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Letter sent via email

27 July 2022

Dear Kirsty,

**Re: Business Plan 2023 - Draft Principles and Approach**

Thank you for your letter of 12<sup>th</sup> July, providing feedback on the draft Principles and Approach (P&A) for Xoserve's 2023-24 Business Plan (BP23). I really appreciate the time you have taken both to review the document and to formally capture your feedback.

Firstly, may I say how pleased I am to hear that you support and welcome the improvements we have proposed around information provision and accessibility. We have taken considerable time this year to refresh the approach in order to make it easier for our customers to understand the services we deliver, the costs of those services and thus the value they receive. It's good to know that the effort is recognised and appreciated.

Thank you also for your feedback on those other areas where you feel you would like to see further improvement. I wanted to take this opportunity to share with you how we will be addressing your feedback.

I thought it might be helpful to structure this response in line with the structure of your letter. Consequently, it falls into three sections, covering the points you highlight at the top of page 2, namely:

1. Demonstrating the efficiency of the Business Plan
2. Greater transparency
3. How BP23 can be flexed in response to the outcome of your appeal of BP22.

**1. Demonstrating the efficiency of the Business Plan**

Acknowledging your (and others') desire for enhanced external challenge on the draft CDSP budget, we began to explore customers' appetite for undertaking an efficiency review of the CDSP cost base at the DSC Contract Management Committee (CoMC) meeting on 20 July 2022. CoMC supported

the principle and agreed that we should work up a proposal for a third-party efficiency review to be considered at a future meeting.

As a result, we have updated the last paragraph of the 'Our Vision' section of the P&A to reflect this. It now says:

*Finally, in response to feedback received through the 2022 business planning process, we proposed the idea of undertaking an efficiency assessment of the CDSP cost base at the DSC Contract Management Committee (CoMC) on 20th July 2022. CoMC supported the idea in principle, and we will therefore present a proposal for a third-party efficiency review for consideration at a future committee meeting. If a proposal is approved, the costs of this review will be included in BP23.*

I will cover your other feedback in this section (around changes to our suite of services) in the next section.

## 2. Greater transparency

In your feedback, you highlighted four areas where you feel you would like to see greater transparency. With this principle in mind, I have again responded to each of your points in turn.

1. **Business Plan Manager:** When looking for ways to improve how we approached the Business Plan, we realised that we could organise ourselves better to bring greater focus and consistency to this activity. We have therefore reorganised existing resources and responsibilities in order to centralise a number of the key business planning activities into one core role, dedicated to the Business Plan. Consequently, this new position will not increase the overall cost for customers but should bring a greater level of consistency and quality to BP23.
2. **Greater assurance of the business plan content:** apologies that the meaning of this statement was not clear. Last year, we received feedback from customers (Centrica included) that the way we presented information was sub-optimal, lacking clarity in some areas and with information being "drip fed" over time rather than being provided in a way that our customers could easily consume. Part of the Business Plan Manager's role is to deliver greater quality and timeliness in the information we provide, ensuring the business plan content is more relevant and meaningful to customers in their context and thus building confidence in its content.
3. **Inflation:** the application of inflation to our costs (in the form of CPI-H) reflects that the Business Plan is always prepared using current year prices. With respect to multi-period projects, where scope can be fixed and the precise timeline is known, there are two options: pre-load inflation (and associated risk premium) into the price or index link costs based on actuals. We believe that keeping costs as low as possible by not adding a risk premium (which is often over inflated, adding to supplier profits) reflects best value for customers. In times of high inflation, which the UK is currently experiencing, this approach also reflects responsible business practices, ensuring a fair outcome for suppliers who may otherwise experience financial distress and, worst case, insolvency, particularly if they've set the risk premium too low.
4. **Charging Methodology:** Changes to our suite of service are always taken through the appropriate industry governance processes, including as set out in the Data Services Contract. To ensure this is understood by all of our customers, we have updated the Key Assumptions section of the P&A accordingly, by adding the following:

*Any additions/changes to our Services, budgets or the way we allocate charges, (including as a result of Flow Weighted Average Calorific Value (FWACV), Daily Metered Service Provision, Non-Daily Metered Service Provision and CSS), will be subject to approval through the relevant industry governance arrangements and then reflected in the Service and Operate costs, with costs for each service clearly identified.*

You raised two further points in the transparency section:

#### ***Cost-benefit analysis in Business Cases***

You have requested that we publish the Business Cases alongside the first draft of BP23 to provide greater opportunity for customer feedback, especially in the area of cost-benefit analysis. This is one of the improvements we intend to make for BP23 but I realised, when reading the draft P&A again, that we had not explicitly said that.

We have therefore updated the "Our Vision" section of the P&A to reflect this, as follows (the updates are shown in *italics*):

*As in previous Business Plan years each project will be supported by a detailed Business Case and Overview presentation, including a cost-benefit analysis to demonstrate the basis for proposing the project. The Business Cases will be provided during the consultation phase for the first draft of BP23.*

#### ***Breakdown of Service and Operate costs***

You have stated a preference for Service and Operate costs (previously known as Maintain the Business) not to be presented as a total but, instead shown at a more granular level. I am happy to confirm that we will be providing more granularity, as described on page 6 of the draft P&A (the "Our Vision" section). This set out the approach we intend to take to provide the costs at a more granular level and the additional information that we intend to provide to enable customers to understand what is being delivered, in order to put the costs into perspective.

With hindsight, I have realised that we omitted one important element in the description. This has now been updated as set out below (the new content is shown in *italics*):

You will see a number of changes in this year's Business Plan, including:

- [...]
- *Service and Operate costs broken down by Service Area, in each draft of BP23*
- A description of the activities which make up each Service Area within the Service and Operate costs.
- More clarity on how the cost of the Service Areas are composed.
- Information on the volumetrics relating to each Service Area to help put the costs in perspective.
- Greater association between projects and their impact on the Service and Operate costs.

I am also happy to reassure you that, where terminology is changed, we intend to provide clear explanations. As a relative newbie to the gas industry, I am often struck by the pervasive use of acronyms and jargon and am keen that our business plans should be able to be understood by anyone, whether new to the industry or a stalwart of 20+ years' experience. To that end, I have asked the team to ensure we signpost the changes and continue to remind readers of it. This led to the statement at the top of page 10 of the draft Principles and Approach, which said:

As mentioned in 'Our Vision' on page 6, we intend to revise the terminology used within the Business Plan to create greater clarity over what we do and more closely align to the language used by other organisations. From BP23, we will refer to the costs of running the CDSP Services as Service and Operate costs, instead of Maintain the Business (MTB).

## **Ability to flex BP23 in response to the outcome of Centrica's appeal**

Finally, I would like to respond to your request that we explain how BP23 can be flexed in response to the outcome of Centrica's appeal to BP22.

Your appeal is complex and multi-faceted and could result in a number of different outcomes. We are therefore not able, at this stage, to anticipate what the impact might be. We will, of course, respect the final outcome of the appeal and commit to consulting with customers via CoMC on the impact of any budgetary constraints that may result before making adjustments to BP23.

To ensure this commitment is fully socialised among customers, we have updated the relevant Key Assumption to clarify this, as follows (*italics* indicate update since the draft was published):

Pending the outcome of the appeal to BP22, the budget numbers we include will be reflective of the current BP22 budget, since these numbers reflect the cost to Xoserve of delivering the CDSP Services. *The outcome of the appeal, and its potential impact on BP23, will be discussed with customers at the following CoMC and the conclusions of that consultation reflected in the next feasible iteration of BP23.*

Thank you, once again, for taking time to provide your feedback. My team and I look forward to continuing to work with Centrica, other customers/ constituencies and wider stakeholders, as we continue to develop BP23.

Yours sincerely



**Stephanie Ward**  
Chief Executive Officer