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Xoserve Business Plan 2022/23 – First Draft Response

Thank you for inviting us to comment on the Xoserve Business Plan 2022 First Draft. Please see our comments below and we look forward to reviewing subsequent versions.

Forward

To avoid duplicating previous feedback we refer you to our previous responses for additional points.

General Observations

- There has been no abatement of rising industry costs. Although the BP presents flattening costs it doesn't contribute to reversing the trend.
- It is not clear which are direct costs paid to Xoserve and which are (effectively) passthrough costs paid to contractors, including Correla
- MTB is not declining despite FTE reductions and previous investments promised to deliver efficiencies.
 - What is Xoserve doing to deliver efficiencies from its close relationship with Correla: is it confident there is not any duplication of FTE roles/responsibilities
 - We do not see the payback on investment in terms of it resulting in a cost reduction. Investment should drive efficiencies and ultimately reduce costs. Why does MTB never decline?
 - The dedication of just one page within the BP for MTB is insufficient, especially when it accounts for ~65% of the total budget.

*Cost currently apportioned to suppliers

**Added MHHS related budget addition for 2021/22 value of £14,553,035

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- It has been outlined that that contracts with Correla are time limited; does this mean that associated costs cannot be negotiated during the first period?
- How has the MTB versus investment split changed over time?
 - There is more detail on investments than MTB. With the MTB making up a greater and greater proportion of overall budget how can we understand how the budget is being spent.
 - We would request much greater transparency of MTB costs, including expenditure on contractors (see note above about lacking detail with just one page assigned in the BP).
 - We would expect any view to enable a comparison so judgements can be made on efficiency improvements (e.g. year on year comparisons)
- Efficiencies were not ever described as being delivered as part of “refunds” to customers as part of the Correla sale to Northedge. The explanatory note included within [Xoserve’s feedback to responses](#) is therefore misleading.

‘We note that efficiency savings in MTB activities were reflected in the value of the sale of Correla to Northedge, which were shared with customers as a credit against charges for financial year 2021/22. As a result of liquidating these efficiency savings in this way, customers have received the benefit up front.’

We would expect efficiencies to be delivered going forward, which was one of the benefits promised as part of the Correla arrangement.

Questions

Do you agree with our view of the required investments detailed in the plan?

- At a time of Suppliers and Shippers finances being stretched in both the wake of COVID-19 and unprecedented wholesale market events, any investment baseline should be zero. To this end only essential investments should be made, i.e. those that are required ensure the CSDP continues to function.
- Any investments that are not essential require a compelling case as to why they should happen.
- It is difficult to quickly identify focus area investment levels. We would recommend a table detailing each area of investment (like that shown below), i.e. what makes up the £26.2m for 22/23 and beyond stated on page 5. It’s worth noting that this value does not tally with our calculations (see table below)

	22/23	23/24	24/25
Exceptional Customer Service	315	290	0
Opening-Up Our Data	1,031	521	521
Gemini Roadmap	6,780	8,880	7,830
UK Link Roadmap	1,855	5,661	-90
Protecting Against Cyber Crime	2,985	2,420	2,097
Decarbonisation	3,000	3,000	3,000
REC Change	8,750	4,138	4,138
General Change	3,110	4,581	12,209
Total (£000s)	27,826	29,491	29,705

Exceptional Customer Service

- What would the cost be without investment from Correla?
- The business plan includes £600k carried forward into BP21, where is shown within BP22? What governance has been followed to enable this to be carried forward?
- Has Xoserve removed costs are will these simply land over a more prolonged time-period. If the latter is correct the excerpt below is misleading as it implies costs have been removed rather than deferred. Please clarify.

*“The private investment possible through Correla has enabled Xoserve to **remove the costs of a number of the investment areas within Exceptional Customer Experience (Customer Relationship Management, Customer Journey Continuous Improvements, Process Automation and Customer Service Centre)**. From 2022/23 onwards, these building blocks of customer experience will be funded by Correla, instead of customers, reflecting Correla’s ongoing commitment to the market. These will continue to be delivered as before. Consequently, the only investment funding for Exceptional Customer Experience remaining in BP22 is for the continuation of the transformation of our website.”*

Opening Up Our Data

- We would like to understand how Xoserve is ensuring that Customer funding is separated from funding for DSC+?
- DDP DevOps Team - £300k. How has Xoserve determined that 6 featured dropped are optimal and moreover essential?
- How has the benefits of £400,000-£600,000 been calculated?

Gemini Roadmap

- Delivery of the platform enhancements will result in a reduction of the current annual change budget (£3m per annum) being reduced by 25% by end of BP24/25. But investment only lasts for 5 years, so benefits are only achieved for 2 years (25/26 and 26/27)
- The Business Plan does not mention current Gemini procurement activity and any risks and/or uncertainty on expenditure levels this may create.

UK Link Roadmap

- The investment in UK Link Future Enhancements is substantial and wouldn't appear completely essential given its delay.
- Other investments (Core Platform Migration) generate MTB savings of £0.7m per annum from 2023/23.
- Can Xoserve quantify projected savings generated from the £5.7m investment in UK Link Future Enhancements? The Business Case suggests that investment will generate an annual cost avoidance of £1.9m, is this a result of the UK Link Future enhancements investment?

Protecting Against Cyber Crime

- A Contract Managers Committee presentation states '*Xoserve in partnership with Correlia, will continue to deliver the Information Security and Privacy strategic transformation to protect Customer, Consumer, Industry Data and Systems.*'
- Whilst we are fully supportive of cyber security being prioritised we are unclear on investment splits between Xoserve and Correlia for this category. Ordinarily a contractor, which Correlia has been described as, would manage its own data protection requirements.

Decarbonisation

- We are supportive of work that helps the UK meet its decarbonisation and net zero climate targets.

REC Change

- REC and CSS related change costs continue to be significant. We have previously raised concerns in this area and provide more information below within the questions section.

General Change

- The cost for this area increases from £3.7m in 21/22 to £12.2m in 24/25. Whilst we recognise there are many unknowns for 24/25 allocating such a substantial pot does not follow zero based

budgeting logic, which we would recommend. We would challenge £12.2m as being a suitable value for 24/25 and would require any further detail regarding those assumptions that have led to this level.

Would your organisation be able to support the level of change being proposed? If you have capacity constraints, which initiatives would you prioritise and why?

- We would ask that Xoserve focuses on essential changes only. As explained above any changes that are not essential would need to have a clear business case setting out payback/justification.
- Xoserve needs to be mindful of significant industry change including MHHS, the implementation of CSS, as well as unpredictable/less predictable market occurrences – we have experienced two of these in the past 48 months – the covid-19 pandemic and a torrent of supplier failures. Managing these circumstances calls for flexibility within planning. We request Xoserve to take stock of the current market conditions and the impact this is having/will have on participants when considering investment levels and implementation timetables.

Has the information issued in support of the investment areas provided you with the additional level of detail required to better understand the investments being proposed?

- We welcome additional information provided for each investment area and it is helpful to be able to understand return on investment. However, it is not possible to understand how values have been calculated (e.g. assumptions taken) and it is unclear whether investments are going directly to and staying with Xoserve or whether they will be passed through to Correla (or other contractors).
- In Xoserve's response to its Principles and Approach consultations it explained that Xoserve 's focus is on contract management and assurance. Should this be the case it seems likely that a large proportion of costs are stemming from the Correla contract - the breakdown of which is not visible. Accepting any commercial sensitivity is Xoserve able to share any further detail regarding value of contracts to third parties, even if these third parties are not named?

Would you prefer for the plan to include a value for contingency in the CSS programme, in case the programme is further delayed or PIS reshaped/extended?

- CSS costs are already significant and are in addition an array of other direct switching costs. Please see a breakdown of just three bodies below for 21/22:

DCC (“switching”) - £27.1m

REC (“switching programme support”) - £3.6m

Xoserve (“CSS”) - £13m

- We have previously stressed that the broader costs of CSS need to be shared with Ofgem so that it understands costs are not isolated to the programme itself.
- We recognise that a contingency may be required given the level of uncertainty. Could Xoserve share whether 2020/21’s contingency has been utilized. From a budgeting perspective contingency can very easily be viewed as “within budget” so the application of any contingency would need to have appropriate sign-off before being drawn down.

What additional information would you need in order to identify your preferred funding option for CMS?

- It is difficult to compare the cost of Xoserve building the system versus the proposed approach. The stated savings do not paint a clear picture as this will undoubtedly be recouped by Correla as part of the subscription methodology.
- The level of investment by Correla is not stated so it is not possible to understand value for money.
- As mentioned above, the stated values of £1.3m (23/24) and £1.1m (24/25) ignore the £0.6m that is stated to be rolled over from 20/21. As it has not been spent the £0.6m should be included in investment values given it would otherwise be returned to customers.
- It is not clear if the values stated above are categorised as investments as the table on page 15 does not include them - implying they are included in MTB, which tallies with the text on P10. However, the heading on page 1 has these costs under an investment heading. Please clarify.

We look forward to you reviewing our comments.

Kind regards

Michael Lain