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20 October 2023.

Sent by email to james.rigby@xoserve.com, customerexperience@xoserve.com.

Dear James,

2024-25 Business Plan First Draft

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

The quality of this draft business plan is a substantial improvement on that of previous business plans. Direct and outsourced cost data, some resource requirements and indicative data on rebates have been included. Terminology in the draft business plan has been realigned with the defined terms in the Budget and Charging Methodology. We welcome the steps taken in response to Customers' requirement for increased transparency. We recognise and appreciate the effort put into producing a higher quality business plan.

It is reassuring that the Business Plan Information Rules (BPIR) that have been developed as part of Uniform Network Code Modification 0841 have been helpful to you in developing the business plan.¹ It is also reassuring that the benefits of a framework for developing Xoserve's business plans have been recognised. The latest version of the Modification reflects our close alignment on almost all aspects. We welcome your continued input into the development of the Modification.

Our further comments on the business plan and in follow-up to our meeting on 11 October are provided below.

The savings identified in the efficiency assessment should be embedded as quickly as possible:

We welcome that the efficiency assessment of Xoserve's cost base was undertaken and the *Xoserve Efficiency (Value for Money) Review* (the Review) has been published. We accept that the timing of the completion of the assessment did not allow Xoserve to take account of the findings in the first draft of the 2024-25 Business Plan. We treat the proposed expenditure in the

¹ As discussed during the first draft 'Roundtable' on 3 October 2023.

first draft as merely indicative since the efficiency savings that were identified, and may be available for 2024-25, have not yet been incorporated due to the timing of publication.

We have commented on the findings of the Review, especially in relation to the under-utilisation of the contract levers in the Data Services Contract+ (DSC+), in our letter of 20 October.² We have also recommended steps that should be taken in response to the Review, including addressing governance and contractual issues that are not specific to the development of any particular business plan. We encourage Xoserve to take an ambitious but robust approach to realising those efficiencies. We look forward to the outlook for reduced expenditure in the second draft.

At this stage, it is too early to suggest how often the efficiency assessment should be repeated given that Xoserve has not yet disclosed how it intends to respond to the findings of the Review.

Performance indicators relating to contract management and assurance should be developed:

Additional performance indicators should be developed that reflect the refocussing of Xoserve's target operating model away from service delivery to contract management and assurance, and that measure how effectively contracts with third-party service providers are managed.

We believe these performance indicators are now necessary because the Review has highlighted that levers within the DSC+ to assure value for money for Customers have either not been utilised or have been under-utilised.³ The under-utilisation of the contract levers is unsatisfactory given Customers' considerable concerns during previous planning cycles about the potential inefficiencies and lack of will to describe the assurance activities that were performed or contemplated. Performance indicators can encourage Xoserve to improve its performance and will provide Customers with transparency about the effectiveness of Xoserve's management of contracts with third-party service providers.

The quality of the business plan can be further improved:

We agreed fully to review how the second draft of the business plan satisfies the BPIR.⁴ Nevertheless, the main areas in which the plan can be improved with respect to the BPIR are:

- Allocation of Costs to Customer Classes – the methodology, assumptions, data and justification for the various allocations should be included.
- Current performance – information on performance during the current year (Y-1) and how that performance has informed the plan should be included.
- Expenditure – evidence to demonstrate the efficiency of the proposed expenditure should be included (as we discuss above).

We also discussed aspects of the first draft of the business plan that require further explanation and you committed to reviewing how that further explanation can be included in the second draft. To support this activity, we noted that the relevant aspects are:

² In our letter to Steve Brittan, 20 October 2023.

³ Page 27 of the Review.

⁴ In our meeting on 11 October.

- publication of Xoserve's review of the application of inflation to its cost base (including methodology, analysis and findings) and justification of the choice of the measure(s) of price uplift (if uplifts are considered appropriate) to each cost category;
- resource data should be extended beyond permanent personnel to include temporary and contract staff;
- details on the drivers of each rebate component and the impact of each driver (page 24);
- details on how efficiencies driven by the Gemini Sustain programme were identified and have been embedded in the proposed expenditure (page 21);
- details of how the renegotiation of the RECCo service costs led to the reduction in 'Service and Operate' (S&O) costs (page 21);
- an explanation of how developing in-house capability leads to Investment costs being reclassified as S&O costs instead of classifying costs according to the definitions in the Budget and Charging Methodology (e.g. page 48);
- details on the purpose of the '4E' framework, how the framework has been used to inform the plan and how the plan has been assessed according to the framework; and
- details on other relevant risks and uncertainties that were assessed, and how the business plan has been tailored to manage those risks and uncertainties.

Xoserve should directly involve Customers in the review of the Cost Allocation

Methodology:

As in our response to the consultation on the Principles and Approach, we encourage you to fully engage with Customers and proactively seek feedback throughout the review of the Cost Allocation Methodology (CAM). The CAM necessarily affects the charges that each Customer is required to pay and, therefore, Customers must be given the opportunity directly to contribute to the review instead of Xoserve relying on feedback from the Contract Management Committee. It would not be appropriate to levy charges according to a methodology that Customers have not had opportunity directly to inform the development. This wider consultative approach is commonplace in all other segments of the energy value chain.

Please do not hesitate to contact me if you would like to discuss any aspect of this response.

Yours sincerely,

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