

# xserve



**2017/18 Interim Financial  
Performance Report**

## Introduction from Xoserve Interim CFO Andrew Pattison

As we move into the Nexus post-implementation period and take steps to invest in our capabilities to deliver the services that you need to a quality that you expect, we have been looking carefully at the impacts on our funding requirements for 2017/18.

We prepared our original assessment of funding needs for 2017/18 against a backdrop of considerable uncertainty, particularly around Project Nexus implementation and the operation of the new UK Link system and market processes. Since setting our Charges, we have all obtained much greater insight to the challenges of delivering and operating an industry governance framework following Nexus implementation. In addition, the appointment of Sian Baldwin as Chief Executive Officer has brought a fresh emphasis on identifying gaps in our capabilities and developing plans to address these.

In the context of this rapidly changing environment, we have carried out a comprehensive and bottom up review of our funding requirements for 2017/18. We have concluded that we can avoid increasing the published Charges that are set out in our **Annual Charging Statement**, but that in order to do this we need to utilise in full the contingency that we hold for unforeseen events. We are not proposing to formally revise our published Charges, but we do want you to be aware of the level of risk to our ability to deliver services using the funds that are available to us.

We know that we need to manage the funding risk that is created by fully utilising the contingency. We are introducing new tracking and forecasting processes that provide a more detailed view of our costs and allow senior managers to have greater oversight of our whole cost position. We are also implementing a central resource model and a new investment committee process to improve project cost control and decision making.

We do not expect our funding requirements for 2017/18 to change materially from the forecasts included in this Report. However, if for any reason this position changes, we will bring a further update to the Contract Management Committee. We know that it is important to give you an early view of changes wherever possible, so that you have plenty of time to consider the impacts on your organisation.

Finally, we welcome your feedback on the value to you of the format and style of this Report. We want to find a level for our 2018 Business Plan documentation that is right for our customers, so please tell us if it is helpful to you or where we can make improvements. You can provide feedback at Contract Management Committee meetings, directly to your Customer Account Manager, or by email to [networksupport@xoserve.com](mailto:networksupport@xoserve.com).

## Context

This document is our first Interim Financial Performance Report for 2017/18. We have prepared the Report against a background of considerable change in our business and in the wider industry in which our customers operate.

When we originally set our Charges for 2017/18, we were a few months away from Project Nexus implementation and from the full introduction of our new co-operative funding and governance model. Both have now been successfully implemented, and we are rapidly learning lessons about the arrangements that we need to put in place to make everything work smoothly and efficiently for our customers.

At the same time, we are developing proposals for new initiatives that we plan to deliver during 2018/19, but are starting to work on during 2017/18. All of these will have a significant and positive impact on the service that we provide to you.

- **A focus on customer centricity.** We want to introduce a number of customer focused practices, including Customer Relationship Management tools, and developing a rounded view of our customers. We want to provide dedicated leadership to specific groups and organisations in our customer community, and to manage our customers in a more segmented way that better reflects your diverse strategies and interests.
- **Better use of customer data.** We want to provide you with access to any data about our service to you, providing significantly improved transparency and insight into our operations. We will invest in a data analytics platform which will improve your customer experience by providing greater transparency on our performance and by allowing us to identify and address issues at the earliest opportunity. Our aim is to address issues before they cause a problem, and to learn from our experience to continually improve the service we provide.
- **Improved change capability.** A key learning from Project Nexus is that we did not create an effective industry co-ordination role for such a major change programme and that we did not invest enough in landing change inside our customer organisations. This means that the industry had to seek external (and more expensive) assistance to manage and implement change. We want to build the capability to deliver this role in the future, starting with delivery of future UK Link System releases. We will get better at helping our customers through change, learning the lessons of the past.
- **Internal assurance.** Our governance model involves engagement with our customers through a range of approaches, including monthly committee meetings. We want to build a stronger internal assurance capability. This will allow us to align what we do on a day to day basis with the information we share with you through the committees. It will also enable us to become more efficient and more responsive to requests from you for further information about the business.

In this Report, we compare the outcome of our review of funding requirements to our published Charges, and show you what this means for your organisation. We also provide you with insights to the business activity costs which are causing our latest forecast to vary from the original position. Many of the variances that we are seeing are particular to our short-term business environment following Nexus implementation and we do not expect to see these recur in future years.

## Feedback

This is our first attempt at providing you with information on our financial performance part way through the year. We welcome your feedback on this Report, particularly on its usefulness to your organisation and the way in which we have presented the financial information. We will take this feedback into account when preparing our 2018 Business Plan and supporting financial schedules. You can provide feedback at Contract Management Committee meetings, directly to your Customer Account Manager, or by email to [networksupport@xoserve.com](mailto:networksupport@xoserve.com).



## Definitions

To help you better understand the financial information that we present in this Report, we provide explanations of the different Charge types and how these relate to the specific activities that we are performing during 2017/18. You can find formal definitions of these Charge types in our **Budget and Charging Methodology** which is part of the Data Services Contract (DSC).

1. **General Service Charges** are for services provided to all customers on a common basis, for activities such as supply point registration, transportation billing, query management, reconciliation and settlement, provision of user reports and system support services.
2. **Infrastructure Charges** relate to investment in our systems and processes in the following areas:
  - Gemini infrastructure (charged to National Grid NTS)
  - Changes to transportation billing systems and services following National Grid's part disposal of its gas distribution business and our separation from the National Grid Group (charged separately from our recurring services to National Grid NTS)
  - The operation of back office processes such as Finance, Payroll and HR as we exit from historical arrangements following separation from the National Grid Group, which is funded by all customers
  - Other service sustaining and business improvement investments, including UK Link programme costs from 1 September 2017, also funded by all customers
3. **Change Charges** relate to investment in our systems and processes in response to changes in customer requirements and are normally associated with modifications to the Uniform Network Code; they include EU and GB led changes to the Gemini system (charged to National Grid NTS), Shipper funded UK Link change requests, and Smart Metering and other DSC Changes funded by Distribution Network (DN) Operators and independent Gas Transporters (iGTs).
4. **UK Link (Nexus) Charges** are for UK Link programme delivery to the end of post implementation support on 31 August 2017, funded by National Grid NTS and DN Operators
5. **Specific Service Charges** are for services provided to customers on request and charged based on activity volume
6. **Non ACS Charges** are for services to other customers who have contracts with us outside of the Data Services Contract.

## Comparing our published Charges and forecast funding requirement

We provide a comparison of our forecast funding requirements to the published Charges in the Annual Charging Statement (ACS).

When working out our forecast funding requirements we have used the same Charging Methodology that we used to work out our published Charges earlier this year, except for the full utilisation of the contingency. All financial values in the Tables are stated in 2017/18 prices and rounded to the nearest £0.1m.

Table 1: Charges by Customer Class

£m Charge type	Shipper Users	National Grid NTS	DN Operators	iGTs	Other, inc NG Group	Annual Total
<b>Published Charges</b>						
1. General Services	10.5	8.1	13.9	0.3	0.0	32.8
2. Infrastructure	5.5	2.3	7.3	0.1	1.1	16.3
3. Change	0.5	3.8	1.6	0.0	0.0	5.9
4. UK Link (Nexus)	0.0	1.5	12.0	0.0	0.0	13.5
5. Specific Services	4.0	0.0	0.1	0.0	0.0	4.1
6. Non ACS charges	0.0	0.0	0.0	0.0	0.2	0.2
<b>Total</b>	<b>20.5</b>	<b>15.7</b>	<b>34.9</b>	<b>0.4</b>	<b>1.3</b>	<b>72.8</b>
<b>Forecast funding requirement</b>						
1. General Services	10.3	7.8	13.7	0.3	0.0	32.1
2. Infrastructure	5.7	1.3	7.6	0.1	0.4	15.2
3. Change	0.5	4.6	1.3	0.0	0.0	6.5
4. UK Link (Nexus)	0.0	1.6	12.6	0.0	0.0	14.2
5. Specific Services	4.0	0.0	0.1	0.0	0.0	4.1
6. Non ACS charges	0.0	0.0	0.0	0.0	0.2	0.2
<b>Total</b>	<b>20.5</b>	<b>15.3</b>	<b>35.3</b>	<b>0.4</b>	<b>0.6</b>	<b>72.2</b>
<b>Movement</b>						
1. General Services	(0.2)	(0.3)	(0.2)	0.0	0.0	(0.7)
2. Infrastructure	0.2	(1.0)	0.3	0.0	(0.6)	(1.1)
3. Change	0.0	0.8	(0.3)	0.0	0.0	0.5
4. UK Link (Nexus)	0.0	0.1	0.6	0.0	0.0	0.7
5. Specific Services	0.0	0.0	0.0	0.0	0.0	0.0
6. Non ACS charges	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>0.0</b>	<b>(0.4)</b>	<b>0.4</b>	<b>0.0</b>	<b>(0.6)</b>	<b>(0.6)</b>

Compared to published Charges, the currently forecast funding requirement would mean an increase of £0.4m for DN Operators, a reduction of £0.4m for National Grid NTS and no change for Shipper, iGT and other customers. Charges to National Grid Group would fall by £0.6m. We explain the drivers behind these changes in the following sections of the Report.

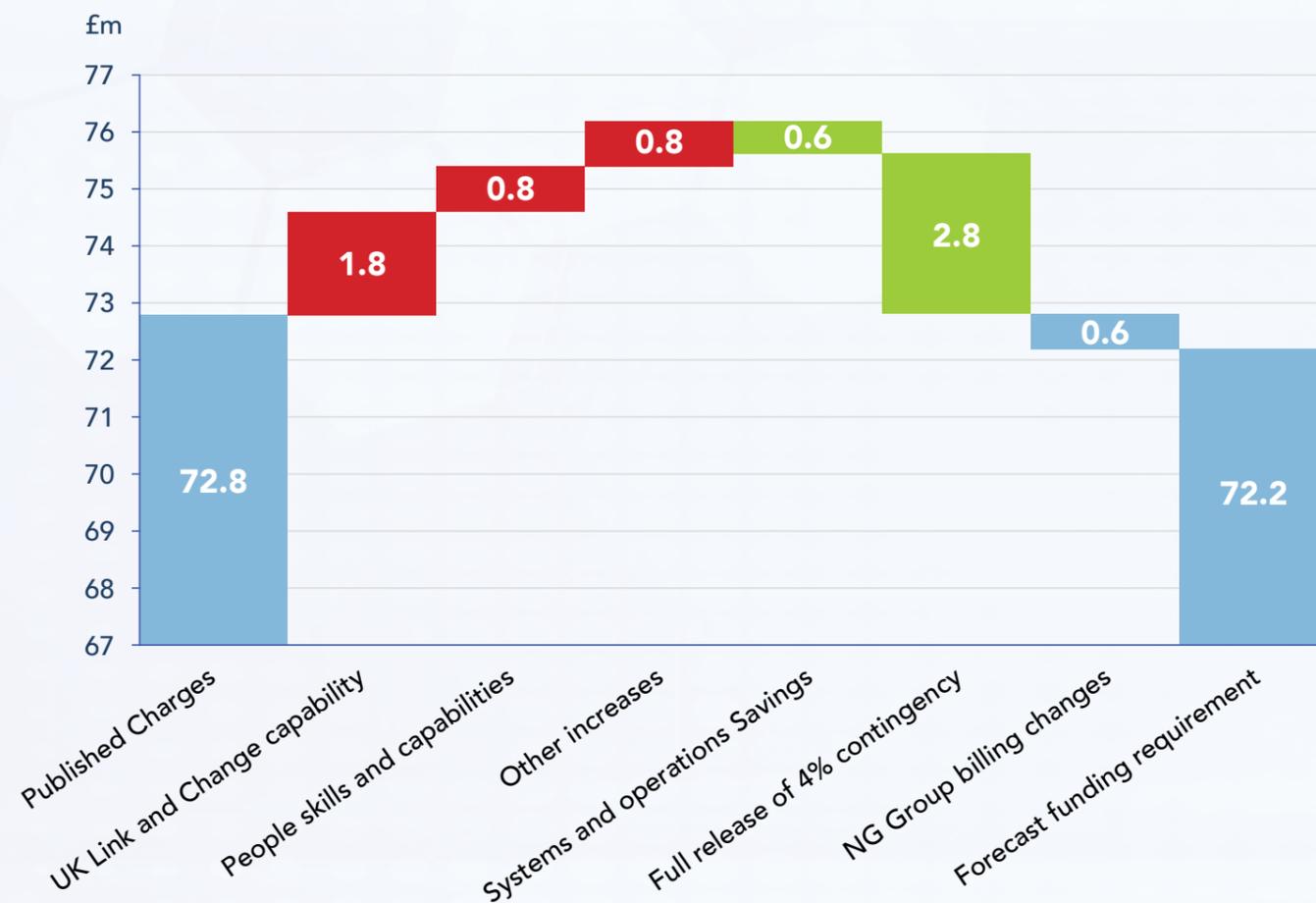
## Changes in business activities

We do not expect our total funding requirement for 2017/18 to exceed our published Charges of £72.8m. We are, however, forecasting that our total costs will be £2.2m higher than budget, and that our Charges to National Grid Group for transportation billing changes will be £0.6m lower than budget because of deferred activity. This means that we will need to utilise in full the £2.8m contingency that was built into our published Charges.

Figure 1 shows the major changes in business activity costs and their impact on our forecast funding requirement, and Table 2 relates the changes to the Charge types in Table 1.

Table 3 relates the changes to each Customer Class. It is provided for information only, as we are not proposing that we vary our published Charges.

Figure 1 – Movements between published Charges and forecast funding requirement



The largest increase is for UK Link related work (£1.8m). Of this amount, £1.2m is for the period to the end of the Project Nexus post implementation support on 31 August 2017, including an amount for industry governance services provided by PwC. The remaining £0.6m relates to the period from 1 September 2017 onwards, including ongoing industry governance and enhanced operational data analytics. We are also anticipating additional costs as a result of addressing key skills and capability gaps within the organisation (£0.8m). Other smaller increases total £0.8m, of which around half is in respect of contributions to the Defined Benefit pension scheme, and the remainder comprises a number of smaller amounts, including preparatory work on the provision of a Central Switching Service. Increases are offset in part by savings that we have identified to date (£0.6m).

We are also forecasting a reduction in the amount of work that we need to do during 2017/18 to deliver changes to transportation billing systems and services following National Grid's part disposal of its gas distribution business (£0.6m).

Table 2: Movements by Charge type

£m Charge type	UK Link and change capability	People skills and capabilities	Other net increases	Systems and Operations savings	Full release of contingency	Sub-total cost only impacts	NG billing changes	Gemini contra	Annual total
<b>Movement</b>									
1. General Services		0.5	0.4	(0.3)	(1.3)	(0.7)			(0.7)
2. Infrastructure	0.6	0.3	0.5	(0.3)	(0.6)	0.5	(0.6)	(1.0)	(1.1)
3. Change			(0.3)		(0.2)	(0.5)		1.0	0.5
4. UK Link (Nexus)	1.2				(0.5)	0.7			0.7
5. Specific Services			0.2		(0.2)	0.0			0.0
6. Non ACS charges					0.0	0.0			0.0
<b>Total</b>	<b>1.8</b>	<b>0.8</b>	<b>0.8</b>	<b>(0.6)</b>	<b>(2.8)</b>	<b>0.0</b>	<b>(0.6)</b>	<b>0.0</b>	<b>(0.6)</b>

Positive numbers represent an increase in costs or charges. Gemini charges are unchanged in total, but with more activity on EU and GB framework change and less on sustaining infrastructure.

Table 3: Movements by Customer

£m Customer Class	UK Link and change capability	People skills and capabilities	Other net increases	Systems and Operations savings	Full release of contingency	Sub-total cost only impacts	NG billing changes	Gemini contra	Annual total
<b>Movement</b>									
1. Shipper Users	0.2	0.3	0.5	(0.2)	(0.8)	0.0			0.0
2. National Grid NTS	0.2	0.1		(0.1)	(0.6)	(0.4)			(0.4)
3. DN Operators	1.4	0.4	0.3	(0.3)	(1.4)	0.4			0.4
4. IGTs					0.0	0.0			0.0
5. Other					0.0	0.0	(0.6)		(0.6)
<b>Total</b>	<b>1.8</b>	<b>0.8</b>	<b>0.8</b>	<b>(0.6)</b>	<b>(2.8)</b>	<b>0.0</b>	<b>(0.6)</b>	<b>0.0</b>	<b>(0.6)</b>

Positive numbers represent an increase in costs or charges

- For **Shippers**, there is no difference between published Charges and forecast funding requirements; cost increases are offset by utilising the contingency, and they are not required to fund the additional UK Link (Nexus) costs
- For **National Grid NTS** – the forecast funding requirement is £0.4m lower than published as a result of a reduction in the volume of Change work
- For **DN Operators** forecast funding requirements are £0.4m higher than published as a result of the contribution to additional UK Link and Infrastructure costs
- For **Independent Gas Transporters**, there is no difference between published and forecast funding requirements, with the forecast increase in Infrastructure costs being offset by lower costs for the provision of General Services.

Differences between published Charges and forecast funding requirements for each Customer Class will not affect our Charges for 2017/18 but will be carried forward into the setting of Charges for 2018/19.