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18th November 2011

## **Ofgem consultation: Review of Xoserve**

### **Gas Forum response**

The Gas Forum welcomes the publication of the CEPA report and the associated consultation concerning Xoserve's funding, ownership and governance arrangements.

We welcome the timing of the review – before the next price control review, the first under RIIO.

As the report identifies, the industry has carried out a review of Xoserve services via UNC Review Group 0334. A number of "incremental" changes were suggested by the report which provides for some small changes to the Xoserve-User interfaces. Whereas, the Review Group Report identified a number of areas which either sit outside of Code, or require further examination and refinement. It is our expectation that this Ofgem led review will permit these wider, more significant issues and proposed solutions to be considered and ultimately acted upon.

Certainly, the Gas Forum recognises a number of the issues highlighted by the report in relation to Xoserve's ability to respond to Users' needs and to do so in a timely manner. The Gas Forum would welcome improvements in this area. User Pays in particular has, since its introduction, been beset with problems, not least because it has proved difficult to quantify costs and then allocate them to the appropriate service beneficiary.

This has proved to be particularly problematic for Code related services where multiple Users are likely to benefit from a service provision, but to differing degrees. It would be fair to say that the industry has spent/wasted a huge amount of time and resource discussing cost estimates and the merits of proposed cost allocations which, in turn, has delayed changes and developments. The Gas Forum recommends that although the User Pays initiative has required Xoserve to be more transparent in its costings, it is failing Users in two main ways:

- There is a lack of transparency around the costing proposals presented by Xoserve. There is a concern that rather than properly reflecting the costs associated with developing, implementing and operating a particular service, Xoserve is either setting rates on the basis of what it perceives to be “a market price”, or is cross-subsidising other services. Clearly, due to the fact that Xoserve is primarily funded by GT price control determined revenue, then without having oversight of Xoserve’s wider operations and cost base, Users will maintain a position of general uncertainty.
- There is little evidence to suggest that User Pays has driven efficiencies. The lack of transparency across the operations of Xoserve has meant that indicative and ongoing costs are difficult to assess and challenge. We do recognise, however, that Xoserve is in a privileged position insomuch as the vast majority of its income is guaranteed by the GTs and that User Pays provides only a comparatively small source of income and that the incentive to drive efficiency is somewhat diminished.

On the basis of experience, the Gas Forum believes that the industry should undertake a thorough review of the User Pays model. The aim of the review should be to identify changes to the current methodologies which would address the problems identified above.

The Gas Forum is encouraged that UNC Modification Review Group 0334 did identify some suitable alternative charging methodologies and we expect the industry to make further progress in this area.

In terms of ownership structure, the Gas Forum can see benefits in moving away from the current model and certainly would like to see greater shipper representation within Xoserve through, for example the creation of a non-exec board role.

The Gas Forum is clear that it is essential that Users are more involved with the decision making process at both the strategic and operational levels which would seem to be a feature of all of the options put forward.

Individual members of the Gas Forum will comment further on structural issues in their own representations, however, we are able to confirm that we see little merit in a negotiated settlement model.

In terms of other issues, the Gas Forum wishes to highlight the following:

It is essential that this review is used as an opportunity to move forward with the delivery of a single central service provider for all GTs, including iGTs. The additional costs imposed on the industry and ultimately on customers due to the additional administration resulting from operating disparate systems and data are, in our view, unjustifiable. With the significant growth in market share for iGT connections the case for change is overwhelming.

We would urge Ofgem to assist the industry in driving this forward under the auspices of this review so that Xoserve can plan, as part of future GT price control submissions, for an extension of its services.

We trust that you find this response to be helpful and if you would like to discuss any of the points we have raised then please get in touch.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Faragher', written in a cursive style.

David Faragher

Chairman of the Gas Forum