



Making a positive difference  
for energy consumers

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### **Sent by email**

Dear Stephanie,

#### Appeal of the CDSP Annual Budget 2020/2021

In February 2020 Centrica issued a notice of appeal<sup>1</sup> to the Authority<sup>2</sup> against the Central Data Services Provider (CDSP) Annual Budget 2020/21 ("the budget"). As you are aware, in the appeal Centrica claimed that the budget was not fit for the purpose of allowing the CDSP (Xoserve)<sup>3</sup> to provide CDSP Services.

The notice of appeal has now been formally withdrawn by Centrica. Separately we have also discussed with Xoserve certain issues raised by Centrica in the notice of appeal. The appeal and our subsequent engagement with Xoserve has highlighted important questions around the transparency and robustness of the budget process, as we outline in this letter. While we welcome the efforts that have been made in the most recent budget to address these questions, we believe that Xoserve and the industry should, in keeping with the joint funding and governance arrangements introduced under the Funding, Governance and Ownership (FGO)<sup>4</sup> reforms, consider the issues raised further to ensure that the budget setting process is robust and ultimately operates in the interests of consumers.

We have summarised the key issues below, and set out our view on the next steps that should be taken in considering these further.

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<sup>1</sup> See para.7(b), [Gas Transporter Licence, Standard Special Condition A15A: \(Central Data Service Provider\)](#)

<sup>2</sup> The terms "the Authority", "Ofgem", "we", "our" and "us" are used interchangeably in this document.

<sup>3</sup> <https://www.xoserve.com/about-us/> Xoserve is the CDSP for the gas industry.

<sup>4</sup> [Completion of the Xoserve funding, governance and ownership \(FGO\) implementation phase](#)

## CDSP Services

Paragraph 1.3.1 of the Uniform Network Code (UNC)<sup>5</sup> defines “CDSP Service” for the purpose of the UNC as being (other than core services or CSS Services<sup>6</sup>) “...any service which the CDSP can provide efficiently and economically by using resources and/or data used by the CDSP to provide core services...” and which is provided to certain categories of customer set out at 1.3.1(b).

In formulating the CDSP Annual Budget we understand that Xoserve considers the status of a proposed service against the criteria which a CDSP Service must meet. However, going forward, we believe it is in the interests of the industry and gas consumers for Xoserve to consider when setting future annual budgets how it can more clearly demonstrate the basis on which it has assessed a service to be a “CDSP Service”. We consider that greater transparency in this aspect of Xoserve’s work could help to make the budget process more inclusive and the draft annual budget more robust, in particular by highlighting any concerns on the status of a proposed service and taking steps to address these at an early stage.

## Budget assurance

We recognise that Xoserve has worked to respond to customer feedback on the Annual Budget process and we encourage Xoserve to continue its work to make the Annual Budget setting process inclusive and transparent to users. We encourage the Xoserve Board to consider whether further enhancements in this area would be proportionate, taking account of the views of the industry and best practice elsewhere. Two such examples that Xoserve may wish to consider are enhanced external challenge/reporting on the draft Annual CDSP Budget, and a dedicated Board assurance statement setting out how the Board has assured itself that the Annual Budget is in the interests of Xoserve’s customers and gas consumers, similar to those provided in the RIIO process, for example.

We acknowledge the assurance arising from the existing oversight that the Xoserve Board has of the Annual Budget setting process, extending from the publication of the Statement of Planning Principles to the publication of the final budget. We consider that alongside this, an external challenge to the budget could provide useful/valuable additional perspective and input for the Board to consider. Likewise, an assurance statement may be a useful tool

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<sup>5</sup> [Uniform Network Code – General Terms Section D – CDSP and UK Link](#), 1.3.1

<sup>6</sup> Services performed by the CDSP under its contract with the Data Communications Company.

to offer wider assurance to Xoserve's customers and to the gas consumers who ultimately fund the CDSP.

### Next steps

The FGO reforms have been in place since April 2017<sup>7</sup>. A central aim of the reforms was to address concerns that the pre-FGO arrangements for the governance of the CDSP did not provide the required responsiveness and flexibility needed to respond to future challenges and to drive the right outcomes for customers of Xoserve and gas consumers. We did not see the FGO arrangements as an end point, but expected the industry to continue to work together to build on and improve the arrangements, so that Xoserve works in the best interests of gas consumers.

We welcome a response by Thursday 29 April from Xoserve on the issues set out in our letter.

**Cathryn Scott**

**Regulatory Director, Enforcement and Emerging Issues**

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<sup>7</sup> [Completion of the Xoserve funding, governance and ownership \(FGO\) implementation phase](#)