Xoserve

We're shifting our thinking from reactive to **strategic**

- Customer Centric
- Data Driven
- Change Leading
- Operationally Excellent
- People Powered
- Responsible Business

"We believe in radically simplifying the energy market through maintaining and leveraging industry assets for the benefit of all."

2019 Business Plan
Consultation on Draft Plan

Contents *(click/tap to navigate)*

Foreword from Xoserve CEO, Sian Jones

I am delighted to be able to share with you today our draft 2019 Business Plan. We have developed our Plan against a backdrop of escalating market change and complexity. During the Plan period, we will:

- Complete the transformation of our business and deliver our strategy to become a truly Customer Centric organisation
- Launch to market the consequential impacts of the introduction of a new Central Switching Service and the Retail Energy Code
- Push ourselves to perform well through a competitive tender process, so that our customers are able to realise the significant savings and lower risk profile provided by re-use of our platforms for delivery of the Central Switching Service itself
- Support National Grid Gas Transmission to re-platform Gemini and react swiftly to the uncertainties of a post-Brexit reality
- Complete a review of the effectiveness of our governance arrangements and introduce improvements, such that we are better able to serve the increasingly diverse and at times conflicting needs of our customers
- Make the vast majority of our data available to our customers via Open Data standards, so that they may self-serve reports, run their own queries and undertake advanced analytics
- Reduce the extreme volatility and then absolute levels of Unidentified Gas to an average of 4%
- Deliver significant additional customer change, including Retrospective Adjustments (RAASP)

This is an ambitious Plan and many of these elements taken in isolation will require a step change in capability, capacity and focus year on year. Thankfully we are ready, because we are entering into the first year of this Business Plan in a fundamentally different and more capable state of readiness than ever before.

Over the last year we have completely transformed our workforce, with 27% of our employees leaving us to undertake their next adventure in life, which has created capacity to bring in over 80 new hires in key disciplines such as Data Science, Business Analysis, Architecture Strategy, Programme Management, Solution Design and Customer Advocacy. 28% of our workforce have been promoted or moved roles, creating fresh enthusiasm for our business and room for new ideas.

This level of transformation has been a long time coming and has been essential to ready us for the road ahead. I am incredibly proud of how our people have handled the previous 12 months of transition, with professionalism remaining paramount against a backdrop of fond farewells and an influx of new personalities. Our most recent employee engagement survey tells me we are an invigorated team and eager to show our customers what we can do to help their businesses succeed over the Business Plan period.

We are really looking forward to working with you, our customers, on this ambitious Business Plan. The consultation period is open until Friday 2nd November 2018 and you can find information on how to respond on Page 33. We are hosting a webcast at 10:00am on Thursday 11th October 2018, when we will provide an overview of the draft Plan and give you the opportunity to ask questions. During October, our Customer Advocates will be meeting with customers to walk through the draft Plan and will focus on specific topics relevant to each customer constituency. If you would like the opportunity to meet with us to discuss what the Plan means for your organisation, or would like to join the webcast on 11th October, please get in touch with your Customer Advocate.

We will also dedicate time at the Data Services Contract (DSC) Change Management Committee meeting on Wednesday 10th October 2018 to review our Change Budget proposals with customers, and at the DSC Contract Management Committee meeting on Wednesday 17th October 2018 to review the draft Plan and listen to customer comments and questions.

I look forward to receiving your valuable feedback.

Kind regards,

Sian Jones

Chief Executive Officer

Executive Summary

Over the past 12 to 18 months, we've invested significant effort in developing our strategy, sharing it with our customers and shaping the work we need to do to respond to the needs of a rapidly changing energy market. Demand for our services is expanding at a much faster pace than anticipated and our forward view of change continues to grow in scale, complexity and diversity. We're delivering on our promises, but still need to strengthen further our capacity and capability in order to keep pace with today's market and to be fully prepared for the future.
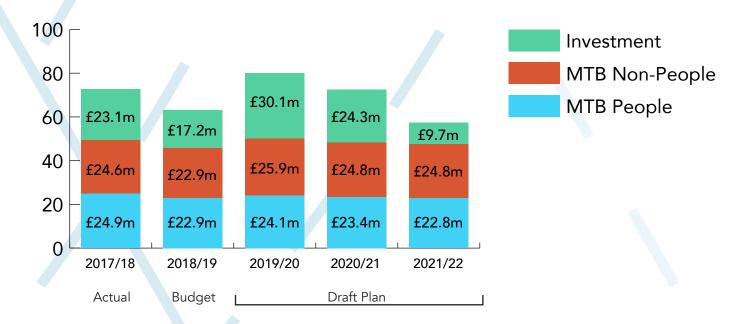
What this means at an enterprise level is:

- Overall Totex is increasing by £17.1m from 2018/19 to 2019/20 driven by significant investment programmes in CSS consequential changes, Gemini re-platforming, a move to cloud services and a Retrospective Adjustments solution.
- There is a £4.2m increase in maintain the business (MTB) costs in 2019/20 specifically due to the development of a Data Access Platform (£1.1m), the development of Xoserve's information security capability (£1m), the reintroduction of a risk allowance pot (£1m) and increased infrastructure investment to cope with the level of demand.
- MTB costs will reduce and normalise at a level below that at the end of 2017/18, following a period of investment in back office automation and right-sourcing.
- Our Optional Leavers Scheme savings continue to be realised in 2019/20 and beyond with a payback period of three years.

What this means at a customer constituency level is:

- The level of MTB charge for National Grid Gas Transmission, and Gas Distribution Networks will remain broadly at 2018/19 levels for 2019/20, with efficiencies in later years of the plan.
- Shippers' MTB charges increase by £3.3m over the Plan period, because Shippers are the driving force behind our transformation, and are the key beneficiaries of investment in our Customer Centric and Data Driven strategic pillars.
- Investments charged to Shippers increase significantly due to CSS consequential investments, which are wholly charged to this group.
- The investment profile for National Grid Gas Transmission is characterised by the ongoing Gemini Re-platforming programme and then subsequent re-write.

Our Total Expenditure

Introduction

This document marks the start of our second phase of work to seek customers' views on our 2019 Business Plan. Our aim is to deliver a three year Business Plan for the period from April 2019 to March 2022. It will include a Budget for 2019/20, refreshing the view of funding requirements that was in our 2018 Business Plan.

In the first phase, we consulted on our Business Plan Principles and Approach during June 2018, and published a customer feedback report on 16th July 2018. Responses were largely supportive of our proposed approach and timetable for development of the Plan. We have taken on board the feedback that we received, which included requests for clarification of our approach to developing forecasts for the RIIO-2 period, for an assurance report on the business planning process, and for a number of items of customer constituency specific information. Both the consultation document and the feedback report are available on the Xoserve website.

This second phase sets out and invites customer feedback on our draft Plan. We set the scene by providing a recap of our strategy that we discussed in detail in the Business Plan Principles and Approach consultation. We then give an overview of the draft Plan, explaining what it means for our customer constituencies and differentiating between market and Xoserve driven investments. We also provide our funding forecasts at both a total company and customer constituency level, and supplement these with waterfall diagrams that capture the changes in funding requirements across the Plan period. Annexes starting at Page 26 provide supporting information on Customer Change demand and Xoserve Change initiatives.

> **"We are including a comprehensive suite of financial information, presented in line with the structure that we set out in the Principles and Approach consultation"**

We're inviting customer feedback on the investments and change initiatives that we've included in the draft Plan, and we're interested to know what capacity our customers have to support this level of change. We've also asked questions about the robustness of our planning assumptions, about our management of risks and opportunities, and the evolution of the Cost Allocation Model.

You will find detailed questions and information on how to respond on Page 33.

High Level Timeline (detailed timeline on Page 32)

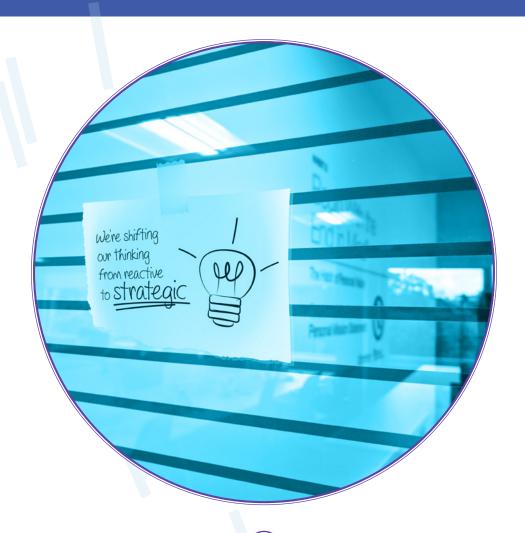| Sept 18	Oct 18	Nov 18	Dec 18	Jan 19
Draft Plan Consultation		Review Customer Feedback	Updated Draft Plan Consultation — Review Customer Feedback	Final Draft Plan — Plan Approved

Our Strategy

This is only a brief recap of our strategy. If you're interested in reading more about the thinking behind our strategy and what it means for our customers going forward, you can find further information in the Forward Look section of our 2017/18 Annual Report.

We're shifting our thinking from reactive to strategic. We've begun to think differently about our obligations, not those that are enshrined in industry codes and licences, but our moral and social obligations. We believe that we have a responsibility to do all we can to not burden energy consumers with additional costs, but to allow them to realise fully the benefits of the significant investment in industry assets that they have funded previously.

Our operating model – which distributes the benefits of a well-run business out to our customers and ultimately energy consumers – encourages us to think this way. We also know that the impacts of this way of thinking become even more powerful when applied to all energy industry assets, not just those that we look after here at Xoserve.
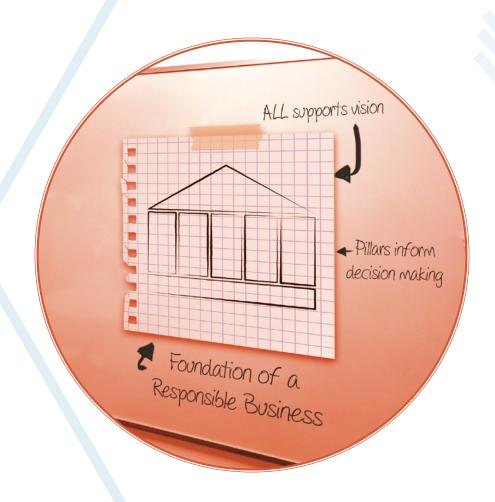
We have captured this thinking in our Vision:

> "We believe in radically simplifying the energy market through maintaining and leveraging industry assets for the benefit of all."

Strategic Objectives

Our Strategic Objectives tell us how we need to operate and behave as an organisation.

1. We have a good track record of **operational excellence** in delivering services and meeting our contractual commitments, and we need to build on this strength.

2. We need to become truly **customer centric**, consistently and reliably creating value for our customers by understanding and prioritising our customers' desired outcomes in our decisions and practices.

3. We need to grow into a **change leading** role that helps customers successfully land changes into their organisations, as well as into our own.

4. We must be a **data driven** organisation that understands the value to our customers of the data attributes that we hold and makes data accessible to them in ways that best serve their individual business models.

5. We want to be **people powered**, unlocking our employees' hugely valuable industry process skills and expertise, enabling them to operate as effectively as possible in a new, more open and commercially focused environment. We know that sometimes we also need our people to be more agile in the way that we respond to customer requests and challenges, and to accelerate the way we go about developing solutions

6. We prioritise behaving as a **responsible business**, being commercially minded, ensuring that our services offer demonstrable value for money and having the appropriate level of independent risk management and assurance. We offer a safe and stimulating environment for our employees, and work closely with suppliers and the local community to ensure we operate ethically and responsibly.

Strategy House

We have brought our Vision and Strategic Objectives together to create the Xoserve Strategy House.

We believe in
radically simplifying the
Energy Market through maintaining
and leveraging industry assets for the benefit of all

Customer Centric

Data Driven

Change Leading

Operationally Excellent

People Powered

XOserve

Responsible Business
Assurance, commercial, suppliers, social and safety

Provision of Financial Information

In this section, we describe the basis of our financial forecasts and talk about how we are presenting financial information to our customers.

All financial information in this consultation document is presented in 2018/19 prices. When finalising customer charges for 2019/20, we expect to add a CPIH reflective inflationary uplift of 2.3%. We will conduct a further review of the inflationary uplift for 2020/21 and beyond when we develop our 2020 Business Plan.

Our long-term aim is to build and maintain a cash reserve that is equivalent to approximately 2% of our annual income. In the event that we accrue cash reserves in excess of this amount, we will return funds to our customers, unless there is a clear case for retaining reserves to fund future investments that have both near-term and firm requirements.

> **"Our long-term aim is to build and maintain a cash reserve that is equivalent to approximately 2% of our annual income"**

In this context, our forecast Maintain the Business (MTB) funding requirement includes a 4% risk allowance on our non-people costs. This is designed to protect both our business and our customers against unforeseen changes in the market, allowing us the funding flexibility to respond very quickly if needed and to avoid a lengthy budget amendment process.

To the extent that we need to draw on the cash that accrues during the year as a result of including the MTB risk allowance, we will be completely transparent with our customers about the purposes for which we draw on that amount. We will also review again the required level of MTB risk allowance for future years when we develop our 2020 Business Plan, doing this in light of our operating experience for the remainder of 2018/19 and the first part of the 2019/20 budget year.

Funding requirements for Customer Change, Market Investment and Xoserve Change reflect our best estimates at this point in time. It is inevitable that some costs are more certain than others given the large number of changes progressing to different timescales and at varied pace. Before committing to investments, we will work with the DSC Committees to conduct rigorous reviews of costs and risks. We will also explore opportunities for delivery efficiencies and economies throughout the Plan period.

Presentation of Financial Information

We know that our customers value transparency so that they can easily understand what our Plan means for their organisation, particularly the levels of funding and the services and investments that they are being asked to pay for. We also want to be able to demonstrate to our customers how the funding that we are asking for responds to demand for services and delivers the activities that turn our strategy into practical action.

We have presented financial information in line with the schematic below. This fulfils three purposes:

1. It differentiates between funding that:

    a. Maintains the business, retaining the high quality assets necessary to deliver our services

    b. Invests in response to:

        i. Customer constituency demand for services

        ii. Regulatory or market wide demand

        iii. Requirements identified by Xoserve

    c. Invests in assets in order to access and realise leverage opportunities

2. It is transparent about the funding of initiatives that deliver our Strategic Objectives

3. It makes plain to customer constituencies their contribution to the funding of Xoserve and the services and investments that they are paying for

Transmission Investment	Retail Investment	Network Investment	Other Market Investment	Xoserve Change	Demand driven and mandated. Capital element split between bought in and internally resourced costs
Maintain the Business Costs - People					Maintain the Business costs - fixed or semi variable, cut by segment and activity type
Maintain the Business Costs - Non-People					

Customer Demand Driven Investment
Xoserve propose, Customers choose including timings and consequential costs

Examples:
Uk Link, Gemini, DSC

Market Driven Investment
Xoserve and Customers respond jointly to regulatory/market demand

CSS

Xoserve Change and Maintain the Business
Xoserve develop, Customers consulted

TransformUs

Assumptions

In our Business Plan Principles and Approach consultation, we talked about the need to be wholly transparent with our customers about the assumptions underpinning the draft Plan, and to test the robustness of the assumptions through the consultation process.

We've set out here our key planning assumptions and we welcome customers' views on how robust they are.

• The Central Switching Service (CSS) goes live at the end of 2020

• Funding requirements to deliver the consequential impacts on Central Data Service Provider (CDSP) Services arising from the introduction of the CSS reflect a future in which a party other than Xoserve is appointed by the Data Communications Company (DCC) as the CSS Registration Service Provider

• Becoming a truly customer centric organisation that can properly meet the evident customer demand for services requires a substantial and accelerated investment in both people and tools

• The transitioning of the energy market to an open data environment creates demand on our business to invest in and maintain a data platform with appropriately controlled user access

• We will retain and build advanced data analytics capabilities in the business such that the level of analysis we are providing in respect of Unidentified Gas becomes part of our normal ways of working

• The volume of Market and Customer Change could create a bottleneck, and a second systems development pathway to increase the volume of change that can be delivered in parallel will be needed during the Business Plan period

• We will migrate the hosting of our systems away from physical data centres and towards the use of hyper-scale public or private cloud services
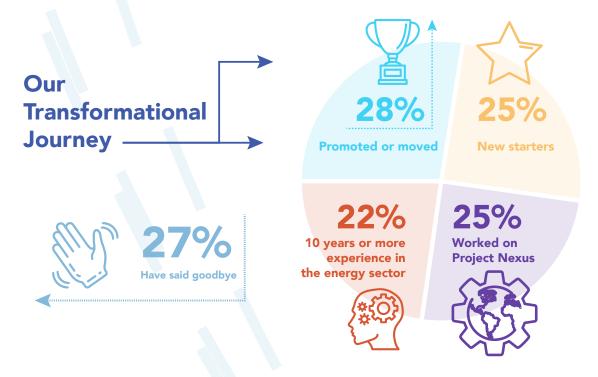
Plan Overview

Introduction

We are entering into this planning cycle on the back of a period of significant change for Xoserve. Over the past 12 to 18 months, we've put at the front and centre of our thinking the development of our business strategy. When we consulted our customers on last year's Business Plan, we hadn't embedded the strategy that we've set out on Page 5. Since then, we've finalised our thinking on our strategy and shared it with our customers. We did this initially at our Customer Day in April 2018, and we followed up with an in-depth explanation of our strategy in our **2017/18 Annual Report**. We've taken steps to define the initiatives that will enable us to realise our Strategic Objectives. We've made a start on delivering some of these initiatives during 2018/19, and plan to continue our delivery during the Plan period, with a focus on the Customer Centric and Data Driven Pillars.

At the same time as developing our strategy, we rolled out to employees our Optional Leavers Scheme which has enabled us to transform the skills and capability of our business this year. However, customer demand for our services is expanding rapidly, faster than we anticipated in both breadth and depth, and the forward programme of market change has continued to grow in scale, complexity and diversity. This means that despite having delivered all of our transformation promises this year, we still have more to do in terms of capacity and capability in order to keep pace with the market as we move forwards into the future.

Our Transformational Journey

28%
Promoted or moved

25%
New starters

22%
10 years or more experience in the energy sector

25%
Worked on Project Nexus

27%
Have said goodbye

All of this makes for a challenging planning and budgeting landscape at a time when we know that our customers are facing their own cost pressures. So we've taken a long hard look at what we absolutely must do to maintain the suite of essential services on which our customers depend and to ensure that we deliver services to the highest possible quality standards, we've scanned the market and listened to our customers to identify demand for change evaluation and delivery, and we've laid down plans to deliver the initiatives against our Strategic Objectives that we believe will deliver real and tangible customer benefit.

Our choice of Strategic Objectives is a direct response to customer feedback, some of it in respect of our day-to-day operations, and other aspects concerned with the way that we handled Project Nexus. We're putting customer centricity at the heart of everything we do, so that the decisions we make and the working practices we adopt put customers' desired outcomes first. We're working to become change leading, not just to be better at delivering the sorts of changes that we've implemented in the past, but to be truly ready to lead our customers through the extremely busy and incredibly complex change landscape that lies ahead. Our change assurance programme means that we're constantly checking programme health and refining our plans accordingly, as well as learning rapidly and applying that learning to other change programmes. We're also making changes in the way that our customers access data for reporting and analysis, while ensuring the industry's data remains secure and controlled.

In response to market trends and customer demand, we've included in our draft Plan a large number of investments, grouped into Customer Change, Market Investment and Xoserve Change Initiatives. We do not necessarily expect all of these to be included in the final Plan, rather we are seeking customers' views on which investments should be taken forward and which not. The inclusion of all of the investments in the final Plan would present us with a significant delivery challenge.
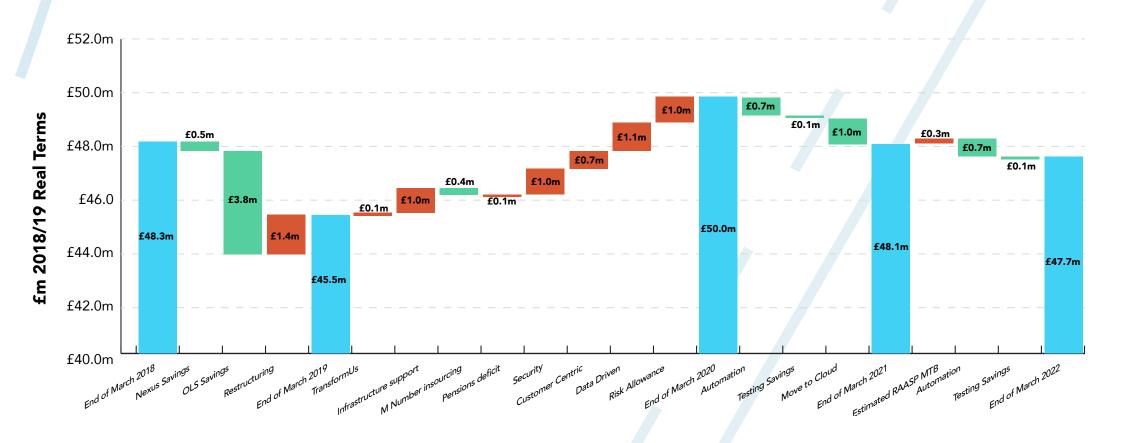
Our Total Expenditure

Information on our Maintain the Business (MTB) costs is on Pages 14 - 17, including insight to our Customer Centric and Data Driven objectives. The MTB profile shows some largely non-discretionary increases in 2019/20, with efficiencies in Plan Years 2 and 3 bringing costs by the end of the Plan period to below 2017/18 levels.

Information on our investments is on Pages 18 - 20, with supplementary schedules on Pages 26 and 27, where we give our view of customer and market demand, plus the initiatives to deliver our Strategic Objectives. There are areas of customer choice within the investments, and we want to understand customer preferences and priorities.

Maintain the Business

Annex 03 on Pages 28 and 29 contains supplementary information on People and Non-People movements in MTB costs.

The notes on Page 15 provide an explanation of the movements in the cost base.

Maintain the Business

Our Maintain the Business (MTB) funding requirements are largely flat over the Plan period. The three year increase of £2.2m is starting from a March 2019 position which has delivered the significant savings in both people and non-people costs that we projected in our 2018 Business Plan.

In 2019/20, we are bringing in to our funding base the impacts of achieving full separation from National Grid. This manifests itself in a number of ways:

- Achieving full separation from National Grid, which has many softer upsides, but we have lost access to National Grid buying power for desktop and back office services (£0.1m)

- Establishing additional infrastructure capacity to ensure we can still deliver our customer change programme alongside a significant increase in market driven change, where the MTB increment of £1.0m comprises:

  - The operating costs for an additional development and testing environment (£0.6m)

  - Additional systems hosting costs (£0.1m)

  - A shortfall of £0.3m in the forecast 2018 Business Plan savings from entering into alternative IX contracting arrangements (we have realised £0.5m of £0.8m previously projected savings)

- Our contribution to funding the National Grid Pension Scheme deficit, which has increased year on year, against a backdrop of significant per employee contribution savings delivered in 2018/19 (£0.1.m)

- Implementing a new data security framework, replacing IS security services previously provided without charge by National Grid, and introducing much more rigorous security standards that are appropriate to an environment in which increasingly large amounts of data are being made accessible and available to increasing numbers of users (£1.0m)

> "We are investing substantively and for the long term in delivering a step change in our Customer Centric and Data Driven Strategic Objectives"

Also during 2019/20, we are investing substantively and for the long term in delivering a step change in our Customer Centric and Data Driven Strategic Objectives, adding £0.7m and £1.1m to our 2019/20 MTB respectively, with the expectation that the benefits of investment here will be felt by our customers during the Plan period, both in terms of our customers' experience of Xoserve but also in terms of harder automation and self-service benefits in the latter years. You can find more information about the aims of our Customer Centric and Data Driven work on Pages 15 and 16. We will offset some of this investment by creating an efficiency of £0.4m by bringing the M Number service in house.

Applying the risk allowance principle that we describe on Page 8 adds £1.0m to our MTB funding requirement for 2019/20. Our draft Plan assumes that we continue to apply the same level of risk allowance in Plan Years 2 and 3 – this is something that we will review in conjunction with our customers as we build an understanding of our resilience to market risk over the next couple of years.

We have reflected on the extent to which we believe that we should be driving for MTB efficiencies during the Plan period. Whilst we've made considerable progress in our business transformation during the past twelve months, we think that we need a further twelve months to properly conclude and embed the changes. These need to be our priority during 2019/20, after which we are looking to deliver cumulative process automation savings of £0.7m in each of Plan Years 2 and 3.

In 2020/21, we aim to reduce our systems support costs through the delivery of our strategic hosting project. Our target is an MTB annual cost reduction of £1.0m from moving some of our on premise infrastructure to the cloud.

Customer Centric

The many different facets of customer demand for our services have changed significantly in the past twelve months, and we expect these trends to continue on in to the Plan period. Customers want to see improved responsiveness to issues, and they want easier access to services using self-serve digital channels that integrate with their own systems. They want us to understand them better and tailor our services to meet their particular requirements, and to expose more of our knowledge and expertise to the industry. At the same time, both the pace and volume of change are increasing, and our customer base and the nature of service demand are expanding and diversifying. This is particularly evident in Ofgem and Supplier demand for greater data access and data analytics, and in significant calls on our resources in support of the Ofgem-led design of Supplier switching services and the Retail Energy Code.

> ## "Customers want to see improved responsiveness to issues and they want easier access to services"

In response to all of this, we've set a long term target to improve levels of customer satisfaction (measured using Institute of Customer Service Business Benchmarking) from 63 points (measured in February 2018) to 79 points over the next 5 years. And we've included key initiatives in the Plan that we believe will take us a long way towards reaching this target:

- We are strengthening both our capacity and capability to enable faster, higher quality responses, and to be more proactive in seeking out and mitigating early potential customer issues

- We will invest so that we can spend more time understanding our customers' shared and bespoke needs, and adopt more structured methods of working with our customers to integrate the insights that we get into our business

- We are setting up a team that can build Xoserve's digital strategy and capabilities

- We are increasing our levels of support for change impact assessment and delivery, and looking at ways in which we can in collaboration with our customers shorten the end to end delivery process

- We will provide more training and education to the industry, and will make our expertise available via channels that allow customers to self-serve, or to get in contact with the right person in Xoserve where specific help is required

We believe in radically simplifying the Energy Market through maintaining and leveraging industry assets for the benefit of all

Customer Centric | Data Driven | Change Leading | Operationally Excellent | People Powered

Xoserve

Responsible Business
Assurance, commercial, suppliers, social and safety

Data Driven

Access to data and information has become an essential component of our customers' businesses. It's the driving force that enables them to operate effectively, with business and operational decisions being made based on the analysis of available information.

> "Customers want us to be able to respond to their demands in a more agile manner"

Historically we have operated as a 'black box' data processing organisation where data is input, processed and then delivered back to customers without a deep understanding of how that data is used. Our customers are demanding improved visibility and easier access to data held within Xoserve systems with on demand and self-service access to data and information being available at the touch of a button. They want us to be able to respond to their demands in a more agile manner, providing the information they need when they need it to make the decisions that affect their businesses. They also want to visualise the data that supports their decision making processes without the need to further re-engineer data to make sense of it.

In response to these increasing and more complex demands we are seeing from our customers, our Data Driven initiatives move us from a data stewardship role to one of value creator.

- We are increasing both our capacity and technical capabilities so that we can enhance the provision of data and business intelligence services to our customers. These improvements will give customers direct access to the data that we hold on their behalf so that they can carry out their own data exploration, and create and access their own online data visualisations

- We are investing in a Data Access Platform so that both we and others lay a foundation for innovation to drive the future exploitation of industry data

- We are introducing tools and capabilities that will allow us to conduct advanced data analytics using machine learning and artificial intelligence capabilities that are available from large-scale analytics vendors and leveraging the expert capabilities of data science bureaux

- Having these capabilities in place allows us to proactively address key customer issues such as Unidentified Gas and Amendment Invoicing without the need for a lengthy period of mobilisation. The investments create re-usable assets and reduce future data analytics costs, and we expect them to enable the faster roll-out of Market Intelligence Service products and responses to Customer Changes.

Customer Change

We define customer change funding requirements as those arising from specific customer constituency demand for services. This could be in response to a change in market rules defined through industry Code modification procedures, to a request for the provision of informational and analytical services in support of the resolution of market operational issues, or to a request for system development services for a customer-owned system.

We have provided detailed information about Customer Changes in Annex 01 on Page 26.

Market Investment

We define market investment funding requirements as those arising from regulatory and other sources that are not specific to any one particular customer constituency. Our draft Plan contains two items that fit this definition.

Initiative Title	Initiative Description	2019/20 Investment Spend	2020/21 Investment Spend	2021/22 Investment Spend	Total Investment Spend
Central Switching Service	Full lifecycle delivery of changes required to Xoserve's systems and processes as a consequence of the delivery of the Central Switching Service (CSS) within the Ofgem Switching Programme. Primarily, this work will lead to alignment to Retail Energy Code rules and supporting market interoperation of the new processes established by the introduction of CSS.	£11,000,000	£12,100,000	£-	£23,100,000
Xoserve Governance	Review of industry change governance documentation and of Xoserve governance model	£1,100,000	£275,000	£165,000	£1,540,000
		£12,100,000	£12,375,000	£165,000	£24,640,000

Central Switching Service

We have included funding for the delivery of the consequential impacts to CDSP Services arising from the introduction of the Central Switching Service (CSS) as defined by the Ofgem Switching Programme. The scope of our anticipated work embraces not only the necessary changes to our systems and processes but also engagement with the Programme, with industry governance and assurance functions, and with multiple third parties who we expect to be involved in and impacted by Programme delivery. Specifically, this extends to the development and management of business and systems interfaces with a third party provider of the CSS.

Our draft Plan assumes that the CSS goes live at the end of 2020, with the post go-live impact on our MTB funding requirements coming into effect in Plan Year 3 after a period of post-implementation support. We understand that Ofgem is likely to be consulting on the CSS delivery plan during our period of customer engagement on our draft 2019 Business Plan, and provided that timescales are compatible, we will reflect the outcome of Ofgem's consultation in subsequent iterations of our draft Plan.

We also want to be clear with our customers that the draft Plan does not include funding requirements appertaining to our bid for the CSS Provider role and to solution development if our bid is successful. We expect that a successful bid will enable a marked reduction in our CSS consequential funding requirements.

Xoserve Governance

The CDSP governance model will be entering its third year of operation at the start of the Plan period. We know that we are having to steer our customers through a tricky governance path for decisions relating to our CSS bid, and that there are some tensions between the proposals for governance of the Retail Energy Code (REC) and the CDSP co-operative governance model. We think there is a case to conduct a review of the Xoserve governance model and test the extent to which evolving the model would be an appropriate response to a changing industry landscape. We would not restrict the review to the implications of CSS and REC implementation, but would want to look more widely at potential future developments, their implications for Xoserve governance and for the Xoserve customer experience.

Xoserve Change Initiatives

Whilst we believe firmly that delivering the proposed Xoserve Change initiatives will lead to the improvements in service that our customers have told us they want, we recognise that there is also a choice for our customers to make about which initiatives to fund and at what pace. We believe that the significant increase in the scale and complexity of market demand makes it both essential and urgent that customers commit to our strategy and to funding our strategic initiatives. Without this investment, it is inevitable that there will continue to be delays and additional costs for mobilising, delivering and implementing future change programmes.

We have provided detailed information about the proposed Xoserve Change initiatives in Annex 02 on Page 27.

"We recognise that there is also a choice for our customers to make about which initiatives to fund and at what pace"

Customer Constituency Funding

The schedules of customer constituency funding that we have included in this consultation reflect the ongoing application of the prevailing CDSP Charging Methodology and Cost Allocation Model.

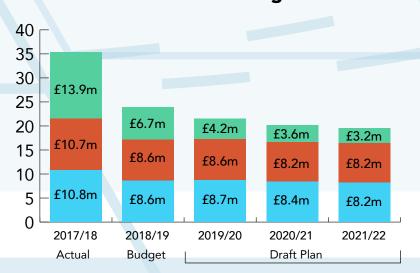For each constituency, we have provided two tables:

1. A view of prior and current year funding, plus three years forecasts.

2. A comparison of 2019/20 funding as forecast in this draft Plan and as forecast in our two previous Business Plans.
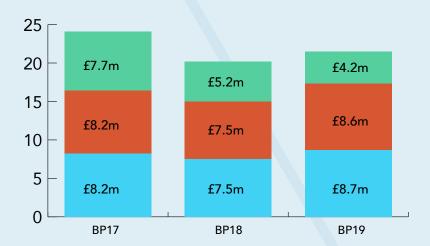
Gas Distribution Networks

For our Gas Distribution Network (GDN) customers, forecast MTB charges are below current year levels and decline year-on-year, achieving a 5.8% reduction by March 2022. The level of investment funding also declines each year, and this reflects a trend towards Shipper-driven change demand and a programme of Xoserve change that is responding to Shipper demand for service improvements. When compared to our 2018 Business Plan, total GDN funding for 2019/20 is £1.3m higher, reflecting the constituency share of the increase in MTB costs.

Funding requirements are stated net of funding provided prior to the start of the Plan period for the development and delivery of a Retrospective Adjustments solution.
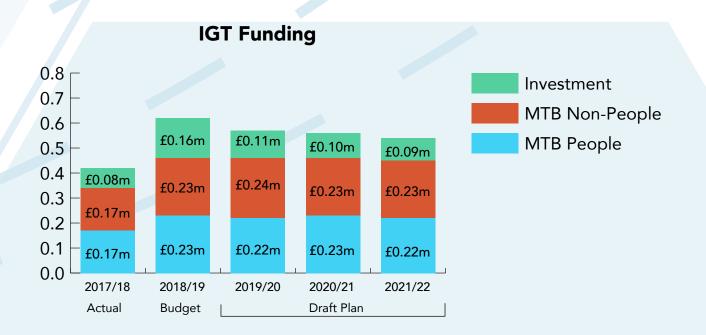
GDN Funding

GDN Funding in 2019/20

Independent Gas Transporters

For our Independent Gas Transporter (IGT) customers, forecast MTB charges remain flat at £0.46m per annum in 2018/19 and 2019/20. They remain at this level for Plan Year 2, and show a slight decline to £0.45m in Plan Year 3. When compared to our 2018 Business Plan, total IGT funding for 2019/20 remains constant at £0.57m.

IGT Funding

	Investment	MTB Non-People	MTB People

	2017/18 Actual	2018/19 Budget	2019/20	2020/21	2021/22
Investment	£0.08m	£0.16m	£0.11m	£0.10m	£0.09m
MTB Non-People	£0.17m	£0.23m	£0.24m	£0.23m	£0.23m
MTB People	£0.17m	£0.23m	£0.22m	£0.23m	£0.22m

Draft Plan

IGT Funding in 2019/20

	Investment	MTB Non-People	MTB People

	BP17	BP18	BP19
Investment	£0.14m	£0.15m	£0.11m
MTB Non-People	£0.21m	£0.21m	£0.24m
MTB People	£0.21m	£0.21m	£0.22m

Shippers

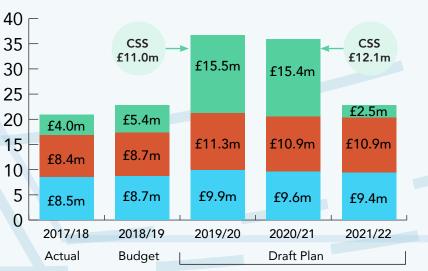For our Shipper customers, forecast MTB charges increase from £17.4m in 2018/19 to £21.5m in 2019/20, before falling back to £20.7m in Plan Year 3. When compared to our 2018 Business Plan, Shipper MTB funding for 2019/20 is £3.7m higher, attributable primarily to the constituency funding of our Customer Centric and Data Driven initiatives. Investment funding increases compared to the previous Plan by £8.0m, driven predominantly by the scale of work required to manage and deliver CDSP consequential changes arising from the introduction of the Central Switching Service.

Shipper Funding

Shipper Funding in 2019/20

National Grid Gas Transmission

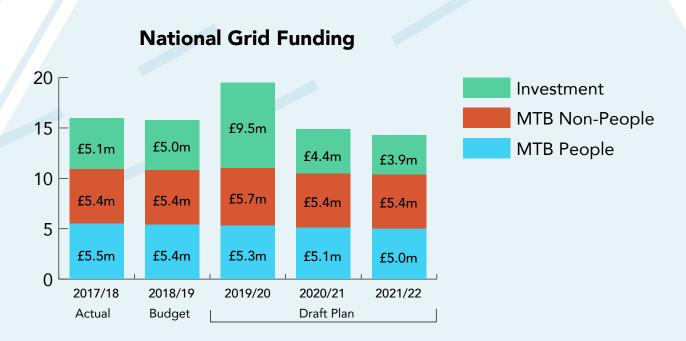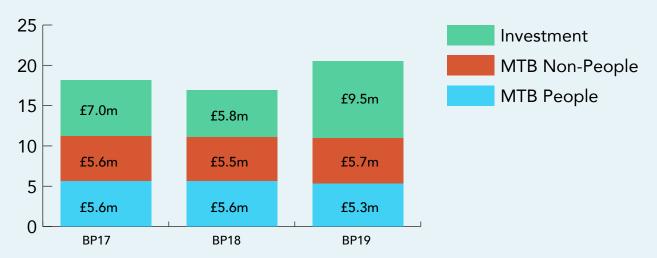For National Grid Gas Transmission, forecast MTB charges show a slight increase from £10.8m in 2018/19 to £11.0m in 2019/20 and then reflect efficiencies in Plan Years 2 and 3, declining to £10.4m in 2021/22. Investment funding peaks in 2019/20 at £9.5m, reflecting the combination of investments in both Gemini re-platforming and in functional change to deliver the outcomes of the Charging Review.

Funding requirements are stated net of funding provided prior to the start of the Plan period for the development and delivery of a Retrospective Adjustments solution.

National Grid Funding

Legend:
- Investment (green)
- MTB Non-People (red)
- MTB People (blue)

Period	MTB People	MTB Non-People	Investment
2017/18 Actual	£5.5m	£5.4m	£5.1m
2018/19 Budget	£5.4m	£5.4m	£5.0m
2019/20 Draft Plan	£5.3m	£5.7m	£9.5m
2020/21 Draft Plan	£5.1m	£5.4m	£4.4m
2021/22 Draft Plan	£5.0m	£5.4m	£3.9m

National Grid Funding in 2019/20

Legend:
- Investment (green)
- MTB Non-People (red)
- MTB People (blue)

	MTB People	MTB Non-People	Investment
BP17	£5.6m	£5.6m	£7.0m
BP18	£5.6m	£5.5m	£5.8m
BP19	£5.3m	£5.7m	£9.5m

Market and Service Challenges

In our 2019 Business Plan Principles and Approach consultation, we described a number of market and service challenges that we face going in to the Plan period. For each of the challenges, we describe below their impact on the draft Plan

Topic	Impact on draft Plan
Unidentified Gas	We're moving from ad-hoc projects in the last twelve months to establishing and embedding an enduring capability. We're focusing in the near-term on investing to refine and improve the industry's demand forecasting algorithms, and this lays the foundation for an analytics based problem solving service to the industry.
Amendment Invoice	Our draft Plan includes £0.5m of Customer Change investment in 2019/20 to deliver improvements to the Amendment Invoice solution and customer-facing flow of information. Our work on the Amendment Invoice has proved that there is considerable scope to improve and automate our processes. We are looking to deliver cumulative process automation savings of £0.7m in each of Plan Years 2 and 3.
Retrospective Adjustments (RAASP)	There continues to be a range of possible outcomes on RAASP requirements, pending ongoing industry discussions and future regulatory direction. We are assuming that we will undertake a 'mid-range' solution development and delivery project across Plan Years 1 and 2, recognising that a requirement to deliver a large scale and more complex project will constrain our capacity to deliver other changes.
Security Framework	We are implementing a new IS security framework as a result of National Grid no longer providing services to the business, and to address findings in the independent security audit undertaken in early 2018. We have recently appointed a Chief Information Security Officer to review the audit findings and to scope a Security Transformation Programme that will meet the future needs of our customers and provide appropriate internal controls. We are in the early stages of shaping the Programme, and our draft Plan makes provision for an increase in the standard of properly funded security services appropriate to an open data environment.
Central Switching Service (CSS)	The introduction of the CSS is already placing a big demand on our business as we support Ofgem, the DCC and the Switching Programme in a number of ways. We expect that the demand on us from CSS consequential impacts will be significant in both scale and complexity as the Programme moves forward and as we have to interact with multiple industry parties and Programme bodies. As such, we have made significant provision in our market investment funding requirements.
Data Services	The work that we are doing as a member of the Joint Market Intelligence Service Development Group means that we are engaging directly with energy suppliers and other parties operating in the electricity market, in addition to our own customers. This engagement is creating a greater demand for us to expand and diversify our data services. Our draft Plan invests in technology assets and enhanced data capabilities to meet this growing demand.

Annex 01 - Customer Change

Initiative Title	Initiative Description	2019/20 Investment Spend	2020/21 Investment Spend	2021/22 Investment Spend	Total Investment Spend
Replatforming	Includes Gemini replatforming (£8.025m) and CMS Replatforming (£1.1m)	£6,650,000	£2,475,000	£-	£9,125,000
DSC Change Budget	Placeholder for 2 major releases per year with scope defined by DSC plus 1 documentation release per year	£2,750,000	£3,905,000	£3,905,000	£10,560,000
MOD621 - Amendments to Gas Transmission Charging Regime	Proposal to amend the Gas Transmission Charging regime in order to better meet the relevant charging objectives	£2,090,000	£-	£-	£2,090,000
UIG Resolution	Continuation of UIG Taskforce if required and changes to correct any root causes identified	£550,000	£-	£-	£550,000
Retrospective Adjustments (RAASP)	Delivery of Retrospective Adjustments solution	£770,000	£880,000	£-	£1,650,000
Gemini Enhancements	National Grid have been working with Gemini Users and have identified a set of enhancements/changes to the current Gemini system	£638,000	£1,265,000	£627,000	£2,530,000
Improvements in Change Impact Assessment and Minor Release Delivery	Development of an in-house capability to deliver minor releases to improve customer responsiveness and enhance customer impact assessments	£484,000	£484,000	£484,000	£1,452,000
Non-Standard data items for reporting	Where data does not exist in the data warehouse and is unreportable, it is proposed that the propagation of this data is centrally funded rather than becoming a 'first-user' cost	£110,000	£110,000	£110,000	£330,000
CMS Rewrite	Analysis work to investigate the options and benefits of a Contact Management System re-write (last completed 2013/14) to provide an improved customer experience	£-	£165,000	£-	£165,000
Data Quality	Introduction of tools and capabilities that allow Xoserve to monitor and report on the quality of the data entering the Xoserve systems. Reporting and analysis highlights potential impact causing quality issues caused by data inaccuracies, missing data and the timeliness of data arriving into the Xoserve systems	£-	£165,000	£-	£165,000
Gemini Rewrite	Following the current programme of Gemini replatforming work, there will be a requirement to invest in a re-write of the application	£-	£-	£2,420,000	£2,420,000
Smart DCC Demand Data	Includes the DCC GT User requirements. Change is driven by all DNs. New data items to be created between SAP ISU and SAP BW and new reports required.	£-	£-	£275,000	£275,000
Minor Release Delivery	The delivery of two UK Link minor releases a year	£301,000	£-	£-	£301,000
		£14,343,000	**£9,449,000**	**£7,821,000**	**£31,613,000**

Annex 02 – Xoserve Change

Initiative Title	Initiative Description	2019/20 Investment Spend	2020/21 Investment Spend	2021/22 Investment Spend	Total Investment Spend
Customer training and education	There is an increasing demand for training and education across all customers. Our ambition is to provide these services in a timely and high quality way, that enable customers to operate their business more effectively.	£163,000	£163,000	£163,000	£489,000
Customer journey continuous improvement	In order to better understand our customers, and tailor our business to them, we need to continually review and embed thinking that aligns to our customers' experience of Xoserve. This is an annual process of mapping and improving customer journeys.	£50,000	£50,000	£50,000	£150,000
Creating an agile customer change process	Introduction of an agile approach and methodology for customer change, allowing an increased pace in delivery and subsequent customer benefit realisation. This project includes improvements to help customers identify how a particular change affects their organisation and proactively engage with them to support them through the change lifecycle, including enhanced support for customer test strategy and execution.	£300,000	£200,000	£100,000	£600,000
CRM + Rant and Rave	Introduction of a new CRM platform and adoption of tools and technique to better manage customer relationships and feedback.	£300,000	£100,000	£100,000	£500,000
Digital	A team comprising digital strategy, digital channel management (including our website) and digital process improvement - all to drive more self service, better user experience, and customer effort efficiencies.	£600,000	£350,000	£350,000	£1,300,000
Data Access Platform (DAP)	Evolution of the Data Access Platform (DAP) over the next three year business planning cycle, to provide self-service reporting, machine to machine APIs, data analysis and advanced analytics to our customers. This budget funds infrastructure expansion, tools and 3rd party support.	£600,000	£600,000	£600,000	£1,800,000
Xoserve ERP evolution	Continued development of our new ERP platform to enable the risk and assurance business planning and source two contract modules.	£200,000	£150,000	£-	£350,000
One touch customer issue resolution	Implement improvements to the IS service desk and the full end to end lifecycle of issues management for our customers in order to implement a one touch, right first time culture.	£200,000	£50,000	£25,000	£275,000
Consumer Enquiry Service	Minor enhancement and defect fixes.	£25,000	£20,000	£10,000	£55,000
Service management transformation	Our service management (Incident Management, Change Management, Problem Management and Access Control Processes) are not yet fit for purpose. This project will identify the issues and then design and implement a new target operating model, which will better support the pace of customer change and the quality of service we want to provide to our customers.	£300,000	£-	£-	£300,000
Improvements to testing, tooling and automation	Developing our test strategy and undertaking a maturity assessment to deliver improvement to our testing capability and test services to customers. Enabling leverage of the tools we have established through integration with our core platforms and facilitating reuse of standard regression packs and test automation	£200,000	£100,000		£300,000
Infrastructure General	Investments required to sustain the Xoserve owned assets which include IX, EFT, shared components in data centres and replacement of office tools. The value is reducing over the three years to reflect a change from owning assets to buying services	£500,000	£500,000	£250,000	£1,250,000
Back-office automation and continuous improvement	Implement lean process automation and / or robotics / improvements to replace low value manual services as well as technical improvements to reduce manual intervention in process	£300,000	£200,000	£100,000	£600,000
		£3,738,000	£2,483,000	£1,748,000	£7,969,000

Legend

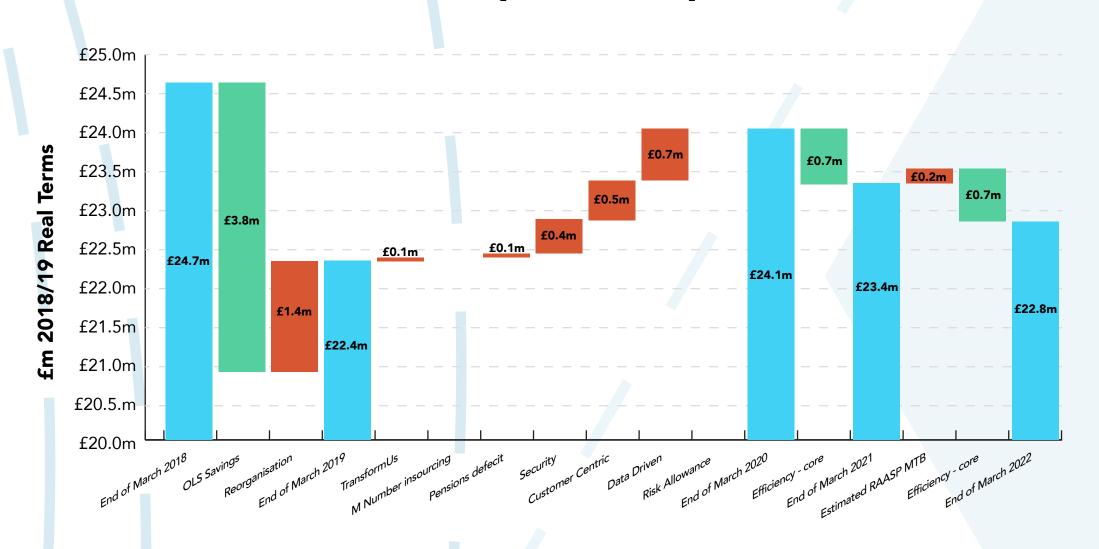| Colour	Category
Customer Centric	
Data Driven	
Change Leading	
Operationally Excellent	
Responsible Business	

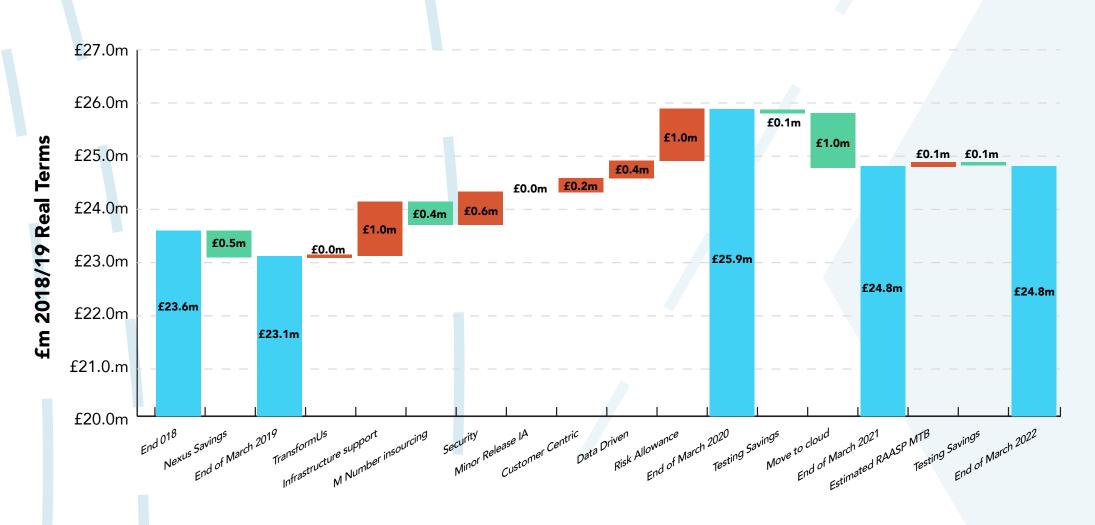# Annex 03 – People and Non-People MTB

People MTB Spend

Annex 03 – People and Non-People MTB

Non-People MTB Spend

Customer Engagement

We are keen to offer as many opportunities as possible for all of our customers to provide us with their feedback on the draft Plan. To enable this, we are making use of four particular engagement channels:

- Publishing written consultation documents and inviting customers to respond in writing

- Hosting webcasts that present information to customers and allow customers to submit questions and receive responses, with all presentation material - including questions and answers - published following each webcast

- Meetings with customer organisations to conduct in-depth reviews of the draft Plan content and associated funding requirements and help customers understand what the draft Plan means for their organisations

- Meetings of the DSC Contract Management Committee, which is the forum that is formally recognised in the DSC for customer engagement on the Business Plan. We will also meet with the DSC Change Management Committee, which has a specific responsibility within the planning cycle for developing and setting the DSC Change Budget

We have set out below a summary of the engagement phases, their timings, and the different forms of engagement that we will use. A more detailed consultation timeline is available on Page 32.

Engagement Phase	Start	End	Duration	Status	Forms of Engagement
Principles and Approach	13/06/18	27/06/18	2 weeks	Complete	Webcast DSC Contract Management Committee Written consultation
Draft Plan	24/09/18	02/11/18	6 weeks	Open	Webcast DSC Contract Management Committee DSC Change Management Committee Meetings with customer organisations Written consultation
Updated draft Plan	26/11/18	07/12/18	2 weeks	Not yet started	Webcast DSC Contract Management Committee Meetings with customer organisations Written consultation
Final draft Plan	09/01/19	16/01/19	1 week	Not yet started	DSC Contract Management Committee

Review of Cost Allocation Model

We use a Cost Allocation Model to attribute and allocate our costs to the services that we provide. The DSC classifies the services into a number of Service Areas, and defines in a Charging Methodology how these Service Area costs are recovered from customers.

Following the implementation of Project Nexus and the introduction of new market processes, as well as a significant restructuring and resizing of the organisation during 2017/18, we proposed that we should review and validate the efficacy of our Cost Allocation Model alongside the development of the Plan.

We shared our review findings at the July and August 2018 meetings of the DSC Contract Management Committee. We have provisionally identified that a limited reallocation of people and systems support costs could be appropriate, but we recognise that there are a number of other factors at play that call into question the case for applying these reallocations to the financial forecasts in our 2019 Business Plan.

- Whilst we have a revised view of the allocation of systems support costs between UK Link and Gemini, we need to undertake further analysis to more confidently assign UK Link support costs to different Service Areas

- We are undertaking a strategic review of our systems hosting arrangements. The outcome of this review could have a bearing not only on our aggregate level of systems hosting costs, but also on the allocation of the costs between systems

- Gas Transporters' allowed revenues for the funding of Xoserve have been set to March 2021 (the end of the RIIO-1 period) using the prevailing Cost Allocation Model. It is therefore probably appropriate not to change the Model part way through the Price Control period

We have concluded that, for the purposes of the 2019 Business Plan, we will continue to adopt the prevailing Cost Allocation Model. We will begin further analysis and aim to apply the results to the determination of Gas Transporters' funding of Xoserve for the RIIO-2 period, starting April 2021. We expect to develop our view of financial forecasts for the RIIO-2 period during the latter part of 2018 and the first half of 2019.

Consultation Timeline

Phase 1 - Plan Approach and Principles

Step	Status	Date	Action	Provider	Receiver	Deliverables
1.1	Complete	13/06/18	Issue Plan Approach and Principles for customer consultation	Xoserve	All customers CoMC	Plan Approach and Principles Consultation Document
1.2	Complete	20/06/18	Provide feedback at CoMC meeting	CoMC	Xoserve	-
1.3	Complete	22/06/18	Xoserve hosts webcast	Xoserve	All customers	Webcast presentation Customer questions and Xoserve answers
1.3	Complete	27/06/18	Provide written feedback	All customers	Xoserve	Written feedback
1.4	Complete	11/07/18	Issue updated Plan Approach and Principles reflecting customer feedback	Xoserve	All customers CoMC	Final Plan Approach and Principles
1.5	Complete	18/07/18	Consider updated Plan Approach and Principles and note updates	CoMC	Xoserve	-

Phase 2 - Draft Business Plan

Step	Status	Date	Action	Provider	Receiver	Deliverables
2.1	Complete	13/09/18	Issue draft Business Plan to Board	Xoserve	Board	Draft Business Plan
2.2	Complete	20/09/18	Agree draft Business Plan for issue for consultation	Board	Xoserve	Draft Business Plan
2.3	Complete	24/09/18	Issue draft Business Plan for consultation (including Change Budget requirements)	Xoserve	All customers CoMC	Draft Business Plan
2.4	Not yet started	10/10/18	Sign off Change Budget requirements	ChMC	Xoserve	Change Budget
2.5	Not yet started	11/10/18	Xoserve hosts webcast	Xoserve	All customers	Webcast presentation Customer questions and Xoserve answers
2.6	Not yet started	17/10/18	Provide feedback at CoMC meeting	CoMC	Xoserve	Feedback notes and actions
2.7	Not yet started	02/11/18	Provide written feedback	All customers	Xoserve	Written feedback
2.8	Not yet started	15/11/18	Issue feedback report	Xoserve	Board	Feedback report
2.9	Not yet started	22/11/18	Consider feedback report and agree updates to draft Business Plan	Board	Xoserve	-
2.10	Not yet started	26/11/18	Issue updated draft Business Plan for consultation	Xoserve	All customers CoMC	Updated draft Business Plan
2.11	Not yet started	28/11/18	Xoserve hosts webcast	Xoserve	All customers	Webcast presentation Customer questions and Xoserve answers
2.12	Not yet started	29/11/18	Provide feedback at CoMC meeting	CoMC	Xoserve	-
2.13	Not yet started	07/12/18	Provide written feedback	All customers	Xoserve	Written feedback
2.14	Not yet started	12/12/18	Issue feedback report	Xoserve	Board	Feedback report
2.15	Not yet started	19/12/18	Consider feedback report and agree final updates to draft Business Plan	Board	Xoserve	-

Phase 3 - Final Business Plan

Step	Status	Date	Action	Provider	Receiver	Deliverables
3.1	Not yet started	09/01/19	Issue draft Business Plan Consultation Report	Xoserve	All customers CoMC	Draft Business Plan Consultation Report
3.2	Not yet started	09/01/19	Issue final draft Business Plan	Xoserve	All customers CoMC	Final draft Business Plan
3.3	Not yet started	16/01/19	Consider draft Business Plan Consultation Report and final draft Business Plan	CoMC	Xoserve	-
3.4	Not yet started	17/01/19	Issue 'for approval' Business Plan and Business Plan Consultation Report	Xoserve	Board	'For approval' Business Plan and Business Plan Consultation Report
3.5	Not yet started	24/01/19	Approve Business Plan	Board	Xoserve	-
3.6	Not yet started	28/01/19	Issue approved Business Plan	Xoserve	All customers	Approved Business Plan
3.7	Not yet started	29/01/19	Issue 2019/20 Annual Charging Statement	Xoserve	All customers	2019/20 Annual Charging Statement
3.8	Not yet started	15/02/19	Issue 2019/20 Charging Schedules	Xoserve	All customers	2019/20 Charging Schedules

Questions

This document represents a significant step in our 2019 Business Plan customer engagement activities. We welcome your views on all of the information we have set out and on anything that you think we may have missed. We will review thoroughly all the responses that we receive, and will issue a Customer Feedback Report alongside an updated draft Plan by Monday 26th November 2018.

We have set out below some key questions, where we would appreciate your comments. Please send these to **xoserve.customeropscomms@xoserve.com** by Friday 2nd November 2018.

1) What are your views on the levels and timing of Customer Change and Market Investment that we have included in the draft Plan? Do you think that we have missed any significant items or included any items that are not required?

2) Do you agree with our view of the Xoserve Change initiatives? Are these necessary to deliver the improved levels of service that customers have asked for? Do you think that any initiatives are not required, or should be rescheduled for delivery later in the Plan period?

3) What is the capacity of your organisation to support the total volume of Change (the combination of Customer Change, Market Investment and Xoserve Change)? If you have capacity constraints, which Changes would you prioritise and why?

4) Do you agree with the assumptions that we have made when preparing our draft Plan? Do you think we should be adopting alternative assumptions?

5) Do you agree with our approach to the management of risks and realisation of opportunities during the Plan period?

6) What are your thoughts on continuing to operate the prevailing Cost Allocation Model for the purposes of forecasting customer constituency funding in the 2019 Business Plan, and undertaking a more detailed review of the Model to align with our RIIO-2 forecasting processes?