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ICoSS letter regarding FGO Programme

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.

I am writing regarding the Xoserve FGO programme. The achievements of the programme to date have already delivered shippers' key requirements in relation to better governance and allowing shippers a say in the operation of the organisation. Given this, any further aspects of the programme should be paused and re-evaluated in light whether further changes will be of incremental benefit given the other proposed changes to the industry landscape that will be implemented in the next few years.

The FGO programme, which was started in 2011, was designed to address a key concern first identified by CEPA's report to Ofgem regarding Xoserve's management and governance structure, namely a lack of "*transparency in how Xoserve derives charges for services and how it makes strategic decisions*"² Building on this report, Ofgem's original proposals in 2011 also detailed several additional changes, including a mechanism for separately charging Xoserve's costs incurred by Users. Though the high-level aims were set out, Ofgem did not provide a detailed blueprint for the programme to follow meaning that the industry has had to try and



² https://www.ofgem.gov.uk/sites/default/files/docs/2011/09/xoserve_covering_letter_0.pdf

interpret Ofgem's desires as best it can. Having done, so, the FGO programme is currently developing the following:

- Creation of a new charging methodology which attempts to identify and separate shipper and transporter costs.
- Substantial changes to the UNC to re-align obligations.
- Development of an entirely separate contract to detail services provided by Xoserve to shippers.
- Two new industry committees to manage the above contract and also change management activities.
- An annual budget consultation process.

The amount of work to implement these changes is significant and owing to the ambitious scope, which is substantially more detailed than first envisaged, the programme will not have completed the majority of the work this year. The only meaningful changes that will have been delivered by April 2016 will be changes to the Xoserve board and increased visibility of the budget setting, contract operation and change management processes. The project is now effectively occurring in two phases, with the changes identified above to be implemented first and the remainder, representing the bulk of the work, to be delivered in April 2017

ICoSS has always been supportive of the principle of increasing transparency of Xoserve's activities in the market and have developed a number of industry initiatives to achieve this, such as UNC Modification 0334 which proposed changes to board representation and UK link governance. To this end we welcome the proposed appointment of non-executive directors and also increased shipper visibility of the budget and change management processes. These changes will address the issues identified by Ofgem in 2011 and will make Xoserve transparent and accountable to the industry at the highest level.

It is therefore evident that the main concerns will have been addressed by these structural steps. To continue with the project would only be beneficial if a clear benefit to the customer can be demonstrated, but we consider it is unlikely that it is beneficial. Since Ofgem commenced this programme, the Government has committed to ensuring faster switching with the centralised registration activities being moved from Xoserve to the DCC. Information recently provided to the FGO steering group indicates that, at present, 35% of Xoserve's services are attributed to shipper activities, the vast majority being related to Supply Point Administration. When the Centralised Registration Service commences, the shipper proportion of costs will drop to almost nothing. In this context it seems counter-intuitive to move to a fully co-operative model just as downstream shipper engagement with Xoserve is about to be drastically reduced.



ICoSS does not, therefore, believe that any further work needs to be done regarding Xoserve's structure beyond 2016, particularly during a time of unprecedented industry change. Looking forward we believe the best course of action is the following:

- Implement the changes to the Xoserve board, and the more open budget, contract and change management processes that will be delivered for April 2016.
- Cease work on all other areas of the FGO programme.
- Undertake a consultation on the future course of the FGO programme, seeking a mandate from shippers and the wider industry for any further changes.

I look forward to your response

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. Evans'.

Gareth Evans
Chair ICoSS

Cc : Maxine Frerk, Acting Senior Partner Networks, Ofgem
Members of Xoserve FGO programme