

Lansdowne Gate  
65 New Road  
Solihull  
West Midlands  
B91 3DL  
0121 623 2692  
[www.xoserve.com](http://www.xoserve.com)

Jonathan Brearley  
Senior Partner, Networks  
Ofgem  
9 Millbank  
LONDON  
SW1P 3GE

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Dear Jonathan

### **Open Letter on the RIIO-2 Framework**

Thank you for the opportunity to respond to Ofgem's open letter on the RIIO-2 Framework. We are writing with the express purpose of asking Ofgem to give consideration to a specific issue within the scope of its RIIO-2 work.

On 1 April 2017, Xoserve was appointed as the Central Data Service Provider ("CDSP"), fulfilling the obligations set out in Standard Special Condition A15A of the Gas Transporter ("GT") Licence. This completed the implementation of changes to the Xoserve funding, governance and ownership model, confirmed in Ofgem's letter of 31 March 2017<sup>1</sup>.

A key feature of the model is the basis on which each GT is funded for its share of CDSP costs. Ofgem reviewed its approach during 2016, and concluded that each GT should continue to receive *ex ante* allowed revenues (adjusted to reflect a lesser scope of CDSP funding responsibilities) for the period from 1 April 2017 to 31 March 2021. The alternative approach considered by the review was the introduction of a 'pass through' arrangement. The decision letter also stated that Ofgem would reconsider this position for the next GT price control period based on the performance of the industry in creating an effective co-operative governance model<sup>2</sup>.

The open letter gives some insight to the very wide range of topics to be considered in the RIIO-2 Framework. In this context, we recognise that reviewing the GT funding of the CDSP is a very specific matter, albeit one of considerable importance to us and our customers. We have particular insights and detailed knowledge of the CDSP arrangements, and we believe that we are well placed to work closely with you and your RIIO-2 team to help you reach a timely decision.

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<sup>1</sup> See [https://www.ofgem.gov.uk/system/files/docs/2017/03/completion\\_of\\_xoserve\\_fgo\\_implementation\\_phase\\_letter.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/03/completion_of_xoserve_fgo_implementation_phase_letter.pdf)

<sup>2</sup> See [https://www.ofgem.gov.uk/system/files/docs/2016/09/xoserve\\_funding\\_decision\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/09/xoserve_funding_decision_final.pdf)

We have copied this letter to Rupika Madhura, who led on Ofgem's review of Xoserve, including the work on the GT funding approach, and has subsequently joined the RIIO-2 team. We would welcome the opportunity to work together with Rupika to take a fresh look at the GT funding of the CDSP, particularly to agree a stakeholder engagement strategy that seeks the views of all of our customers, to develop criteria for making a decision about the model for the RIIO-2 period, and to understand the form of evidence required to demonstrate delivery against the criteria. Our initial thoughts are that a review should consider not only what the co-operative governance model is already achieving and the steps that we are taking to deliver further service improvements to our customers, but also the potential for the transition to the 'pass through' model that was originally envisaged by Ofgem to enable the realisation of increased industry and consumer benefits.

We would be very happy to meet with Rupika to bring her up to date on the changes that we have made and are planning to make to get the co-operative governance model delivering fully for our customers, as well as to explore the best approach to making a decision about the GT funding approach for the RIIO-2 period. To this end, I will contact Rupika in the next couple of weeks to arrange a meeting. Our new Chief Executive Officer, Sian Baldwin, is meeting regularly with Dermot Nolan and Rob Salter-Church to keep them up to date on our plans and progress, and it is important that the RIIO-2 team has the opportunity to gain the same insights and to be fully informed before making its decision.

We look forward to seeing the question of GT funding of the CDSP included in the proposed structure of the RIIO-2 Framework when Ofgem publishes its next consultation document in Q1 2018. In the meantime, if you wish to discuss further any aspect of our response, please do not hesitate to contact me.

Yours sincerely

Martin Baker  
External Affairs Manager  
[martin.baker@xoserve.com](mailto:martin.baker@xoserve.com)

Copy to: Rupika Madhura, Ofgem