

Agency Charging Statement Revision for 1 October 2008

18 August 2008

Objectives

- ACS 1 April 08 approval requirements
- Demonstrate how we have addressed Ofgem's points
- Summary of the ACS Review Report
 - Costs & allocation
 - Demand Forecasts
 - IAD Demand
 - ACS Prices
- IAD prices
- 08/09 forecast financial performance
- Time line

Why are we reviewing the ACS?

- Ofgem approved the ACS, and as part of its approval it requested that xoserve -
 - Review the level of charges in light of actual demand for the various services
 - Give greater clarity in the charging methodology to the process by which it derives and keeps up to date forecast demand forecast; and
 - Amend the Charging statement to better illustrate the relationship between total costs, forecast demand and actual charges
- By 1 October 2008

What have we done to address Ofgem's points?

- Updated Forecasts
 - Revised demand forecasts based on actual service usage & customer updates to forecast
 - Reviewed cost forecasts, in light of actual costs and forecast demand for service provision for 08/09

- Produced ACS Review Report
 - Explained cost allocation and pricing methodology used to determine prices
 - Updated revenue forecast for 08/09 based on new cost & demand forecasts to ensure 6% margin

- Reviewed & revised ACS
 - Price reduction to IAD Service from 1 October 08
 - Inclusion of forecast demand table
 - Clarification on future review proposals
 - Other minor wording changes

The Review Report in Summary: Forecast Costs & Allocation

- Forecast cost of User Pays service provision has reduced by £0.3m to £3.2m
- Net savings forecast on;
 - 3rd party contracts
 - Reallocation of resources in areas where demand varies from anticipated forecast
- Forecast costs allocated to individual service lines, to produce accurate cost of delivering the service
 - ACB methodology
 - Direct employee costs
 - Time recording method used by resources to attribute time to activities
 - Other costs
 - Indirect employee costs attributed in proportion to direct resources
 - Support costs attributed to the service line / system they relate to

The Review Report in Summary: Updated Demand Forecast for User Pays Services

- Review of original demand forecast took into account
 - Actual usage to date
 - Updated customer forecasts
- Results
 - IAD demand is higher than originally forecast
 - Demand for telephone services is different and we have not experienced predicted call reduction
 - E-mail Reporting usage is lower than forecast
 - Demand for SARs is below original forecast
- Demand forecast table updated with new demand volumes, published as Appendix 2 of ACS

IAD Demand Forecast Information

Apr	May	Jun	Jul	Aug	Sep	Oct*	Nov	Dec	Jan	Feb	Mar
11,947	12,430	13,335	13,491	14,400	14,400	14,400	14,400	14,400	14,400	14,400	14,400

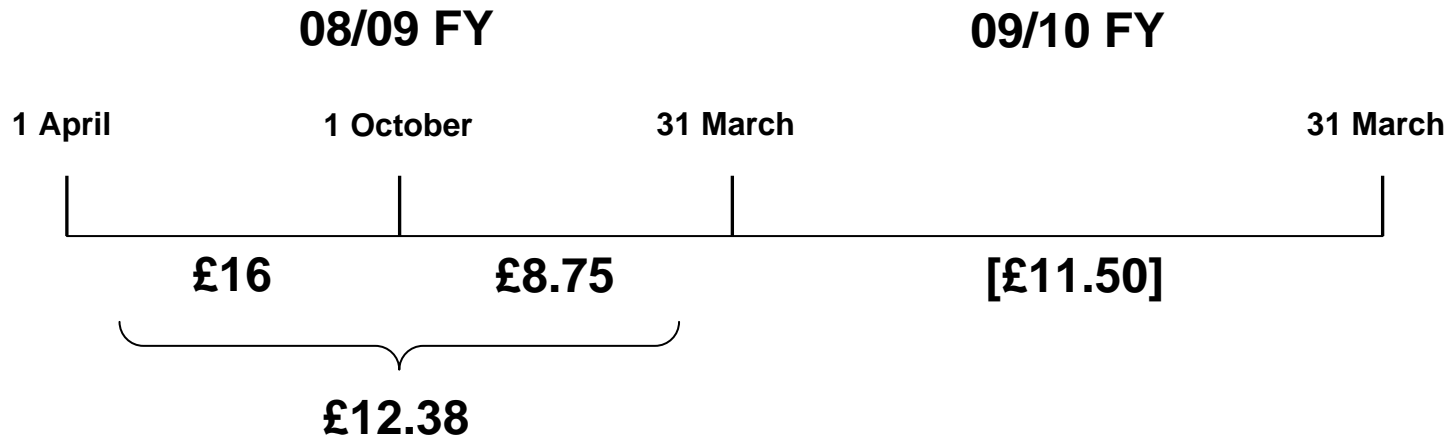
- Average annual forecast – 13,900 (figure used in revised ACS)
- Working assumptions
 - Actual volumes used up to July
 - Remainder of forecast based on requests already received from users
 - Consultation with industry indicated no change to current usage

* *Implementation of IAD changes*

ACS Prices

- Prices continue to be set in accordance with the charging methodology set out in the approved ACS 1 April 08
- Prices are a direct relationship between cost of providing the service and demand plus a margin (6% as agreed by Ofgem)
- Demand for IAD is higher, forecast costs for service are lower, so IAD prices have been reduced
- Proposal to reduce IAD prices to £8.75 per account per month from 1 October 2008
 - Down from £16 per account
 - Monthly saving of £7.25 per account
 - Equivalent to average monthly price of £12.38
- All other prices remain as currently published in ACS

IAD Price Fluctuation



- Price change ensures 6% return forecast for year
- Average monthly price for 08/09 £12.38 per account
- 09/10 price circa. £11.50 should there be no change to costs & demand
- Under this model xoserve has committed to review ACS Jan / Feb 09

Updated Revenue Forecast 08/09

	£ms
Revenue	3.40
Cost	3.17
Profit	0.23
Return	6%

- Based on new cost forecast, price reduction on IAD Service and current forecast demand
- 6% return delivered for 08/09

Time line for the ACS review

- Draft revised ACS and Review Report discussed with customers at 18 August's UPUG
- **Customer's formal comments requested on Review Report and revised ACS, by COP 27 August (xoserve.userpays@xoserve.com)**
- Engage with Ofgem
 - Review Report, revised ACS and customer responses to Ofgem 1 September
 - Ofgem have 28 days in which to veto the proposed revision to the ACS
- New prices effective from 1 October, assuming Ofgem do not veto proposal