

UK Gas Transporters
c/o Mr Tim Davies
Joint Office of Gas Transporters,
Ground Floor Red,
51 Homer Road,
Solihull,
West Midlands.
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21 February 2008

Dear Tim,

Corona Energy response to xoserve consultation: “Agency Charging Statement”

Corona Energy (Corona) thank the Gas Transporters for their invitation to comment on the consultation “Agency Charging Statement” (ACS) as part of the wider proposed implementation of a User Pays regime. Corona are an active participant in the I&C supply market and offer a range of energy management services to consumers that rely on the services and data provided by xoserve on behalf of the Gas Transporters. As such Corona has a direct commercial interest in the effective and efficient provision of services by xoserve.

Corona recognises the original intention of Ofgem in proposing user pays services was to offer choice to users and to drive cost efficiencies through shipper choice. Corona does not believe the existing user pays proposal and the ACS as drafted will provide the benefits as originally intended by Ofgem. Corona believes that the principle of a user pays regime is still to be proven and is concerned that its premature implementation, including the creation of the ACS will have long-term consequences that outweigh any potential short-term gains.

Corona’s view was reflected during the original Ofgem consultation on the future of xoserve’s services (xoserve services workgroup). At this time a number of shippers raised concerns over the detail of the governance. Corona does not believe these concerns have been adequately addressed. For example a brief consideration of the outstanding issues and risks relating to the changes proposed to the governance regime leads to the conclusion that the introduction of the user pays principle could seriously impact on the effectiveness of the industry change processes.

Given the potential risks created through the implementation of the user pays model on the industry, Corona would encourage the Gas Transporters to ask

Ofgem to conduct an in-depth Impact Assessment prior to making any decision on the ACS.

Over Recovery of Charges via the ACS

During the initial discussions of the user pays principle it was stated by Ofgem that the user pays principle would encourage a reduction in the use of inefficient services in some areas and encourage the use of more efficient services in others. The concept assumed that reduction in the use of a service would reduce the overall costs.

During recent discussions the approach of xoserve to the costs and provision of IAD accounts suggests that a reduction in the use of a service will only result in higher unit costs without the associated drop in overall costs. An in-depth Impact Assessment would allow Ofgem to consider if xoserve will be adequately incentivised to reduce overall costs or whether they will simply pass-through costs to shippers and therefore consumers when the usage of a service drops.

In the original discussions of a user pays mechanism it was stated that the principle would only cover services open to competition. Over-recovery of charges would be managed by the market mechanism. Unfortunately the vast majority of the services offered by xoserve are clearly monopolistic in nature. Corona believe it is therefore essential that Ofgem recognise xoserve's monopoly position and ensure xoserve operate in a transparent manner and have the correct incentives to drive down the prices paid by shippers for services.

The issue of an over recovery or non-cost reflective pricing due to xoserve making incorrect assumptions is difficult to predict but is clearly going to occur at some point. As the demand assumptions are a major factor in setting the prices, Corona suggest that xoserve should provide this information to the industry prior to any consultation on changes to the ACS. This should help to reduce the likelihood and scale of an over-recovery as industry participants would be able to challenge assumptions where clearly incorrect.

Where an over-recovery occurs, Corona believes the existing governance structure does not handle this in a transparent manner. It is hard to see how shippers can be confident that in the proposed regime over-recovery is identified and minimised. There also appears little incentive for xoserve to return any monies over-recovered to consumers rather than its shareholders.

This situation creates an environment that is likely to lead to suspicion of excessive profits and inefficient processes. Corona would therefore encourage the Gas Transporters as the shareholders of xoserve to take measures to ensure transparency and accountability. It is also essential that Ofgem take ownership

to ensure that transparency measures are included in the governance of the user pays regime and that xoserve publishes timely and accurate data to support this.

Corona would welcome industry debate on the appropriateness of an audit regime that would allow shippers to have confidence that the information provided by xoserve in support of its cost and price assumptions were correct and to benchmark its performance against those of a commercial data provider.

Governance of the ACS

One of the purported benefits of the user pays arrangements was that it would encourage xoserve to be more customer focused. It is noted that despite considerable feedback from shippers that the governance regime should allow them to propose changes to the scope and costs of services, this has not been included by xoserve. Corona therefore questions the ability of shippers in the current regime to adequately influence the ACS and xoserve's contracts in a significant way.

xoserve's representatives have in industry discussions asserted that shippers should be reassured by xoserve's belief that that have a higher burden of proof to pass as their contracts will be governed by the 'Unfair Contracts Act'. Corona is not reassured by xoserve's statements and is concerned that it is forced into a 'take it or leave it' position by a monopoly service provider. This problem was demonstrated recently when the industry, faced with a potential over-recovery by xoserve due to their high unit cost for IAD accounts, was unable to persuade xoserve to share its cost and usage assumptions. Given that it was only the intervention of Ofgem that made xoserve provide these details, Corona would like to know how the Gas Transporters intend to ensure that xoserve resolve other issues without the intervention of Ofgem.

Corona is aware that a number of shippers have stated that they believe the current proposals are anti-competitive in nature and others have questioned whether the proposals give undue influence to larger industry participants. Corona remains concerned that any user pays regime should not allow any industry participant an unfair advantage.

Conclusion – User Pays

Corona believes the principle of user pays services has yet to be proven and that it would be far more prudent to conduct a greater degree of analysis into a more detailed user pays proposal in order to consider the long term affects of these changes.

Proposals for a new governance regime are still not fully formed and some significant issues including data ownership and access, restrictive and unfair practice, inefficient investment, costs and market influence remain. If these

issues are not addressed then these would represent a considerable risk to all users of the user-pays services who in most cases will have no choice of alternate service provider.

In short Corona has serious concerns that the introduction of a user pays principle could seriously damage the effectiveness of the industry change processes and impact on the efficiency of xoserve services and cannot therefore support the ACS or the xoserve contract as currently drafted.

Corona believe consideration of the existing proposals against the original intentions of the xoserve services workgroup demonstrates that a short extension of the existing arrangements is required to allow time for the proposals, especially those relating to governance, to be refined.

We trust you will find our comments useful and if you have any questions then please feel free to contact me on 0208 632 8136.

Yours sincerely,

Richard Street*

*please note that as this letter has been sent electronically no signature will be attached.