

XOSERVE FUNDING, GOVERNANCE AND OWNERSHIP REVIEW

TOPIC SUMMARY FOR FGO PROGRAMME OVERVIEW BOARD

TOPIC: Planning and Budgeting

1) Ofgem's Conclusions

Ofgem has concluded previously that:

- a) The Central Data Services Provider ("the CDSP") will operate on a 'not for profit' basis;
- b) The CDSP will develop an annual Central Data Services ("CDS") budget in consultation with CDS recipients;
- c) The Xoserve Board will have final responsibility for setting the CDS budget, drawing on information provided to it through the consultation process;
- d) Escalation measures should be used by CDS recipients only *in extremis*, options being appeal to Ofgem of the CDSP budget and removal of Board members;
- e) It will apply regulatory oversight of the CDS budget by requiring that:
 - (1) CDS recipients operate and develop the CDSP in an efficient and economic manner; and
 - (2) Ofgem is notified in writing in the event that within year changes to the CDS budget result in a requirement on CDS recipients to provide additional funding; and
- f) The CDSP will need to be able to carry small over- and under-spends on its Balance Sheet where within year variations from the CDS budget give rise to under- and over-recovery of costs.

2) Topic Deliverables

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

- a) A framework for development of the CDS Business Plan and budget;
- b) A process and timetable for the development of the CDS Business Plan; and
- c) A CDS Business Plan effective from April 2016 for approval by the Xoserve Board.

3) Giving Effect to Conclusions

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| <p>Must Do</p> | <ul style="list-style-type: none"> • The preparation and syndication for industry consultation of a Business Plan and Budget for Central Data Services is fundamental to the introduction of a new funding model for the provision of those services • Establish arrangements that position budget transparency and review rights with CDS recipients, acknowledging that it is the role of Xoserve’s Board to approve the Company’s Plan • The relative powers in the planning and budgeting process of recipients of CDS (or their representative Group), the Xoserve Board and Ofgem must be clear, including under what circumstances any unresolved differences would be escalated and to whom, to enable resolution in a timely manner |
| <p>Options</p> | <ul style="list-style-type: none"> • Prior to submission to the Xoserve Board, a review of proposed CDS costs and outputs can be undertaken by: <ul style="list-style-type: none"> ○ All CDS recipients; or ○ A formally constituted representative ‘CDS Review Group’, in consultation with all CDS recipients • There is a further option to extend the scope of the review to include Xoserve costs and outputs over and above those concerned with the provision of Central Data Services |
| <p>Matters for Resolution</p> | <ul style="list-style-type: none"> • The CDSP planning and budgeting cycle needs to: <ul style="list-style-type: none"> ○ Allow sufficient time for meaningful industry consultation, particularly as the broader consultation on CDS plans may result in a greater number of / different set of stakeholder questions; and ○ Be scheduled in order that the first round can be completed in time for the setting of CDS Year 1 budgets • The determination of the CDS planned revenue stream requires industry agreement of: <ul style="list-style-type: none"> ○ The CDSP charging and invoicing arrangements; ○ The CDSP ‘margin’; and ○ The method for CDSP recovery of its investment expenditure (including in respect of those projects that are ‘in flight’ at the commencement of CDSP Year 1) • In order for each CDS recipient to understand the implications for their own organisation of the CDS Business Plan, there is a requirement for industry agreement of: |

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| | <ul style="list-style-type: none">○ The CDS Cost Allocation Model; and○ The CDS Charging Methodology• The timeframe for the CDSP business planning and budgeting beyond preparation for CDSP Year 1 requires industry agreement• There is a requirement for clarity of the circumstances under which one or more CDS recipients would be allowed to appeal the CDS budget to Ofgem• There is a requirement to establish arrangements for managing variances between budgeted and actual CDS costs, and their subsequent retention, recovery from, or return to CDS recipients |
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