.

Risk Mitigation Measures

We welcome the inclusion in the consultation of the consideration of potential risk mitigation measures and we consider that these could go some way towards containing the impacts that we have outlined above, although there appear to be some limitations on their effectiveness. Whilst the concepts of both establishing support thresholds for proposals and placing restrictions on the number of changes within any year may help to contain the number of proposals for which xoserve is required to develop and deliver solutions, there is an increased risk that xoserve may receive a greater number of requests for analysis as industry participants work up alternative or competing proposals, creating additional workload pressures. We note that the use of annual or bi-annual windows for change and implementation is similar to the price change frequency constraints already included in GTs’ Licences.

Systems Investment

xoserve is planning to undertake a programme of major systems investment over the next 5 years, and will shortly be completing its consultation with the industry on strategic service requirements. It is envisaged that investment solutions will involve the replacement of a number of xoserve’s

systems, and there may be opportunity to build flexibility into these solutions that will make it easier to accommodate future pricing methodology changes.

Cost information

We have reviewed the level of historical costs incurred in respect of the analysis and delivery of previous pricing methodology related changes (as distinct from transportation rate changes that do not involve a change of methodology). Typical costs for direct resources and bought in services for each pricing methodology change are £50,000 for full change analysis and a further £250,000 where the proposal is taken through to change delivery. We have typically undertaken full analysis and delivery of only one such change per annum in the last 3 years.

The greater risk and complexity associated with more frequent and less predictable change would be expected to have an exponential impact on our costs, so an increase in the frequency of full change analysis and delivery to three occurrences in a year could result in costs in excess of £1,000,000 per annum.

If you would like to discuss further any aspect of our response, please contact Martin Baker on 0121 623 2692 or e-mail martin.baker@xoserve.com.

Yours sincerely

Nick Salter
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xoserve