

Ofgem
9 Millbank
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Consultation on implementing new funding, governance and ownership arrangements for Xoserve, the gas transporter central agent

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We welcome the opportunity to comment on the new funding, governance and ownership arrangements for Xoserve. We support the work Ofgem has undertaken to date to improve the current arrangements in order to enable Xoserve to respond to industry change more effectively.

Delivery of Services

- We support the retention of Xoserve as the delivery body for all systems and services while the new funding, governance and ownership arrangements are embedded.

Budget setting, cost allocation and charging

- We support the proposed annual budget setting and review process which will give users a greater oversight of Xoserve's budget.
- We believe that further consideration needs to be given to the regulatory measures, particularly on accountability.
- We support the adoption of a new cost allocation methodology to ensure costs are targeted appropriately where it is efficient to do so.
- We support the use of existing Xoserve systems in order for Xoserve to directly invoice users.

Corporate governance

- We support stakeholder representation on Xoserve's Board.
- We support Ofgem's initial view that the establishment of the Board is best left for the industry to develop.
- We welcome the transparency and clarity on the funding arrangements and the solutions for European changes and Project Nexus.

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Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Natasha Ranatunga on 020 3126 2312, or me.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Mark Cox".

Mark Cox
Head of Transmission and Trading Arrangements
Corporate Policy and Regulation

Attachment

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EDF Energy's response to your questions

Service delivery

Q1. Do you agree that there are benefits in retaining the central service provider as one delivery body for all systems and services, including Gemini systems? Do you consider there to be an alternative structure with greater benefits? Please provide evidence of these additional benefits.

EDF Energy believes that for the time being there are benefits to retaining the central service provider as one delivery body for all systems and services. We recognise that the services currently provided to all users by Xoserve are highly interdependent and whilst possible, it would be timely and costly to delink the services based on customer type.

We note that with the roll out of smart meters, the creation of a new industry code and the Data and Communications Company (DCC) coupled with the reforms to the electricity and retail markets the industry is undergoing a significant period of change. As part of the smart metering programme DECC has decided that registrations will migrate to the DCC and Smart Energy Code (SEC) in the future, with the latest date suggested as 2017. This will have a significant impact on the services that Xoserve provides both in terms of direct impacts on service changes – such as the migration of registration – as well as non-direct impacts as users seek to realise the opportunities that smart metering offers. It is important that the funding and governance of Xoserve is reformed to support this change; and flexible enough to consider other options for service provision in the future.

Once the new funding, governance and ownership arrangements are embedded, we believe a review should be carried out of the delivery of services by Xoserve. We would expect with the onset of greater transparency through the new arrangements, there will be a greater understanding of the interaction of the systems and services. We believe that the industry should be provided with the opportunity to consider this issue again.

Budget setting, cost allocation and charging

Q2. Do you agree with our preliminary recommendation for how future budgeting, charge setting and invoicing arrangements should work? Do you consider there to be greater benefits in establishing other arrangements? Please state your reasons why.

Historically, Xoserve was funded via the Gas Transporters' (GTs) price controls with GTs able to retain any under spend against its Xoserve allowance, therefore GTs were incentivised to minimise their costs. EDF Energy supports Ofgem's proposal to separate Xoserve's funding from the GT's price control allowances.

Ofgem's proposal that an annual process led by the Xoserve Board to review and agree a budget for the following year would provide clarity on costs for all participants. It would also create an environment where costs can be challenged. We also believe that the proposed budget setting iteration will enable businesses to forecast their costs more effectively and will reduce charging volatility as there will be greater industry oversight and control over cost over and under spends.

We agree that Xoserve should be operated with a not-for-profit status (with small over/under spends retained on the balance sheet). This would be in line with other co-operative models and therefore we believe that this approach is appropriate.

Q3. What are your views on the measures we have identified to ensure regulatory oversight is maintained?

The proposed annual budget setting process would not have oversight from Ofgem, to the same extent as the current price control process does. Ofgem has proposed three options to ensure that regulatory oversight is maintained: placing a UNC or licence obligation on those that control Xoserve to do so in an efficient and economic manner; Ofgem ability to direct budget changes (in specific circumstances) and overspends that requires additional funding must be signalled to Ofgem.

We would welcome further clarification from Ofgem on who would be accountable and what the default mechanisms and processes would be if significant issues are raised that affect the setting of Xoserve's budget.

Q4. Do you consider there to be further barriers to adopting a new cost reflective charging methodology which we have not considered? What would be the cost to you of establishing a new cost reflective charging methodology?

EDF Energy supports the principle that costs should be targeted appropriately where efficient to do so. We believe that a cost reflective charging methodology will ensure users have greater understanding and view of how their charges are made up. In addition, user oversight of a new cost reflective charging methodology will ensure that any cost cross-subsidies are minimised.

Ofgem stated that it expects that all the new systems associated with Project Nexus will be in place and operational by the end of 2015. We anticipate that the types and number of services will increase, as requested by users. A cost reflective charging methodology should ensure that those requesting the services have a real demand for these and understand the costs associated with them. Users will then be able to take a commercial decision as to whether the value of the services outweighs the costs.

With a socialised charging approach there is a danger that services are requested that are not based on commercial decisions, and the uptake of the service is low. A prime example of this was the creation of the DM Voluntary service in the UNC. The costs of this service was socialised across all users and no user has opted to take this service. A cost reflective charging methodology would have ensured those requesting the service had a true

demand for the service. Without a cost reflective methodology there is a danger that Project Nexus introduces a range of services at a cost to consumers that are not used.

We do not expect to incur any costs if a new cost reflective charging methodology is established. However, whilst the methodology should provide clarity on how costs will be targeted it should not be overly complex. We seek confirmation from Ofgem as to who will be responsible for drafting the proposed methodology and where the methodology should sit (UNC or associated document).

Q5. Do you consider there to be further barriers of the central service provider directly invoicing users? What would be the cost to you of the central service provider directly invoicing users?

We support Ofgem's proposal for a central service provider for invoices. As part of the DN sales process, users requested a central service provider for invoicing in order to minimise the number of interfaces and ensuing costs this would bring¹.

We do not envisage that we will incur significant costs if Xoserve continues to utilise its existing systems to invoice and collect charges from us directly via the User Pays mechanism. Based on our view of the limited changes to Xoserve's invoicing process, we believe that the benefits of changing the funding arrangements would outweigh the actual costs incurred to adapt our systems. If Xoserve continue to utilise the automated IX method to invoice users (with a specified file format) and the change is managed via the UK Link Committee, we would anticipate minimal cost to all users. If Xoserve were to develop different systems and processes in order to invoice users directly then we could incur costs, at this point we cannot comment on what the cost to EDF Energy would be.

Furthermore, we would expect users to be active participants in the change process and that the implementation project plan and associated milestones are sufficient to enable users to adapt their own systems and processes.

Corporate governance

Q6. Do you agree with our preliminary recommendation to apply the full co-operative model with retained GT ownership? Do you consider there to be greater benefits in establishing alternative arrangements? Please state your reasons why.

We support stakeholder representation on Xoserve's Board. We believe that changes to the Corporate governance and ownership will mean Xoserve will follow a customer led change agenda not one whereby Xoserve's mandate is to ensure GTs comply with their licence obligations.

We recognise that Ofgem has proposed that the GTs retain ownership but non-owners have the right to sit on the Board so they are not excluded from exerting control. We believe that it is important to ensure that appropriate representation is achieved on the

¹ <http://www.ofgem.gov.uk/Networks/GasDistr/otherwork/Documents1/8895-25504a.pdf>

Board and that users are able to participate in the selection of Board members with relevant skills and expertise. We also believe that further clarification is required on which organisation will be accountable for Xoserve.

Q7. Do you agree or disagree with the principles of the Board structure we outline? Do you consider that these principles can be achieved through the arrangements outlined?

We believe that the principles of the Board structure are sound. We are keen to ensure that one industry group does not have a greater say in the control of Xoserve. We would also expect that the industry representatives on the Board reflect the make-up of Xoserve's customer base and that the representatives have the necessary industry experience and knowledge.

Q8. Do you agree or disagree with our initial view that the details of the establishment and ongoing affairs of the Board are best left for the industry to develop? If you disagree please state what areas you consider that we should require through licence obligations.

We support Ofgem's initial view that the establishment of the Board is best left for the industry to develop. We do not believe that the ongoing affairs of the Board require Ofgem's involvement.

Transition and implementation

Q9. Do you consider that a licence requirement should be placed on one or more parties to ensure that implementation is progressed? If so, what do you consider a reasonable timescale in which full implementation can be complete?

Ofgem must ensure that these changes are not undertaken on a piecemeal basis. Changes must be implemented in a co-ordinated and transparent manner by a project team made up of relevant stakeholders that represent all industry participants.

If a licence obligation is required it should be placed on the parties that will own Xoserve. The implementation date should be featured in the GT's licences as an output measure. The timescale for implementation is dependent on a number of factors which include the following (not an exhaustive list):

- Service delivery – no change to status quo.
- Budget setting, cost allocation and charging – methodology development and industry review, changes (if required) to Xoserve's invoicing systems and establishment of budget process and mechanisms.
- Corporate Governance – Appointment of new Board members, establishment of selection process and criteria and agreement on terms of references.

Q10. Do you have any views on CEPA's estimated cost of implementation? Please provide evidence of any additional costs you consider should be accounted for.

No comment.

General

Q11. Do you have any other comments on any aspect of the CEPA report or this consultation letter?

We are pleased to note Ofgem's proposed arrangements for managing Project Nexus and European changes. Revisions to Ofgem's funding, governance and ownership arrangements should not affect the current project deliverables. The current arrangements do not provide clear guidance on funding Project Nexus or European changes. Therefore, we welcome the transparency and clarity on the funding arrangements and the solutions for Project Nexus; this is a marked improvement to the current arrangements.

**EDF Energy
June 2013**