

**Agency Charging Statement
Review Report
For 1 October 2008**

1. Executive Summary

The User Pays regime commenced on 1 April 2008 following consultation by Ofgem through the Gas Distribution Price Control Review (GDPCR) process (2008-13)¹. Standard Special Condition A15 of the Gas Transporter Licence requires the Gas Transporters to produce and maintain a joint Agency Charging Statement (ACS) which sets out the scope of user pays services and core services, the charging methodology for user pays service and the charges themselves.

The Authority approved the first ACS on 28 March 2008² and as part of its approval it requested that xoserve:

- Review the level of charges in light of actual demand for the various services
- Give greater clarity in the charging methodology to the process by which it derives and keeps up to date forecast demand; and
- Amend the Charging statement to better illustrate the relationship between total costs, forecast demand and actual charges

This report addresses these points and outlines the proposed modification to the charges in the ACS to be effective from 1 October 2008.

2. Methodology

The methodology for costing and pricing of the User Pays services is outlined in the ACS and the Activity Cost Base methodology (ACB) appended to the ACS. In short, xoserve calculates the cost of providing the services (including administration costs and a margin of 6%) and divides it by the forecast demand in order to establish the price. This ensures the prices are, as far as reasonably practicable, cost reflective. xoserve intends to review the demand for User Pays services and the cost of providing these services at least annually to ensure the services remain cost reflective.

xoserve derives its demand forecasts from actual demand for the User Pays services coupled with confirming future demand with customers, as discussed further in section 4 below. This has been the methodology used for this first six month review, and will continue to be xoserve's approach going forward.

¹ GDPCR consultation documents are available on Ofgem's website at <http://www.ofgem.gov.uk/Networks/GasDistr/GDPCR7-13/Pages/GDPCR7-13.aspx>

² Approval letter available on Ofgem's website at: www.ofgem.gov.uk/Networks/GasDistr/GasDistrPol/Documents1/Xoserve%20Charging%20Statement%20Decision%20ltr.pdf

3. Costs

As part of the Gas Distribution Price Control Review process, the Gas Transporters' allowed revenue was reduced by £3.3 million (08/09 prices) in respect of User Pays services. This was based on 2006/07 actual costs for User Pays services provision utilising the published Activity Cost Base methodology detailed in Appendix 3 of the ACS.

Total costs allocated to the User Pays Services reflect the cost of employees and other expenses that can be directly associated with the provision of the service plus an appropriate level of overhead (property, systems etc). In addition, an allowance was made to cover additional administration costs associated with the new User Pays regime.

Taking into account the forecast demand as at 1 April 2008 and cost information, total costs forecast to be recovered under the approved ACS were £3.5m.

xoserve has reviewed these costs and revised them based on the actual cost of providing these services for the first three months to 30 June 2008 and forecast costs for the remainder of this financial year (2008/09). xoserve has been seeking to drive out costs through improved efficiency wherever possible and reallocating resource where demand for services differs to that assumed in the original forecast. As a result, xoserve is forecasting the operating costs of User Pays services for 2008/09 to be £3.2m, a net reduction of £0.3m. The impact of this forecast saving in operating costs is outlined in sections 6 and 8 below.

4. Allocation to Service Lines

Costs are allocated to service lines based on the allocation methodology published as Appendix 3 of the ACS. The costs include employee costs and bought in goods and services. Cost drivers are then used to apportion costs to each service line. In summary:

- Direct employee costs are attributed directly to the activities based on time recording information
- Indirect employee costs (ie support functions such as HR, finance) are attributed in proportion to the total direct resource per service line
- Indirect costs are attributed in several ways:
 - Based on the proportion of direct and indirect employee costs – eg printing and stationery
 - Directly attributable – eg license costs
 - To the application which supports the service line – eg infrastructure, application support costs

Table 1 shows the split of allocated costs between fixed and variable, expressed as a percentage of the total costs for that service line. Variable costs have been defined as those

which will vary with changes in demand in the short term (less than 12 months). Fixed costs are those which are not expected to vary with changes in demand in the short term.

Table 1. Allocation of costs between fixed and variable costs based on 08/09 latest forecast

	Fixed	Variable
Provision of Information	52%	48%
Registered User Portfolio Reports	70%	30%
AQ Enquiry	30%	70%
Must Reads	54%	46%
Shipper Agreed Reads	64%	36%
User Admissions	53%	47%
Total	53%	47%

Table 2 shows a further analysis of costs, between direct staff costs and other costs, again expressed as a percentage of total costs for that service line: Staff costs reflect only the staff costs incurred directly in support of those activities.

Table 2. Breakdown of direct staff costs and others costs based on 08/09 latest forecast

	Direct Staff Costs	Other Costs
Provision of Information	25%	75%
Registered User Portfolio Reports	29%	71%
AQ Enquiry	53%	47%
Must Reads	43%	57%
Shipper Agreed Reads	29%	71%
User Admissions	41%	59%
Total	28%	72%

5. Demand

Table 3 shows the forecast demand levels for the User Pays services on 1 April 2008 (as detailed in the ACS conclusions report) and the current forecast for this financial year. Current forecast demand is based on actual demand for the services to the 30 June 2008 plus customers' input to future demand. The main areas of difference in demand are:

- IAD demand is higher than previously forecast;
- The demand across telephone bands varies from previous assumptions and there has not been the forecast reduction in telephone calls that was predicted;
- E-mail reporting demand is lower than previously forecast;

- The mix of portfolio reports is different to the original forecast. Overall there is a small increase in the number of reports being produced;
- There has not yet been the anticipated change in the way Shipper Agreed Reads (SARs) files come in to xoserve where there was an assumption that the cheaper email route would be used more than the more expensive facsimile route. Overall, demand for the SARs service has dropped well below the previous forecast.

Table 3. Forecast Demands for User Pays Services

Service Item	Service Detail		1 April 2008 Annual Forecast Demand (Apr-Mar)	1 October 2008 Annual Forecast Demand (Apr-Mar)
1.Provision of Information	Internet based service to allow authorised users access to supply meter point data online. (Schedule 4 of the Conditions)		12,500	13,900
	User Telephone Enquiry. Telephone call(s) to information centre to obtain Supply Meter Point data. (Schedule 7 of the Conditions)	Band B up to 1,000 calls	2	11
		Band C up to 5,000 calls	3	6
		Band D up to 20,000 calls	3	3
		Band E up to 50,000 calls	1	2
		Band F up to 70,000 calls	1	1
		Band G up to 150,000 calls	0	1
		Band H up to 250,000 calls	0	0
		Calls in excess of band	40,000	2,000
	Provision of M Number DVD containing supply meter point data. (Schedule 5 of the Conditions)	Annual Service	10	13
		Ad Hoc Per DVD	0	0
	Provision of data by email for users Meter Point Reference Numbers. (Schedule 3 of the Conditions)	Per email report 1-999 MPRNs	1,820	1,100
		Per email report 1,000-5,000 MPRNs	200	50
2. Registered User Portfolio Reports	Query Management – Standards of Services	Annual Service (12 reports per year)	12	8
		Ad Hoc Service (per report)	4	0
	Registered User Portfolio Statement	Annual Service (12 reports per year)	12	25
		Ad Hoc Service (per report)	4	0

Service Item	Service Detail		1 April 2008 Annual Forecast Demand (Apr-Mar)	1 October 2008 Annual Forecast Demand (Apr- Mar)
	Registered User Portfolio (for User portfolios not exceeding one million Supply Points)	Annual Service (12 reports per year)	10	26
		Ad Hoc Service (per report)	4	0
	CSEPs Portfolio Report	Annual Service (12 reports per year)	0	16
		Ad Hoc Service (per report)	6	0
	Unique Sites Portfolio	Annual Service (12 reports per year)	0	5
		Ad Hoc Service (per report)	0	0
	Annual Asset Portfolio	Annual Service (one report per year)	20	15
		Ad Hoc Service (per report)	5	0
	Transco Asset Portfolio	Annual Service (12 reports per year)	20	17
		Ad Hoc Service (per report)	5	0
	Data Portfolio Snapshot	Annual Service (12 reports per year)	6	18
		Ad Hoc Service (per report)	0	0
3. AQ Enquiry	Provision of a Speculative AQ Value (Schedule 2 of the Conditions)		2,555,300	2,500,000
4. Must Reads	One meter at the supply point		42,900	42,000
	Two meters at the supply point		1,500	1,500
	Three or more meters at the supply point		600	600
5. Shipper Agreed Reads	U01 File		30,000	3,000
	Email File		60,000	34,000
	Facsimile Transaction		1,000	2,800

6. Prices

The prices charged for User Pays services represent a direct relationship between the cost of providing the services and the demand.

The only price change being proposed to the ACS at this six month review period is a reduction in the price of the Internet Access to Data (IAD) service. The new proposed price is £8.75 per account per month. This is a reduction of £7.25 per account and has been achieved through a combination of xoserve forecasting reduced third party costs associated with the

provision of the service and a higher than forecast demand from customers. As a consequence of the proposed reduction in IAD prices from 1st October 2008 the Daily Failure Rate for this service also reduces proportionately.

The cost of the telephone service has been maintained at current levels because the forecast call volume is greater than originally assumed and additional resources are required to deliver the service.

Whilst demand for the SARs and e-mail reporting services is well below the original forecast, xoserve has been able to reduce the operating costs in these areas by reallocating resources. This has enabled xoserve to maintain the unit prices at their current levels for the time being.

7. 2008/09 Financial Projections

The table below provides a forecast financial summary for the provision of User Pays services by xoserve for this financial year. It is based on the revised cost forecast outlined in this document and the new IAD price of £8.75 per account per month proposed from 1 October 2008.

Table 4. Financial Forecast for 2008/09

	£m
Provision of Information	2.68
Registered User Portfolio Reports	0.09
AQ Enquiry	0.03
Must Reads	0.47
Shipper Agreed Reads	0.10
User Admissions	0.03
Total Revenue	3.40
Total Costs	3.17
Margin	0.23

8. Treatment of Under/Over Recovery

Although charged on a cost reflective basis, prices for User Pays Services are based on forecasts of overall demand and include a reasonable margin (6%) on forecast costs. Therefore, any changes in demand or costs from forecast may result in an over or under recovery.

Given that demand for IAD is higher than assumed at the time of establishing the current ACS in March 2008 and the forecast costs associated with the service line have reduced, prices

have been reduced in the updated ACS such that the expected return of 6% is delivered over the year as a whole.

Should demand/costs fluctuate further and xoserve experience some under/over recovery at the end of the financial year we would look to address this either by a further adjustment to within year charges or by carrying forward any under/over recovery into the following financial year and revising prices from 1 April 2009 accordingly.

9. Governance

xoserve has been working with the industry to establish the governance arrangements for Non-Code User Pays services, and to complete outstanding contractual issues. The industry now has two new committees looking at this – The User Pays Contract Expert Group and the User Pays User Committee. These committees are chaired by the Joint Office of Gas Transporters and all documentation associated with the meetings can be found on their website at www.gasgovernance.com.

10. UNC Modification Proposal 0213

UNC Modification Proposal 0213, "Introduction of User Pays Governance Arrangements", is currently being discussed within the industry. xoserve will take any actions that may be required to modify the ACS in order to accommodate the outcome of this Modification Proposal.