

All interested stakeholders

Date: 23 September 2016

Dear Stakeholder,

Decision on our review of gas transporter agency (Xoserve) costs in RIIO GD1 and T1.

This document sets out our decision on our review of Xoserve costs in RIIO GD1 and T1. This decision concerns the uncertainty mechanism included in RIIO GD1 and T1 which allows Ofgem to determine relevant adjustments to the level of allowed expenditure for relevant gas transporters (GTs) in relation to Xoserve's costs under special condition 3F (gas distribution) and special condition 6D (gas transmission) of the gas transporter licence.

Xoserve provides a range of essential services to support the GB gas industry including billing services, managing the booking of capacity, running the gas settlement systems and managing the change of supplier process.

In September 2011¹ we consulted on options for changing Xoserve's funding, governance and ownership (FGO) arrangements to ensure they were fit for purpose and were responsive to future industry changes. In October 2013² we published our decision that a full co-operative governance model should be established for Xoserve. Changes to the way Xoserve is funded are required to fully introduce co-operative arrangements and make all users accountable for Xoserve.

In June 2016³ we issued a consultation on our minded to decision on the adjustment to gas transporters (GTs) allowed expenditure in relation to their Xoserve costs from 1 April 2017 to 31 March 2021. The minded to decision also set out that the Xoserve costs for GTs should continue to be included as an allowance in the base revenues of the GTs for the remainder of RIIO GD1 and T1.

We received eight responses to our consultation, which we have reviewed and considered in arriving at our decision. Since the consultation we have carried out further stakeholder engagement and have considered developments in the industry progress of implementing the FGO programme.

Today we have decided the following arrangements:

¹ [Open letter consultation: Review of Xoserve](#)

² [Xoserve - decision in relation to new funding, governance and ownership arrangements for the gas transporters' central agent](#)

³ [Consultation on our minded to position on the review of gas transporter agency \(Xoserve\) costs in RIIO GD1 and T1](#)

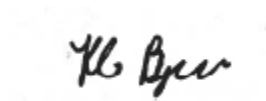
1. To revise the total allowed expenditure for GTs for Xoserve costs for the RIIO GD1/T1 period from £600 million to £488.4 million (in 2014-15 price terms). £488.4 million is £3.7 million higher than our position in the minded to decision (£484.7 million). Annex 1 explains our decision.
2. To continue to include Xoserve related costs for GTs as an allowance in the base revenues of RIIO GD1 and T1.

These arrangements will take effect from 1 April 2017, which is when all the changes to Xoserve's FGO arrangements are expected to go live.

The rationale behind our decision is detailed in Annex 1. We have set out the impact of our decision on the Independent Gas Transporters (IGTs) as they operate under relative price control arrangements. We have also set out the allocation of costs between the gas distribution networks (GDNs) and gas transmission network and the resultant costs for each remaining year of RIIO GD1 and T1 from 1 April 2017.

If you have any questions in relation to this letter please contact Rupika Madhura, Head of Gas Distribution Policy at Rupika.Madhura@ofgem.gov.uk.

Yours sincerely



Kersti Berge
Partner, Networks

Annex 1: Rationale for decision

Background

We initiated a review of Xoserve's funding, governance and ownership (FGO) arrangements in response to concerns raised that the arrangements were not fit for purpose and did not provide the required responsiveness and flexibility for future gas industry changes. In July 2010, as part of the RIIO GD1 and T1 preparatory work, we announced that we would review Xoserve's performance and consider other options for FGO arrangements.⁴

In September 2011 we consulted on options for changing Xoserve's FGO arrangements⁵ and published our decision to implement a co-operative model in October 2013⁶. This model requires GTs and shippers to jointly participate in Xoserve's governance. Our decision confirmed that GTs would remain the owners of Xoserve. However, the new governance arrangement will require Xoserve to have to respond to the needs of all its users.

We set out our view that the industry should lead on implementing our decision on establishing a co-operative model for Xoserve. This work has faced extensive delays. There have also been extensive delays by the industry on the implementation of the upgrade to Xoserve's UK Link system, known as Project Nexus.

In September 2015 the industry agreed a two stage project plan which aims to implement the new FGO arrangements for Xoserve by 1 April 2017. We have been engaging with Xoserve through a Programme Overview Board (POB) which industry participants have established to oversee the detailed implementation work. We have also attended various working group meetings.

Level of allowed expenditure for Xoserve for RIIO GD1 and T1

The co-operative model will require GTs and Shippers to jointly fund Xoserve's activities. Currently almost all of Xoserve's activities are funded by GTs through the RIIO GD1 and T1 price controls. Under the new co-operative model all users of Xoserve's services will pay for the services they receive through the "user pays" principle. Therefore, in anticipation of these changes, a provision for an uncertainty mechanism to allow us to determine relevant adjustments to the relevant GT's level of allowed expenditure was included under special condition 3F (gas distribution) and special condition 6D (gas transmission) of the gas transporter licence.

In December 2015 we issued an information request to GTs and Xoserve to provide information on costs and the allocation methodology for Xoserve and its users. We received a submission on 29 January 2016. We understand this submission was compiled using the information from the charging and cost allocation methodology working group, which sits under the POB. Representatives from Xoserve, GTs, IGTs and Shippers are participants at this working group. Following the submission we liaised further with GTs and Xoserve to obtain further clarity on areas of the industry's submission.

Minded to decision

As part of our analysis for the minded to decision we published in June 2016, we compared the figures submitted to us in the January Cost Assessment Template (CAT) to the figures in Xoserve's 2014-15 Regulatory Reporting Pack (RRP), which Xoserve submits to us annually. There are differences between the figures submitted in the CAT and the RRP, with

⁴ [Open letter consultation on Gas Distribution Price Control Review 2 \(GDPCR2\) – the way forward](#)

⁵ [Open letter consultation: Review of Xoserve](#)

⁶ [Xoserve - decision in relation to new funding, governance and ownership arrangements for the gas transporters' central agent](#)

the costs being higher in the CAT submission. We noted the costs for the last 4 years of the RIIO GD1 and T1 price controls in the 2014-15 RRP were broadly the same as in the 2013-14 RRP. We therefore based our minded to decision on the forecast costs from the RRP.

Consultation responses

We received eight responses to our consultation responses⁷. These were from GTs, Xoserve, Association of Independent Gas Transporters (AIGT) and two Shippers; British Gas and Scottish Power.

The GTs' did not agree with our use of the RRP forecast costs for the minded to decision. They said that the CAT forecast costs provide a more up-to-date and reliable forecast than the 2014-15 RRP submission as the RRP forecast costs did not include all of Xoserve's business costs. For example, Northern Gas Networks (NGN) and Wales and West Utilities (WWU) said that the CAT submission did not include £6.7 million of expenditure relating to projects with a value under £0.5 million. National Grid⁸ (NG) also identified £900,000 of FGO implementation costs that were not included in the total allowances in the minded to decision.

Xoserve also disagreed with our use of the cost forecasts from the 2014-15 RRP submission rather than the CAT submission. Xoserve said that the CAT forecasts included deferred expenditure for Project Nexus and Gemini investment, an office move, changes to pension contribution costs and provision for Directors salaries. Xoserve also said that the 2014-15 RRP excluded expenditure for projects which are less than £0.5 million in value.

Both Xoserve and NGN provided detailed breakdowns of the difference between cost forecasts from the RRP and CAT submissions for the period from 2017-18 to 2020-21.

AIGT did not agree with the use of the RRP cost forecasts. They said that allowances did not match the costs signed off by the Xoserve board and this creates a risk that if the budget exceeds the allowance included in the price control then parties will not have the relevant funding.

Scottish Power agreed with our minded to decision to reduce the GTs total allowed expenditure. However, they asked for clarity on how ongoing Project Nexus implementation costs will be regarded and the scope of Xoserve staff costs included in the GTs cost allowances. They also asked for clarity on how the GT allowance will be adjusted if change of supplier and meter point registration is migrated from Xoserve to the Data & Communications Company (DCC).

British Gas did not agree with our presentation of the £53 million reduction in costs as efficiency costs and recommended an efficiency assessment of the forecast costs. British Gas also raised a concern that customers may 'double fund' the delivery of some services due to deferred investment or overlap of service delivery across several providers. For example if services are migrated from Xoserve to the DCC.

Our decision

Since receiving the responses to the consultation, we have been liaising with Xoserve, IGTs, GTs and the industry more widely through the POB to understand the responses to our consultation on the minded to decision. We also sent a further information request to

⁷ [Consultation on our minded to position on the review of gas transporter agency \(Xoserve\) costs in RIIO GD1 and T1](#)

⁸ National Grid submitted a joint consultation response from both National Grid Gas Distribution (NGGD) and National Grid Gas Transmission (NGGT). Their response included a section specifically on 'NGGT concerns'. Where this document refers to National Grid (NG) the comments were on behalf of both NGGD and NGGT. Where this document refers to NGGT it is only in relation to National Grid Gas Transmission.

GTs to understand the costs included in the CAT submission and the cost allocation provided.

Based on the responses we received to our minded to decision and our further interactions on them with the industry, we have decided to revise the total Xoserve allowances for the RIIO GD1 and T1 period from £600.0 million to £488.4 million (instead of £484.7 million in our minded to decision). This reflects a net increase to the allowed expenditure of £3.7 million from the minded to decision. The reasons for this increase are explained in detail below. The overall reduction in the GTs allowed expenditure allowances is by £111.6 million for the remainder of RIIO-GD1 and T1, the detail and impact of which on consumers is also explained in detail further in this annex.

Table 1 shows the RIIO GD1 and T1 allowances by GTs set at the start of the price control period. Table 2 shows the revised Xoserve allowances for GTs for 2017-18 to 2020-21.

Table 1 – RIIO GD1/T1 Xoserve allowances (£m, 2014-15 prices)

Company	GDN	2014	2015	2016	2017	2018	2019	2020	2021	Total
NGGD	EoE	11.1	12.4	10.6	10.3	8.1	8.6	9.6	9.7	80.4
	Lon	6.2	6.9	6.0	5.8	4.6	4.8	5.4	5.4	45.0
	NW	7.5	8.4	7.2	7.0	5.5	5.8	6.5	6.6	54.5
	WM	5.7	6.4	5.5	5.3	4.2	4.4	5.0	5.0	41.7
NGN	NGN	7.0	7.9	6.8	6.6	5.2	5.5	6.2	6.2	51.4
SGN	SC	5.0	5.6	4.8	4.7	3.7	3.9	4.3	4.4	36.2
	SO	11.1	12.4	10.7	10.4	8.2	8.6	9.7	9.7	80.8
WWU	WWU	6.9	7.8	6.7	6.5	5.1	5.4	6.1	6.1	50.5
NGGT SO		16.0	14.8	21.6	28.3	25.6	19.7	16.6	16.8	159.5
Totals		76.6	82.5	79.9	84.9	70.1	66.7	69.4	69.9	600.0

Table 2 – GTs revised allowances adjusted to reflect FGO arrangements (£m, 2014-15 prices)

Company	GDN	2014	2015	2016	2017	2018	2019	2020	2021	Totals
NGGD	EoE	11.1	12.4	10.9	10.6	5.0	3.9	3.5	2.8	60.0
	Lon	6.2	6.9	6.1	5.9	2.8	2.2	2.0	1.6	33.7
	NW	7.5	8.4	7.4	7.2	3.3	2.6	2.3	1.9	40.5
	WM	5.7	6.4	5.6	5.5	2.4	1.9	1.7	1.3	30.6
NGN	NGN	7.0	7.9	6.9	6.8	3.1	2.5	2.2	1.7	38.2
SGN	SC	5.0	5.6	4.9	4.8	2.2	1.8	1.6	1.2	27.0
	SO	11.1	12.4	10.9	10.6	5.1	4.0	3.5	2.8	60.5
WWU	WWU	6.9	7.8	6.8	6.7	3.1	2.4	2.2	1.7	37.6
NGGT SO		16.0	14.8	21.8	28.4	19.0	21.0	20.9	18.2	160.3
Totals		76.6	82.6	81.4	86.4	46.1	42.2	39.8	33.2	488.4

As mentioned above, there is a net increase of £3.7 million in the GTs allowances since our minded to decision. This is because, based on further consultation with the industry since issuing our minded to decision, we have decided to make some further adjustments in the GTs allowed expenditure as follows:

1. Add £5.0 million relating to smaller value projects (less than £0.5 million) to GTs allowances, which were not included in Xoserve's 2014-15 RRP forecast costs and subsequently not included in our minded to position.
2. Add £1.3 million for the salaries of future Directors on the Xoserve Board and the future search fees to recruit these Directors. More Directors are being appointed to the Xoserve Board to represent Shippers and IGTs as part of the co-operative governance model.
3. Add a further £0.9 million of implementation costs for the Xoserve FGO implementation programme that were not included in our minded to decision. The revised allocation of implementation costs per network is shown in Table 7 below.

4. Reduce £3.5 million from the allowances based on the latest cost allocation information provided to us by GTs in September 2016 to allocate costs between the gas distribution networks and gas transmission network.⁹

We have decided to not include some of the GT's share of other Xoserve costs in the allowed expenditure. These costs are in relation to the following:

1. Costs related to the Project Nexus delay. We consider an efficient level of Project Nexus costs to have already been allowed as part of the current and previous price controls and consumers should not be exposed to any further risk for this project.
2. £7.6 million for re-phasing of investment in the rewrite of the Gemini system. This delay is due to a business decision. By delaying the investment, we consider that the GTs have avoided expenditure in the first four years of the price control and would subsequently benefit through the RIIO totex incentive. This benefit will reverse as the investment is made, but if we were to allow additional funding consumers would be at risk of paying twice.
3. £3.4 million related to changes to employment costs, other than for the new Directors. We consider changes to employment costs to be a risk that is taken by GTs when the price control is set and as such for Xoserve costs should not be treated any differently. As part of the price control this risk was recognised when we made an adjustment to allowances to take into account real price effects such as labour costs, where they may increase (or decrease) greater than the retail price index.
4. £2.8 million of changes to the Gemini costs because of external factors in response to changes in the European Union and GB gas market arrangements. When we set the strategy for RIIO price controls we recognised there could be uncertainties relating to changing policies such as these. Through the mid-period review (MPR) process GTs had the opportunity to put forward adjustments to their allowances as result of change in government policy. These costs could have been brought to our attention as part of the MPR and so we will not include these costs in this decision. Furthermore, given this policy area in particular is still fluid, pending government decisions on GB's exit from European Union, it would not be appropriate to make any adjustments to allowances in isolation on this matter.
5. £2 million movements in cost base, including changes related to an office move. We consider changes to these costs to have been made as part of Xoserve's ongoing business decisions and do not form part of this review.

Treatment of allowed expenditure: pass-through or allowance

The revised allowed expenditure of Xoserve to GTs can be treated either as pass-through or as an allowance in the price control. The GTs' licences allow costs for certain pass-through items to be included as part of their maximum allowed revenue. These are costs which are not usually in companies' control and therefore it is deemed appropriate to pass such costs to the consumers directly. All other costs that are in the regulated companies' control are treated as part of the price control to incentivise the companies to keep these costs efficient.

Our decision in October 2013 indicated our intention for Xoserve costs to be treated as pass-through costs in GTs allowances as the costs would be jointly agreed by the industry.¹⁰

Since our review in 2013 there have been extensive delays in the industry led project to establish the co-operative governance model for Xoserve. There have also been extensive delays to the delivery of Project Nexus, another industry led project.

⁹ The use of the latest cost allocation has increased the GDNs' allowances by £4 million and reduced NGGTs' allowances by £7.5 million.

¹⁰ [Xoserve - decision in relation to new funding, governance and ownership arrangements for the gas transporters' central agent](#)

Minded to decision

Our minded to decision in June 2016 was to treat Xoserve costs for GTs as an allowance in base revenue for the remainder of RIIO GD1 and T1.¹¹ This minded to decision was based on our reduced confidence in the industry being able to adapt swiftly to joint-working and shared responsibility to govern Xoserve costs. We have concerns that treating Xoserve's costs as pass-through would not provide the proper checks and balances that need to be in place to protect consumers from inefficient, uncontrolled costs being incurred.

Consultation responses

The majority of the consultation respondents did not agree with our minded to decision. Xoserve and the GTs said that the minded to decision deviates from our previous decision in October 2013 in relation to governance and funding changes to Xoserve. Xoserve, NGN, SGN and National Grid said that this approach undermines the co-operative funding model. They said retaining the costs in GTs allowances creates potential for disagreement over core services as GTs will be funded differently to Shippers.

Xoserve and the GTs said that retaining the Xoserve costs in GTs allowances will increase the risk borne by GTs as the networks will be accountable for costs which are not fully in their control. Xoserve, NG and SGN said that the co-operative governance model would have to be reviewed as the GTs will have a minority of directors on the Xoserve Board but will have a higher risk through bearing the consequences of other parties' decisions.

WWU recognised that a pass-through allowance might reduce incentives for Xoserve to manage costs. They agreed with our minded to decision on the basis that an appropriate allowance is set with sufficient control. WWU proposed an uncertainty mechanism to allow Xoserve to recover efficiently incurred costs which were outside of their control and not included in the allowance at the end of RIIO GD1. NGN and SGN also proposed uncertainty mechanisms.

AIGT said in their response that retaining Xoserve costs as an allowance will place financial risk on IGTs if they are unable to recover the costs through the price control. They said that they don't think our minded to decision creates the correct balance to establish a co-operative framework for running the Central Data Service Provider (CDSP).

Scottish Power agreed with our decision to retain Xoserve costs in the GT's base revenue allowances for the remainder of GD1 and T1.

Our decision

We have decided to treat Xoserve costs for GTs (for 2017-18 until 2020-21) as an allowance in base revenue for RIIO GD1 and T1, rather than treating them as pass-through.

The delays to FGO and Project Nexus implementation have reduced our confidence in the industry to create an effective co-operative governance model together to govern Xoserve costs. Responses submitted to the consultation have not provided any evidence to increase our confidence on this issue. Therefore, we have decided to retain GT's share of Xoserve costs within their allowances to protect consumers from inefficient and uncontrolled costs being incurred.

We will reconsider our position to retain Xoserve costs within GT allowances for the next GT price controls based the performance of the industry in creating an effective co-operative

¹¹ [Consultation on our minded to position on the review of gas transporter agency \(Xoserve\) costs in RIIO GD1 and T1](#)

governance model in practice from 1 April 2017. We will also need to consider any implications from the implementation of the proposed remedy by the Competition and Markets Authority to reform the governance of code administration and central system delivery.

Impact on IGTs

IGTs operate under a “relative price control” mechanism, meaning that they cannot charge consumers above the revenue set by us for the GT in their area. Therefore, if there is an increase in GTs allowed revenue, IGTs will be able to earn greater revenues, and vice versa. IGTs will receive services from Xoserve under the user pays principle following Project Nexus implementation. IGTs will also have a representative on the board of Xoserve as part of the new co-operative governance arrangements.

Our minded to decision acknowledged reduction in the price control revenue for GTs would result in a reduction in the revenue IGTs can recover from their customers. However, we said we believed the effects would be manageable given that in other cases IGTs have gained from the increase in GTs revenues without experiencing associated increases in costs.

AIGT did not agree with our minded to decision. They said that IGTs will not have much influence on how the CDSP is run but will have a high risk to cost exposure. They believe there should be a pass-through allowance to offset the risks of IGTs being unable to recover the associated costs through the relative price control. AIGT also said that not all IGTs may have gained financially from previous decisions. NG said in their consultation response that continuing to have ex ante funding provisions may be a barrier to entry for IGTs.

Following the publication of our minded to decision, we met with the representatives of IGTs to discuss our minded to decision with them and their views on it. We explained the rationale behind our thinking. We have not received any further information from IGTs subsequent to this meeting.

Our decision to reduce the price control revenue for GTs will result in a reduction in the revenue IGTs can recover from their customers. We believe all IGTs have gained through other reopeners where we have increased GTs allowances in areas where IGTs have not received the associated higher costs. For example, in a recent decision we increased the GTs allowances for enhanced physical site security costs.¹²

Other areas raised in the consultation responses

In our minded to decision we allocated the costs to each gas distribution network (GDN) and to the gas transmission network using information provided by Xoserve in the CAT submission and in response to our subsequent clarification requests. To allocate the forecast costs we calculated the proportion of opex core service costs and IS costs to be paid by the GDNs (in aggregate) and the gas transmission network. Our full methodology for applying the cost allocation was set out in Annex 2 of the minded to consultation document. Table 3 sets out the percentage allocations we determined for the minded to decision.

Table 3: GTs allocation of Xoserve costs (excluding user pay) 2017-18 to 2020-21 used for minded to decision

	2017-18	2018-19	2019-20	2020-21
GDN share	41%	35%	33%	29%
NGGT SO share	33%	40%	44%	43%

¹² [Decision on TPCR4 cost reviews and RII0-T1/GD1 uncertainty mechanisms for enhanced security upgrades](#)

Consultation responses

The majority of respondents noted that the cost allocation methodology submitted in the January CAT was not finalised and is subject to change through ongoing industry discussions. Xoserve estimated that our minded to decision understated the GDNs' allowances by £3.9 million for the period from 2017-18 to 2020-21. NGGT noted that the CAT cost allocation methodology apportioned NGGT 100% of the Gemini run-the-business costs and wanted clarification that this increase had been included in the cost allocation used for the minded to decision.

Our decision

We shared our timetable for conducting this reopener review of GTs costs of Xoserve in July 2015 with the industry. We communicated to the industry as part of the plan that the information to support our review of GTs costs would need to be submitted by them after robust discussions through the charging and cost allocation workgroup, which was established under POB to arrive at a costs allocation and charging methodology from 1 April 2017. Any submissions to us on costs and methodology should not change materially subsequent to our decision. The GTs and Xoserve gave us the relevant information in January 2016, which was also shared with the rest of the industry participants.

We believe the industry had sufficient time to provide updates between January 2016 and now. We did not receive any further information except for an updated cost allocation between the GDNs and NGGT, which was provided in early September 2016 by the GTs, and an explanation of why the GTs believed we had understated the GDNs' allowances by £3.9 million, provided in August by the GTs.

The updated cost allocation between the GDNs and NGGT reallocated some of NGGTs opex costs to the GDNs. The reallocated costs were in relation to the provision of supply point information services and UK Link services. This reallocated £0.6 million of costs from NGGT to be shared amongst the GDNs. In the updated cost allocation, NGGT have retained 100% of the funding for the Gemini System. The updated cost allocation provided did not change the costs apportioned between GTs and Shippers. We have included the changes to the cost allocation between the GDNs and NGGT in our decision.

We also asked GTs for further clarification on why they thought our minded to decision understated the GDNs' allowances by £3.9 million for the period from 2017-18 to 2020-21. The GTs provided further information in August to explain how they believe the allocation of costs between the GTs should be calculated. GTs had calculated the cost allocation using the proportion of charges allocated to GDNs and the gas transmission network in the January CAT Xoserve turnover analysis.

Based on the additional information provided to us by GTs (which we understand was also discussed as the cost allocation working group), we have updated our cost allocation methodology between GTs to calculate the percentage allocation from the proportion of charges allocated to GDNs and the gas transmission network in the January CAT Xoserve turnover analysis. To include the changes to the cost allocation between the GDNs and NGGT described above, we updated the turnover analysis to reflect the reallocation of £0.6 million of costs from NGGT to the GDNs. The revised allocation of costs between GTs that we determined is shown in Table 4.

Table 4: GTs allocation of Xoserve costs (excluding user pay) 2017-18 to 2020-21

	2017-18	2018-19	2019-20	2020-21
GDN share	42%	37%	36%	32%
NGGT SO share	30%	37%	39%	39%

Allocation of cost to GDN

In the minded to decision we allocated the forecast costs of the GDNs to individual GDNs using the share of the GDNs' supply points in the total number of supply points. We have not changed the allocation of costs to the individual GDNs from the minded to decision. The GDNs' share of the supply points used in presented in Table 5.

Table 5: GDNs' share of all supply points (as at 31 March 2015)

Company	GDN	% share of supply points
NGGD	East of England (EoE)	18.3%
	London (Lon)	10.4%
	North West (NW)	12.3%
	West Midlands (WM)	9.0%
NGN	Northern Gas Networks (NGN)	11.6%
SGN	Scotland (SC)	8.3%
	Southern (SO)	18.7%
WWU	Wales and West Utilities (WWU)	11.4%

Implementation costs

Minded to decision

In our October 2013 decision letter on page 12, we stated that "we are minded to include ... provision for the recovery of additional costs that Xoserve incurs in implementing new arrangements. We would expect the efficiency of any costs incurred to be evidenced." GTs submitted details of these implementation costs (by network, except for National Grid Gas Distribution, for which an aggregate value was presented) as part of the CAT submission in January 2016 and in May 2016 updated costs were provided (not disaggregated by network) by POB through its Chair.

Table 6 shows the implementation costs we proposed to allow in our minded to decision. The costs for 2014-15 are based on the CAT and for the following two years they are based on the updated values from May 2016 (and allocated to networks based on the breakdown for 2014-15).

Table 6: Implementation costs by network (£000s, 2014-15 prices)

<i>(£000s, 2014-15 prices)</i>		2014-15	2015-16	2016-17
NGGD	EOE	25.3	197.1	150.4
	Lon	14.4	112.3	85.6
	NW	17.0	132.4	101.0
	WM	12.4	96.6	73.7
NGN	NGN	16.0	124.8	95.2
SGN	SC	11.0	85.8	65.5
	SO	26.0	202.8	154.7
WWU	WWU	16.0	124.8	95.2
NGGT		17.0	132.6	101.2

Decision

As mentioned above (underneath Table 3), we have updated the GT allowances to allow a further £0.9 million of implementation costs for the Xoserve FGO implementation

programme that were not included in our minded to decision. Table 7 shows the revised implementation costs that we will allow.

Table 7: Implementation costs by network (£000s, 2014-15 prices)

<i>(£000s, 2014-15 prices)</i>		2014-15	2015-16	2016-17
NGGD	EOE	25.3	243.9	247.4
	Lon	14.4	138.9	140.9
	NW	17.0	163.8	166.2
	WM	12.4	119.5	121.2
NGN	NGN	16.0	154.4	156.7
SGN	SC	11.0	106.2	107.7
	SO	26.0	251.0	254.6
WWU	WWU	16.0	154.4	156.7
NGGT		17.0	164.1	166.5

Implementation date of this decision

These arrangements will take effect from 1 April 2017, which is when all the changes to Xoserve’s funding and governance arrangements are expected to go live.

Impact on consumers of this decision

The impact of this review is to reduce GTs’ Xoserve allowances by £111.6 million for the remainder of RIIO GD1 and T1. The reduction in allowances is due to several factors which can be explained as follows, along with the impact of these on consumers:

1. Based on the user pays principle of the Xoserve FGO review, GTs share of Xoserve costs will reduce from 1 April 2017. Across the final four years of RIIO GD1 and T1 this accounts for £59.5 million¹³ of the reduction in GTs costs of Xoserve. To the extent that this is not a reduction in Xoserve costs, instead a reduction in proportion of Xoserve related costs that would be paid by GTs, this will not directly reduce overall charges for Xoserve paid for by customers and therefore the consumers.
2. We have set a lower level of costs for Xoserve, reflecting that the actual costs for Xoserve to date have been lower than the allowances provided for in RIIO GD1 and T1. Across the final four years of RIIO GD1 and T1 this accounts to a total of £55.3 million of the reduction in costs. We expect consumers to benefit fully from this through reduction in charges to the users of the services provided by Xoserve from 1 April 2017.
3. Finally, allowances are £3.2 million higher in 2014-15 – 2016-17 as we have allowed efficiently incurred expenditure for implementing the new arrangements for Xoserve.

¹³ In the minded to decision the reduction in GT allowances relating to the user pays principle was stated as £64 million and the reduction in GT allowances relating to lower Xoserve costs due to efficiency was stated as £53 million. There was an error in the minded to decision document and these figures should have been stated the other way round.