

# **Cost Allocation Model and Methodology**

## 1. Introduction

- 1.1 The purpose of this document is to provide a high-level summary of the Cost Allocation Model and Cost Allocation Methodology used to allocate costs to Service Areas, as described in the CDSP Service Document titled 'Budget and Charging Methodology v5.0'.

## 2. Why is Cost Allocation Model required?

- 2.1 Xoserve needs to recover its costs in delivering the CDSP from the industry as required per the GT Standard Special Conditions A15 Part A 4.(c)(iv).
- 2.2 The UNC is not prescriptive in how CDSP cost are allocated, only requiring per Section D 3.3.1(c), a Budget and Charging Methodology that provides for "a basis for the allocation of CDSP Costs to the activities of the CDSP, including the provision of CDSP Services".
- 2.3 Therefore, Xoserve must determine and utilise an appropriate method for the allocation of its costs to CDSP Service Areas.

## 3. What activities do costs need to be assigned to?

- 3.1 Costs need to be assigned to the Service Area as indicated by the Service Reference Number (as set out in the CDSP Service Description Table) and further described in the Charge Base Apportionment Table in Paragraph 3.1.1 of the CDSP Service Document, Budget and Charging Methodology.

The Service Areas that attract charges from 2023 – 2024 are as follows:

- 1) Manage Shipper transfers
- 2) Monthly AQ processes
- 3) Manage updates to customer portfolio
- 4) Meter read/asset processing
- 5) Demand estimation obligations
- 6) Customer relationship management
- 7) Customer joiners/leavers (UK gas market)
- 8) Energy balancing (credit risk management)
- 9) Customer reporting (all forms)
- 10) Invoicing customers
- 11) Management of customer issues
- 12) Customer contacts
- 13) Managing Change
- 14) Gemini services
- 15) Value added services
- 16) Central switching service consequential
- 17) Distribution network wholly funded activities

**4. What is the CDSP cost base that requires allocation to the CDSP Service Areas**

- 4.1 Within its cost base, the CDSP has Direct Costs, such as people working only on the delivery of specific Service Area(s), and costs that support Service Area delivery and therefore span multiple Service Areas, being Indirect Costs.
- 4.2 Since 2017, CDSP Direct Costs have been attributed directly to a particular Service Area(s) with CDSP Indirect Costs shared across Service Areas.
- 4.3 The allocation of Indirect Costs to each Service Area is based the total number of resources (people) working on each Service Area.
- 4.4 Line of Business Direct Systems costs are allocated based on estimating the level of system resource required to support each Service Area process.
- 4.5 The CDSP Direct Costs and CDSP Indirect Costs include costs that Xoserve incurs with third parties..
- 4.6 Xoserve largest third-party cost relates to its contract with Correla. This is contracted on an arms-length basis and is not open book.
- 4.7 The costs and modelling assumptions in place at 28<sup>th</sup> February 2021 formed the fixed price arrangement Xoserve now has with Correla, with minor amendments only made when activities are either added or descoped from the CDSP and detailed in the Business Plan.

## 5. The Model

5.1 The following table summarises the components of the CDSP cost base along with the type of expenditure items and the methodology of how they are allocated to each Service Area.

<b>Cost Type</b>	<b>Cost Composition</b>	<b>Allocation Methodology</b>
<b>Direct Resources</b>	Salaries, Pension, NI, Agency, Travel & Subsistence Expenses.	Full cost of Resources wholly delivering specific Service Area(s) are allocated to each Service Area.
<b>Indirect Resources</b>	Salaries, Pension, NI, Agency, Travel & Subsistence Expenses.	Full cost of Indirect Resources are allocated to each Service Area based on number of Direct Resources that are allocated to each Service area.
<b>Non-System Direct Third-Party Costs</b>	Third Party Contracts in place that can be directly attributed to a Service Area (s).	Full Cost of Contract delivering to specific Service Area
<b>Non-System Indirect Third Party Costs</b>	Third Party Contract in place that span multiple Service Areas or cannot be attributed to any specific Service area as they cover the whole business.	The total cost of such Third Party Contracts is allocated to each Service Area based on the number Direct Resources Allocated to each Service Area
<b>Line of Business Direct System Systems Costs</b>	Third Party Contracts from IT suppliers that support core line of Business Systems for example UK Link, Gemini, CMS, IX Network.	The total cost of each Line of Business System is calculated from licence and support costs from Third Party Suppliers.  The resulting total cost of each Line of Business System is allocated to each Service Area based on the level of system resource required to support each Service Area
<b>Support System Costs</b>	Some systems within the CDSP estate are Supporting Systems but essential for running the CDSP service, such as Network & Desktop costs.	The total cost of all Support systems is allocated to each Service Area based on the number of Direct Resource Allocated to each Service Area

## **Note to Allocation**

Resource as a basis for allocation

- Resources are deemed to be the most relevant basis for the allocation where it is not possible to directly attribute costs to a Service Area because although the delivery of CDSP services includes a high-level of system driven processes and automation, SMEs are still required to oversee these processes, maintain/change them and bridge the gap of information flows between systems and Xoserve's customers.

## **6. Allocation of Service Area Cost to Customer Classes**

Once costs have been assigned to a Service Area, the resulting cost per Service Area is then allocated to each Customer Class (Shipper Users, NTS, DNs, IGTs). The process of assigning the final cost of each Service Area to a Customer Class is detailed in the CDSP Service Document Budget and Charging Methodology as published on the Joint Office Website and updated from time to time.