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ICoSS Response to Open letter consultation: Review of Xoserve

Dear James

The I&C Shippers and Suppliers (ICoSS) group represents all the major non-domestic Industrial and Commercial suppliers in the GB gas market, supplying over 70% of the gas needs of the I&C Sector. We wish to provide further comments to those provided at the stakeholder engagement meeting on the 24th October 2011.

Question 1. Xoserve's performance.

Xoserve currently performs a vital role for the industry, namely the provision of central services. The scope of this activity is broad and in many cases unnoticed by the Shipper community. It is our view that the day-to-day operation of the market is sound and, in this area, we do not have any concerns with Xoserve's handling of the system processes necessary for market operation.

As we highlighted previously, we still believe however that there is room for improvement. It has been our experience that Shippers do not always individually receive the level of service provision that we would expect from comparable commercial organizations. In addition the change management processes seem to be cumbersome, in particular determining and justifying the cost of change. A primary cause of these issues is the current funding framework which incentivizes minimizing Xoserve's costs and activities; this pressure is inhibiting the level of service and information that Xoserve has been able to recently provide.

Question 2. Current arrangements.

As stated above we have concerns over the funding framework, which has two main drawbacks; it puts pressure on cost reduction and treats Opex and Capex costs differently. This creates an incentive to provide a minimum service and leads to changes being treated substantially differently depending on which funding area they impact. The current funding regime needs to be fundamentally altered in order to address these concerns.

The same issues do not exist to the same degree with the governance and ownership of Xoserve. The other main concern identified by CEPA, the lack of transparency of Xoserve's activities, does not require significant work to be resolved. The publishing of detailed cost information, the creation of an industry change oversight committee and the appointment of a Shipper representative to a non-executive position on Xoserve's board can all be progressed without changes to Xoserve's governance and ownership framework. We welcome Xoserve's commitment at the meeting of the 24th October to look to progress change in these areas. As long as Xoserve seeks to progress these remedies, we do not see the need for change to who owns or governs Xoserve.

Questions 3: Options for change.

There are encouraging signs that Xoserve has a desire to remedy the issues identified above. We have also been favorably impressed by Xoserve's willingness to develop customer-focused solutions in the Project Nexus workgroup. We also expect that the short-term changes that Xoserve have identified a part of review group 0334 will bring benefits to the change management process.

Option A encapsulates the majority of the changes identified in review group 0334, which ICoSS members played a leading role in. We believe that Option A can be implemented quickly in particular as Xoserve can progress the majority of these changes (in particular the creation of a Shipper position on the board and the publication of additional cost information) without the need for accompanying licence or UNC changes. By contrast, Options B and C propose a far more fundamental alteration of the structure of Xoserve; in themselves they are not more likely to achieve the aims of this review – an improvement in transparency and a greater customer focus – compared to Option A, and will require significant industry commitment (and hence cost) to progress. They will also prove to be a significant distraction from the goal of these changes and realistically will take a significant time to implement.

With regard to the funding of change management, we agree with CEPA's assessment that the User Pays process is sub-optimal. Whilst we would agree in part with the proposals in Option A to look at the scope of the User Pays process, we would also advocate including change management costs as a pass through item in transportation costs. If Xoserve's activities are fully transparent to the industry, then all parties involved will be able to determine whether change costs have been efficiently incurred. Cost management can therefore be undertaken in the current change management framework and removes the present need for Ofgem to analyze Xoserve costs when approving industry changes.

Question 4: Critical Issues

At a time of unprecedented change to the industry, seeking to fundamentally alter Xoserve's governance and ownership structure will be a significant distraction from improving Xoserve's performance, stretching Shipper and Transporter resources even further. A major project to change the structure Xoserve at this time will inevitably risk the timely delivery of the changes necessary to align the industry with the Smart Metering roll out and the implementation of Project Nexus. It is critical therefore that any change does not fundamentally impact Xoserve's operations or divert resources from its other activities.

The other critical issue to be addressed is the funding framework. Any negotiated settlement process that attempts to derive the scale and manner of Xoserve's activities will be extremely difficult to adequately realize in practice, considering the wide and varying nature of the Shipper participants in the market. The regulator will therefore inevitably be required to arbitrate between these various competing interests, taking up valuable time and resources. We therefore believe that the funding of Xoserve should be maintained within the price control mechanism, but should be clearly differentiated from the costs that transporters incur; taking into account the changes outlined in question 3 regarding the funding of change management activities.

Question 5: Change preference.

We support the progress of Option A (adjusted to take into account the proposed funding framework outlined in question 3) and see both Options B and C as simply unnecessary at this time and a significant drain on industry resources.

Please contact me if you require any further comments.

Yours Faithfully,

A handwritten signature in black ink, appearing to read 'G. Evans'.

Gareth Evans
Chair, ICoSS Group