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Sent by email to [james.rigby@xoserve.com](mailto:james.rigby@xoserve.com), [customerexperience@xoserve.com](mailto:customerexperience@xoserve.com).

Dear James,

## **2024-25 Business Plan Second Draft**

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

We welcome the improvements made in the second draft to the 2024-25 Business Plan (BP24) in response to Customer feedback on the first draft. Our further feedback is focussed on the areas discussed below.

### **Xoserve should be transparent about reductions in Service and Operate costs in response to the efficiency assessment:**

In the 'Roundtable' on 10 November 2023, Xoserve presented a 'strawman' of how the findings of the *Xoserve Efficiency (Value for Money) Review* (the Review) could be implemented. The 'strawman' comprised an aspiration to reduce Service and Operate (S&O) baseline costs and convening a programme that includes a 'Customer Advisory Board' to identify paths to realising efficiencies, particularly in relation to Change projects.

#### *Reducing Service and Operate baseline costs:*

The aspiration to reduce S&O baseline costs involves achieving a 9% reduction by 2026-27 compared to costs incurred during 2022-23.<sup>1</sup> S&O baseline costs constitute 68% of the total expenditure that has been proposed for 2024-25.

In the first draft of the BP24, and before the Review was completed, Xoserve was already proposing to reduce S&O baseline costs by 7.3% - from £2.33 per meter point to £2.16 - over the four-year period to 2026-27. The aspiration to reduce S&O baseline costs in response to the Review represents an incremental reduction of only 1.7% or 4p per meter point beyond what was previously proposed. The incremental reduction of 1.7% is equivalent to annualised reductions of only 0.4% over the four-year period. If this is the case, reductions targeted in response to the Review appear markedly unambitious and are evidently underwhelming by any measure.

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<sup>1</sup> The aspiration is summarised on page 30 of the second draft of the business plan.  
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There is a risk that the commentary in the second draft of BP24 creates the impression that the 9% reduction in S&O baseline costs is 'new' when, in reality, the vast majority was proposed before the Review was completed. It is possible that the reductions that were proposed before the Review was completed overlap with the findings of the Review. Any overlaps must be made clear. This emphasises the need for Xoserve to be fully transparent, to provide comfort with Customers that the findings of the Review will be fully implemented.

Xoserve should provide detailed information on:

- each component of the 7.3% reduction in S&O baseline costs per meter point by 2026-27 that Xoserve proposed before the Review was completed, including differentiating between avoided costs and genuine efficiencies;
- the ways in which S&O baseline costs can be reduced as per the findings of the Review;
- each component of the incremental 1.7% reduction in S&O baseline costs per meter point by 2026-27 that Xoserve proposes to target, in response to the findings of the Review, including differentiating between avoided costs and genuine efficiencies; and
- each area in which Xoserve previously proposed to reduce S&O baseline costs proper to the Review being completed that were also identified in the Review.

*Programme to identify paths to realising efficiencies:*

We welcome the proposed collaborative approach to identifying paths to realising efficiencies, particularly in relation to Change projects. We look forward to reviewing Xoserve's proposal for the operation of the programme and Xoserve improving the proposal in response to Customer feedback. As we did during the 'Roundtable' on 10 November, we emphasise that Xoserve should fully engage with Customers on all programme workstreams, including the review of contractual arrangements. We believe essential outputs of the workstream relating to contractual arrangements include a robust plan for restoring full visibility and control of S&O costs and the full utilisation of levers to assure value for money.<sup>2</sup> The programme should be progressed as quickly as possible.

### **The quality of the business plan should be further improved:**

We shared with you our high-level assessment of the second draft of BP24 against the Business Plan Information Rules that have been developed as part of Uniform Network Code Modification 0841.<sup>3</sup> As we discussed, the ways in which in which BP24 can be improved include:

- documenting in the business plan the justification for the treatment of inflation relating to each Cost category;
- documenting in the business plan the numbers of permanent personnel and temporary and contract staff, and including historical data;
- explaining how performance achieved and expected to be achieved during 2023-24 has influenced the content of BP24;
- explaining the justification for the proposed allocations of Costs to each Customer class (notwithstanding the review of the Cost Allocation Methodology); and

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<sup>2</sup> Findings of the Review included Xoserve has limited visibility and control over costs in the Cost to Operate category and the levers to assure value for money in the contracts with third parties were under-utilised.

<sup>3</sup> In our meeting on 20 November.

- developing performance indicators relating to contract management and assurance<sup>4</sup>.

We also advised that the 'cost per meter point' information appears inaccurate and should be revised.

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

#### **Methodology:**

The review of the Cost Allocation Methodology (CAM) was confirmed in June 2023<sup>5</sup> and Xoserve has since advised that it is being progressed. However, customers have not yet been engaged. As we discussed, we continue to encourage you to fully engage with Customers and proactively seek feedback throughout the review of the 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.

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**

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<sup>4</sup> We explained the need for these performance indicators in our response to the consultation on the first draft of BP24.

<sup>5</sup> In the draft of the 2024-25 Principles and Approach.