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Dear James,

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

ScottishPower welcomes the opportunity to comment on Ofgem's open letter concerning the funding, governance, and ownership of Xoserve and the associated report from Cambridge Economic Policy Associates Ltd (CEPA).

We believe that this is an opportune time at which to review the arrangements for Xoserve given the output from the recent UNC Review Group 334, the upcoming Price Control, and most importantly given the developments across the industry as a result of the roll out of smart metering.

While Xoserve largely meets the requirements placed on it by transporters and network users we believe that there is an opportunity for it to become more responsive to its customer's needs, to be more transparent, and to improve its accountability.

#### **1. Xoserve's performance: 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 (pp.28-29)? Please provide reasons.**

We strongly agree with the comment made within the CEPA report that "Xoserve may be small in scale, but it undertakes vital functions". This is the case, not only in the day to day activities it performs on behalf of the market, but also as a key stakeholder in facilitating industry change.

We have concerns that Xoserve maintain a strongly held belief that they act exclusively as the Transporters' Agent as opposed to acting on behalf of transporters and shippers. This translates to a perceived lack of responsiveness to requests from the shipper community whether this stems from a lack of capacity or a lack of appetite for change. We noted this particularly with the progression of UNC modifications 0292 and 0293 where we found the development process to be both difficult and frustrating at times as well as demonstrating that there are constraints through Xoserve's systems, a point highlighted in the initial consultation phase. As proposer we were forced to withdraw modification 0293 due to the fact that Xoserve would have been unable to handle the potential volume of amendments

that the proposal would have introduced. While the shippers, transporters, and Xoserve were able to develop a solution, and modification 0292 was ultimately approved, the restrictions on Xoserve may have been less so had they been under alternative governance and funding arrangements.

With the roll out of smart metering, the introduction of a smart energy code and other industry developments such as those arising through Project Nexus, there will be a pressing need for a more robust organisation that is able to meet the requirements of the industry and is more empowered than the current contractual arrangements allow for.

**2. Current arrangements: 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 (pp.29-32)? Please provide reasons.**

Shippers have a reduced confidence in Xoserve because of a perceived lack of transparency and involvement in the Xoserve decision making process. This has resulted in the perception that it is not responsive to the needs of shippers. The CEPA highlights the increased, and more open, involvement by Xoserve in Project Nexus as an example of Xoserve working effectively with shippers and transporters on a more equitable basis. While we welcome this increased engagement, we would highlight that this should be the level of service delivered by Xoserve across all of its activities.

Under the current ownership arrangements, transporters can become involved in modification proposals that have no impact on them simply due to their relationship with Xoserve. This can mean that shippers' input to the change process is diluted, if not fundamentally influence the final outcome. Revised governance arrangements, and or a closer shipper relationship with Xoserve, is the only way to address this with parties only being able to vote on a change where it has implications on their own business.

We are concerned that as a shipper we do not have a detailed understanding as to how Xoserve are funded through transportation charges. Should the funding arrangements, and more detailed information of the costs provided by Xoserve as part of the change process, be made more transparent to shippers it should lead to an improved understanding of the provision of services and the cost to implement systems changes.. This may then lead on to the ability to gain more value for changes.

We believe there is a need for Xoserve to be responsive to the fast changing requirements of the industry and view that this will only increase in the coming years. The current arrangements are at odds with this and hinder Xoserve from acting in this way. Furthermore, Xoserve are funded under a five, soon to be eight, year price control. We are unconvinced that such a fixed settlement is able to account for the diverse needs of shippers and transporters over such a lengthy period. This further reduces Xoserve's ability to respond effectively and efficiently, in particular as no one can foresee future requirements over that timeframe.

While we support cost reflective charges, we do not support a further extension of User Pays in its current form and believe that it has failed to achieve the results that were envisaged at its implementation. Still some time after its introduction not all Shippers have signed onto this due to wider concerns over governance and funding as described in this letter. As noted in the report, we agree that a combination of the current arrangements has led to Xoserve delivering its obligations at least cost as opposed to incentivising any further improvement or efficiency.

**3. *Options for change:* What are your views on the costs and benefits of the three options for change (Chs. 7)? Do you agree or disagree with CEPA's assessment of the options (Ch 8)? Are there any other options not identified by CEPA that we should consider?**

Both options A and B rely upon some form of negotiated settlement for their success. This is an untried and untested concept in the UK and by its nature would suggest a substantial piece of work to develop and implement for what, we believe, would result in little or no material change to current arrangements.

As we noted above, there is a problem with the lack of transparency and responsiveness under the current arrangements. Without a material change we are unable to see how this be improved. We therefore believe that breaking the existing relationship between transporters and Xoserve could lead to a greater responsiveness to its full customer needs and ensure a focus on delivering better value for all network users.

We are also concerned about the impact of each option on the roll out of smart metering. Under the current arrangements, Xoserve's ability to respond effectively to the challenges of smart may be hindered. We believe that Options A and B are unable to provide sufficient material change to address these concerns.

We feel that a greater degree of engagement from Xoserve's owners (whether the existing or those under new arrangements), combined with a corresponding change to the governance and funding arrangements, may encourage a greater responsiveness to customer requirements. A shift to ownership by a broader range of stakeholders should improve responsiveness and transparency as well as improving accountability.

Option C which reflects similar arrangements to those under electricity in the BSC and MRA provides an opportunity to move towards a harmonised approach across both fuels. We believe that this is the solution which will provide maximum opportunity for driving down costs, increasing the value obtained from change, and increasing transparency. We note that the CEPA report suggests that this is the most involved of the proposals but the lessons learned from elsewhere in the industry will mitigate any such risk.

While the report highlights the BSC and MRASCo as comparisons for Option C, we would also note the Gas Forum established by SPAA on the basis of the MRA and the lessons learned from the cross party involvement of suppliers, Transco, and iGTs could be used as a model for delivery of any new arrangements. There is also the opportunity to learn from the establishment of DCUSA. This would allow for a jointly funded model with change governance clearly set out. Additionally, the consideration of IDNOs may also provide for an opportunity to bring iGT within scope.

**4. *Critical issues:* What are your views on the critical issues identified by CEPA for determining the preferred option (p.73)? Are there any other critical issues we should take into account before making our decision?**

When Xoserve was established it was decided not to include iGTs into the scope of services, due to there being enough challenges at that time. However given the scale of the iGT customers and the disparate arrangements we believe it is now time to include them in any new governance developed for the Xoserve type service. The potential for the provision of single transporter agency is being developed under the iGT UNC Development Group 039 and we would suggest that Ofgem should seek to encompass this in the arrangements due to the benefits that would be achieved if a common agent was in place.

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

We believe there is a need to change the current governance, funding, and ownership arrangements for Xoserve and that such a decision should be mindful of all other developments within the industry that are ongoing such as smart and Project Nexus. We believe that Option C is the only one able to bring about the materiality of change required by all network users and to improve the transparency, responsiveness, and efficacy of Xoserve to meet the future needs of the industry.

I hope that you find these comments useful but please do not hesitate to contact me if you want to discuss any of these points further.

Yours sincerely

David McCrone  
Commercial Analyst