
**2019 Business Plan
Principles and Approach
Consultation**

Customer Feedback Report

Publication Date: 16 July 2018

Introduction

In June, we issued the 2019 Business Plan Principles and Approach for consultation. This was the start of a process to seek customers' views on our proposals for the development of our 2019 Business Plan. We set the scene for the Plan, by describing our strategic ambitions and the outcomes that we believe customers want us to deliver over the next three years.

We invited customers to respond to nine questions that were set out within the consultation document. The aim of the first consultation was to encourage a high quality dialogue with our customers and to gather feedback on how best we can increase the level of engagement. We outlined the assumptions and scenarios which formed the basis of the plan and we wanted to know if customers agreed with these or had alternative views.

Three customers responded with answers to our questions. We have set out in this feedback report:

1. A digest of the feedback that we received in response to each question, including our comments on matters that customers have drawn to our attention.
2. A summary of the actions that we are taking in response to customer feedback

Consultation Questions and Customers' Responses

1. To what extent does the information on our strategy, ambition and target outcomes provide a meaningful basis and foundation for our Business Plan?

Customers welcomed the opportunity to view and understand our ambition, vision and objectives which we have encapsulated within the Strategy House. The Strategy House has become familiar to our different customer groups via the regular communication we have been undertaking through customer engagement activities. In addition, our approach to create a dedicated response team to Unidentified Gas (UIG) was praised by customers as being a more dynamic and proactive approach in responding to industry issues and understanding priorities. Customers feel this approach has led to us adding more value as an organisation within the industry.

Customers signalled support of our forward-looking approach of being considered as the Central Switching Service (CSS) provider and using UK Link to potentially provide additional services to the gas and electricity market. However, they did caution that this should not cause us to lose sight of our principal objective of maintaining and improving our core services as the Central Data Service Provider (CDSP). Customers have requested that we should communicate any further ambition to leverage existing assets. We will discuss any further leverage opportunities with CoMC as they arise.

2. Do you think that we have identified all of the significant matters that we should consider during Plan development?

Customers agreed that we had identified all significant matters that we should consider during plan development. They then provided feedback on certain aspects which they thought needed further deliberation.

Customers have said that the market and service challenges presented within the consultation document could result in considerable change congestion during the 2019 Business Plan period. An increase in customer and market demand on our services has led to an increase in the significant projects we have underway. As a result, customers believe that there will be a large increase in workforce expenditure. To understand the financial impact of this, customers have requested to see detailed information that sets out how we will address internal movements, recruitment and training.

One GDN customer sees UIG as a Shipper centric issue and would expect the costs of our proposed investigative and analysis work to be funded by Shippers. In addition, whilst we are working towards designing and developing the solution for Retrospective Adjustments, one customer has stressed the importance of our

impartiality on this topic, given the ongoing industry discussions about possible alternative market arrangements. We have also received customer support for developing a new and improved Data Security Framework.

One GDN customer has highlighted that they want Xoserve to provide forecasts beyond March 2022, highlighting that these are needed for the RIIO-2 price control review. Forecasts need to be provided for two scenarios, one in which Xoserve is successful in its bid to be appointed as the CSS Service Provider, the other in which the contract is awarded to a third party.

We are planning to build a view of funding requirements for the period to March 2026 through an extension of our regular business planning cycle. Our current working plan is to develop initial forecasts (including CSS bid outcome scenarios) for the RIIO-2 period by November 2018, recognising that these are likely to evolve prior to Gas Transporter Business Plan submissions to Ofgem in 2019. We are aware of the need to engage with both Gas Transporter and Shipper customers, and are awaiting the outcome of Ofgem's RIIO-2 Framework Consultation, particularly the forward work plan, before firming up our engagement approach and timetable.

3. Do you consider that we have sufficient capability to provide competent and timely leadership on market issues and to respond effectively to customers' demand for services?

Customers have recognised the strides we have made towards becoming a more customer-centric organisation and have noted a significant shift in our approach and attitudes towards how we work with them. They acknowledge that we have made significant progress through extensive departmental restructures. However, they did express that work still needs to be done to embed our new approaches as enduring behaviours. Overall, the knowledge, expertise and competence we hold as an organisation is valued by the industry.

So that we can respond more effectively to demands for services, one customer has asked us to ensure that the correct experts from within our organisation are available and informed about industry processes, matters and issues. One GDN customer has also requested that the work we undertake in respect of the potential provision of a Central Switching Service should not compromise our delivery of GT Licence and transportation obligations.

Customers also asked that in order for us to provide timely leadership on market issues, we should include significant matters and relevant costs early within the Business Planning process.

4. Do you consider that we should continue to pursue re-use of the UK Link asset as an effective means of containing the level of customer exposure to CSS consequential change costs?

Customers expressed their support for re-using UK Link to provide industry benefits, namely the efficiency gains of utilising an existing asset and reducing costs for the end consumer. They said that in order to progress the CSS proposal, we should address legal, funding and wider governance matters to protect customers. One GDN customer reinforced this by saying that CSS costs should not be incurred by them as non-beneficiaries of the service. They advised that pursuing CSS should not compromise our ability to fulfil GT Licence obligations and transportation services.

Within the 2018 Business Plan, we had included a limited view of consequential change funding requirements. However, subsequent dialogue with Ofgem and the Data Communications Company (DCC) has revealed that additional funding will be required from industry parties as part of the 2019 Business Plan. Customers have asked to see a breakdown of how the additional costs have been derived, how they have been allocated to specific change requirements and a justification of how the funding provided will be utilised. They have also requested an explanation about how the consequential costs of Xoserve not becoming the CSS service provider would be greater than the bidding costs.

5. 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.

Customers generally agree with our planning assumptions. However, they also outlined certain aspects which are important to them that need consideration. Customers requested that the Business Plan needs to be an accurate forecast so that their internal budgets can be set appropriately; and any overspends or underspends should be recovered in future charging regimes. We are in agreement with this and we will provide each customer constituency with specific insight into what the Plan means for them, the funding that we are asking them to provide and the services that they will receive.

In addition, customers would like to understand the assurance process that we apply in developing budgets. We will provide an assurance report to the DSC Contract Management Committee (CoMC) in early 2019.

One customer was concerned that we had not provided sufficient granularity in the planning assumptions and they would have appreciated a list of the actual assumptions. We will be wholly transparent with our customers about the assumptions underpinning the draft Plan and will test their robustness through the next stage of the consultation process commencing in late September.

6. Do you think that our approach offers sufficient engagement opportunities for your organisation?

Customers generally agreed that our approach offers sufficient engagement opportunities. They welcomed the publication of the consultation early in the Business Planning process and the additional formal opportunities for responding to the draft business plan in writing, compared to the 2018 Business Plan process. One customer has also asked us to hold additional customer constituency meetings where we can provide constituency specific information on forecast charges. To this end, we are planning to hold additional customer engagement meetings following publication of the draft Plan in September 2018.

7. Do you have any comments on the proposed timeline? Does it meet your organisation's needs?

Customers had a range of views on whether the proposed timeline met their organisation's needs. Customers proposed that the review of the Cost Allocation Model should be incorporated into the overall plan to ensure there is no conflict with the Business Plan. We agree with this approach, and we will ensure that all information presented to customers during this review is fully transparent so potential impacts are visible.

One customer was concerned that the consultation timeline does not include a final CoMC approval of the Plan before it is issued to the Board for approval on 24th January 2019. We would like to clarify that the CoMC will have the opportunity to consider the draft Business Plan Consultation Report and final draft Business Plan on 16th January 2019. It is expected that the Plan issued to the Board for approval will be the same as the final draft Plan issued to customers. In the unlikely event that there is a difference, we will highlight this to customers at the CoMC meeting on 16th January 2019 and provide an explanation for the variation.

One customer was concerned that our timeline does not address the problems experienced during the 2018 Business Plan consultation process with the late provision of financial forecasts, and has requested that we provide financial forecasts earlier than the planned date of 24th September 2018.

Whilst we understand that early visibility of draft financials could help customers to bring forward the planning of their internal activities, we feel that diverting our resources to the production of early estimates would put at risk the quality of the draft Plan that we publish in September and limit our readiness for a rigorous customer consultation. We therefore intend to adhere to the timetable set out in our consultation - which provides draft financials 6 weeks ahead of the 2018 schedule –

but will look at how we may further accelerate this timeframe as part of the next business planning cycle.

8. To what extent do our proposals for the presentation of financial information meet your organisation's needs? Please tell us if you have any particular requirements that we have not identified.

Customers expressed their support towards the approach we proposed for presenting financial information and believed there was significant benefit in providing this at a customer level. They said that it was a priority for them to receive the financial data in sufficient granularity in time for the production of their own Business Plans.

Customers also advised that they had some additional requirements which would help make the financial information more transparent for them. They would like to understand whether there has been any material deviation of the financial values which we submitted within the 2018 Business Plan and requested a comparison with the 2019 Business Plan. This is in addition to the year-on-year information provided.

Also, one customer wants to have a better understanding of what is covered under generic service lines and charges such as 'General Services' and 'Infrastructure'. In addition, where there are any overspends or underspends, the customer has asked for supporting information to explain why this is the case. If we ask for funding for investment or leverage opportunities, customers want these requests to be made clear, as these changes would alter the scope of the Business Plan.

9. Do you agree that it is appropriate to include a review of the Cost Allocation Model alongside the development of the Plan?

Customers are in favour of reviewing the Cost Allocation Model alongside the development of the Plan. In preparation for the review, customers have also asked for details of how the Model works in principle, so they can comprehensively understand the impact of any changes made. This will also help them to be better involved in future reviews of the Cost Allocation Model, and to gain a 'bottom up' understanding of how the financial forecasts are built and how customer charges are derived.

Actions Arising

We summarise here the actions that we are taking in response to customer feedback received through the consultation process.

1. Gas Distribution Network (GDN) customers have asked that we should provide forecasts beyond March 2022, highlighting that these are needed for the RIIO-2 price control review. We are planning to build a view of funding requirements for the period to March 2026 through an extension of our regular business planning cycle. Our current working plan is to develop initial forecasts (including CSS bid outcome scenarios) for the RIIO-2 period by November 2018, recognising that these are likely to evolve prior to Gas Transporter Business Plan submissions to Ofgem in 2019. We are aware of the need to engage with both Gas Transporter and Shipper customers, and want to see the outcome of Ofgem's RIIO-2 Framework Consultation, particularly the forward work plan, before we firm up our engagement approach and timetable.
2. Customers have provided a number of specific information requests. We will address each of these within the information pack to accompany the draft Plan, noting that some points may be more appropriate to address within customer constituency information packs.
3. Customers have asked for assurance of the business planning process. We will provide an assurance report to the CoMC in early 2019.

Conclusion

We are pleased with the quality of responses that we have received. These have allowed us to identify some specific actions to help improve the customer engagement process going forward.