Xoserve

2017/18

- Annual Report -

Contents

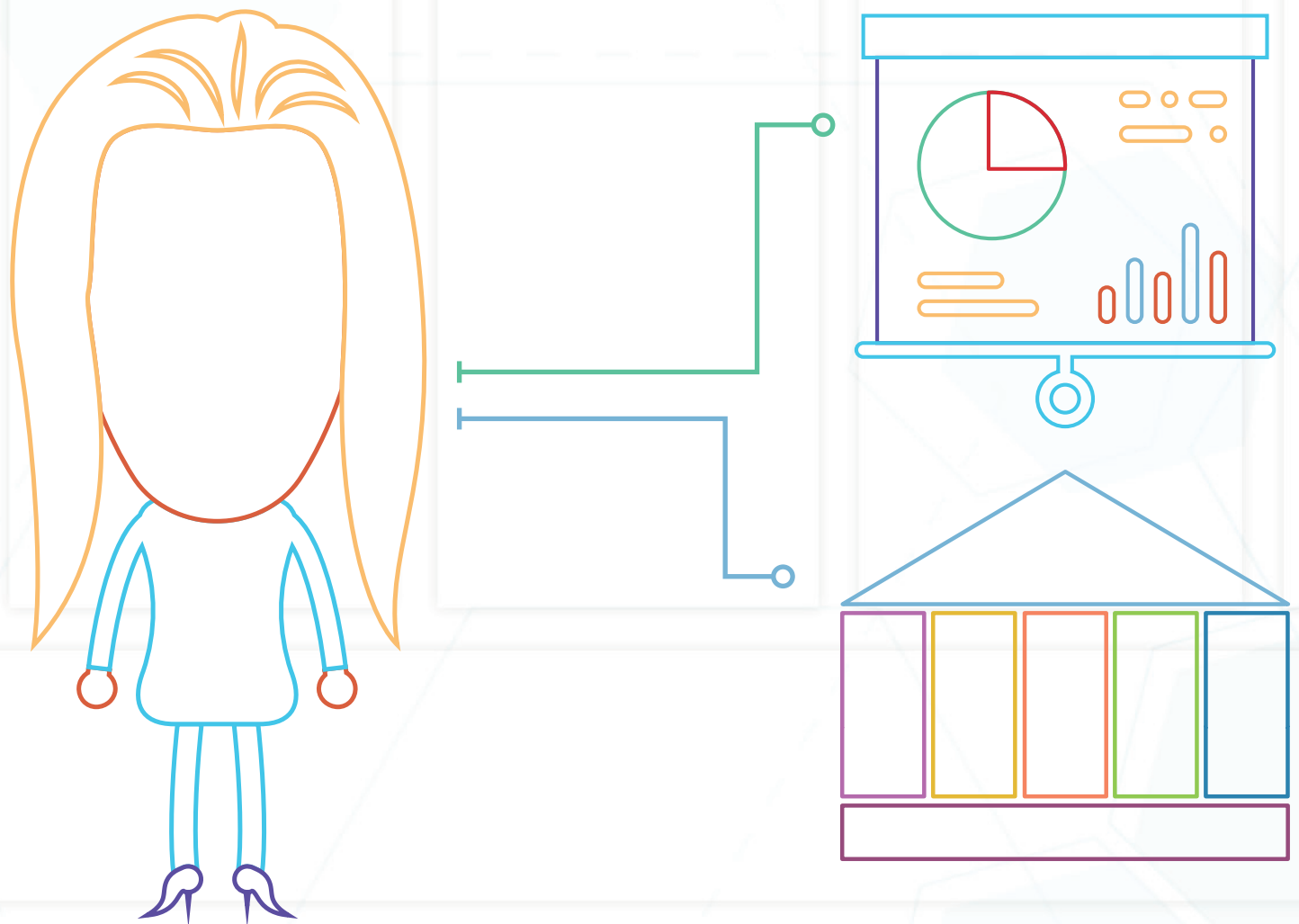# Chairman's Statement

I am delighted to be able to introduce this edition of our Annual Report. It provides both a look back at our business and financial performance for 2017/18, and a look forward to the organisation that we want to become at the heart of a rapidly changing energy market.

The 2017/18 year has seen a number of significant events which have started to reshape Xoserve's future:

- Following an extensive review by Ofgem of our Funding, Governance and Ownership, we have been appointed into a new role as the gas industry's Central Data Service Provider. For the past 12 months, we have operated under a co-operative governance model, funded collectively by all of our customers who in turn exercise control through our Board and contract arrangements.

- After a number of years of service, Chris Murray has retired from the position of Xoserve's Chief Executive Officer, and the Board has appointed Sian Jones to take on this important role of leading the company forward. I would like to personally thank Chris for his commitment and contribution in guiding the business through a period of significant change.

- We have implemented a replacement UK Link system, including new gas settlement arrangements and bringing the independent Gas Transporters into the scope of our central service provision. This has been a significant step forward for the energy market and has delivered an industry asset with considerable future potential.

- We have acquired much greater market independence as National Grid has divested itself of its majority shareholding in Xoserve. This also means that we are replacing a number of legacy services provided by National Grid and implementing new products and contracts in the coming year.

With oversight and direction from the Board, Sian is successfully navigating Xoserve to a new future with the customer at the heart of everything we do, where we strive for simplification of the market for the benefit of the whole industry and ultimately the energy consumer.

It's been a year of considerable change across all parts of the organisation, and I want to openly recognise the hard work and tremendous effort that everyone has put in over the last 12 months, not just to keep our essential services going but also to move the business forward guided by Sian and her Executive team.

Nick J Durlacher, CBE

Chairman

Introduction from Xoserve CEO, Sian Jones

The publication of our 2017/18 Annual Report marks the completion of my first year as Xoserve Chief Executive Officer. It's been an enormously busy 12 months with many challenges, but also with some significant successes. Against a backdrop of a new funding, governance and ownership model for the company, we've created an exciting new strategy that we believe will deliver real benefit to the energy market and to energy consumers. You can read much more about the new strategy in the Forward Look section of the Report beginning on page 16.

Project Nexus went live on 1ˢᵗ June 2017, replacing our legacy UK Link systems with a major SAP deployment and delivering gas market reforms that were high priority for both Ofgem and the Competition and Markets Authority. We've been supporting our customers as they work with the new market rules, particularly around the levels of Unidentified Gas, and we're planning to do much more in this space to continue to provide the high quality issue management that our customers expect.

We've been promoting the market simplification and asset reuse dimensions of our strategy, and we've made our case to Ofgem that there are significant benefits for the energy consumer in leveraging the industry's existing assets. An example of this is the proposal to reuse the UK Link asset to provide a platform for the gas and electricity market Central Switching Service.

"We've made it a priority during 2017/18 to build our organisational capability"

We've made it a priority during 2017/18 to build our organisational capability. Our Optional Leavers Scheme has created the space to offer career development opportunities for those staying with the company, and to bring new skills and capabilities into key positions in the organisation.

Looking ahead to my second year at Xoserve, there are tough but exciting times ahead. We're operating in an increasingly complex and rapidly evolving market, and demand for our resources and capability is both growing and diversifying. As well as responding to these demands, this will be a critical year for delivering a step change in our ambition to be recognised as a customer centric organisation by our customers, laying the groundwork for being recognised as one of the most customer centric organisations in the energy sector. We have set ourselves a very high bar and I am under no illusions how far we need to travel to deliver against this promise, but I am also encouraged and motivated by the passion Xoserve people have to deliver against our strategy. Critically, we have the support of our customers, who we thank for providing valuable and candid feedback at every step of the way thus far and who I want to thank for supporting us to deliver against our most transformational year yet.

If you want to talk to us about any aspect of our Report, please get in touch.

Meet the Board

Nick Durlacher
Chairman

Steve Edwards
Network Nominated Director

Andrew Quail
Network Nominated Director

Nicola Pitts
*NG Transmission
Nominated Director*

Neil Shaw
IGT Nominated Director

Colin Rees
Shipper Nominated Director

Mike Hogg
Shipper Nominated Director

Yehuda Cohen
Shipper Nominated Director

Duncan Sedgwick
Shipper Nominated Director

Meet the Executive Team

Vicky Palmer
Business Strategy Director

Ranjit Patel
Chief Customer Officer

Steve Adcock
Chief Information Officer

Sian Jones
Chief Executive Officer

Sandra Simpson
Operations Director

Bal Jacob
HR Director

Clive Nicholas
Chief Commercial Officer

Review of 2017/18 Performance

Introduction

In this section of our Annual Report, we look back on our achievements and customer outcomes for 2017/18. We also provide a summary of our financial performance for the year.

Our Role

Following the completion of an extensive review by Ofgem of our Funding, Governance and Ownership, we were appointed into a new role as the gas industry's Central Data Service Provider (CDSP) on 1st April 2017. We became a co-operative business, wholly funded and governed by our customers, which has resulted in a number of very real changes in the way that we operate:

- All of our customers – Shippers, Gas Distribution Networks, National Grid Gas Transmission and the Independent Gas Transporters – have signed up to a single, common Data Services Contract (DSC) with us. The DSC defines the large majority of the services that we provide, sets out how we recover service costs from our customers and provides customers with a governance framework for managing service performance and change requirements.

- We consult with all of our customers when we develop our annual Business Plan and Budget, addressing and responding to their feedback before submitting a Plan to our Board for approval.

- All of our customers can nominate Directors to our Board. You will find information about our Directors on page 5.

We are pleased to see that these new arrangements have been working well in their first year:

- We meet monthly with customers to review our performance against the contract and make decisions about the delivery of changes to our systems and processes. We have also set up and run in collaboration with our customers an additional bi-monthly working group to carry out detailed work on defining the scope of future system releases.

- We are working with our customers on an in-depth review of the process and documentation for changing our systems and services to improve efficiency in delivery and to help customers manage the impacts of changes on their own organisations.

- We facilitate regular meetings with industry representatives who oversee a credit management framework that is designed to protect our customers from unacceptable levels of financial risk in the event of a customer failure.

- We have successfully completed a first full Business Plan and Budget consultation. Customer feedback was largely positive and we are refining our approach to the next cycle where customers have told us about areas for improvement.
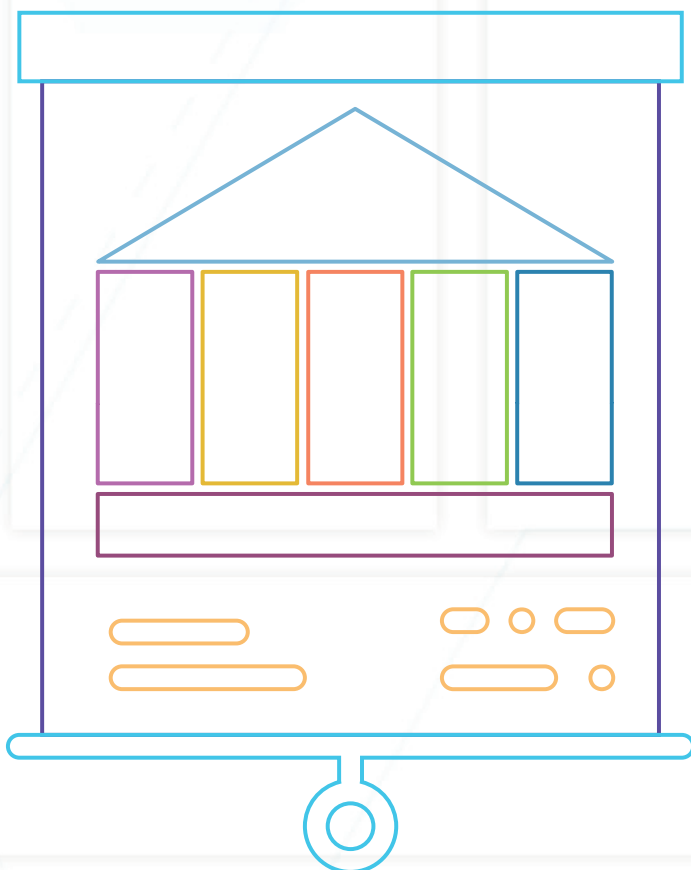
Our Organisation

We have made it a priority during 2017/18 to build our organisational capability. We have undertaken a significant restructuring of our business and some teams have been radically redesigned in order to effectively deliver our strategy.

> "We have undertaken a significant restructuring of our business"

In support of our objective to become more customer centric, our Chief Customer Officer leads a team that aims to have a rich understanding of our customers' strategic aims and how we can help them to realise their ambitions. This means that our Customer Advocates champion customer issues with their Xoserve colleagues, and that our Customer Change team members represent customer views to the organisation at all points in the Change Lifecycle. Other teams work closely with incoming customers to deliver a trouble-free on-boarding experience.

For our change leading and data driven objectives, our Chief Information Officer has realigned his team to focus on the provision of trusted and valued technology advisory services led by a Chief Architect, change delivery services led by Platform Directors and data management and insight led by a Chief Data Officer.

Alongside this restructuring, we have designed and implemented an Optional Leavers Scheme. The purpose of the scheme was to offer people the opportunity, on a voluntary basis, to end their period of employment with the company if they felt that Xoserve's new strategic focus was not for them. It also provided a means of increasing the amount of employee movement, offering career development opportunities for those staying with the company and bringing new skills and capabilities into key positions in the organisation.

Our Strategy

During the past 12 months, we have undertaken a comprehensive review of our strategy, asking deep questions about our purpose and what we are here to do. You can read all about our strategy and what it means for our customers in the 'Forward Look' section beginning on page 16.
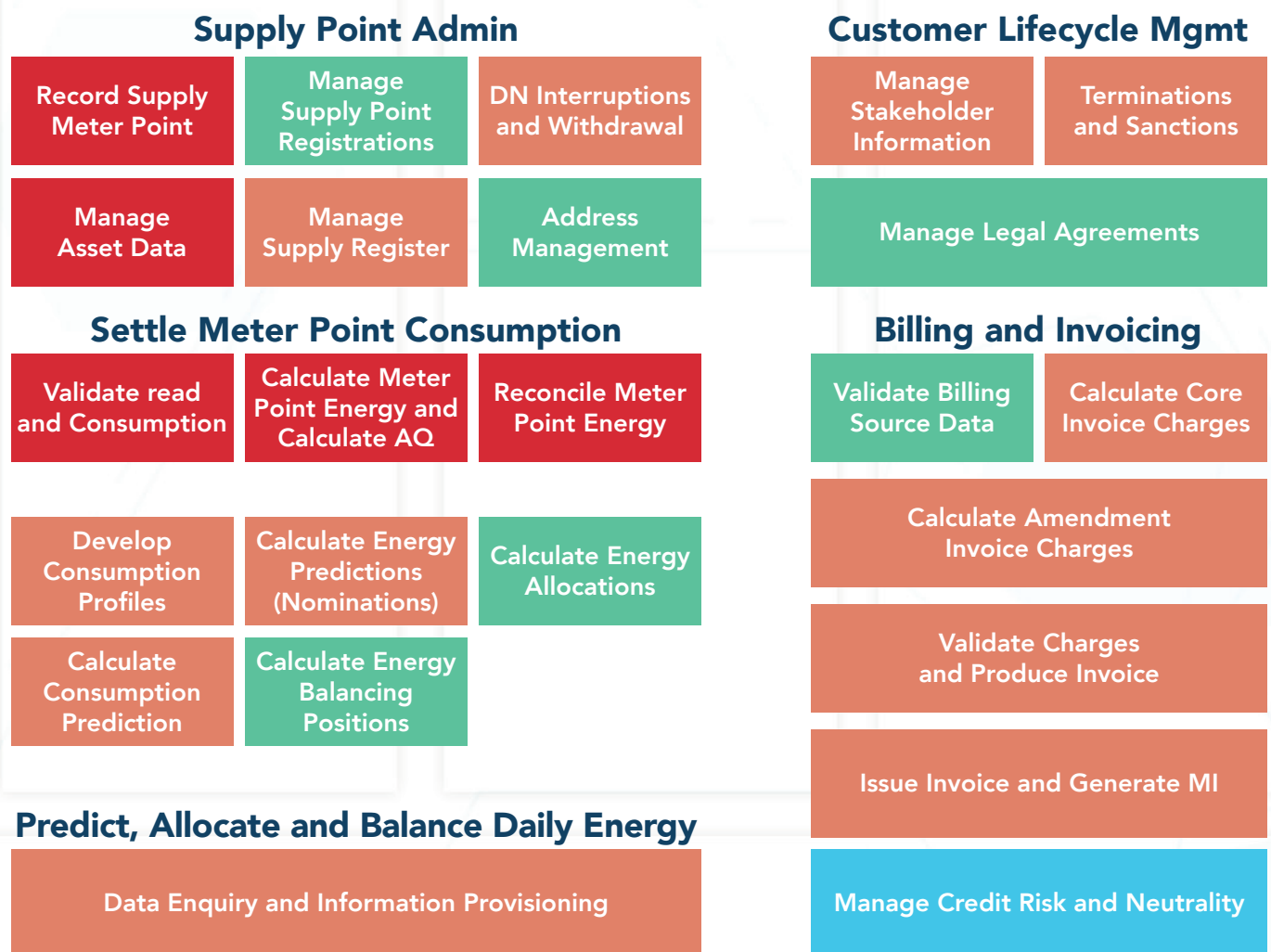
Project Nexus

On 1st June 2017, we successfully delivered Project Nexus. This was a major achievement for the gas industry in Great Britain, replacing an aged suite of central systems with up to date, secure and scalable applications. The cutover from old to new systems was achieved without adversely impacting consumers' ability to switch their energy supplier.

At the same time, Project Nexus introduced some significant market led changes to the gas settlement rules and brought the Independent Gas Transporters into our customer base for supply point registration and administration services. We achieved a quicker than expected transition through the post go live hyper-care and support periods, with the result that both Ofgem and our customers were comfortable to hand over the governance of any residual Project Nexus matters to the DSC Committees by 30th September 2017.

We have stabilised the running of the large majority of processes in the new systems and secured a 90% reduction in the number of resources needed to manage exceptions. We have a continuing dialogue with our customers about three key topics – the volatility of levels of Unidentified Gas (a feature of the new market arrangements), the timeliness and accuracy of the Amendment Invoice and its supporting information, and the implementation of a solution for Retrospective Adjustments that was partially de-scoped from the June 2017 delivery. We talk more about these in the Forward Look section of our Annual Report, where we focus on our plans to respond to customer demands.

Project Nexus Impact Map

Supply Point Admin

Record Supply Meter Point	Manage Supply Point Registrations	DN Interruptions and Withdrawal
Manage Asset Data	Manage Supply Register	Address Management

Customer Lifecycle Mgmt

Manage Stakeholder Information	Terminations and Sanctions
Manage Legal Agreements	

Settle Meter Point Consumption

Validate read and Consumption	Calculate Meter Point Energy and Calculate AQ	Reconcile Meter Point Energy
Develop Consumption Profiles	Calculate Energy Predictions (Nominations)	Calculate Energy Allocations
Calculate Consumption Prediction	Calculate Energy Balancing Positions	

Billing and Invoicing

Validate Billing Source Data	Calculate Core Invoice Charges
Calculate Amendment Invoice Charges	
Validate Charges and Produce Invoice	
Issue Invoice and Generate MI	
Manage Credit Risk and Neutrality	

Predict, Allocate and Balance Daily Energy

Data Enquiry and Information Provisioning

■ = High Change   ■ = Medium Change   ■ = Low Change   ■ = No Change

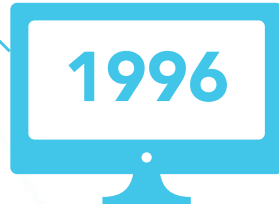# Project Nexus - Key Outcomes and Metrics

Considered to be the **largest deployment** of SAP ISU solution **globally**

01234

Enabling smart metering, centralisation of Gas market switching services and improved settlement services

Replacement of the IT solutions delivered in 1996 that enabled opening of supply competition in the UK Gas market

1996

Creating the foundations to support an increasingly 'Dual Fuel' energy market and delivering benefits to Consumers

Metric	Value	Description
Business rules	3,000	Utilised established Business rules and requirements management tool
Processes to implement and iest	149 (739 steps)	Process models captured to industry best practice and centrally held, linked rules and requirements
Key data items per meter point	210	Volume of key data items associated to gas Meter Point Reference Number (MPRN) and provided core concentration for migration validation
Data items migrated per meter point	1500	Data items being migrated from legacy UK Link and other sources
Data flow interfaces (external)	260	Changes to industry data flows for existing and new services
Market participant	45	Number of market participants: Network operators, Energy Suppliers and Gas Transmission
Meter points	24 million	Number of premise metering points in the new solution

Financial Performance

£m Charge Type	Shipper Users	National Grid NTS	DN Operators	IGTs	Other	Adjustments	Annual Total
Published Charges							
1. General Services	10.8	8.1	13.9	0.3	0.0	0.0	33.1
2. Infrastructure	5.5	2.3	7.3	0.1	1.1	0.0	16.3
3. Change	0.5	3.8	1.6	0.0	0.0	0.0	5.9
4. UK Link (Nexus)	0.0	1.5	12.0	0.0	0.0	0.0	13.5
5. Specific Services	3.7	0.0	0.1	0.0	0.0	0.0	3.8
6. Non ACS Charges	0.0	0.0	0.0	0.0	0.2	0.0	0.2
Total	**20.5**	**15.7**	**34.9**	**0.4**	**1.3**	**0.0**	**72.8**

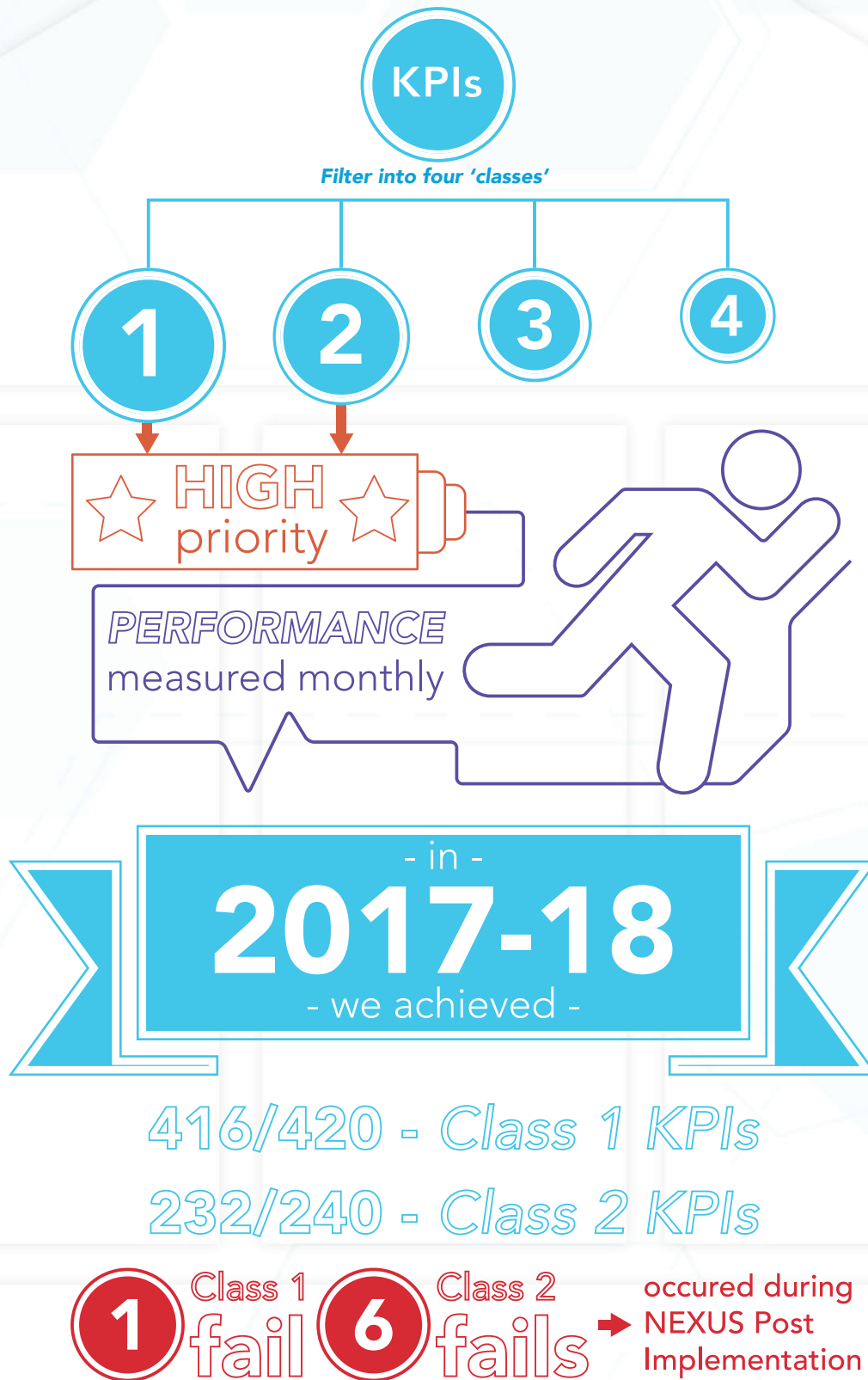| £m Charge Type	Shipper Users	National Grid NTS	DN Operators	IGTs	Other	Adjustments	Annual Total
Actual Charges							
1. General Services	10.4	8.0	13.4	0.3	0.0	0.0	32.1
2. Infrastructure	6.7	1.5	8.2	0.1	0.1	-2.8	13.8
3. Change	0.3	1.8	0.2	0.0	0.0	0.0	2.3
4. UK Link (Nexus)	0.0	1.7	13.6	0.0	0.0	8.8	24.1
5. Specific Services	4.0	0.0	0.1	0.1	0.0	0.0	4.2
6. Non ACS Charges	0.0	0.2	0.0	0.0	0.0	0.0	0.2
Total	**21.4**	**13.2**	**35.5**	**0.5**	**0.1**	**6.0**	**76.7**

Adjustments are in respect of deferral of income to 2018/19 and the treatment of capital contributions. Total actual charges of £76.7m will match the income line in our published accounts.

The financial information set out above is draft. Final audited accounts will be published on our website in September 2018.

Operational Performance

For the 2017/18 year, we have measured our operational performance by reference to the Key Performance Indicators (KPIs) that are set out in our DSC and the availability of our systems.

DSC KPIs

KPIs

Filter into four 'classes'

1 2 3 4

HIGH priority

PERFORMANCE measured monthly

- in -
2017-18
- we achieved -

416/420 - Class 1 KPIs

232/240 - Class 2 KPIs

1 Class 1 fail **6** Class 2 fails → occured during NEXUS Post Implementation

Alongside the regular reporting of DSC KPIs, we have worked extensively with our customers to design and implement a suite of Key Value Indicators (KVIs) that more closely reflect customer interests and the aspects of our services that they value the most. The KVIs come into effect for the 2018/19 performance year.

Systems Availability 2017/18

We have Service Level Agreements in place that require each of our key systems to have 97% or 99% availability. For 2017/18, we achieved at least 99.62% availability for each key system.

	SLA	Achieved
UKL	99%	99.62%
Gemini	99%	99.76%
Gemini B2B	99%	99.89%
IX	99%	99.96%
Electronic File Transfer	99%	100%
Data Enquiry	97%	99.9%
Reporting	97%	100%
CMS	97%	99.96%

Customer Engagement

As part of our objective to become a much more customer centric organisation, we've taken steps to get insight from our customers on how they think we are performing. We've adopted the Institute of Customer Service (ICS) Business Benchmark to measure customer satisfaction, and we ran our first survey in February 2018. We used the ICS product in order to introduce greater rigour to our view of customer satisfaction than we had previously, and to allow an objective comparison with other businesses and market sectors. In addition to the Business Benchmark, we also get insight into other key measures such as the Net Promoter Score, Customer Effort and Right First Time.

The survey results are a reality check, making it clear that there is considerable room for improvement. In consultation with the ICS, we're setting a path to drive towards a customer satisfaction score in five years' time which is above the UK average and well ahead of typical utility sector performance.

Change Delivery

Following a successful Project Nexus implementation in the earlier part of 2017/18, we have been turning our attention to the planning and delivery of future releases. In a change from previous practice, we're adopting an approach of managed releases at predefined points in the year, and working with customers and colleagues to plan and prioritise the content of each release. We successfully navigated our way through a small release in late 2017, giving us an opportunity to test the release management process both internally and with customers. A further release took place in June 2018 and the next release is scheduled for November 2018.

We are also responsible for providing system change and support services for the Gemini application that is owned by National Grid Gas Transmission. Gemini provides capacity management and energy balancing services to the gas market. We have a programme of regular engagement with National Grid Gas Transmission to develop and agree a Gemini change delivery plan, addressing both market reform demands and requirements for investment in the system infrastructure. During 2017/18, our focus has been on assessing the impacts of potential amendments to the Gas Transmission Charging Regime and on determining the optimum path for medium and longer term investment in the Gemini infrastructure.

On 31st March 2017, following the sale of a majority stake in its gas distribution business, National Grid ceased to be the principal shareholder in Xoserve. As we are no longer part of the National Grid group of companies, we are moving away from a range of services we previously took from National Grid. These services comprise the provision of finance, payroll and procurement systems, as well as desktop and network services. Under the banner of our TransformUs Programme, we are implementing replacement systems and services in late 2018.

Data Services

- We understand the increasing importance that our customers are placing on data that is timely, reliable and readily accessible, and on making use of that data to provide analysis and insight.

- We have launched a major initiative to strengthen our capabilities and services in this space, and at the heart of this is the establishment of a Data Access Platform.

- We've laid some solid foundations during 2017/18; you can read more about future plans to develop the Platform into a strategic industry asset in the Forward Look section of this report on page 26.

Our People

We are working with Franklin Covey to develop our employees' skills and ways of working. For 2017/18, our focus has been on rolling out the '7 Habits of Highly Effective People' across the organisation. Led by a team of trained volunteers from across the business, all of our employees have participated in workshops, and these are followed up with regular small group discussions to help employees reflect on how to turn their workshop learning into practical action. We also run workshops to help individuals manage change and to help our leaders help their team manage change. Going forward we are integrating the '7 Habits' into our performance management framework to help us assess how effectively our people work.

Central Switching Service

In September 2017, we set out our case to Ofgem to leverage the UK Link asset to provide the Central Switching Service (CSS) platform as an alternative to a third party undertaking a new system build, and opening up UK Link to interface with that system. Ofgem concluded in early 2018 that we should be allowed to participate in a CSS procurement event.

Forward Look

Introduction

In this section of our Annual Report, we set out our Vision and Strategic Objectives. We talk about why we are changing, and outline what we think lies ahead for ourselves, for our customers and for the wider energy market.
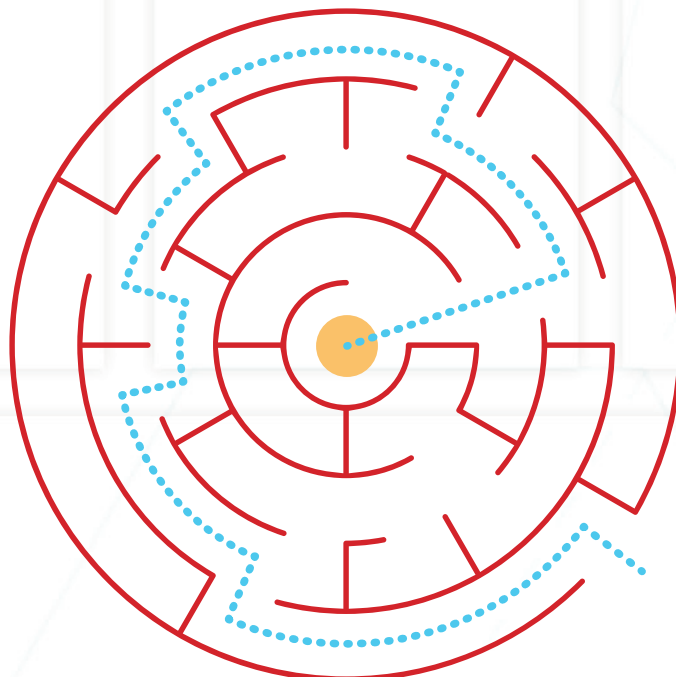
Our Vision

Background

The energy market that has developed since privatisation in the 1980s and 1990s is characterised by complexity and a lack of consistency. Operating from the centre of a highly complex market, we can see a proliferation of different central service models in the gas and electricity markets, with no two service providers operating under the same set of arrangements.

Much of this complexity has arisen from the way in which incremental reforms have been delivered over time. Each new set of requirements has been tendered on the open market, introducing new companies, each with their own Board and management team, new industry codes and new governance bodies. Each evolution has also introduced new IT infrastructure and a new set of interfaces between new and existing companies and their respective systems. Each instance has added further cost and integrating each new piece of IT with what is already in place has introduced greater risk and complexity.

Historically, our focus has been on delivering the services that our customers need in order to meet their industry code obligations. We've tended to react to changes when they were put in front of us and haven't spent much time looking at what's going on in the energy market more widely. Following an extensive review by Ofgem, we were appointed into a new role as the gas industry's Central Data Service Provider in April 2017. Today, all of our customers – Shippers, Gas Transporters and Independent Gas Transporters – have a say in the services that we provide and are able to appoint Directors to our Board. All of our customers are involved in setting and collectively meeting our funding requirements. When we beat our budget, or operate in a way that minimises investment required by our customers, they all benefit from reduced charges or a reinvestment of funds, rather than us paying dividends to our shareholders.

We've also delivered a replacement UK Link system. It doesn't just meet today's gas customer requirements for registration, switching, invoicing and settlement; it's also a technology platform with considerable potential for providing services to both the gas and electricity markets. At the same time, rapid advances in technology are changing radically the ways in which we are all able to access data, share it with others and use it to inform the decisions that we make.
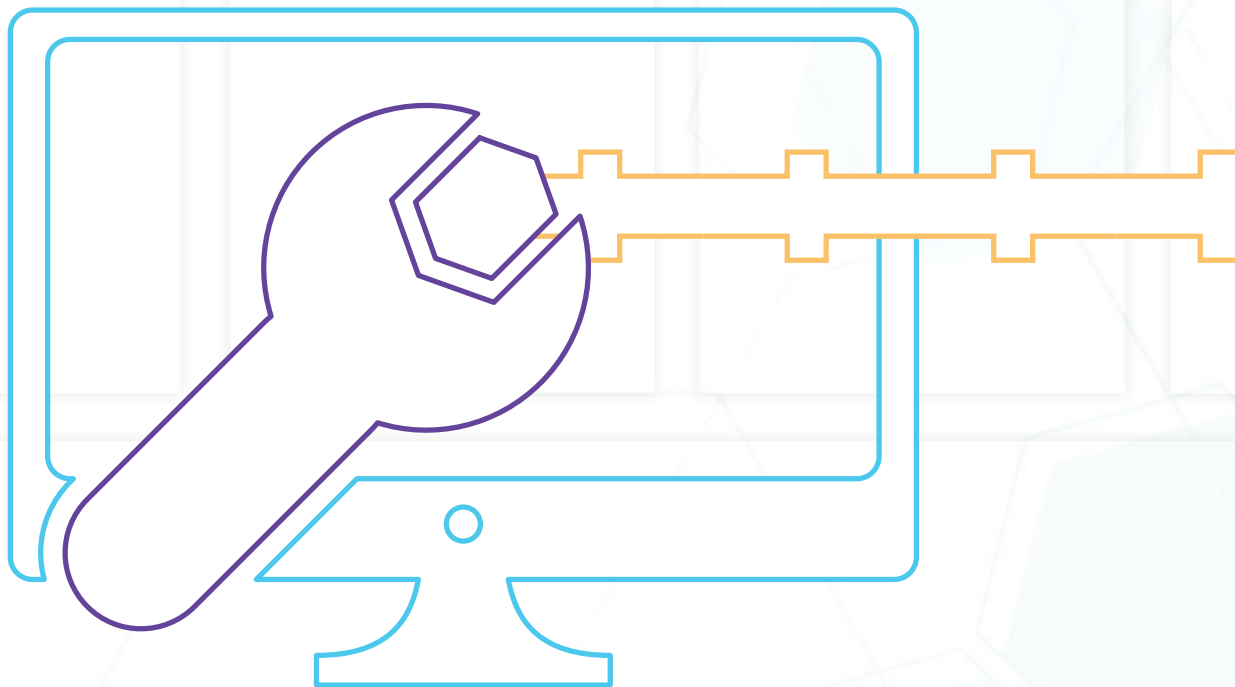
We've reflected on all of this and we've reached some conclusions that we believe will make us a very different organisation in the future. We're shifting our thinking from reactive to strategic. It starts with thinking differently about our obligations, not those that are enshrined in industry codes and licences,

but our moral and social obligations. We believe that we have a responsibility to do all we can to not burden energy consumers with additional costs but to allow them to realise fully the benefits of the significant investment in industry assets that they have funded previously.

We know that it's the right thing to do and that our operating model – which distributes the benefits of a well-run business out to our customers and ultimately energy consumers – encourages us to think this way. We also know that the impacts of this way of thinking become even more powerful when applied to all energy industry assets, not just those that we look after here at Xoserve.

We have encapsulated this thinking in our Vision:

> "We believe in radically simplifying the energy market through maintaining and leveraging industry assets for the benefit of all"

Explaining our Vision

"Radically simplifying" is about ensuring that new industry bodies, systems and codes are only created when absolutely necessary, and when we are sure that the potential in the investments that consumers have already made has been fully realised. If we don't think and operate this way, then we will add unnecessary costs onto consumers' bills. It's about getting the industry to a point where the first question to be asked when faced with reform is, "How can we make better use of the assets that we already have to meet this requirement, rather than creating something new?" It's about looking for solutions that can be achieved at the lowest total cost to the whole industry over the lifetime of the investment, rather than being concerned with local costs and benefits for individual players in the market. It's also about looking on a voluntary basis for opportunities for simplification through collaboration and consolidation, not waiting for a regulatory directive or mandate.

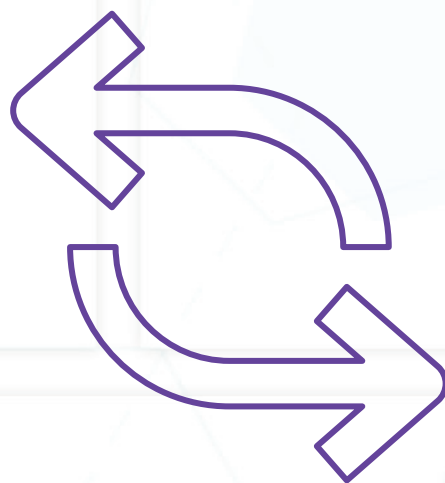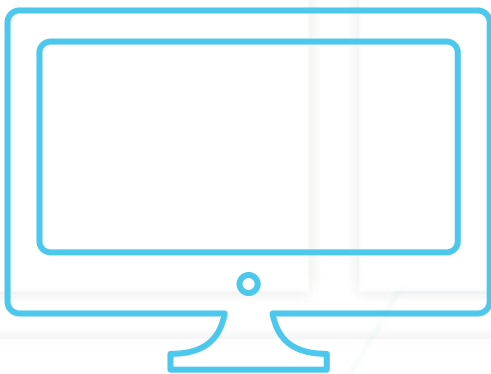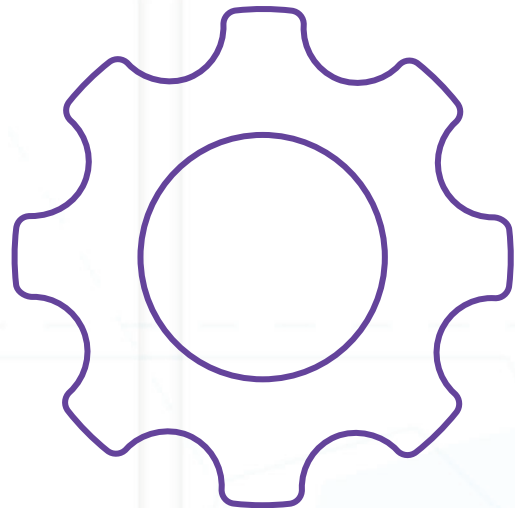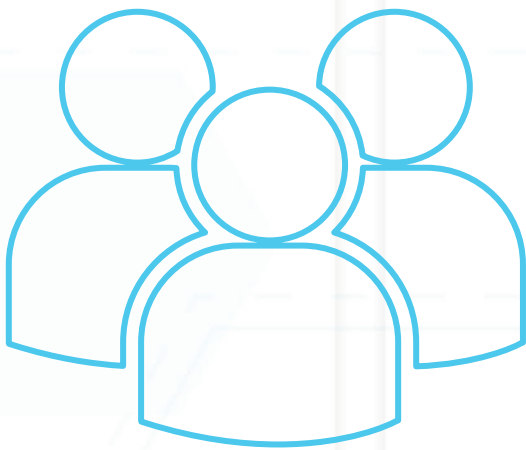We have identified four different classes of *"industry assets"*:

People – their skills, knowledge and industry understanding

Process – documentation, maintenance and modelling of key industry business processes

Technology – platforms, capacity and capability

Data – using the data attributes that we hold on behalf of the industry to provide market intelligence and insight

"Maintaining" is about discharging our primary responsibility to our customers to ensure that the level of service we provide - and that our customers rely on in order to operate their businesses - is efficient, is of consistently high quality and offers value for money at all times. We know that we can never afford to lose sight of this core aspect of our business. It's also about incremental investment in assets to ensure they remain relevant and future looking in terms of their quality, speed and cost effectiveness for our customers.

"Leveraging" is about offering up our assets, enabling our customers and other market participants to make greater use of them, to unlock more of their value and deliver maximum benefit for the least cost. It's about placing this additional value and benefit in the hands of our customers and ultimately end consumers. Importantly, it's also about a controlled approach that assesses the value that can be extracted, that considers the extent of asset reuse and the capability to pursue the opportunity, and that evaluates the risk associated with the leverage opportunity and how this might be mitigated to an acceptable level. There's more information about our Strategic Opportunity Filter on page 27.

We don't want a focus on asset reuse to suppress the innovation that is so essential in bringing new products and services to market. We think this can be easily avoided if the industry gives priority to making its data readily available and accessible to innovators who will apply their expertise to that data to develop new products and services. This is important because attempts to incorporate innovation into data platform design don't always work. In reality, innovation will nearly always find its own way to flourish if the conditions are correct. We believe that if the energy market opens up its data to innovators freely and affordably, then innovation won't need to be built into the design upfront.

Leveraging draws on assets and capabilities that already exist and does so in a controlled and responsible manner. We've designed a filter to robustly test strategic opportunities, ensuring that there is real value and progressing only where risk can be mitigated to an acceptable level. We do not have a growth agenda, which would see us investing speculatively and diversifying into new markets and services where we have limited capability and lack inherent strength to pursue the opportunity. Realising leveraging opportunities might well mean that we end up doing new things and doing them for different people, but we will always do this in such a way that the value and benefit sits with our customers and ultimately the energy consumer.

Strategic Objectives

To help turn our Vision into a reality for our customers, we have defined a number of Strategic Objectives. They tell us about how we need to operate and behave as an organisation.

Some of our Objectives have been shaped by our learning and experience, as well as by what our customers have told us, specifically around our day to day operations and our handling of Project Nexus:

1. We have a good track record of *operational excellence* in delivering services and meeting our contractual commitments, and we need to build on this strength.
2. We need to become truly *customer centric*, consistently and reliably creating value for our customers by understanding and prioritising our customers' desired outcomes in our decisions and practices.
3. We need to grow into a *change leading* role that helps customers successfully land changes into their organisations, as well as into our own.

Thinking about our assets, we have recognised two other important Objectives:

4. To be a *data driven* organisation that understands the value to our customers of the data attributes that we hold and makes data accessible to them in ways that best serve their individual business models.
5. To be *people powered*, unlocking our employees' hugely valuable industry process skills and expertise, enabling them to operate as effectively as possible in a new, more open and commercially focused environment. We know that sometimes we also need our people to be more agile in the way that we respond to customer requests and challenges, and to accelerate the way we go about developing solutions.

Finally, we continue to prioritise behaving as a *responsible business*, being commercially minded, ensuring that our services offer demonstrable value for money and having the appropriate level of independent risk management and assurance. We offer a safe and stimulating environment for our employees and work closely with suppliers and the local community to ensure we operate ethically and responsibly.

Being Customer Centric means...	• We think outside-in as our starting point, seeking first to understand our customers and then to be understood • We have empathy for our customers' diverse businesses and differing challenges • We are proactive and go the extra mile for customers • We analyse customers' data and listen carefully to feedback in order to provide better and more efficient services • We support effective governance and effective conversations, by enabling easy access to customers' data by our customers, utilising live dashboards and data mining tools where appropriate • We seek to build advocacy through every interaction
Being Data Driven means...	• We protect the integrity and security of our customers data at all times • We use data to create insight, to drive operational excellence and support decision making to maximise value • We are clear on the value of our custodianship of industry data and the intelligence that can be derived from it • We make data available to provide valuable management information to our customers in order to help them manage their business
Being Change Leading means...	• We bring requirements to life, creating options and working with customers to understand the cost/benefit analysis • We help customers understand the risk of any change and develop customer and market wide test strategies to mitigate risks to customers from change • We consistently deliver robust customer solutions that are both on time and provide excellent value for money • We set a high bar for support documentation and training material so that customers can receive change from us seamlessly • We produce great management information for committees and change boards, clearly communicating our status with a single version of the truth
Being Operationally Excellent means...	• We maintain reliable, high quality data management services and systems • We always deliver against industry agreed contractual obligations and key performance indicators • We continuously improve our systems, processes and data, using the latest automation and lean techniques to drive efficiencies • We protect our customers' data and our ability to operate, by focusing on security, assurance and risk management
Being People Powered means...	• We are committed to building better people, who walk the talk, resolve issues more proactively, plan for the future more effectively and who are motivating to work with and for • We invest in developing our people to become ever more effective through carefully selected training programs • We use common language and share a common understanding of what good looks like • We operate in an agile way, using the power of devolved people networks to deliver specific projects more quickly and with greater engagement which reaches into all levels of our business
Being a Responsible Business means...	• We behave commercially, competitively benchmarking services and developing new partnerships, where appropriate, ensuring best value for money • We embrace truly independent assurance of our work, we are never defensive and always prioritise progressing assurance recommendations • We build supplier partnerships which add value sustainably over time • We are passionate about ensuring the safety of our employees at all times • We take our social responsibility to the local community and environment seriously, and support our employees in engaging with and contributing to the local community

Strategy House

We have brought our Vision and Strategic Objectives together to create the Xoserve Strategy House.

We believe in
radically simplifying the
Energy Market through maintaining
and leveraging industry assets for the benefit of all

Customer Centric

Data Driven

Change Leading

Operationally Excellent

People Powered

XOserve

Responsible Business
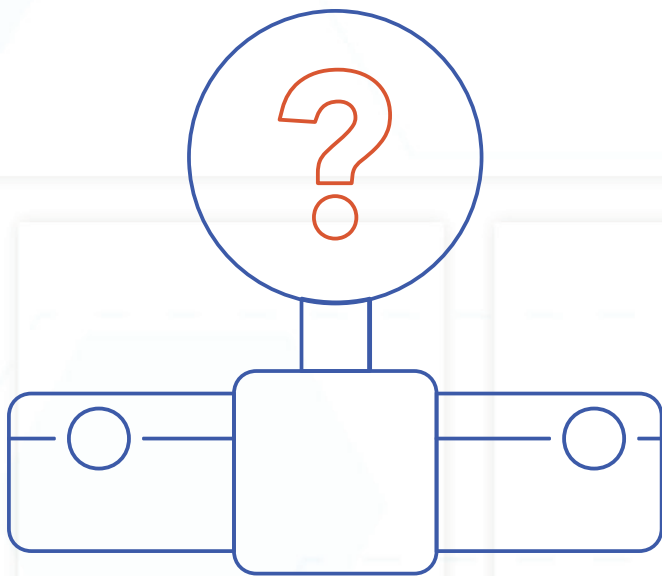*Assurance, commercial, suppliers, social and safety*

Ambitions and Customer Outcomes

The table below sets out our current year and ultimate ambitions for each Strategic Objective and provides a summary statement of the customer outcomes that we are aiming to achieve.

Strategic Objectives	Year One Ambition	Ultimate Ambition	Outcome
Customer Centric	We are seen as *reliable* by our customers because we provide an increasingly transparent and consistent customer experience whilst delivering exactly what we have committed to.	Our customers *trust* us completely because we understand their businesses and can effectively anticipate their needs.	From *Reliability* to *Trust*
Data Driven	We give customers *easy access* to the data we hold on their behalf, in a controlled, secure and flexible way via our data platform.	We provide a platform and data foundation for innovators to drive and enable *value creation* for our customers and end consumers.	From *Stewardship* to *Value Creation*
Change Leading	When we deliver customer change, we engage early, *consistently* provide exceptional documentation and accessible training and communicate clearly throughout.	We are the first choice to deliver change because we provide delivery *certainty* in an increasingly complex and fast-paced market.	From *Consistency* to *Certainty*
Operationally Excellent	We are a provider of *efficient and reliable* services that our customers can access easily.	We are the service provider of *choice* for our customers for delivery of processes which connect the energy market.	From *Necessity* to *Choice*
People Powered	We are increasing employee engagement across the business whilst enhancing our capabilities and learning and practicing *highly effective behaviours*.	We attract and retain people with the highest engagement, capabilities and behaviours, providing fulfilling career paths for them and exemplary, *market-leading* service for our customers, which clearly distinguish us from other providers.	From *Learning* to *Leading*
Responsible Business	Our customers are assured that we have appropriate frameworks to enable us to understand and manage business risks, enhance our commercial and financial capability and operate in a socially responsible way.	Our customers are *confident* that we enable them to grasp new opportunities because we are exemplars in managing and controlling risk, whilst being commercially and financially astute and operating in a socially responsible way.	From *Assurance* to *Confidence*

Market and Service Challenges

At the same time as we have placed a significant emphasis on building our organisational capability over the past 12 months, it has become ever more evident that both an increasingly complex market and the pace of change in customers' demands for our services are asking more of us than we had previously anticipated. Some of the challenges that we face are concerned with market arrangements that are not working well for customers and others with the quality of the service that we are providing.

We know that we have to address customer concerns about the timeliness and accuracy of the *Amendment Invoice* and its supporting information. We have identified a possible solution design that can address these concerns and once this has been confirmed as a viable solution that is acceptable to customers we will want to move forward to solution development and delivery.

Delivery of a solution for *Retrospective Adjustments* remains a key topic. We are working towards the implementation of UNC requirements in late 2019, recognising that there are considerable challenges for both ourselves and our customers in designing and delivering a sustainable solution. We are aware that some customers are putting forward alternative market requirements and that we need to be mindful of these and any associated regulatory direction prior to making investment decisions.

We know that our Shipper customers continue to have particular concerns around the absolute levels and volatility of *Unidentified Gas*. We created a dedicated team in 2017 in response to industry wide concerns, seeking to provide leadership through information, analysis and insight, and supporting customers in the development of urgent Uniform Network Code (UNC) Modifications. These concerns persist, so we want to stand up a dedicated team again and bring in specialist data science and machine learning expertise. We want to deliver three things to our customers; an understanding of the cause and effect of each movement in the level of Unidentified Gas, improved model accuracy, and personalised action plans for each customer. More information about our work on Unidentified Gas is available on the **Xoserve website**.

As we transition away from legacy service provision by National Grid, we need to implement a new and much improved *Data Security Framework*. This will mean a significant strengthening of our capabilities to provide more robust controls over customers' data and introducing a security layer that is more suited to an environment in which systems are more open and data is more readily and frequently accessed by, and shared with, other organisations.

Central Switching Service

The Ofgem Switching Programme aims to introduce faster, more reliable Supplier switching for energy consumers. In addition to amending and aligning gas and electricity market processes to reduce the time it takes for an energy consumer to switch Supplier, the Data Communications Company is required by Ofgem to introduce a dual-fuel Central Switching Service (CSS).

There are two distinct aspects for Xoserve to consider – the consequential changes to Central Data Service Provider (CDSP) systems and services that are required as a result of the introduction of the CSS, and the leveraging of the UK Link asset in the event that Xoserve bids for and is appointed as the Central Registration Service Provider (CRSP).

In September 2017, we set out our case to Ofgem to leverage the UK Link asset to provide the CSS platform as an alternative to a third party undertaking a new system build and opening up UK Link to interface with that system. Ofgem concluded in early 2018 that we should be allowed to participate in a CSS procurement event. Whilst some level of CDSP consequential change cost is unavoidable, we consider that the appointment of Xoserve as CRSP would help substantively in reducing the level of CDSP costs and the risk profile attached to these. Specifically, it would limit the extent of opening up existing UK Link functionality, would remove the need to build and test interfaces between UK Link and a third party CSS platform, and would eliminate a management interface between Xoserve and the CSS provider. We think that there would also be economies of scale in programme management and assurance activities.

The introduction of the CSS requires the establishment of the Retail Energy Code (REC). We are already providing resources to support the development of the REC and we expect this to continue through its development phases until CSS go live. We also expect that some of our customers will be required to take on new obligations under the REC and will require us to deliver the systems and processes that discharge their obligations.
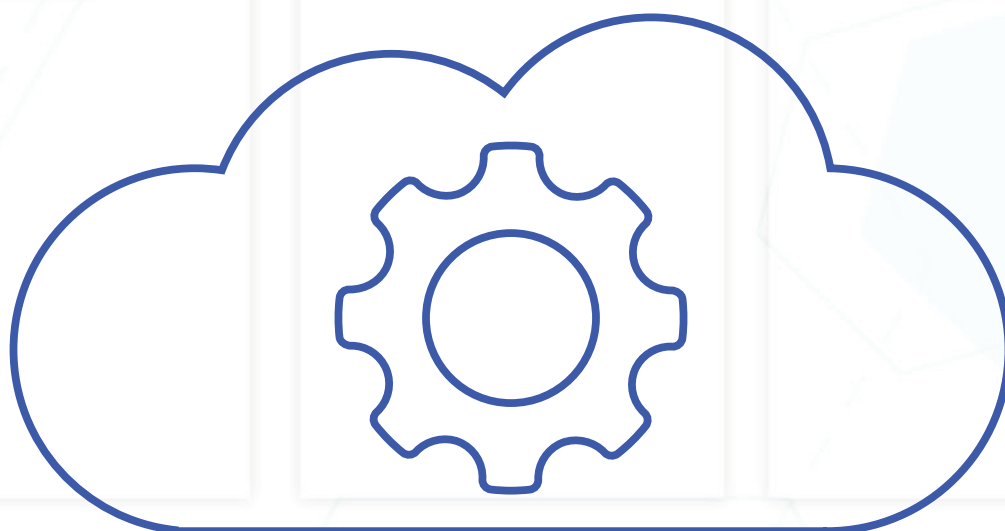
Data Services

We understand the ever-increasing importance that our customers are placing on data that is timely, reliable and readily accessible. We know that our customers want us to go further than simply making data available and we also need to provide analysis and insight.
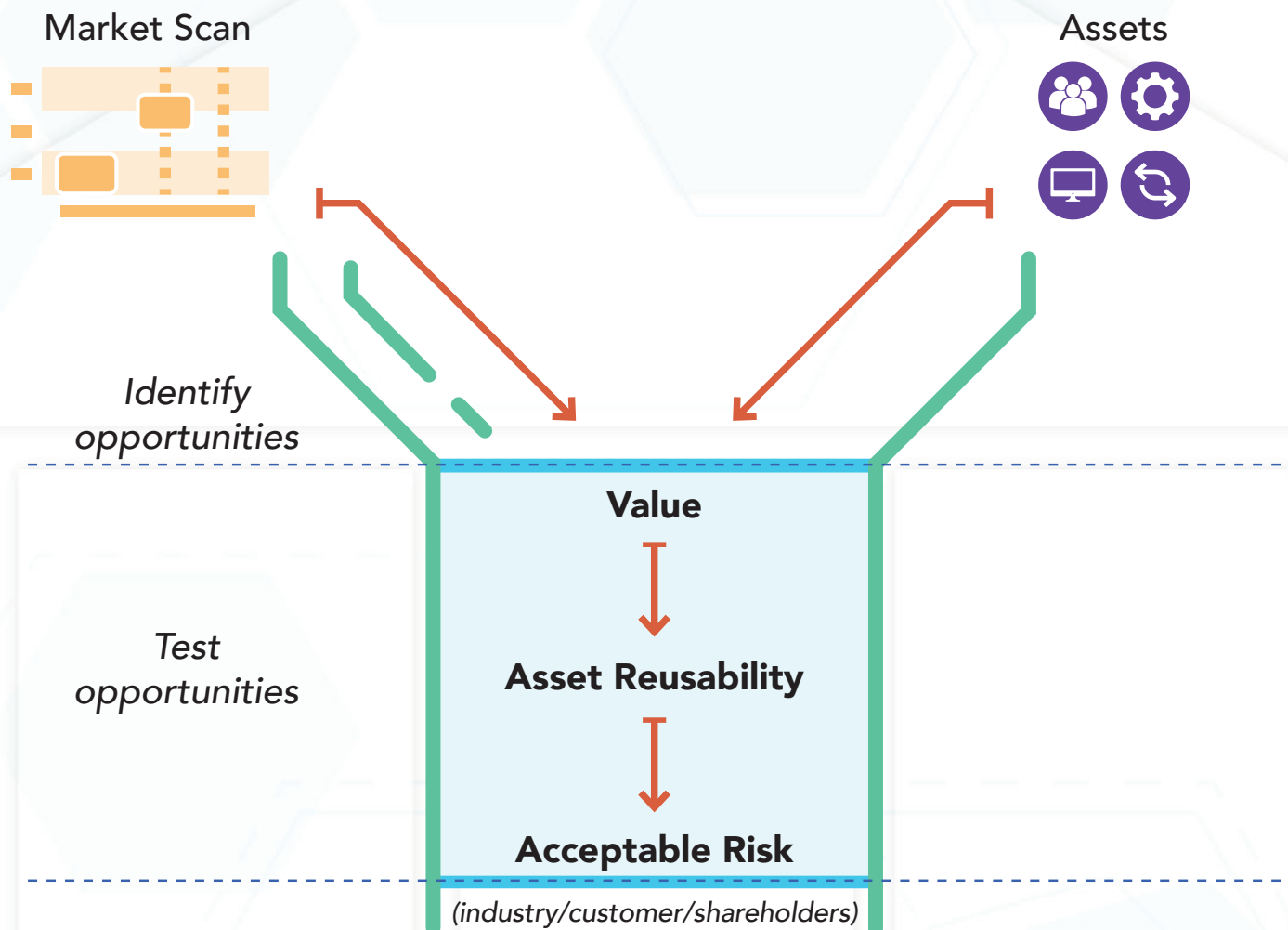
We think that the industry needs to give priority to making its data readily available and accessible to innovators who will then apply their expertise to that data to develop new products and services. With this in mind, we are drawing up plans to strengthen our capabilities and services in this space. Building on the good foundations that we have laid during 2017/18:

• We will enhance our data warehouse in terms of both the data that it holds and its accessibility to reduce report production timescales, and will invest in new tools and products to reduce response times to report requests

• We are engaging with market leading providers of analytics tools and services to enhance our data insight, recognising that this will be critical to the effective investigation of issues underlying the levels and volatility of Unidentified Gas. We have a long-term ambition to make these tools and services available to customers for their own use

• We will evolve our data security controls, making them appropriate to a more open environment in which data can be accessed by and shared with multiple parties, and ensuring that access is granted in line with a data permissions framework

• We will investigate data quality issues that customers bring to our attention, identifying the processes that lead to data inconsistencies, and reporting our findings and recommendations to appropriate industry governance bodies

Strategic Opportunity Filter

We have put a framework in place to help us identify and evaluate strategic opportunities to reuse our assets. We have designed a *Strategic Opportunity Filter* to help us do this.

Market Scan

Assets

Identify opportunities

Test opportunities

Value

Asset Reusability

Acceptable Risk

(industry/customer/shareholders)

We have two primary techniques for identifying strategic opportunities:

• We conduct *Asset Analysis* that considers the investments that we have made, the capability that they have delivered and the capacity for that capability to be used to provide other services; and

• We perform a periodic *Market Scan* that looks up to five years ahead (and sometimes longer) at energy industry initiatives and trends, identifying what we think we will be expected to deliver to support these initiatives and trends, and looking for opportunity to use those deliverables to extract incremental value for our customers and energy consumers

Where we are successful in identifying strategic opportunities, we apply three key tests:

• Is the opportunity of high *value* to one or more of our customers?

• Does the opportunity make significant *reuse* of one or more of our assets?

• Is the level of *risk* associated with progressing the opportunity at an acceptable level to all parties? Or can the level of risk associated with progressing be mitigated to an acceptable level for all parties?

Applying these tests – and doing so with the necessary degree of rigour – ensures that we adopt a responsible approach to investing customers' monies and delivering value not cost to the end consumer.

If you would like to know more about
any aspect of this Report, please email
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You can find out more about
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