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Sent by email to [Kirsty.ingham@centrica.com](mailto:Kirsty.ingham@centrica.com)

Dear Kirsty

Many thanks for your letter dated 30<sup>th</sup> November in response to the 2<sup>nd</sup> Draft of BP24, and also for your continued engagement in the development of this Business Plan – it is much appreciated and valued. We are pleased that you acknowledge the continued approach we have taken to take on board customer feedback to improve the plan.

### **Efficiency (VfM) Review**

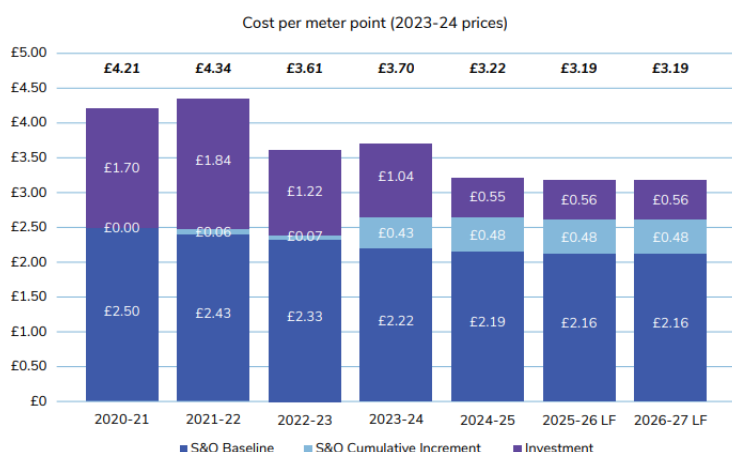
The independent Efficiency Review focussed on benchmarking of the 2022-23 Xoserve cost base, an approach agreed with the SEP panel which commissioned the Review. Its key finding was that the large majority of our CDSP services benchmarked favourably with similar organisations. It also found that there were several opportunities that could be explored to further reduce costs, as well as some more general thematic recommendations for the future “Change” programmes.

As the cost-per-meter point graph below shows, baseline S&O real-terms costs have been on a consistent, downwards trajectory from 2020-21 onwards removing any distortion that would otherwise apply via the year-on-year application of indexation.

On p.27 of BP24, we have shown our S&O costs in such a way as to be able to track the evolution of the cost of services that:

- have been required throughout the period
- have been applied to subsequent budgets as new scope has been introduced as a result of industry / customer change / reclassification from investment to Service and Operate (S&O) as change programmes become operational activities

If these elements aren't tracked separately, it makes it more difficult to transparently show how the cost of services evolve over time. Our graph (repeated below) reports how costs for services that have been consistently delivered over the period have reduced from £2.50 per meter point baseline in 2020-21, via a mixture of activities and change deliveries including the UK Link Roadmap, Gemini Roadmap, CMS Rebuild, and RECCo service provision renegotiation. Alongside these economy gains, we have also simultaneously incurred additional scope ('S&O Cumulative Increment'), such as the operational cost of delivering Central Switching Services.



This way of showing costs is also critical to be able to track economy gains against the cost base that was assessed via the Efficiency (VfM) Review, as scope that was applied after this period was not subject to that review/assessment. To repeat, the Efficiency Review considered 2022-23 baseline costs, and its recommendations for savings targets are in comparison with that baseline. Again to repeat, the Efficiency Review recommended that real-terms savings targets of 2-8% overall against the 2022-23 baseline should be targeted.

Separately, work in Xoserve has been ongoing over several years to identify opportunities for efficiency gains. This is evidenced by the continued cost reductions delivered since 2020/21

This internal work pre-dates, and will post-date the Efficiency Review – which should itself only be viewed as a snapshot for benchmarking purposes.

By way of example, the Efficiency Review found that 2022-23 Gas Enquiry Service costs benchmarked poorly compared with the Electricity equivalent. In fact, we had already established this internally, and had commissioned work to improve this situation, with a plan put in place to deliver savings via a Cloud solution. Following this reduction RECCo has not subsequently expressed any dissatisfaction.

We were keen not to cross-contaminate the findings of the Efficiency Review with ongoing internal work, and therefore stand by our BP24 approach, which is to accept the Efficiency Review findings in full, and set a target deliver the top end (plus a little extra) of the savings potential identified by the Review against the baseline.

The future savings (FY2025-26, and 2026-27) targets in earlier iterations of BP24 were aspirational, and not “in the bag” – as your letter seems to imply. Our position is that the Review has confirmed that these future targets are basically pitched at the right level, and the Review has helped us to focus on where these could be achieved, and hence the reason why we have initiated the Efficiency Review Implementation in Xoserve (ERIX) programme.

This programme is considering the potential economy gains that may result from each of the 40 individual Efficiency (VfM) Review findings. Our expectation is that, as we proceed with the ERIX programme, this linkage will become more apparent, and we will work with our Customer Advisory Board to track progress, including identifying where savings are contingent on optimisation of customer requirements.

## **Further improvements to BP24 and related information**

In line with your suggestions to further improve BP24 and share more information, we have added to the rationale for our approach to the application of indexation in our final draft (p.27). I can also confirm that the Annual Review 2022-23 communicates historical data relating to our headcount and related costs (p.10) , and at a high level, information regarding the rationale for cost allocation between customer classes in the Annual Review 2022-23 (p30-31) <https://bp24.xoserve.com/wp-content/uploads/2023/09/CDSP-Annual-Review-2022-23.pdf>

We are currently developing a reporting suite that will be shared with the DSC Contract Management Committee to demonstrate our Contract Management and Assurance activity. We will welcome customer input on this once ready to share (Q4 2023-24).

## **Equity Review**

We will certainly be asking customers to participate in the upcoming review of the Cost Allocation Methodology – to align with our '4E' VfM framework, we are calling this the 'Equity Review'. For the avoidance of doubt, we will not make any changes to the existing methodology without the proper customer consultation.

I trust that this sufficiently addresses the points raised in your letter, but please let me know if you would like to discuss further.

Many thanks



James Rigby

## **Business Plan Manager**

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