

November 18th, 2011

Mr. James Grayburn  
Head of RIIO – GD1  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Mr. Grayburn,

## **Open letter consultation: Review of Xoserve**

Please find First Utility's responses below.

*Q1. What, if any, concerns do you have with regard to the performance of Xoserve? Do you agree or disagree with CEPA's articulation of network users' concerns about the responsiveness of Xoserve to industry change, and lack of transparency?*

We agree with CEPA's view that Xoserve performs its day to day tasks to the required standard. However, it has been our experience that Xoserve often responds slowly and negatively to any significant change proposed by industry and its projected costs for the realisation of these changes are often very high without any adequate explanation as to why this should be the case.

For example, First Utility raised UNC Modification 0270 ("Elective Meter Point Reconciliation for Smaller Supply Points with AMR") in October 2009. After a number of development meetings, Xoserve provided us in September 2010 with a one off implementation cost estimate of somewhere between £690,000 and £900,000 which would be split on a market share basis between those Users who made use of this service. Ongoing support would be an extra £100,000 to £150,000 per year. It then transpired that this would be the cost to change the systems to allow this functionality for a single meter point. For Xoserve to provide us with indicative costings for the number of meter points we had originally asked for (500,000, 1 million or 2 million) would require more detailed analysis which would itself cost some £70,000, again to be split between Users. In any case, Xoserve did not feel that a solution could be provided before January 2012.

At this stage, the widespread interest which the Proposed Modification had received rapidly dissipated as Users were unwilling to pay a significant sum simply to be told what the cost was of something that would not be available for a considerable length of time. We also pointed out that, given Xoserve's assessment of the time required for the more detailed analysis was 10 to 18 weeks, this translated to a cost of between approx £3900 to £7000 a week just to tell the industry what it would then have to pay to achieve the desired solution. This seemed rather steep to say the least.

Given that industry was unwilling to incur what it felt was a disproportionate cost simply to find out what it would have to pay anyway, the Modification stalled and was eventually withdrawn by us in July 2011 after accepting that there was no way we could progress it as things stood. We are highly disappointed and frustrated that what was initially a popular Modification which would potentially have provided real benefit to both the market and competition had to be withdrawn for these reasons.

We are confident that, had Xoserve been a company facing competition in provision of its services rather than being a monopoly, we would not have been asked to pay in order to be told what the final cost was likely to be and that a solution would have been found within a much shorter timeframe.

We agree with CEPA's conclusion that events such as these are likely to be a result of the funding and governance arrangements which have been put in place for Xoserve.

*Q2. What concerns, if any, do you have with the current funding, governance and ownership arrangements? Do you agree or disagree with CEPA's assessment of the limitations of the current arrangements for Xoserve?*

We believe that Xoserve appears to have little incentive to provide services requested by Users at a competitive cost or within a reasonable timeframe. Instead, Xoserve appears to be mainly focused on meeting its obligations under the Agency Service Agreement (ASA) between itself and the Gas Transporters who are its owners.

*Q3. What are your views on the costs and benefits of the three options for change? Do you agree or disagree with CEPA's assessment of the options? Are there any other options not identified by CEPA that we should consider?*

We agree with CEPA's conclusion that Option A is not a desirable solution as the current ASA arrangement would remain in place and this is likely to be the main driver of the issues currently experienced by Users in relation to Xoserve. We would therefore support either Option B (making Xoserve a separate licensed body with its own funding arrangements) or Option C (joint industry ownership and control of Xoserve between Users and Transporters). Another possible option which does not appear to have been considered would be to restrict Xoserve to provision of GT Agent services which cannot reasonably be separated from Gas Transporters businesses and create a new, licensed company to provide additional "User Pays" services. Alternately, the Authority could allow companies other than Xoserve to provide the same services, thus introducing direct competition against which Xoserve's performance could be easily benchmarked.

*Q4. What are your views on the critical issues identified by CEPA for determining the preferred option? Are there any other critical issues we should take into account before making our decision?*

We believe that the majority of the non core ("User Pays") services which Xoserve currently provides or could provide in the future could be separated from the Gas Transporters' businesses. We feel there would be a strong appetite by other parties to provide services of this type if that party were assured a reasonable income stream from this licensed activity or if it were allowed to provide services on a bilaterally agreed contractual basis (subject of course to the normal required prohibitions against undue discrimination between parties etc). Finally, we are of the opinion that the risk posed by letting the current arrangements continue is greater than the potential risk posed by reforming Xoserve.

*Q5. Should we change the current arrangements? If so, what is your preferred option?*

Yes, we believe that the current arrangements should be changed. As expressed in our answer to Q3, we would be supportive of both Option B and Option C but we would also request that Ofgem give consideration to the other possibilities that we have suggested.

Please do not hesitate to contact me if you have any questions or would like any further information.

Best regards,

Chris Hill

Chris Hill

Regulation Manager

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