

The logo for XXserve, featuring the letters 'XX' in a stylized blue font with a white outline, followed by 'serve' in a lowercase blue sans-serif font. The background is a light blue gradient with a pattern of hexagons and lines.

XXserve



Business Plan 2018 Approach and Principles

Post Consultation Report

Foreword from Xoserve CEO, Sian Baldwin

Thank you so much for your taking the time to share with us your thoughts on our approach to our 2018 Business Plan. The discussion at the Contract Management Committee meeting on 19 July was enormously helpful in making clear what you expect of us during the development of the Business Plan and Budget, and was reinforced in the written comments that we received from you. Our Directors have also provided their feedback, and I am pleased to say that it is consistent with what you are telling us.

In response to your feedback, we have made the following changes to our 2018 Business Plan Approach and Principles:

- We have shortened the Business Plan period to just two years, so that it includes a Budget for 2018/19 and financial forecasts for 2019/20 only. The 2018 Business Plan will contribute to the shaping of our longer term strategy over the coming months. A well-articulated strategy that has been fully considered by the Xoserve Board and discussed with you will then provide a firm foundation for a 2019 Business Plan that looks at least five years ahead.
- We have amended our timeline for development of the Business Plan and Budget to allow for two full rounds of consultation, giving opportunity both for discussion at specially convened meetings of the Contract Management Committee and for you to provide your feedback to us in writing.

- We have added more detail to our timeline to show you what documents we will publish on what dates, the timing of Contract Management Committee meetings, the opportunities for providing written feedback, and the dates when the Board is meeting to consider Business Plan and Budget matters.
- We have provided more detail about the information that you can expect to receive from us at each stage of development of the Business Plan and Budget, and when this will be published ahead of the Contract Management Committee meetings
- We have refined our assumptions about legislative, regulatory and industry change, and have included a reference to our recently published paper on the potential role of UK Link and Xoserve in Faster Switching
- We have recognised additional uncertainties in respect of the Smart Meter rollout and aspects of Government energy policy

In addition to the opportunities to provide feedback at Contract Management Committee meetings, we are also planning to hold a customer event at the end of October where we will give significant time to listening to your views on the draft Business Plan and Budget. We will send you further information on the customer event in early September.

Yours Sincerely,
Sian Baldwin



Purpose

This document sets out the outcome of our consultation on our 2018 Business Plan Approach and Principles. Our aim is to deliver a two year Business Plan for the period from April 2018 to March 2020, 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

Plan Information

We know that detailed financial information is important to you to help you to understand and constructively challenge the forecast costs of our services and investments, as well as your organisation's contribution to the funding of the business. The Business Plan and Budget documents and financial information that we share with you during the consultation process will be the same as we present to our Board. If we feel that it is necessary to limit the amount of information that we provide because we think that it is commercially sensitive, we will let you know.

Each iteration of the draft Business Plan and Budget will include the following financial information:

- Charges for each Customer Class and in aggregate for each year of the Business Plan, supported by
 - An in depth comparison of our latest forecast for 2017/18 to draft Charges for 2018/19
 - Comparison of our draft Charges for 2018/19 to the equivalent forecasts included in the 2017 Business Plan
- Input costs required to deliver services, comprising a latest forecast for 2017/18 and full year forecasts for each year of the Business Plan, supported by
 - Trend analysis of historical and forecast information that provides insight to year on year movements
 - An in depth comparison of our latest forecast for 2017/18 to the forecast for 2018/19
 - Comparison of our forecast for 2018/19 to the equivalent forecast included in the 2017 Business Plan

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 Contract Management Committee meetings and through written responses to consultations.

We have not included financial information at this stage. The detailed timeline on pages eight and nine shows when we expect to publish iterations of the Business Plan and Budget, the opportunities for you to provide us with your feedback, and the steps to achieve approval.

- Input costs required to carry out investments, comprising a latest forecast for 2017/18 and full year forecasts for each year of the Business Plan, supported by
 - Analyses of market reforms, infrastructure investments against our IS estate, and business improvement initiatives
 - An in depth comparison of our latest forecast for 2017/18 to the forecast for 2018/19
 - Comparison of our forecast for 2018/19 to the equivalent forecasts included in the 2017 Business Plan
- Information about employee resources associated with the delivery of services and investment projects, supported by trend analysis of historical and forecast information that provides insight to year on year movements
- Information about Charges and costs for Specific, Third Party and Additional Services

When we publish our draft Business Plan and Budget in October, we will also make available to you our Cost Allocation Model, showing how our input costs are associated with our services and investments, and our Charging Methodology Model, showing how we translate service and investment costs into Charges to each Customer Class. We will maintain these Models throughout the consultation period, and publish updates in conjunction with each subsequent iteration of the draft Business Plan and Budget.

Context

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

- As part of the Ofgem led FGO Review, we became the Central Data Service Provider (CDSP) on 1st April 2017, transitioning away from a business that was wholly governed and largely funded by the Gas Transporters. This means that:
 - Our activities are funded by all users of our services
 - All of our customers are able to participate in the governance arrangements
 - Our Directors are appointed through customer nomination processes, giving all customer constituencies a voice on the Board
 - 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 (i.e. one year beyond the timeframe for our 2018 Business Plan). 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 the capability of the organisation. We are starting this process during the 2017/18 year, and expect to go further during 2018/19. Our focus areas are our customer centricity, our change capability, our use of data to create insights, and our internal assurance. 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 two 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.

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 two 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

New Initiatives to Improve Services for our Customers

We are developing proposals for new initiatives that we plan to deliver during 2018/19. All of these 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. 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.

- **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.
- **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.
- **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.



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, which 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 which entered into force in April 2017 must be implemented by May 2019. UNC Modification 621 is proposing amendments to the Gas Transmission Charging Regime and compliance with the EU Tariff Code is an integral part of the Modification. Other UNC Modifications may be required to deliver EU compliance.

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 in Spring 2018. This is in line with Ofgem's update letter on industry code governance, published on 26th July 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, how this would benefit our customers, and how we effectively manage any impacts to the existing services we provide. We have recently published a [paper on the potential role of UK Link and Xoserve in Faster Switching](#) where we set out our thinking in more detail.

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 future releases. These 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 elements of it should be deferred. We understand that our Shipper customers are keen to progress updates to the 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

There will inevitably be a number of uncertainties or risks that could impact our Business Plan and our ability to deliver it.

We list below a number of areas where we do not have enough certainty to agree definitive actions or to seek specific funding in the 2018/19 Budget, but where we know that we need to be ready to respond.

Our key uncertainties include:

- **Code Governance Review.** Ofgem stated in their update letter on industry code governance (published 26th July 2017) that the licensing of code managers and delivery bodies is 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.
- **Government Energy Policy.** The range and scope of political views and input over the next few years and beyond have the potential to markedly change what we do and how we are asked to perform our role.
- **Smart Metering and the DCC.** Variations in the speed and penetration of roll-out during the

planning period, alongside the possibility of industry architecture and technical change also add to the potential to amend our task and challenge.

- **Meter Read and Settlement.** Following the expected implementation of the Competition and Markets Authority (CMA) Order on Gas 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.



Phase 1 - Plan Approach and Principles

Step	Status	Date	Action	Provider	Receiver	Deliverables
1.1	Complete	12/07/17	Issue draft Plan Approach and Principles	Xoserve	CoMC Board	Draft Plan Approach and Principles
1.2	Complete	19/07/17	Provide feedback at CoMC meeting	Contract Managers	Xoserve	-
1.3	Complete	31/07/17	Provide written feedback	Contract Managers Board	Xoserve	Written feedback
1.4	Complete	09/08/17	Issue final Plan Approach and Principles	Xoserve	CoMC Board	Final Plan Approach and Principles Plan Timeline
1.5	In progress	16/08/17	Consider at CoMC meeting and note updates	Contract Managers	Xoserve	-

Phase 2 - Draft Business Plan and Budget

Step	Status	Date	Action	Provider	Receiver	Deliverables
2.1	Not yet started	12/10/17	Issue draft Business Plan and Budget	Xoserve	Board	Draft Business Plan and Budget
2.2	Not yet started	19/10/17	Agree draft Business Plan and Budget for issue for consultation	Board	Xoserve	Draft Business Plan and Budget
2.3	Not yet started	20/10/17	Issue draft Business Plan and Budget	Xoserve	CoMC	Draft Business Plan and Budget
2.4	Not yet started	27/10/17	Provide feedback at CoMC meeting	Contract Managers	Xoserve	-
2.5	Not yet started	10/11/17	Provide written feedback	Contract Managers	Xoserve	Written feedback
2.6	Not yet started	16/11/17	Issue written feedback	Xoserve	Board	Feedback report
2.7	Not yet started	23/11/17	Consider feedback report and agree updates to draft Business Plan and Budget	Board	Xoserve	-
2.8	Not yet started	27/11/17	Issue updated draft Business Plan and Budget	Xoserve	CoMC	Updated draft Business Plan and Budget
2.9	Not yet started	04/12/17	Provide feedback at CoMC meeting	Contract Managers	Xoserve	-
2.10	Not yet started	11/12/17	Provide written feedback	Contract Managers	Xoserve	Written feedback
2.11	Not yet started	14/12/17	Issue feedback report	Xoserve	Board	Feedback report
2.12	Not yet started	21/12/17	Consider feedback report and agree final updates to draft Business Plan and Budget	Board	Xoserve	-

Phase 3 - Final Business Plan and Budget

Step	Status	Date	Action	Provider	Receiver	Deliverables
3.1	Not yet started	10/01/18	Issue draft Business Plan Consultation Report	Xoserve	CoMC	Draft Business Plan Consultation Report
3.2	Not yet started	10/01/18	Issue final draft Business Plan and Budget	Xoserve	CoMC	Final draft Business Plan and Budget
3.3	Not yet started	17/01/18	Consider draft Business Plan Consultation Report and final draft Business Plan and Budget at CoMC meeting	Contract Managers	Xoserve	-
3.4	Not yet started	24/01/18	Issue 'for approval' Business Plan and Budget, and Business Plan Consultation Report	Xoserve	Board	'For approval' Business Plan and Budget, and Business Plan Consultation Report
3.5	Not yet started	01/02/18	Approve Business Plan and Budget	Board	Xoserve	-
3.6	Not yet started	02/02/18	Issue approved Business Plan and Budget	Xoserve	Contract Managers	Approved 2018 Business Plan and 2018/19 Budget
3.7	Not yet started	02/02/18	Issue 2018/19 Annual Charging Statement	Xoserve	Contract Managers	2018/19 Annual Charging Statement

