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Xoserve Business Plan 2022/23 – Principles and Approach

Thank you for inviting us to comment on the Xoserve Principles and Approach document. Please see our comments below and we look forward to reviewing subsequent versions.

Forward

As is the case for many businesses we continue to manage the impacts of COVID-19. We are also under significant pressure to drive out efficiencies to operate under a price cap regime. Despite this backdrop we have seen consistently increasing industry costs.

The table below shows an increase of ~£15m versus the previous year and ~£80m since 2017/18.

We appreciate that Xoserve’s cost increases have steadied after the huge jump between 2017/18 and 2020/21 but we remain deeply concerned that some industry costs are spiralling out of control.

	2017/18	2018/19	2019/20	2020/21	2021/22
SPAA*	£3,824,000	£4,075,000	£4,109,894	£5,942,105	£1,682,000
MRA*	£10,643,026	£14,987,366	£14,211,363	£14,869,747	£6,791,900
DCUSA	£4,043,000	£4,311,684	£5,125,057	£6,225,202	£2,501,521
REC*	£0	£0	£4,367,000	£9,514,000	£21,942,000
Elexon**	£41,500,000	£43,600,000	£53,200,000	£52,600,000	£83,653,035
Xoserve***	£16,551,000	£19,307,000	£35,313,000	£44,230,000	£41,354,000
Total	£76,561,026	£86,281,050	£116,326,314	£133,381,054	£157,924,456
Total + CPIH	£76,561,026	£77,403,198	£77,945,020	£78,412,690	£78,647,928
Estimated variance to cap allowance		£8,877,852.25	£38,381,294.17	£54,968,363.37	£79,276,528

*Cost currently apportioned to suppliers

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

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Our concerns are not only a consequence of the steep rises but also relate to inconsistent challenge and governance processes afforded by each code. We commend Xoserve's engagement but across the board (industry) we are not seeing the level of feedback we would expect when reviewing multi-million-pound budgets. With regard to Xoserve, it is not evident that evidence gathered as part of the engagement process is having a significant impact on the final budget output. It would be helpful to see what elements have changed as a result of feedback towards the end of the process.

We also want to hear more about what code bodies are doing to drive down cost, deliver efficiently and find savings, especially in a post COVID-19 world. For example, will increased homeworking and fewer face to face meetings reduce operational costs and associated expenses (travel and expenses)? What FTE savings will automation and enhanced digitalisation services deliver such as that mentioned as part of the Gemini Roadmap? When will automation manifest into benefits and savings? It's our perception that the savings created by automation are rapidly replaced by another requirement so overall savings never materialise. We would like to see evidence of the savings delivered in order to appreciate value for money and hold Xoserve to account where there is wastage.

Finally, we would expect to see a significant decline in MTB costs for Xoserve given that many colleagues have moved over to Correla. We don't feel that it is appropriate to embed Correla costs within the Xoserve budget given the separation of both companies. We would expect transparency regarding any costs related to Correla working on behalf of Xoserve. This needs to be clearly demonstrated in the budget aligned with the approach agreed for FGO. The costs cannot just be baked in as though they are Xoserve costs. As a sub-contractor Correla's costs should be scrutinized to ensure a.) that value for money is delivered and b.) that there isn't cross-subsidisation of its independent commercial activity.

Exceptional Customer Experience

There were significant flow issues, which persisted through March and April 2021. There have also been other issues, which were less significant but caused challenges which as Shippers and Suppliers we had to resource FTE for the resolution of these issues. It was disappointing that we were excluded from the best resolution route and had to instead deliver a resource intensive solution. We would ask for more flexibility (which has been offered historically) in such situations as one size does not fit all.

We are unclear why customers need to provide investment in this area and why it should not be part of MTB as it's a fundamental requirement for any business. As with many of the following points, our view may be dependent on the level of investment being requested. There needs to be quantifiable benefits associated to any recommended benefits in this area.

Opening-up our data

Opening up data is becoming a common theme. For this reason, we query when it will be categorised as MTB given it's one of Xoserve's fundamental priorities. It needs to be clearer as to what is an investment compared to general running costs.

Gemini Roadmap

We agree that it needs to be collaborative.

UK Link Roadmap

This is another investment area that has been in place for a prolonged period. We would like to know if there is a cut-off date to investment in this area and what benefits previous iterations have delivered.

Protecting Against Cyber Crime

Similarly, this investment area is becoming a recurring theme. Is Xoserve able to provide customers with a period of protection for each investment, or, with data being at the heart of its operation, will this become MTB?

We would expect Xoserve to meet industry & legal standards regarding the cyber crime provisions it has in place but there shouldn't be a "limitless" pot of funding that delivers desirable rather than essential compliance elements.

"In addition, we will also allocate funding for work driven by Ofgem, the Retail Energy Code (REC), Faster Switching and the Uniform Network Code (UNC), under two headings:"

General REC Change

We continue to express concerns around rising CSS costs and recognise that there are challenges around forecasting them with any level of confidence.

We reiterate previous feedback concerning greater transparency and scrutiny around these costs as we are not convinced that Ofgem appreciates the impact of ever growing and/or changing requirements.

General UNC Change

We are unclear why IGT UNC costs have not been incorporated into this section.

IGT UNC and UNC costs are more predictable so it could be queried whether these may form an MTB part of the budget.

We look forward to hearing your feedback and seeing later iterations of the Business Plan.

Kind regards
Michael Lain