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Dear Rachel,

**Open letter consultation on Gas Distribution Price Control Review 2 (GDPCR2) – the way forward**

Thank you for the opportunity to respond to Ofgem’s open letter on the way forward for Gas Distribution Price Control Review 2 (“GDPCR2”). We have noted the comments in respect of xoserve that are set out within the Key Issues section of the open letter, and would like to make a number of observations.

The xoserve common Agent function includes in its scope services delivered on behalf of both Gas Distribution Networks (“GDNs”) and National Grid Gas Transmission (“NGGT”), and a review of xoserve arrangements may therefore have parallel implications for the outcomes of both GDPCR2 and Transmission Price Control Review 5 (“TPCR5”).

Whilst the provision of xoserve’s services represents a very small proportion of the total cost of operating the GDNs and NGGT, we recognise that the critical nature of our role in the industry attracts an interest beyond the cost of the services that we provide.

**Performance and Service**

We would like to obtain a better understanding regarding your comments about the quality of service and value for money that users receive from xoserve. We are interested to understand whether these comments relate principally to the regulatory and contractual framework within which xoserve provides services to Gas Transporters (“GTs”) and Shippers, or whether it is with xoserve’s performance record in the physical delivery of those services.

The common Agent arrangements that were established at the time of Network Sales provide the industry with a service delivery model that offers a common user experience and is more cost effective and lower risk than the alternative of multiple and locally diverse provisions. Our Key Performance Indicators that we monitor with the GTs show that we consistently meet operational performance targets, and our customer satisfaction surveys that we conduct with Shippers provide very positive feedback on the quality of our service. We place great importance on customer satisfaction, and we will continue to work with our stakeholders to explore opportunities for

improvement and to actively address concerns that our customers may have about service quality or performance.

### **Governance and Funding**

During the GDPCR1 consultation, a number of options for alternative xoserve governance and funding arrangements were considered, the outcome of which led to the introduction in April 2008 of User Pays arrangements for a small number of xoserve's services with the large majority of activities continuing to be funded by GTs' through their price controlled revenues. Subsequent modification to the UNC also gave effect to the introduction of User Pays for Change arrangements.

Since that time, the primary purpose of the xoserve business to deliver (on behalf of the GTs) a range of centralised gas transportation services as defined by obligations in GT Licences and the Uniform Network Code ("UNC") has remained unchanged. Services continue to be concerned primarily with the management of the register of Supply Points connected to the GTs' networks and the preparation and submission of transportation and energy invoices. We also manage a number of significant interfaces with Shippers that we operate for the purposes of receiving updates to the GTs' Supply Point Register, the dispatch of GT invoices and supporting information, and to make other data available to Shippers.

A key merit of the User Pays for Change concept is the alignment of the beneficiary / cost relationship. Whilst this is supportive of the "RIIO" regulatory framework principle of increased opportunity for stakeholders to influence decision making, difficulties with regime governance may be detracting from appreciation of this benefit. Our more detailed observations on the effectiveness of User Pays arrangements were set out in the letter sent to you by my colleague, Nick Salter, on 9 July 2010, and we would encourage Ofgem to take these observations into account in any future review.

Any future evolution of xoserve's governance and funding arrangements should take as its starting point our primary purpose as the GTs' Agent. Variation of these arrangements should be precedent on a review of stakeholders' objectives as defined by their regulatory and contractual framework obligations, which will in turn inform consideration of the regulatory and commercial arrangements for the discharge of the associated services.

### **Smart Metering**

The role of xoserve in the Smart Metering market is a key uncertainty for our Business Plan, and we welcome Ofgem's recognition of the need for clarity. The options for the scope and role of the Central Data and Communications Provider being considered by the Smart Metering Implementation Programme ("the SMIP") and the potential Significant Code Review in respect of the Smart Metering impact on wider industry processes ("the Smart Metering SCR") are significant uncertainties that have the potential to impact both the scope and nature of xoserve's services during the forthcoming Price Control Review period.

We are continuing to engage with the SMIP to define innovative outcomes that will deliver timely Smart Metering benefits with low change cost and risk. We are hopeful that the conclusions from

the SMIP will provide clarity regarding the future scope of our responsibilities, and that the Smart Metering SCR will provide a robust framework within which to marshal industry discussions on the evolution of UNC rules.

### **Next Steps**

The “RIIO” regulatory framework values the importance of effective stakeholder engagement, and this is a matter that xoserve has been giving significant attention for the past couple of years through Project Nexus. We will continue with this engagement, and we will support the GTs in their stakeholder engagement activities in respect of xoserve issues. The scope, nature and timing of this engagement may be dependent on SMIP outcomes, and is likely to take a broader perspective than the Project Nexus focus on xoserve’s service requirements.

We would also encourage Ofgem to give consideration as to how best xoserve issues might be considered by the industry through the proposed structure of the Price Control Review Forum.

We are happy for you to publish this letter. In the meantime, if you would like to discuss further any aspect of our response, please contact Nick Salter, Head of Strategy and Development on 0121 623 2305 or e-mail [nicholas.j.salter@xoserve.com](mailto:nicholas.j.salter@xoserve.com).

Yours sincerely

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