



BUSINESS PLAN 2018-23

- Setting the Foundations -
Outlining our Approach and Principles

Foreword from Xoserve CEO Sian Baldwin

2016/17 was an extraordinary year for Xoserve, driven primarily by our focus on the launch of Project Nexus; a huge undertaking, not just for our company, but also for the industry. At the time of writing, this significant programme of industry change is still in a period of post-implementation stabilisation; but with the end of the programme in sight, our customers are likely to be expecting a period of stability and reduced expenditure year on year.

However, I believe 2018/19 is going to be an equally transformative year for Xoserve, not least because the pace of change across the whole energy market is not slowing down, but also because we at Xoserve must face into the commercial reality of some tough feedback from our customers and the lessons learnt from implementing Project Nexus. What both sources of insight tell us, is:

- We need to invest in customer change capability required to land future changes to new UK Link system into you, our customers, effectively and with less friction
- We don't manage our customers in a way that feels outside-in from our customers' perspective. This means we need to invest in understanding you better, thinking like you think, talking in your language and with a good understanding of the commercial market you operate in
- We have a very high reliance on third parties in key areas of our business. Whilst we will continue to be an organisation that will source its core platform capacity through third parties, we need to ensure we have sustainable coverage of key skills in-house to be able to manage these relationships effectively long term

What this means in practice, is that the latter half of 2017/18, and all of 2018/19, is going to be a transformative period for Xoserve and our 2018 Business Plan will reflect this.

Last year was the first time Xoserve had ever conducted a consultative business planning process, and it's appropriate to recognise that the feedback from our customers identified much room for improvement. We intend to significantly improve the process this year, but I am fully expecting there will be further room for improvement, which will not be realised until our 2019 consultative Business Plan. Please continue to be honest with us and I appreciate your patience as we build this critical capability into our organisation.

The business planning process will not only form the basis of Xoserve's budget and charges for 2018/19, but will set out a strategic direction for our business until 2023.

Your comments on this document are not only welcomed, they are encouraged. You will find details at the end of this document that explain how to input your views. I look forward to working with you all and supporting the process throughout the rest of this year.

“2018/19 is going to be an equally transformative year for Xoserve”



Xoserve CEO Sian Baldwin

Purpose

This document marks the start of a process to seek your views on our 2018 Business Plan. It describes our proposed approach and tells you how and when you can get involved in its development. Our aim is to deliver a five year Business Plan for the period from April 2018 to March 2023, including a Budget for 2018/19. To be a success, the Plan will need to be approved by the Board, enjoy strong customer support and be ready to take effect on 1st April 2018.

We set out in the following pages:

- The context in which the Plan will be prepared
- Our scope of services for delivery during the Plan period
- The basis of our financial forecasts
- Our assumptions
- Our uncertainties

In all of our work, we rely on our customers to engage with us and to make timely decisions on key projects and areas of work. It is vitally important to us that you feel able to engage fully and to provide open and honest feedback throughout the period of development of the Plan. There will be opportunities for engagement both within the Data Services Contract (DSC) governance meetings and through written responses to consultations. This is our first consultation, and it majors on getting your feedback on our proposed approach to the development of the Plan.

We have not included financial information at this stage. The timeline on page eight shows when we expect to publish the Business Plan and Budget information, including financial forecasts, the process for consultation on the draft Plan and the steps to achieve approval.

Context

We describe here the backdrop against which we will develop the Business Plan and Budget.

- We became the Central Data Service Provider (CDSP) on 1st April 2017. This means that:
 - Our activities are funded by users of our services
 - All customers participate in the governance arrangements
 - Our Board members are appointed through customer nomination processes
 - We seek the views of our customers and take these into account when developing our Business Plan and Budget

Project Nexus went live on 1st June 2017, delivering a multi-million pound replacement UK Link system and a strategic investment for the energy industry. The programme provides us with a plethora of lessons learnt and room for improvement, but the final 18 months represents a major achievement for Xoserve, our partners and all our customers who have together set a new standard for industry change programmes. We are working closely with our customers, Ofgem and PwC to establish and transition into post Go-Live arrangements that provide a firm foundation for the management of future changes.

Our Gas Transporter (GT) customers continue to receive allowances for funding elements of our service provision through to the end of the current price control period in March 2021. Ofgem stated in its GT funding decision letter of 23rd September 2016 that it will reconsider the position for the next price control period, dependent on the performance and effectiveness of the CDSP model.

Scope of Services

We outline here the services that we provide, and which we would expect to include in the draft Business Plan and Budget.

The majority of our services are defined in the Data Services Contract (DSC) and its service schedules. These are:

- General Services, which are provided to all customers on a common basis
- Specific Services, which are provided to customers on request
- Additional and Third Party Services, which we offer in response to individual customer requirements. Recent examples are customer training, report writing, and information provision services.

A large part of our business activity involves changing our systems and processes to meet customer requirements agreed through the DSC Change Committee, which are in turn reflected in updates to the service schedules. We also invest to enhance or replace elements of systems infrastructure, ensuring that service quality and reliability is maintained.

Basis of Forecasts

We aim to deliver services at all times in a reliable, efficient and cost effective manner.

As the large majority of our service costs are fixed in nature and levels of demand for service are expected to be broadly stable, we do not anticipate any material change in recurring service costs for 2018/19. Following Project Nexus implementation on 1st June 2017, we are moving into a period where we will have new insight into UK Link systems support costs, which will inform our forecasts for 2018/19 and future years.

We have outlined in the section on business operation assumptions our proposals to strengthen our customer change capability, our data analytics, and our internal assurance programme. These are all new areas of activity which we believe will add value to the customer experience, and which we will factor into our cost projections.

We will continue to apply both the Cost Allocation Methodology and the Charging Methodology that were implemented on 1st April 2017. The Cost Allocation Methodology directs costs to services, and the Charging Methodology directs service costs to customers. The DSC governance allows for minor changes to the Methodologies. If you have proposals for particular changes for inclusion in the 2018 Business Plan, please let us know.

We will complete an in depth review of the Methodologies during the development of the 2019 Business Plan. We will all benefit from having access to a full year of data from the operation of the new UK Link system and new market processes.

Assumptions

The energy industry is constantly evolving and changing. Change can be driven by customer needs, opportunities for innovation, the pursuit of continual improvement, political changes and/or regulatory interventions. In developing our Business Plan for the next five years, we have made a number of assumptions about those areas of work that could change over this period. We have set out in this section both what these assumptions are, and our basis for making them.

We have split our assumptions into two groups. The first group is business operation assumptions, which focus on our initiatives to improve the service that we provide to you. The second group is industry assumptions, which focus on initiatives being driven by industry or Ofgem and where we have a role to play.

Following this consultation, we will include details of the scope of work and the associated costs of each assumption in our draft Business Plan and Budget consultation in October.

Business Operation Assumptions

Our key business operation assumptions for our five year Business Plan are:

- **CDSP model.** We have assumed that the CDSP model introduced on 1 April 2017 will continue to operate throughout the period. We will ensure that we continue to provide the full suite of CDSP services to our customers. Where any new or amended services are required, we can introduce these through our existing governance. For changes that take effect in future years, these will be considered through the annual Business Plan and Budget process
- **Ongoing infrastructure and process improvements.** We will continue to invest in our infrastructure, and in improving tools and processes for our employees, providing a strong platform to deliver a better and more efficient service
- **Customer 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
- **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.
- **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

New Initiatives to Improve Services for our Customers

We are developing proposals for three new initiatives that we plan to deliver during 2018/19. All three will have a significant and positive impact on the service that we provide to you. We have set out our current thinking on these areas below, and welcome your views at this early stage.

We will continue to work on developing these proposals, and will include further details, including proposed costings, in our draft Business Plan and Budget later this year.

Industry assumptions

We all operate in an environment of ongoing industry change and reform. Our aim is to continue to be flexible to this change, and to adapt our services to continue to meet the changing needs of our customers. Our Change Management Committee was established on 1st April 2017, and is responsible for reviewing and managing change within the financial year, through the agreed change budget.

Our key industry assumptions for our business plan are:

- **CDSP model.** We have assumed that our Change Management Committee will continue to operate under the CDSP model to manage change within the year. The change budget for 2018/19 will be developed with the Change Management Committee, in line with the timeline set out on page eight. The Change Management Committee currently monitors and manages change based on three key drivers: legislative, regulatory and industry

The change agenda for our Business Plan is currently expected to include:

Legislative

- **European energy market development.** While much of the European and Brexit impact on the energy industry is currently uncertain, we do need to plan for some expected legislative change. Specifically, the EU Tariff Code is expected to be implemented by May 2019. In response to this, UNC Modification 621 has been raised to introduce a new Gas Transmission Charging regime. The current plan is to seek a UNC Panel decision in March 2018. We will continue to review and consider the impact on the services that we provide for and on behalf of National Grid Gas

Regulatory

- **Reform to Industry Code Governance.** Ofgem is leading a programme of work to improve industry code governance arrangements. We are assuming that Ofgem will establish an initial strategic direction and the new consultative Board during 2017/18. This is in line with Ofgem's initial consultation on industry code governance, which ran from 9th November 2016 to 1st February 2017. We will continue to play a full role in this process, both in assisting with implementation and in understanding the wider impact and opportunities for change that this could have on our business
- **Faster, more reliable switching.** Ofgem's work on the Switching Programme continues to progress with the aim of introducing faster, more reliable switching for energy consumers. The latest information from Ofgem (the Transitional Phase High Level Plan published on 21st April 2017) states that the current indicative plan is to make a decision on design in January 2018, award the contract for a Central Switching Service in February 2019, with the earliest potential Go-Live date of May 2020. We will continue to engage and monitor this programme, including considering how our existing platforms might be re-used to support provision of switching services, and how we effectively manage any impacts to the existing services we provide to our customers

Industry

- **UK Link System.** Following Go-Live of the new UK Link system on 1st June 2017, we are already working with you to define the scope of the next release. This will be managed under the new DSC governance arrangements. It may be that specific governance bodies need to be set up, and we will be seeking views from you on how this would work best
- **Gemini.** We will need to make investment in Gemini to ensure service quality and reliability within the next Business Plan period. We will continue to work with customers to review the requirements of the system, and the specific improvements required
- **Retrospective Adjustments for Assets and Supply Points (RAASP).** UNC MOD 434 was originally in scope for Project Nexus but it was subsequently agreed by the Project Nexus Steering Group (January 2016) that it should be deferred. We understand that our Shipper customers are keen to progress updates to new UK Link System to support this functionality. We want to work with customers to better understand their RAASP business drivers and requirements, and to actively consider with you any potential alternatives. We are also aware of the need to reconcile differences between our customer groups on the prioritisation and funding of these changes

Uncertainties

In developing a five year view, there will inevitably be a number of uncertainties or risks that could impact our Business Plan and our ability to deliver it. As part of the Business Plan and Budget development process, we are seeking views on these and on the best way to manage them. We are also seeking views on any key uncertainties that we may have missed.

We have focussed on areas where we do not have enough certainty about an issue to agree actions or to seek funding in the 2018/19 Budget, but where we know that we need to be ready to respond, particularly in 2019/20 and beyond.

Our key uncertainties include:

- **Code Governance Review.** Ofgem stated in their initial consultation on industry code governance (published 9th November 2016) that the licensing of code managers and delivery bodies would be heavily dependent on legislation. We will continue to monitor this area, and will ensure that we remain ready to respond. At this stage, we do not believe that we have sufficient certainty to include a clear action plan within our Business Plan and Budget.
- **Meter Read and Settlement.** Following the expected implementation of the Competitions and Markets Authority (CMA) Order on Meter Reads and Settlement and the progression of this work area by the industry review group (594R), we anticipate that there may be further changes required and/or developed by industry. We do not, at this stage, have sufficient clarity on what further work may be required and when, but will continue to keep this under review.
- **Gas transportation charging.** Cadent Gas is undertaking a Future Billing Methodology review, looking at how to unlock the potential for low carbon gases on the gas network. Following the conclusions of this review, we expect that there may be work required by Xoserve to accommodate any proposed changes.

Questions

This document is the first step in working with you to develop our five year Business Plan and 2018/19 Budget. We welcome your views on all of the information we have set out and on anything we may have missed.

We have set out below some key questions below, where we would appreciate your views. Please send these to us at networksupport@xoserve.com by 31 July 2017.

Scope of services and basis of forecasts

We have set out our view of the scope of our ongoing services, and the basis for our forecasts, on page four. We have explained our approach for forecasting the costs for these areas, which we will use to develop our draft Business Plan and Budget.

- Do you agree with our summary of services and the basis of forecasts?
- Are there any service areas where there is a case for changing the allocations of costs and/or the charging of specific customers this year, ahead of the more detailed cost allocation and charging review next year?

Assumptions

We have set out our view on the key assumptions on pages five and six, explaining the areas where we will provide further information, including financial information, in our draft Business Plan and Budget.

- Do you agree with our assumptions, and do you have any further information that would help us to develop our plans?
- Are there any assumptions we have missed? If so, please explain what these are and the work that we may need to do to address these

Uncertainties

We have set out our view on the key areas of uncertainty in the section above, providing our view on those areas we need to continue to monitor, but where we do not yet have enough information to make a clear plan.

- Do you agree with our uncertainties, and do you have any further information that might be useful to us?
- Are there any uncertainties that we have missed? If so, please explain what these are, and the impact that they could have on us

Engagement

We have set out the engagement timeline on page eight. We encourage you to work with us during this period, as we develop our Business Plan and Budget.

- Is there anything else we could do to help you to engage with us effectively over the coming months?
- Is there anything more we need to know, before we develop our draft Business Plan and Budget for these services?

JULY - AUGUST 2017

SEPTEMBER - DECEMBER 2017

JANUARY 2018

