

Xoserve FGO

Update for Change Overview Board

7 September 2015

Background

Xoserve was created following the DN sales in 2005 to retain a common data services provider for all GTs.

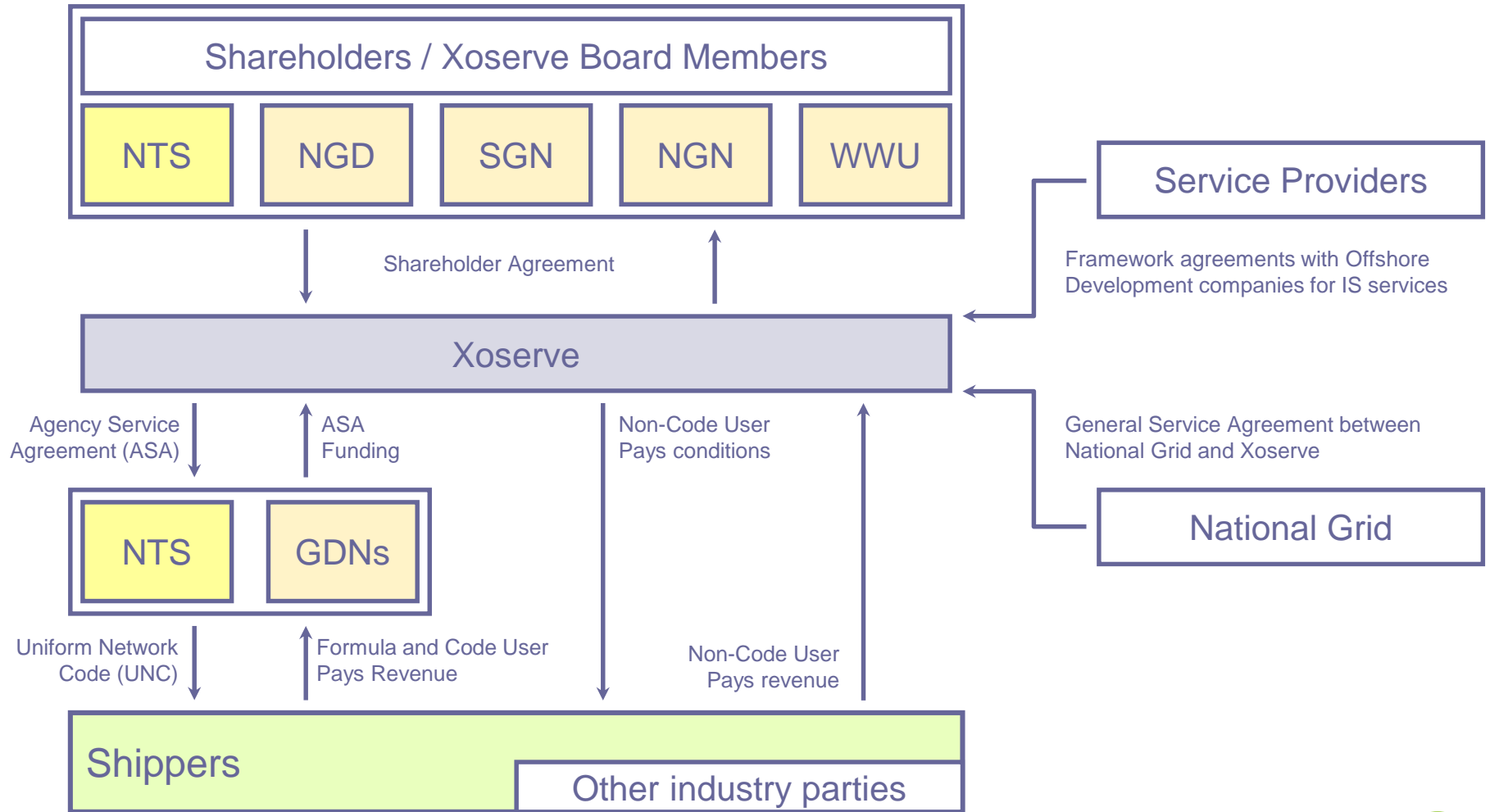
Ofgem carried out an initial review 2-3 years ago focused on the need for:

- Greater **cost transparency**;
- More challenge in the selection and provision of **cost effective services**;
- Greater **process transparency** (moving away from a GT only process); and
- Greater levels of **industry consultation**.

Ofgem subsequently hired CEPA to undertake some work to look at Xoserve's current service footprint in the market. CEPA facilitated a number of industry workshops with a view to identifying desired enhancements to Xoserve's current arrangements.

Ofgem published their decision in October 2013.

Current arrangements



Courtesy of National Grid

Objective and scope – Ofgem Requirements

Funding

- Develop collective & cost reflective funding methodology
- Establish Transparent and inclusive annual budget setting process
- Establish transparent invoicing methodology

Governance

- Establish Requirements to run the CDSP economically and efficiently
- Xoserve will also need to operate in line with Companies Act 2006 best practice
- Establish board that is accountable to all users and as a minimum to include: an independent Chair, non-executive members and a Chief Executive
- Introduce a robust and transparent election process and a process to dismiss board members
- Create performance evaluation framework to monitor the effectiveness of the Board

Ownership

- GTs to remain owners but with limited rights and liabilities with all users taking a share in the control and performance risk of the CDSP
- Change to Articles of Association, shareholder agreements and Memorandums to facilitate the required changes

Programme: areas of work

In January 2015, the industry (via the FGO programme overview board (POB)) appointed KPMG to act as the programme manager, to oversee the implementation.

KPMG has developed a PID and a Blueprint which have been endorsed by POB.

We have now moved to workgroups focussed on delivery of outputs:

UNC obligations

- Currently GTs are obligated, through a combination of their licence and the UNC, to provide central services to the industry, which they discharge through Xoserve.

Business plan and budget setting

- Ofgem's requirements for a more inclusive budget setting process will reflect the fact that all paying service users have a say in how Xoserve is run.

Governance

- Ofgem advise that Xoserve will continue to be owned by GTs, however Shippers/iGTs will be given the ability to nominate representatives to Xoserve's board of directors.
- Shippers and iGTs will also be involved in the ongoing management of Xoserve.

Charging and cost allocation

- Ofgem will amend the funding arrangements for Xoserve services (currently part of allowed revenue under RIIO).
- Xoserve will work under new arrangements to charge Shippers, iGTs and GTs on the basis of the services they receive.

UNC obligations

In consideration of amended governance structures, it is appropriate to consider whether this has implications for the allocation of UNC obligations.

Under new arrangements, UNC obligations may sit with parties based on: impact, ability to deliver and consequences of non-delivery.

The FGO POB are adopting an approach which will update the text within UNC Section V:6.5, to reflect the new arrangements – GTs are currently drafting a UNC modification(s) which they plan to put before the October modification panel.

The aim is to have proposed these modifications by April 2016.

Business plan and budget setting

Xoserve are currently working on an interim business plan and budget setting process which will commence this year and inform the process for providing wider visibility of the budget and business plan that will be implemented in April 2016 for FY16/17.

The aim of the revised process is to give you access to plan principles, draft plan and final plan. Xoserve have circulated plan principles to POB for discussion on 11th September. **The aim is to share them more widely with industry around the September stakeholder event.**

Xoserve will apply any lessons learned from the interim process to the enduring business plan and budget setting process. The enduring process will run during FY16/17 and will set the business plan and budget to be implemented from April 2017.

The enduring business plan and budget setting process will include:

- Consultation with all parties (iGTs, Shippers, GDNs and NTS) regarding Xoserve's proposed budget and business plan; and
- The ability for parties to appeal to Ofgem in cases where the proposed budget is not deemed to be sufficient (subject to materiality criteria – tbc by Ofgem).

CDS/ industry governance

Change Management Steering Group

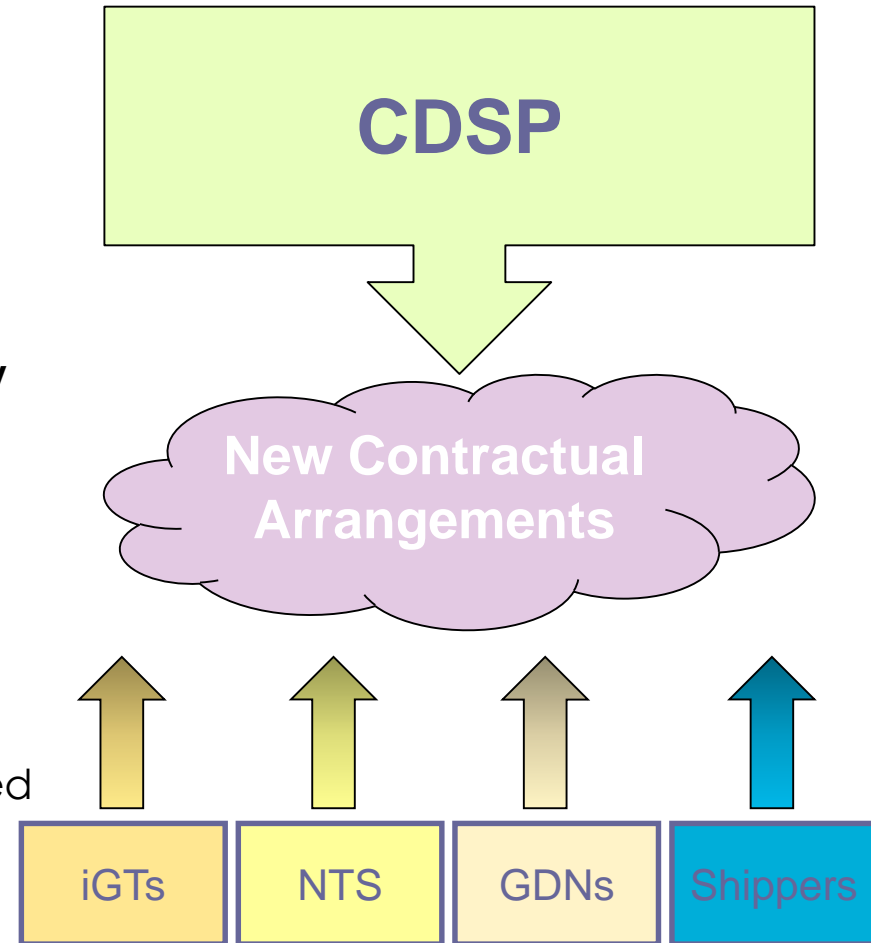
- Each CDS user to appoint named change manager
- Group to meet monthly
- Decisions to be made by those affected by particular changes

Any views on interaction with Change Overview Board?

Contract Management Steering Group

- Each CDS user to appoint named contract manager
- Monthly meetings to discuss performance against contract, and any escalation required

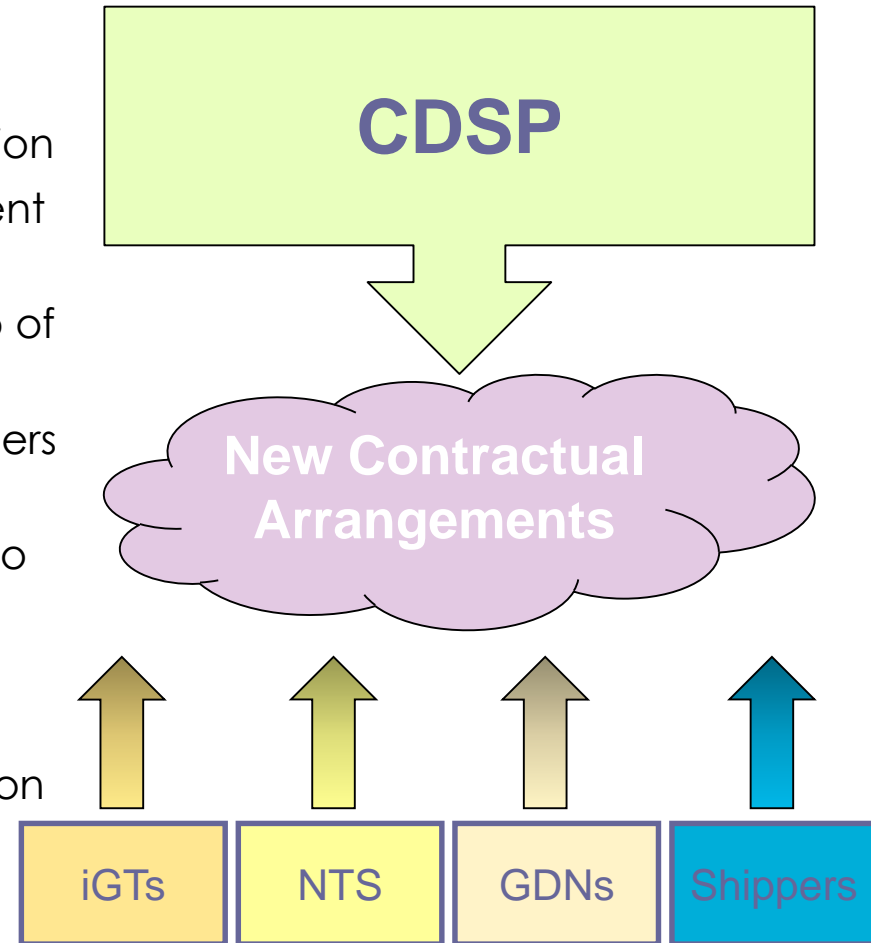
New Terms of Reference published for each- for POB approval 11th September



Xoserve corporate governance

Corporate governance:

- GTs to retain Ownership
- CDSP to become a “not-for-profit” organisation
- Xoserve’s shareholders to be de-risked in event of failure of the CDSP
- GT, iGT and Shipper influence in membership of the Board
- Retain current 6 GT nominated board members for 2016/17
- Up to 4 shipper nominated board members to join board on 1st April 2016
- Potential reduction in GT-nominated board members from 2017/18
- Aim for a streamlined, representative board on an enduring basis



Charging and cost allocation

- Need to close down current funding and financing arrangements at point of switch over to new model
- Need to ensure new arrangements provide for an enduring financial model

There may be a reallocation of CDSP costs to each party based on stake in the service

- Ofgem will conduct a review to decide whether GT Xoserve-related costs will be:
- removed from RIIO allowed revenue (recoverable via Pass Through)
 - retained as part of RIIO allowed revenue
- This review will conclude in September 2016, meaning that a revised charging process can be introduced from 2017/18

A draft charging methodology needs to be developed now to feed into the Ofgem review

Ongoing work

Workgroups ongoing on all 5 key implementation areas.

Monthly POBs meetings scheduled- all are welcome to attend, please contact us for further details.

Transitional approach to FGO implementation

- Ofgem review of GT funding means some aspects of FGO will not be deliverable for April 2016 e.g. a new charging and cost allocation methodology can only be introduced in 2017/18 following conclusion of the review
- Paper submitted to Ofgem setting out proposed FGO deliverables by
 - a) April 2016; and
 - b) April 2017

Planning for 25th September stakeholder event

- Designed to raise awareness of FGO with wider industry
- Next slides show invite sent to POB and industry groups

FGO Stakeholder event

FGO Programme STAKEHOLDER EVENT 25 SEPTEMBER 2015



BACKGROUND

The Funding, Governance and Ownership (FGO) Programme was established to define and deliver a fully cooperative model for the Central Data Services Provider (CDSP), in line with Ofgem's conclusions document in October 2013.

Work has been progressed through Programme Overview Board (POB) and workgroup meetings. This has focussed on **FIVE MAIN AREAS**:



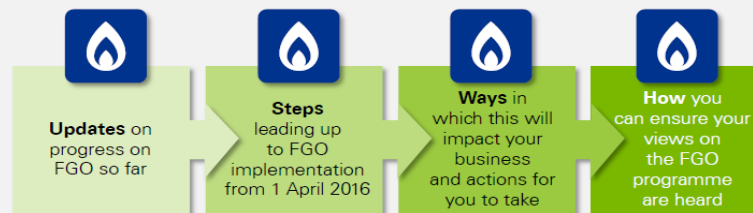
Ofgem have tasked the industry with delivering the FGO reforms by **April 2016**.

WHO IS AFFECTED

All users of Xoserve's central data services from April 2016 onwards.

AIM OF THE STAKEHOLDER EVENT

To allow all users to **understand**:



FGO stakeholder event (ctd)

FGO Programme

STAKEHOLDER EVENT

25 SEPTEMBER 2015



AGENDA:

The event will begin at 10.30am, with registration from 10.00am

- The agenda for the event is as follows:
- Introduction- Paul Rogers, National Grid Gas (POB Chair)
- Progress update – Duncan Michie, KPMG
- FGO solution for April 2016- [speaker tbc]
- What this means for stakeholders- [speaker tbc]
- Timelines going forward- Nicola Cocks, KPMG
- Q&A panel discussion

The event will finish at 1pm, followed by a buffet lunch

VENUE:

This event will be held at the Royal Horseguards Hotel

- 2 Whitehall Court, Whitehall, London, SW1A 2EJ
- Closest stations are Charing Cross and Embankment
- Directions to the venue can be found at: www.theroyalhorseguards.com

CONFIRM YOUR PLACE:

Please reply to FGOcentral@kpmg.co.uk by Wednesday 16 September, indicating any dietary or special requirements

Please note that we may need to limit attendance to one representative per organisation, if we receive a high degree of interest in the event.

We look forward to seeing you on
25th September

Your role

Keep up to date with progress

- Regular updates from FGO Programme Manager and those who attend POB/workgroups

Contribute to informal and formal consultations

Input to development workgroups

Workgroup and POB dates are available on the Joint Office website

...and please make every effort to attend 25th September event, and encourage colleagues to do so!

Key project documents are displayed on the FGO Sharepoint site. Please contact us at FGOCentral@kpmg.co.uk if you require access.



Thank you