



Ofgem Consultation on Implementing New Funding, Governance and Ownership Arrangements for Xoserve, the Gas Transporter Central Agent

Response from E.ON

General Comments

We support Ofgem's initiative to reform the funding and governance arrangements of Xoserve.

We have consistently supported the centralisation and delivery of industry services rather than a fragmented approach which would inevitably lead to higher costs and deliver a poor service. We therefore supported the establishment of Xoserve as part of the distribution network sale process by National Grid. However we believe that Xoserve has not delivered to its full potential due to the incentives and drivers that are created by the way in which it is funded. We therefore support the proposals contained within this consultation.

We believe that the Contracted Services Model, described within the CEPA report, would ultimately deliver the best results with regards to cost efficiencies and standards of service delivered but recognise the points raised by Ofgem regarding the challenges in moving to this arrangement. We therefore support the proposal for a Full Co-operative Model as the next best option and one that should deliver significant improvements in service for the industry.

We recognise the pressures on all organisations at the current time in managing the implementation of changes resulting from a number of competing regulatory and policy initiatives. However we believe that the reform of Xoserve's governance and funding arrangements is crucial to ensuring that future benefits for the gas supply industry and gas consumers can be delivered. We are therefore prepared to provide assistance to support Ofgem in achieving its objective.



Responses to Consultation Questions:

Question 1: 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.

Yes, we believe that Ofgem's analysis that the delivery of centralised industry process and systems for gas settlement as the most efficient model is accurate.

This logic, we believe, has been proven by comparisons with the costs and service levels provided for gas customers on Gas Distribution Networks (GDN) compared to those on Independent Gas Transporter (IGT) networks, where no central delivery agent exists.

Whether the delivery of gas transportation invoicing by a central agent is more efficient than individual gas transporters invoicing gas shippers is a matter for them to comment upon. As a gas shipper we are interested in seeing that all gas transportation invoicing follow a common standard and rely on accurate information sourced from a single, verifiable source of data.

We note the comments from National Grid Transmission regarding the importance to them of the provision of the Gemini systems. In principle we are not opposed to them taking back control of these systems from Xoserve. This may be something that is facilitated by the implementation of the funding and governance reform of Xoserve considering the different contractual and ownership arrangements that presently exist for these systems. We would therefore be comfortable with this as an outcome as long as it can be proven that this will not have any detrimental impacts upon the efficiency of the delivery of services from Xoserve.

Should National Grid take control of Gemini we would also be keen to see greater transparency of the system changes (particularly timescales of future projects) in a similar way to that used by Elexon in the electricity market. This would be helpful to all participants in ensuring that their IT resource is suitably prepared to manage any potential change.

Question 2: 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.

Yes, the proposal in the consultation for an annual budget setting exercise seems appropriate and pragmatic. Allowing all users of the service to vote upon the budget will provide the correct incentives to the Xoserve Board to set a budget that is acceptable to users.

It will also allow users of the service to feel empowered and engaged with the decision making process and help ensure that future change to the industry runs smoothly.



Question 3: What are your views on the measures we have identified to ensure regulatory oversight is maintained?

We agree with the three measures proposed to be included to ensure regulatory oversight.

There is a risk that costs incurred from Xoserve may be higher than they should be as a result of the monopoly position that they will occupy. This issue explains our preference for the Contract Model which effectively resolves this by introducing a measure of competition and clear benchmarking of service costs.

There is a natural incentive on shippers to ensure that the costs are efficient which should act as a reasonable control.

We believe that it will be the role of the Xoserve Board to demonstrate to users of the service and to Ofgem that the budget and costs of Xoserve are acceptable and competitive.

The ability to challenge and test Xoserve and its Board by users of the service is to an extent dependent upon the information that they are provided with. We would therefore expect this requirement to be reflected in the quality of supporting information provided with the annual budget report.

The ultimate oversight of Xoserve's budget will be via the proposed licence conditions upon the owners of Xoserve to deliver an economic and efficient service combined with the ability for Ofgem to veto any budget increases.

We believe that this is a suitably robust set of measures to reassure us that costs will be controlled under the new arrangements.

Question 4: 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?

No, we believe that the proposal for implementing a new cost reflective charging methodology is correct. The activities carried out by CEPA and the industry workgroup have already delivered much of the work that would be needed and this could be built upon to deliver the final result.

For these reasons we do not believe that there would be any material costs to us in developing a cost reflective charging methodology.



Question 5: 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?

No, we do not foresee any barriers to the central service provider directly invoicing users. Xoserve already invoices shippers as part of its regular activities and therefore we would see this simply as a minor extension of their existing function.

We already receive, budget for and process invoices from Xoserve, as well as many other service providers. Incorporating direct invoicing from Xoserve for their services would therefore only add minor, immaterial additional costs for our financial administrative functions.

Question 6: 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.

Yes, we support the implementation of a Full Co-operative Model. We do not believe that the Light Co-operative Model would provide certainty that the governance issues would be resolved and therefore support the recommendation from Ofgem.

The Full Co-operative Model is pragmatic in that it addresses the issue of TUPE and pension liabilities. Resolution of these may otherwise take significant time and may distract Xoserve management from the continued ongoing delivery of services to the gas industry.

Question 7: 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?

Yes, we agree with the principles of the Board structure outlined in the consultation.

These all sound sensible and should ensure that the Board delivers what we would expect from it.

Considering the advanced nature of the Xoserve IGT central service provider arrangements we believe that it is sensible to establish the Board from the outset including representation from the IGT.

Question 8: 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 disagree with the view that industry is best left to develop and implement the new Xoserve Board.



We understand the logic in Ofgem suggesting that it should be the industry that decides the composition of the Board and its ongoing affairs as all parties have a vested interest in making this work well.

However we are concerned that this may take a considerable amount of time and delay the process of introducing reform. Therefore we would prefer for Ofgem to lead on the delivery of the structure of the Board and the appointment of the initial members. It would be good if this could start as soon as is practical after this consultation completes.

If Ofgem would prefer industry to develop and implement the reforms to the Board then it would be sensible for an obligation to be placed upon a relevant party to deliver this within a prescribed timescale. Placing the obligation upon an existing owner of Xoserve would help facilitate the transition and National Grid would seem best placed to deliver this role as it has the most influence over the current structure of Xoserve (it has the most current Board members and key members of the Xoserve management team are on secondment from National Grid).

Question 9: 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?

Yes, implementation of reform will rely upon the co-operation and engagement of a number of stakeholders. Critical to these are the current owners of Xoserve, the gas network operators, and Xoserve itself.

To ensure these parties are involved and deliver reform to a reasonable timescale we believe Licence conditions upon National Grid and the other GDN would be helpful.

We believe the timescales for reform set out in the CEPA report seem pragmatic and these suggested that the implementation of reform could be concluded by April 2014 for the Full Co-operative Model. Considering the additional time that this consultation will add we therefore consider a timescale of requiring implementation by June 2014 within the GT Licence to be suitable.

Question 10: 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, we believe that the CEPA estimates of costs seemed a fair assessment. We have no additional costs to suggest that we would incur as a consequence of the implementation of the reform proposed in this consultation.

Question 11: Do you have any other comments on any aspect of the CEPA report or this consultation letter?

No, other than to reaffirm our support for the proposed reforms.