



**2019 Business Plan
Draft Business Plan Consultation**

Customer Feedback Report

Publication Date: 26th November 2018

Introduction

In June 2018, we issued our 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.

Following feedback from customers, we then issued our 2019 draft Business Plan for consultation on 24th September 2018. We outlined our ambitions, explaining what this means for our customer constituencies and differentiating between customer, market and Xoserve driven change. We also provided funding forecasts at both a total company and customer constituency level.

We invited customers to respond to six questions that were set out within the consultation document. We asked for feedback on the investments and change initiatives that we included in the draft Plan and we wanted to understand what capacity our customers have to support this level of change. We 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.

Nine customers responded with answers to our questions. In addition, our Customer Leads and Customer Advocates held 27 direct meetings with customers throughout the consultation period to talk through the Plan and gather their feedback. During our customer webcast on 11th October 2018, where we provided an overview of the draft Business Plan and answered customer questions, 37 customers joined the call. We also hosted two DSC governance meetings during October to discuss various aspects of the Plan.

We have set out in this feedback report:

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

Consultation Questions and Customers' Responses

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?

Customers have requested that change costs need to be fully transparent, as some are believed to be very high. This includes greater cost transparency for the introduction of the Central Switching Service (CSS) and the cost implication of a successful or unsuccessful CSS bid. Customers have also raised concerns about whether we will be able to deliver the high levels of change outlined within the consultation document in addition to CSS. They have requested that work carried out on CSS should not be to the detriment of our core services.

The Customer Change programme has been welcomed by some customers as they believe it will bring improvements to the market. More specifically, two customers have requested that changes which mitigate levels of Unidentified Gas (UIG) or stabilise invoicing should take priority. One customer stated that the £500k contingency Change Budget is higher than expected and requested it to be reduced from £3.9m to £3m for each of 2020/21 and 2021/22. Another customer would have appreciated having view of the split of change funding by relevant constituencies to be able to assess impacts and costs.

Customers have outlined differing views for reviewing the Xoserve governance model. Some customers believe it would be beneficial as more needs to be done to realise the benefits of the Funding, Governance and Ownership (FGO) model. However, others do not support a full review and have requested a robust justification as well as a breakdown of the £1.1m spend before being able to support a review.

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?

Customers are largely supportive of the Xoserve Change initiatives. Five customers have identified that the development of the Data Access Platform is a priority to significantly increase and improve their access to data. One customer asked whether this would be a user pays platform or a free to use platform.

Customers have requested reassurance that we have sufficient resources to carry out the level of change which is being proposed and that there will be no adverse impact to existing services under the Data Services Contract (DSC). They have asked for greater clarity around which party is expected to fund each initiative, how the costs could be more accurately reflected in relation to beneficiaries and the expected payback period. This is to ensure that only those investments with the best return are delivered. One customer reiterated their point that a cost benefits analysis is required to be able to assess the initiatives.

One customer feels unable to support the Xoserve Change initiatives and has advised that an objective cost benefits analysis should be carried out to prioritise and test the need for the changes. Some initiatives have also been categorised by customers as 'nice to have' including Customer Training and Education, Creating an Agile Customer Change Process and Rant and Rave.

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?*

Customers have advised that they have varying degrees of capacity to manage the total volume of change, however they are generally supportive. Concerns have been raised that the Switching Programme and Smart meter rollout will place significant strain on the industry. For CSS, an early understanding of our capacity to deliver the change and of the nature of change for customers would be welcomed.

More specifically, three customers have raised concerns about their capability to implement the volume of prospective change across all systems and services. This is due to a substantial amount of IT capacity being used on other programmes in their organisations.

Finally, one customer believes that changes to core services should take precedence over more entrepreneurial changes and they would like to have a better understanding of the budget for RAASP and what will be delivered.

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?*

Customers broadly agree with the assumptions that have been made, however they have also raised individual areas of concern. Some customers were expecting a greater level of transparency with more detail on what is driving costs, which service areas will be impacted and a cost benefits justification. Two customers have said that it is not clear what assumptions have been used to underpin the cost estimates and there is not enough detail in the assumptions for Maintain the Business (MTB) and Investment spend. Also, Market and Customer Change provides little visibility of what will actually be delivered.

Customers would like to see more detail around the assumptions of migrating to a cloud environment, the GDPR implications for storing data in the cloud and more information on information security changes. In addition, as the industry anticipates increased activity to support mass Smart meter rollout, it would be beneficial to see the assumptions that underpin the MTB cost profile. This is to ensure that the challenges for maintaining performance and meeting customer needs will be met.

A number of customers noted that CSS is now planned for delivery in summer 2021 and that delivery costs are likely to be incurred in 2021/22. Should the CSS bid be successful, customers would like visibility of expected cost savings.

One Gas Transporter (GT) customer feels that we have not taken into full account the need for adherence to GT allowances within the regulated RIIO framework; and another GT customer thinks that the level of costs are in excess of their price control allowances. Their view is that the BP19 financial position is worse than BP18. They believe it is possible to achieve customer centricity by controlling costs and undertaking a reasonable level of investment, without excess. Improving service should not be at the risk of exceeding GT cost allowances and so they are expecting a measurable reduction in costs.

Finally, as unexpected costs tend to arise during a business planning period, one customer would like increased awareness for how this process works.

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

Customers generally agree with our approach to the management of risks and realisation of opportunities; however they also outlined their expectations for increased transparency. It was

reiterated that whilst customers are supportive of our ambitions to realise opportunities, this should not impact the delivery of CDSP Services.

One customer felt that there is insufficient detail in the assumptions underpinning the cost elements and without this detail, it is difficult to measure and assess the level of risk. Another customer expected more detail about the differences between Plan costs and GTs' RIIO allowances.

The inclusion of a risk allowance is welcomed and more detail has been requested about how the annual reconciliation process works. Customers observed that the risk allowance only appears against MTB – Non People, which has caused concern that there is a lack of contingency in other areas.

One customer observed that our large scale re-organisation has reduced MTB costs and further information has been requested about how risks will be mitigated to ensure continuity of service within the costs set out. A welcome addition would be to include the equivalent cost per FTE, as we currently appear to be more expensive than at least one other central body.

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?

Customers agreed that continuing to adopt the prevailing Cost Allocation Model is a prudent course of action; however they also believe that it does require reform and have outlined some considerations. One customer requested that any changes to the allocation model are made before RIIO-2 allowances are set.

Work should commence on a revised funding regime in conjunction with the governance review to ensure that a revised model can be incorporated into any new price control. A review of the allocation of people and systems input costs would also be helpful, as constituents' demands on these have shifted significantly since the inception of FGO. One GT customer thinks that Transporters' costs associated with Xoserve should be changed from allowances to pass-through, and asked us to support a positive case for this to Ofgem.

One customer appreciated that changes have been made in calculating independent Gas Transporter (iGT) charges, however they felt that the presentation of cost details is harder to follow compared to previous Business Plans. In addition, it is unclear to them which constituencies are funding certain changes.

Since the original model was agreed, anomalies have been identified and facilitating independent cost allocation workshops with constituents will build trust and transparency, resulting in mutually beneficial outcomes for all parties. The methodology developed should ensure that costs are apportioned to those constituents which receive the benefit. Early engagement of a review is welcomed, as leaving it until the end of the current price control period may be inconsistent with GTs' obligations.

General Comments

Customers welcomed the marked improvement in the quality of business planning documents and the changes made to the process in response to customer feedback. They appreciated the opportunity of discussing details of the Plan and gaining clarity by engaging in bi-lateral discussions. Each customer also raised points which matter to them.

Customers are supportive of our continued progress to increase business capabilities and become more responsive to customer needs. However, one customer outlined that a number of initiatives

within the Plan require significant investment from GTs which is in excess of their cost allowance. They expected the Plan to demonstrate greater awareness of this.

One GT customer feels that the need for the RIIO cost allowances to be met has not been addressed and there has been little appreciation of their cost pressures. In addition, material cost reductions were anticipated as a result of the Optional Leavers Scheme (OLS), however the customer feels that the benefits seem to have been reduced through recruiting an equivalent number of employees.

One customer felt that as stability in operational performance has not yet been achieved following Nexus implementation, any changes designed to achieve this should take priority over more entrepreneurial changes. They also identified our principal priorities for the immediate future as being able to provide accurate and consistent invoicing to customers and access to data; and being a centre of excellence for the gas industry.

An iGT customer feels that the savings GTs are making seem to outweigh iGT savings when considering the reduction in actual costs and the fact that iGT market share is growing at ~1% every three years compared to GTs. Also, when comparing iGT funding for 2018/19 in previous Business Plans, the costs shown under BP18 do not compare against what was published in the finalised BP18 document. Another customer had expected a breakdown of costs to enable easy comparison to the data provided in 2018.

A limited number of cost/benefits assessments have been included for initiatives, which means customers feel they are unable to identify efficiencies or service improvements for these investments. Customers believe it would be beneficial to further map the costs to what they can relate to, such as a business function.

As customers have experienced an increase in expenditure to previous forecasts, assurance has been requested around the accuracy of future forecasts in terms of identifying reduction in costs. Customers would also welcome view of where resources are deployed to avoid instances of under resourcing.

Inclusion of a budget reflection document would also be welcomed as an annual feature to demonstrate delivery of the budget and commentary on lessons learnt.

Our Response and Actions Arising

We have been greatly encouraged by the quality of our customers' engagement throughout the consultation period for the draft Business Plan. We have outlined below our responses and actions arising to the main points raised by customers within their consultation responses. Where customers have raised matters particular to their organisation, our Customer Advocates will engage directly with each business to discuss their feedback.

A number of customers have asked for greater transparency of costs and a detailed breakdown of our investment expenditure. Whilst we understand that this would provide some level of benefit and assurance to our customers, we want to be clear that the business planning process is a budget setting exercise and not an absolute commitment to carry out specific investments. The DSC Change Management Committee provides a transparent and controlled mechanism for customers to approve the delivery of Customer Change prior to the sanctioning of expenditure with vendors and allocation of internal resources. We will engage with the DSC Contract Management Committee on occasions where we both believe that a cost benefit analysis will be valuable to undertake for Xoserve Changes.

Some customers want to see detailed costings for our MTB expenditure. We recognise the rationale behind this, however we also believe that there will be limited benefit for customers unless they are able to benchmark our costs against those of other energy industry Central Bodies or equivalent services provided to other markets. To help customers with this, we are proposing to commission an external consultancy to review and benchmark our cost efficiency. This report, which we will share with all our customers, will seek to provide a robust comparison of our service costs against those of other organisations. We expect the report to be available in early 2019.

Our GT customers raised concerns that they are under pressure to meet their RIIO-1 cost allowances as the current forecast is projecting a higher spend. We fully understand and appreciate the pressures that GTs are under. We are working hard with GTs to reduce their exposure and we have made some positive progress towards this. We also recognise that, whilst we are not making as great a reduction as GT customers would have liked, our investment plans are designed to create value for our customers and ultimately, savings for the end consumer.

We recognise that newer entrants to the market require a greater level of training and education than established players. Whilst we also appreciate customer feedback that the costs of such initiatives could be targeted directly at those who make the most use of such services, we believe it is necessary to offer these services to all of our customers, to socialise the costs, and not to inadvertently place a tax on market entry.

Two of our customers questioned the level of spend on the Customer Relationship Management (CRM) platform and Rant and Rave. We believe that both of these initiatives are important in improving our customer centricity. Our current processes have over 200 customer touch points; and our Customer and Operations departments receive 600 customer emails and 500 customer calls on a daily basis. We also attend regular industry meetings, host training and engagement events and we are individually meeting our customers more often. With this high level of customer contact, a robust CRM system is essential for us to capture and internally share information that is important to our customers.

In addition, by implementing Rant and Rave, we have significantly improved our ability to capture, analyse and respond to customer feedback. We have also already begun to see efficiency savings in using this tool. Our next step is to integrate the Rant and Rave platform more broadly across the organisation.

Customers are keen to understand our capacity and capability to deliver change, beyond our obligation to deliver CDSP Services. We have change assurance methodologies in place to assess

our needs and readiness before committing to delivering a change initiative; and to identify any gaps before starting. We will use these tools to regularly manage our capacity and capability risk.

Amendments to Financial Forecasts

We have made a number of updates to our financial forecasts in response to the feedback that we have received. Detailed information on the various amendments is provided in the consultation document published alongside this report.

In summary, we have reduced our total funding requirement across the whole Plan period by £5.3m. This is offset in part by a customer requested increase to the forecasts for Gemini change work, funded wholly and exclusively by National Grid, amounting to £2.0m across Plan Years 2 and 3. In addition, we have reallocated some of our funding requirements between customer constituencies in order to more accurately target our charges at service beneficiaries, rather than relying on an end of budget year true-up process. This has resulted in an increase in Shipper funding of £3.5m across the whole Plan period and a commensurate reduction in Network funding requirements. Finally, we have re-phased a small amount of Gemini investment expenditure where further information has come to light since publication of the draft Plan.

Conclusion

We are pleased with the quality of responses that we have received. These have allowed us to identify some specific actions, and the consequent amendments to our financial forecasts are set out in our consultation on our updated draft Plan.

We have also welcomed customer feedback on increasing the level of detail that we provide during the consultation process. We will take this into consideration for future planning years to help aid our customers' understanding.