

Agency Charging Statement Review – August 2008

On behalf of the Large Gas Transporters, xoserve issued a revised Agency Charging Statement (ACS) and an Agency Charging Statement Review Report (the Review Report) on the 18th August and invited customer comments on both documents. xoserve would like to thank those customers who have responded.

We have received feedback from the following customers:

- NPower
- EDF
- British Gas
- Shell Gas Direct
- Scottish Power

The points raised by our customers refer to both the ACS and the Review Report and are summarised below, along with xoserve's responses.

1 ACS Review Process

Customer Comments
<p>1. Could you confirm what is the process for publishing the ACS going forwards? Section 4.2 and 4.4 appear to contradict themselves what is the difference? Also it agreed that the ACS would go out 2 months before any changes came into effect, can that be detailed in the ACS?</p> <p>2. Statement 4.2 and 4.4 say the same thing so should be merged or one removed.</p>
Our Response
<p>Whilst the large Gas Transporters have no licence obligation to consult on the ACS, xoserve will review ACS charges at least once every 12 months to ensure that the services being provided continue to be cost reflective. xoserve will discuss any price changes with customers at the earliest opportunity.</p> <p>We have merged statements 4.2 and 4.4.</p>

2 Provision of Invoice Supporting Information

Customer Comments
<p>1. In the ACS, it makes reference to ensuring there is supporting information to enable users to validate their invoices (section 1.6). We still do not have this supporting information. I was advised that for the IAD invoice cumulative / monthly counts were provided, however we can find no such information. Clearly we need this information going forward, perhaps you could let me know the progress in this area?</p> <p>2. Statement 1.6 of ACS states, "supporting information will be provided with each invoice to allow users of such services to validate their invoices." To date the only data received with the invoice has been for Core Services.</p>
Our Response
<p>There is a large volume of information which has been and is available to customers on request. We will ensure the customers who raised this point are provided with the information they require.</p>

3 Cost Driver Information

Customer Comments
The ACB section has no information in the “Summary of Cost Drivers” section.
Our Response
This information was omitted in error from the first published draft. A complete version was reissued as soon as we became aware of this.

4 Cost Reflectivity

Customer Comments
<p>1. The concern we had (and still do) was that we had no way of determining whether the charges were cost-reflective, fair or equitable based on the methodology produced in the paper. The inclusion of forecast demand and actual out-turn is a positive step but we're still some way away from a decent understanding of why it costs the amount it does for those systems/services</p> <p>2. Our main concern, however, is that Appendix 3 – Activity Cost Base (ACB) in xoserve, An Overview of the Methodology – has not been updated since the publication of the first ACS. Therefore, we still have concerns over the level of detail behind the charging methodology and the transparency around the cost reflectivity of the charges.</p> <p>3 Despite Ofgem’s requirement that the GDN’s “amend the Charging Statement to better illustrate the relationship between total costs, forecast demand and actual charges” the amendments that have been made do not meet this requirement.</p> <p>4 We would expect to see total costs against each service line and a far more detailed explanation as to how these costs are derived. It is still unclear how demand actually drives these costs as no information has been provided on the fixed costs of service provision versus the variable element which will directly affected by demand. No information has been provided as to how much it costs to support IAD however this must be one of the cost element utilised to derive the IAD charge. The IAD charge itself does not seem to be mapped directly on the activities associated with IAD e.g. account creation, deletion, password resets etc. Therefore once again evidence has not been provided that the charges being levied on users are cost reflective</p> <p>5 At our previous meeting the example of the Gas IAD service and the electricity equivalent was compared (ECHOES) as an example and we questioned why such a similar service cost a lot less? We still did not have a reasonable response. Until we see this transparency, section 3 and SSC A15 are not being met.</p> <p>6. xoserve state, “total costs allocated to 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, system etc)”. However, no details are provided, and while we understand that parts of the information are commercially sensitive some information could have been provided. In particular we would have appreciated a breakdown of costs for IAD to establish why the costs are so much higher than the electricity equivalent (Electricity Central Online Enquiry Service (ECOES)). As stated in our response on 19th February, we believe the level of charge for IAD remains unacceptably high when taking into consideration the costs</p>

of providing the ECOES. We understand that negotiations on the contract are still ongoing and that concessions have been made on system down time, but we would have valued assurances on disaster recovery and ongoing system stability within the ACS review

7 We did have concerns initially regarding the proposed charge for an IAD account and we welcomed the revised charge of £16 per month following industry consultation in February 2008. We welcome the proposed further reduction to £8.75 per month from October this year. We believe this reduction together with the improved industry engagement does demonstrate that xoserve have listened to the concerns raised by the industry during the process for introducing the User pays arrangement.

Our Response

The Review Report does show the overall costs of providing the User Pays services, explains how the costs are allocated to service lines and how unit prices are derived based on demand forecasts and the addition of a 6% margin to the forecast costs.

In response to these comments we have now added additional information showing the level of fixed and variable costs forecast in respect of each service line and the forecast direct staff costs for each service line.

We are not able to provide further information within the Review Report because of commercial sensitivities surrounding the general availability of this information on the world wide web once it is published. However, we have already provided more detailed information to OFGEM and would be happy to provide customers with more detail on an individual basis.

It is difficult for us to comment on the pricing of ECOES as we do not have visibility of how the costs for this service are allocated and whether, in fact, a direct comparison can be made.

We consider that we have met OFGEM's requirements outlined in its ACS approval letter of 28th March 2008 and that we have demonstrated that prices are cost reflective.

5 Demand Forecasts

Customer Comments

1 Ofgem's requirement that the GDNs: "give greater clarity in the charging methodology to the process by which it derives and keeps up to date forecast demand forecast;" has not been met in the documentation provided to support the revised ACS or indeed within the ACS itself. It would be useful to see actual historic demand and customer forecast and an explanation as to how they have developed their forecast – i.e. is it 100% customer forecasts, or is it weighted somehow?

2 The process by which users update xoserve with their demand forecasts is unclear – there would be value in embedding a regular formal process by which users update xoserve with their forecast activity changes.

Our Response

In the User Pays User Group meetings we routinely share the actual demand for IAD accounts and at the User Pays User Group meeting on 18th August we presented the forecast demand figures.

The Review Report does outline how we monitor demand for the services and explains that we have derived the forecasts based on actual usage to June and customers' forecasts of demand for the remainder of the year to March 2009. No weighting takes place.

The process for updating forecasts is explained in the Review Report.

6 IAD usage information

Customer Comments

As a Shipper we have struggled to comment fully on our expected IAD volumes due to the lack of information. In ECOES we have a "master admin user" who can monitor, amongst other things, login activity. ScottishPower currently has nearly 900 IAD logins but has no details on their activity. Although we do not expect to increase our volume this data would have helped establish if we could reduce our volume.

Our Response

We have indicated to customers that we are able to provide information showing when accounts were last accessed. We are also introducing transactional monitoring functionality to IAD in October 2008 which has the potential to offer customers increased management information.

We will continue to work with customers to endeavour to provide them with the information they require.

7 Daily Failure Rate

Customer Comments

We note that the Daily Failure Rate for the IAD service has been reduced. The reduction is not explained in the Review Report and there is no clarity around how the revised payment has been calculated.

Our Response

The Daily Failure Rate payment has a direct link to the actual price for the service. As the price for the IAD service has reduced, so has the Daily Failure Rate.

A note has been added into the Review Report to aid understanding.

8 Password Resets

Customer Comments

xoserve has focused on cost savings. While we recognise the password-reset process has improved in recent months it is still far below the standard set before User Pays and other areas within the IAD service continue to give cause for concern. The IAD charge was set at the login level; ignoring what system the login provides access to. As such, priority has been given to setting up a login not maintaining the individual Shipper or Supplier access requirements. This has impacted our internal processes, as our agents cannot access the data they require via IAD, which results

in them utilising the phone service. As a result we are paying for the provision of data twice.

Our Response

We acknowledge that there have been issues with IAD password resets, primarily as a result of the large volumes received in a short space of time. However, this issue has now been resolved.

We have been working with our customers to look at improvement areas to the IAD service and have proposed a number of ways forward, including a self service password reset option. It is expected this will be implemented during October

9 Other Services

Customer Comments

Firstly, we welcome both the inclusion of the Forecast Demand for Services in the ACS document and the comparison of the original and revised forecast in the Review Report.

We also welcome the revision of the IAD charges in light of the revised forecast. We would, however, like to see more detail behind the decision not to amend charges for other services where forecasts have changed significantly.

Our Response

All prices are cost reflective. Charges have not been revised for other services where forecast demand has changed as it has been possible to revise the variable costs associated with the provision of that service.

10 Speculative AQ

Customer Comments

It is unclear how xoserve's own use of the Speculative AQ will be accounted and paid for.

Our Response

xoserve does use the Speculative AQ during the AQ review process which is part of the Uniform Network Code services we provide. The cost of this activity is funded separately by the income we receive under the Agency Services Agreement.