

RIIO Team – Network Price Controls

Ofgem,
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ICoSS response to RIIO-2 Sector Specific Methodology Consultation

The Industrial and Commercial Shippers and Suppliers (ICoSS) group is the trade body representing non-domestic industrial and commercial (I&C) suppliers in the GB energy market. Members collectively supply three-quarters of the gas needs of the non-domestic sector as well as half of the electricity provided by non-domestic independent suppliers¹.

Please find below our response to the consultation. Our response focuses purely on the issues that are relevant to our members and are only in regard to the FGO model and Xoserve.

Executive Summary

As set out below, the current Xoserve governance regime does not fully deliver the co-operative model originally intended under the FGO regime, with Gas Transporter and Shipper customers having equal control and aligned funding mechanisms. This is limiting Xoserve's ability to operate as it deals with differing and conflicting priorities from its customers and restrictions in its corporate arrangements. Until a truly co-operative model is delivered, Xoserve will therefore not be able to fully realise its potential in terms of delivering an effective and efficient central service. Ofgem should take the opportunity of the RIIO-2 price control to replace the current allowed revenue transporter funding regime and to remove transporter ownership of Xoserve, replacing it with a fully co-operative ownership model.

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Funding the GTs' expenditure for Xoserve under RIIO2

ICoSS was actively involved in delivering the reforms to Xoserve's funding and governance as part of the FGO model, and it has provided an improvement in the responsiveness and transparency in Xoserve's activities. The FGO programme was intended so that it would provide both Gas Transporters and Shippers with equal and shared control over Xoserve and that no single customer constituency would be favoured over another.

The FGO arrangements do not currently fully achieve that aim, with Gas Transporters and Shippers having differing drivers and goals from their common service provider. This is due to the retention of the allowed revenue model and full ownership by the Gas Transporters. We have found therefore that Shipper and Gas Transporter discussions with Xoserve about service requirements sometimes can be frustrated by concerns about sources of funding, and the potential risk to Xoserve's shareholders, rather than being properly focused on the case for change or the good of the market.

The original ambition for the FGO Review was to establish arrangements that would allow for greater flexibility and agility in responding changes in demand within the market and enable a more intuitive and less rigid funding regime. Ofgem should take the opportunity during the RIIO-2 price control to fully implement the vision of the FGO process.

This can be achieved through two significant changes. Firstly the funding regime needs to be harmonised, with both Shippers and Gas Transporters managing the industry's costs through the Xoserve board and the annual budget setting process. This has proven to be a successful mechanism for controlling Shipper costs and there is no reason why it cannot be extended to all of Xoserve's customers. This would allow the removal of the current allowed funding regime. Its replacement can take a range of options (cost plus for example), but any new funding regime must ensure that where there is a clear benefit for Xoserve to invest, both Transporter and Shipper interests are aligned.

If funding processes are aligned then there would be no remaining argument for control over Xoserve by any Transporter. The second change therefore would be to grant Xoserve full autonomy from the Transporters, by removing the current ownership regime where the transporters fully own Xoserve and replacing it with a model that allows Xoserve to operate without being restricted by its former monopoly owners. The Gas Transporters should however retain liability for any legacy financial commitments (such as pension costs) accrued whilst



Xoserve was under the ownership of the Transporters to avoid customers subsidising decision made by the gas transporters for the benefit of their shareholders.

Please contact me if you wish to discuss this further.

Yours sincerely,

A handwritten signature in grey ink, appearing to read "G. Evans".

Gareth Evans
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