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npower's response to "Consultation on implementing new funding, governance and ownership arrangements for Xoserve, the gas transporter central agent"

Dear Andy,

We welcome the opportunity to provide our views on the changes being made to Xoserve's funding, governance and ownership arrangements. npower has been involved with various groups during the development of CEPA's report and support the changes that will lead to an increase in transparency, responsiveness and cost efficiency.

Service delivery

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, npower agrees that retaining a central service provider, including Gemini systems, would be most beneficial. Given multiple user groups benefit from most services, a separation between transporters and shippers seems artificial and overly complex.

Budget setting, cost allocation and charging

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.

At a high level, npower agrees with the recommendations being made. They are similar to the arrangements in place with Elexon, which has been used as a model elsewhere in the review. As a general principle, the more power the Board has, the greater the need for transparency and clarity especially in decision-making. Particular points are explained in our answers to questions 3 to 5.

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



We would like Ofgem to have step-in powers to examine the budget, at least while the arrangements are new. We would suggest Ofgem have these powers initially and then re-examine the need for them after a period of, say, 5 years. In a similar manner, we would like annual budget increases above a certain percentage to require Ofgem approval. Whilst we acknowledge that this carries with it the risk of lengthening the budget-setting process, it will incentivise the Board to proactively lead on cost effectiveness, which would protect users, and so consumers, from sudden and significant price rises. If it were required, the length of the delay would be under Ofgem's direct control. Whilst an obligation to control the service provider 'in an efficient and economic manner' makes sense, correct membership of the Board means this would be in their interests as a matter of course. A well run budget should, in reality, require little intervention from Ofgem but we feel that a support framework should be in place should the need arise.

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?

npower is strongly in support of the principle that costs should be allocated to those responsible, including transporters, in a fair and transparent manner. A concern with the proposed methodology is that more complexity may limit transparency, so all drivers must be clearly explained. The costs of establishing the new methodology would be small compared to other gas costs and so should not be considered a barrier.

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?

npower supports direct invoicing as we believe the costs incurred of adopting new invoicing arrangements would be outweighed by the control over charges and serve the dual benefit of improving transparency of the transporters' and Xoserve's costs. These costs will be easier to clarify when there is some detail around data handling and supporting files.

Corporate governance

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, npower agrees with the proposal as it closely follows the Elexon model and provides the benefits you have identified. We consider that Xoserve's operational processes generally work well and our good relationship with the company means the contracted services alternative would not provide significant benefits to justify the cost, time and resources required to implement it.

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?



We agree with the principles outlined in the consultation, in particular that the Board members have the relevant corporate expertise to view Xoserve as a company.

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.

Generally, npower agrees that development should be responsibility of the industry, however, constitution of the Board and the voting process should be defined and independent. To this end, we think a licence condition should address this.

Transition and implementation

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?

The changes to xoserve are an industry change and should involve all parties on an equal footing. npower would support a licence obligation to encourage collaboration and engagement across all parties, similar to the transition license condition to work collaboratively used in the Smart Energy Code.

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.

npower believes that the costs should be distributed fairly across all industry participants, including shippers and transporters. To this end, allocation of implementation costs should not be by volume or meter point but equally across all parties. Given the changes in the gas industry with Nexus and the development of the Performance Assurance Framework, we think that April 2014 is ambitious for implementation. Any changes to next year's charges need to be established soon otherwise shippers may be paying twice before reconciliation comes through the transporter charges.

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

Generally, npower is in support of Ofgem's recommendations and feel the key points from the various workgroups and previous consultations have been captured well. We believe the proposed changes will bring about the objectives without unnecessary costs, that they will promote cost leadership and better align Xoserve with similar bodies in electricity.

Yours sincerely,

Grace Smith