

Xoserve FGO

Energy UK gas retail group

15 June 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:

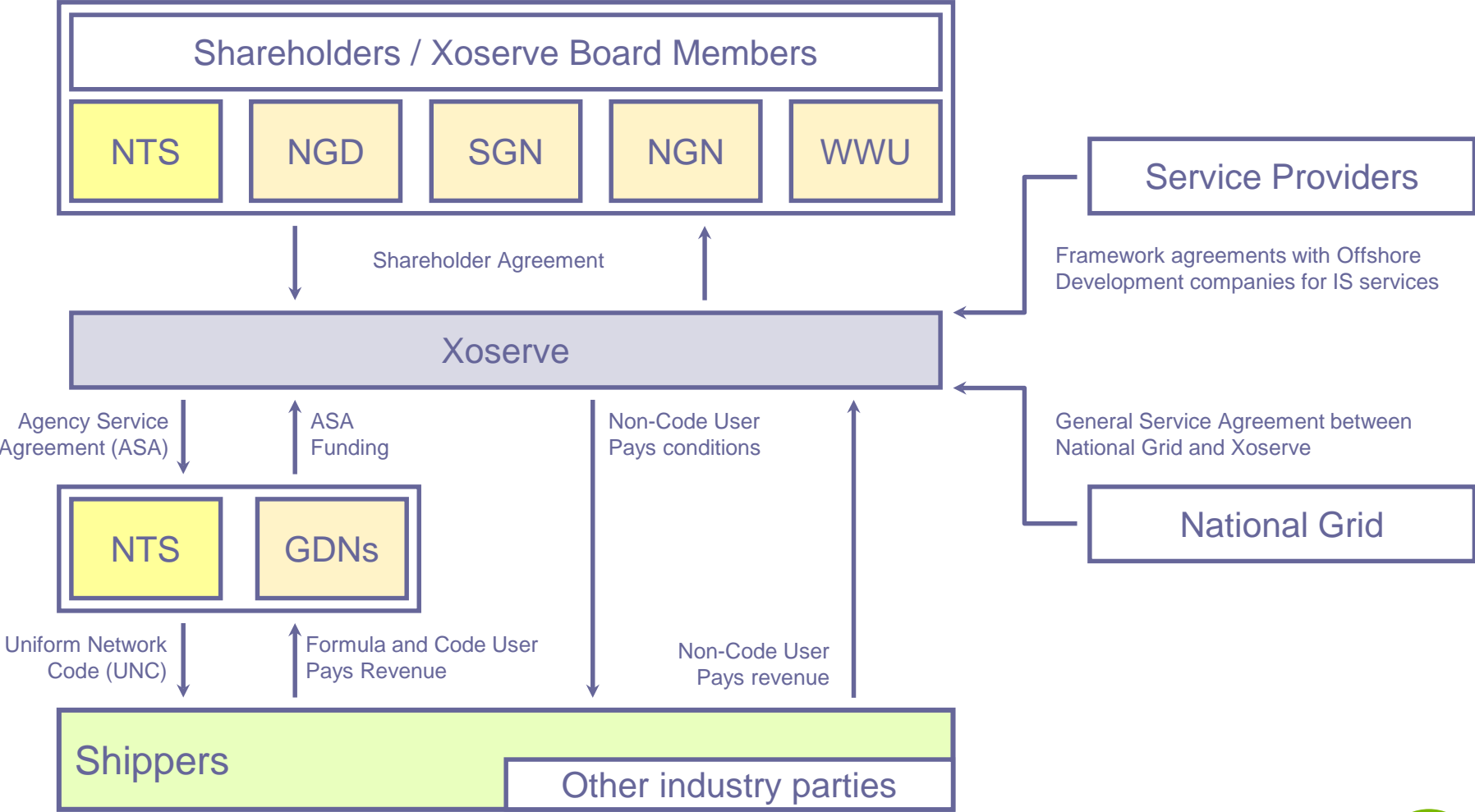
- Greater **cost transparency**;
- More challenge in the selection and provision of **cost effective services**;
- Greater **process transparency** (moving away from a GT only process); and
- Greater levels of **industry consultation**.

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 RII0).
- 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 of 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 considering an approach which will update the text within UNC Section V:6.5, to reflect the new arrangements – which further changes being made to other areas of the UNC where required.

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. (Plan principles expect in July.)

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).

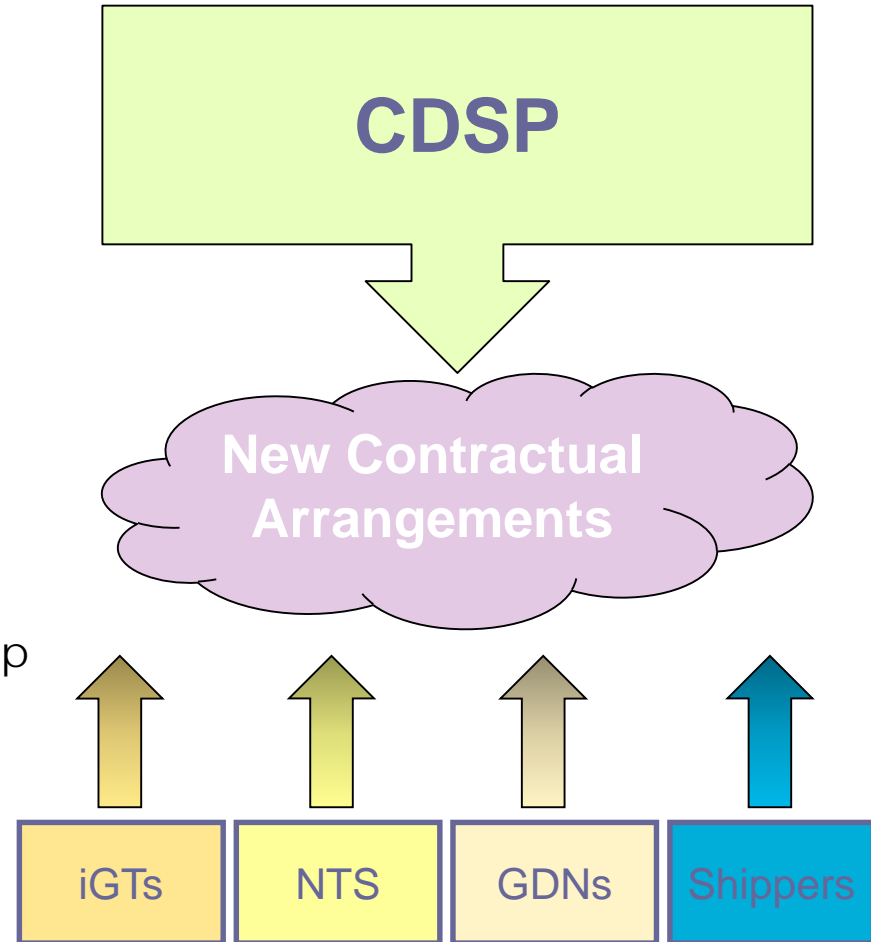
Governance

CDS / industry governance:

- Change Management
- Contract Management

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
 - Exact composition TBC
- Ofgem to have “step-in” powers (in-extremis).



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 are 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
- Ofgem approval of first year budget required
- Invoicing mechanism – (tbc)

Ongoing work

Workgroups ongoing

- UNC obligations
- Business plan & budget setting
- Governance
 - CDS governance
 - Corporate governance
- Charging methodology and cost allocation

Monthly POBs meetings scheduled

Development workgroups being scheduled

Transitional approach:

- Understanding what can be delivered in time for, or in advance of, April 2016

Development of plans for subsequent roll-out / formalisation of remaining functions

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

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Thank you