

XOSERVE FUNDING, GOVERNANCE AND OWNERSHIP REVIEW

TOPIC SUMMARY FOR FGO PROGRAMME OVERVIEW BOARD

TOPIC: Funding and Financing

1) Ofgem's Conclusions

Ofgem has concluded previously that:

- a) The RIIO-GD1 and RIIO-T1 allowed revenues of the Gas Transporters ("the GTs") for the funding of the Transporter Agency will be removed from the Price Control Financial Model¹;
- b) The Central Data Services Provider ("the CDSP") will be funded collectively on a not-for profit basis by the recipients of Central Data Services ("CDS"), where the CDS Cost Allocation Model and Charging Methodology will direct costs towards the parties that drive them; and
- c) To the extent that the CDSP recovers its costs from the GTs, the GTs will be allowed to pass these through to Shippers without regulatory intervention or constraint.

2) Topic Deliverables

The FGO Programme Overview Board ("the FGO POB") considers that the deliverables associated with this topic comprise:

- a) A model for the funding and financing of Xoserve's CDS activities, including consideration of both operating costs and investment expenditure;
- b) A CDS Business Plan that demonstrates how the CDSP will be funded and financed; and
- c) Amendments to the GT Price Control Financial Model and related Licence documentation.

3) Giving Effect to Conclusions

Must Do	<ul style="list-style-type: none">• The establishment of a model for the secure funding and financing of the CDSP is fundamental to:<ul style="list-style-type: none">○ Ensuring the continued provision of CDS and the timely progression of CDSP investments in support of CDS recipients' requirements; and○ Providing assurance both to Xoserve shareholders and to CDS recipients of protection from risk• In conjunction with the above, amendments to the GT Price Control Financial
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¹ There will also be a regulatory review of Transporter Agency costs and outputs for the period since 1 April 2013 and a potential restatement of *ex ante* allowances.

	<p>Model to remove allowed revenues for the funding of the Transporter Agency are a prerequisite to the introduction of the CDSP funding model</p>
<p>Options</p>	<ul style="list-style-type: none"> • The funding of CDSP investment expenditure can be met by the payment by CDS recipients of: <ul style="list-style-type: none"> ○ ‘Lump sums’ in the year in which investment expenditure is incurred; ○ An ‘investment surcharge’ in advance of the investment expenditure being incurred; and / or ○ Amounts in arrears over a period following that in which the investment expenditure is incurred, including the recovery of financing costs • The financing of CDSP investment expenditure can be met by: <ul style="list-style-type: none"> ○ GTs, who would recover costs from Shippers over an agreed period of time, with an allowed return for financing costs; ○ Xoserve, who would be required to secure finance through arrangements with its vendors or other third parties; and / or ○ Shippers, who would have to make local decisions about the means of financing their expenditure and the recovery of financing costs
<p>Matters for Resolution</p>	<ul style="list-style-type: none"> • There is a requirement to ensure that the CDSP has access to sufficient working capital at the start of CDSP Year 1 to enable it to undertake its activities • There is a requirement to develop and implement a process that will determine the extent to which the CDSP recovers its costs from the GTs • There is a requirement to understand processes and timescales for making changes to regulatory funding documentation, including the GT Price Control Financial Model (both for the start of new funding arrangements and any subsequent ‘true up’ of actual to budget costs), Regulatory Reporting Packs, and the iGT Relative Price Control