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Sent by email to: stephanie.ward@xoserve.com and
CustomerExperience@Xoserve.com

Dear Stephanie,

Business Plan 2022 Principles and Approach

We welcome the opportunity to provide feedback on the proposed approach to developing and the principles supporting Xoserve's business plan (BP22) for delivery of its role as the Central Data Services Provider (CDSP). In particular, we welcome the recognition that initiatives may be needed to increase system reliability and availability and to provide a consistent set of code arrangements for electricity and gas suppliers and consumers.

The key points we highlight in our response are:

- **Regulatory requirements and the sale of Correla mean the approach to and process for developing CDSP business plans necessarily needs to be changed.**
- **The efficiency of the business plan from the consumer perspective should be demonstrated.**
- **Greater transparency is needed.**

It is essential these issues are adequately addressed in the updated Principles and Approach document ahead of the first draft of BP22 being published, to enable stakeholders to develop informed views and to provide meaningful feedback. We have provided further information below on these areas to support Xoserve in making amendments to the approach in line with these goals.

Regulatory requirements and the sale of Correla mean the approach to and process for developing CDSP business plans necessarily needs to be changed

There are two main developments within the last year that mean the process for developing CDSP business plans necessarily needs to be changed:

Regulatory requirements: As a result of the issues raised in our appeal of the 2020/21 Business Plan (BP20), Ofgem has encouraged Xoserve and industry to work together to implement process improvements to ensure the budget setting process is robust and ultimately operates in the interests of consumers¹. Key issues highlighted by Ofgem include:

- the designation of a proposed service as a CDSP Service,
- enhanced external challenge/reporting on the draft CDSP Budget, and
- a dedicated Board assurance statement setting out how the Board has assured itself that the proposals are in the interests of Xoserve's customers and consumers.

None of these issues is explicitly addressed in the consultation.

We welcome Xoserve's continued support in developing a UNC modification that seeks to address the key issues Ofgem raised by, for example, providing for independent scrutiny of the proposed business plan. Steps could be made ahead of implementation of the modification that would make the BP22 process more robust. Producing a dedicated Board assurance statement setting out how the Board has assured itself that the business plan is in the interests of Xoserve's customers and consumers is one such step: this would provide stakeholders with reassurance that the Budget and associated costs have been tested for accuracy, ambition and efficiency, and the expenditure forecasts included in the Budget are robust and efficient.

Also, if it is anticipated new services will be delivered during 2022/23, Xoserve should ensure it engages with industry to determine whether the new services meet the criteria to be designated as CDSP Services. Xoserve should utilise the existing mechanism to designate accordingly within the DSC and relevant subsidiary documents. A service is not automatically designated as a CDSP Service because it has been proposed in a draft of the business plan.

The creation and separation of Correla from Xoserve and its subsequent sale: Condition A15A of the gas transporters' Standard Licence Conditions and the Data Services Contract (DSC) were implicitly drafted on the basis of Xoserve being the service provider. The creation, separation, and sale of Correla means that Xoserve's focus has shifted to contract management and assurance, and services will be bought in from a single third-party provider². These changes mean information supporting proposals needs to change and the approach to deciding how, and by whom, investment should be funded needs to be explained. None of these issues is explicitly addressed in the consultation.

It is necessary for Xoserve to provide further detail on its shift away from being a direct service provider to contract management and assurance, and the associated impacts on its customers and consumers. Key issues that need to be resolved to enable stakeholders to develop informed views of the proposals for BP22 include:

- The extent to which assets transferred to Correla will be used exclusively for the delivery of CDSP Services.
- The basis for funding and cost recovery of investment in assets needed to deliver CDSP Services but which have been transferred to Correla. This would include detail on multi-year projects that were in-flight at transfer such as Data Discovery Platform and the Customer Relationship Management System.

¹ Letter sent to Xoserve on 6 April 2021.

² See page 5 of: <https://www.xoserve.com/media/41786/customer-handbook-singles.pdf>.

- The extent to which consumers should be required to fund investment delivered by Correla when those assets may also be used by Correla to deliver services beyond those needed by the generality of consumers or unrelating to any obligation in the UNC. For example, an equitable approach to cost apportionment will be required if the core functionality of the Data Discovery Platform (DDP) could be used also to deliver DDP Prime ('unregulated') services.
- Any non-zero value of the margin included in CDSP charges needs to be robustly justified and well-evidenced given the shift away from service provision to contract management and assurance.

The efficiency of the business plan from the consumer perspective should be demonstrated

We welcome the key assumptions upon which it is proposed BP22 will be based being set out in the consultation. We agree BP22 should include only essential investment and that each Business Case should outline the quantum of any benefit identified both for customers and consumers.

Some assumptions need to be revised or removed. These are:

MTB costs will be shown as a whole irrespective of split between Xoserve's and third-party suppliers costs:

Presenting MTB costs as a whole is not transparent. As explained above, the creation and separation of Correla from Xoserve and its subsequent sale mean the information presented in the proposals need to change and be transparent. Presenting MTB costs as a whole will not allow Xoserve robustly to demonstrate the efficiency of its business plan for delivery of its role as CDSP. Also, presenting aggregate expenditure estimates will not allow stakeholders to assess the efficiency of the proposals. MTB costs need to be shown at a more granular level.

MTB costs will only change as a result of the introduction of new CDSP processes or the introduction/transfer of run costs following the delivery:

Retaining this assumption will not allow Xoserve to demonstrate the efficiency of the BP22 proposals. Setting MTB costs in BP22 at the same level as they were in BP21 on a like-for-like basis does not demonstrate efficiency. This implicitly assumes MTB costs in BP21 were efficient, which has not been validated. Further, 'locking in' MTB costs from previous planning cycles prevents any efficiency gains Xoserve could make in BP22 being passed on to consumers.

There will be no increase to MTB because of the creation of Correla where scope and/or volumes remain unchanged:

We would expect there to be a reduction in Xoserve's direct cost base because of the creation and separation of Correla from Xoserve, and its subsequent sale has resulted in a material

reduction in Xoserve's direct cost base. For example, the number of employees has reduced by 400 because of the sale³, which means that direct costs should materially reduce. Xoserve should present its expenditure forecasts at a sufficiently granular level to allow the efficiency of the proposals to be demonstrated.

We accept that a portion of the expenditure consumers will be required to fund in BP22 will be costs charged to Xoserve by the sole third-party service provider. Nevertheless, Xoserve will need to demonstrate that third-party costs are also efficient. Consumers should be required to fund only efficient costs, regardless of contractual arrangements between Xoserve and third-party service providers. Market-based testing may be required to demonstrate efficiency.

The cost allocation methodology for use in BP22 will continue to reflect the changes made in BP21:

The cost allocation used for BP21 will remain relevant for BP22 only if the list of services included in BP21 remains unchanged. The removal or addition of services in BP22 necessarily means the BP21 cost allocation will need to be changed.

Greater transparency is needed

We would also like to provide some comments on the continuous improvement we expect in the development of the Business Plan. The granularity of cost information is important, and it is necessary to provide the detail on how the cost base is comprised. A clear comparison to the current plan is necessary for transparency. All customers should be able to understand, at a granular level, how spending is changing from the current year. Explanations should be provided for the approach taken and all funding splits allocated.

We are pleased to see the inclusion of Business Cases to be provided as standard to the Contract Management Committee for all proposed investments, however we believe these Business Cases should be shared with all customers to enable a transparent process.

Once again, we would like to encourage Xoserve to publish in full all consultation responses (unless marked as confidential) and address each matter raised specifically. It is this transparency that will have the greatest impact in driving conversation and engagement with industry. The introduction of the produced 'Differences' paper was incredibly useful to summarise the changes between drafts: this document, along with clear details of where the plan has been amended, with justifications presented to Contract Management Committee to explore the criteria for how these decisions are made and deliver detailed descriptions of the approach taken to arrive at individual decisions, will be essential in increasing industry engagement and will provide greater transparency.

Answers to the consultation questions are attached. We hope that you find this response useful. Please do not hesitate to contact me if you would like to discuss any aspect of this response.

³ Up to 45 employees were retained by Xoserve and 400 were transferred to Correlia. See page 6 of: <https://www.xoserve.com/media/41785/customer-handbook-frequently-asked-questions-06-april-2021.pdf>.

Yours sincerely,

Kirsty Ingham
Head of Industry Transformation and Governance
Centrica Regulatory Affairs, UK & Ireland

Appendix: Answers to consultation questions

01. What else should Xoserve take into account in respect of potential impacts/benefits for customers and consumers?

How will Xoserve's new role as Contract Management assurance function impact customers? With the DSC+ contract discharged to Correla what are the impacts to customers and consumers?

02. What are the key risks and issues you are facing? How do you feel these could be mitigated/addressed by Xoserve?

Correla's ability to innovate and provide funding to meet the CDSP obligations could be perceived as a risk to customers. Clear funding and ownership details of each element that is proposed to be delivered by a third party should be provided.

03. Please tell us about any investments you are undertaking which you believe other customers in your segment are also considering. A single service offered by Xoserve in these areas could avoid duplicate investment by customers.

Xoserve should ensure focus remains on the completion of current investments at the most efficient cost to customers. We would like to ensure the UK link systems are not a barrier to innovation and the development of services to consumers are not prohibited by inflexible systems.

04. Do you think that our approach offers sufficient engagement opportunities for your organisation? If not, what other engagement opportunities would you like to see?

The complex stakeholder engagement processes often have minor impact on the outcome – how will this be addressed in this year's process? The investment roadmaps should be delivered to all customers not solely on request. Constituency engagement sessions work well, and these should be used to initiate open and honest discussions with customers.

05. In considering a proposal by Correla to fund some of the investment in Exceptional Customer Experience, what would your main considerations be?

Further investment in the Customer Relationship Management System (CRM). If this Customer Experience investment is a service that is required by the industry, why is the industry not funding this? The CRM is currently an Xoserve system, clear and transparent guidelines should be provided where investment is equal to ownership. This should be provided with an explanation of how this would be transferred to any new Third Party Service Provider allocated the DSC+

contract in the future. We expect to see Investment Business Cases provided with clear benefit analysis for these proposals.

06. To inform the level of investment required, what do you believe the level of demand will be for delivery of new core functionality into DDP within BP22? Similar, more or less than in BP21?

Clear and transparent guidance should be provided with proposals where investment by a third party would amend the industry ownership of the Data Discovery Platform. Please ensure detailed Investment Business Cases are provided to all customers where the development of the core functionality of DDP and CRM will transfer ownership of these essential Industry systems away from customers and toward a third party.

07. To what degree do you believe Xoserve should be considering investment in testing environments which more fully replicate our production systems to support robust change delivery?

Further information is required on how investing in testing environments will benefit Xoserve in its new role of a specialised Contract Management assurance function. A blanket approach for a testing environment may not be appropriate. Please can more information be provided as to how this would benefit customers. Each change deployed into Industry systems will have different and individual requirements. A testing budget should be allocated to monitor and review the proposed and actual costs of each Industry change to monitor this proposal and a full review would enable a decision on investment to be made.

08. Is there anything else Xoserve could do to support the CSS rollout or REC implementation?

Xoserve should ensure the API platform is fit for purpose with adequate SLA's in place. There is no available information to confirm at what level of service the CSS API will be set. We have previously highlighted that these services are critical and Basic+ is not acceptable.

09. What else should Xoserve consider in support of Government or Ofgem initiatives including the Decarbonisation agenda?

How will these initiatives be funded by customers? Not all UNC code change is an Ofgem initiative and a broad approach to UNC change including all Ofgem and Decarbonisation may not be appropriate. Xoserve should consider that the efficiency and timeliness of change will be even more important in the transition to Net Zero to ensure the best outcomes for Industry parties and consumers.

10. Do you agree with our planning assumptions? Please tell us if you think we that should be adopting different assumptions when we prepare the draft Plan.

Contradictory to the Key Assumptions, MTB costs should be split to reflect the costs of the new company structure. Customers should not be paying for Third Party Suppliers technical debt, overheads etc.

Investment details should be provided to all customers without having to request this on an individual basis. These investment details should be shared and discussed in open industry meetings to allow for questions and answers from all customers and constituencies. To truly stimulate transparent debate.

11. Do you think that we have identified all the significant matters that we should consider during Plan development? If not, please provide details of other items that should be considered.

We are concerned that there is no area of cost saving identified. Where have Xoserve identified areas to make savings? Question 3 would be more appropriately focused on customer savings and where Xoserve can assist with reduced cost and time saving for customers.