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James Grayburn
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21 September 2012

Dear James

RIIO-GD1 Initial Proposals

Thank you for the opportunity to respond to Ofgem's consultation in respect of the RIIO-GD1 Initial Proposals ("the Proposals").

We are responding in our capacity as the common Agent of the principal Gas Transporters ("GTs"), responsible for discharging GTs' Licence and Uniform Network Code obligations in respect of transportation transactional services. Our response is limited to consideration of the proposed uncertainty mechanism in respect of the determination of allowed revenues of Gas Distribution Networks ("GDNs") for the funding of common Agent services as set out in Chapter 8 of the "Finance and Uncertainty" supporting document. We have also noted the associated draft changes to GDN Licence Conditions ("the Conditions").

Our comments and observations as set out below are also applicable to the RIIO-T1 Initial Proposals and associated draft changes to National Grid Gas Transmission ("NGGT") Licence Conditions, in so far as they are concerned with the determination of allowed revenues for the funding of common Agent services.

We understand that the approach as set out in the Proposals and Conditions provides for:

- (a) Continuity of the prevailing funding model for common Agent services during the period of transition into the new GT Price Control period; and
- (b) A mechanism that allows for the potential modification of allowed revenues following regulatory review and consultation.

To the extent that Ofgem concludes that a modification of allowed revenues is appropriate, we consider that a number of important principles should be applied, namely that:

- (a) There should be transparency in the calculation of revised allowed revenues, achievable through:
 - (i) The clear application of the future common Agent funding methodology as determined by the regulatory review;
 - (ii) Supporting regulatory statements that explain how the totality of regulated services that Xoserve is required to provide are to be funded, whether by way of GT allowed revenues or from other sources; and
 - (iii) An audit trail that demonstrates any movements from the allowed revenues that are included in the RIIO-GD1 Final Proposals that are expected to be published in December 2012 through to the values of the revised allowed revenues; and
- (b) Transitioning to any new common Agent funding methodology should allow for potentially differing treatments of day to day operating costs and investment funding requirements, particularly for those investments that may straddle the period of transition from the prevailing to alternative funding model.

We are happy for you to publish this letter. If you would like to discuss further any aspect of our response, please contact Martin Baker, External Affairs Manager, on 0121 623 2692 or e-mail martin.baker@xoserve.com.

Yours faithfully

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