Xoserve

2020
Business Plan

Principles and Approach

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CEO Foreword

I am delighted to be able to share with you today the context and thinking behind the development of our 2020 Business Plan (BP20). We've continued our annual approach to business planning, drawing on the many conversations we've had with all our customers, and beginning a process that gives you the maximum opportunity to engage with us and share your views. This document sets out our approach to developing BP20 and talks about some of the key issues that we need to consider when building the Plan and a picture of our funding requirements.

At a national, industry and company level, change and the resultant uncertainties are things that we all have to wrestle with. The UK's uncertain relationship with the EU and the desire in some political quarters to renationalise the energy sector may make easy headlines, but there are additional, and for us more immediate uncertainties that we must face into and tackle as our industry continues to evolve to meet the needs of consumers.

As we look ahead to the BP20 period, the energy market outlook is uncertain and dynamic, with Xoserve at the centre of what will be significant customer and market change. Our strategic response to this changing market outlook is to change ahead of the market, embracing automation, digitising our business and opening up our data, moving our infrastructure to the cloud, protecting our industry against an ever-increasing cyber security threat, and building next generation platforms fit for the future. Our business plan for the next year lays the foundations for this approach, whilst also improving the level of service and the effectiveness of communications we provide to customers now.

I am proud of what Xoserve has achieved since the start of our new strategy, but I am under no illusions that we have a long way to go and a lot of hard work still to undertake, in order to achieve what we want to achieve; to delight our customers at every turn.

The consultation is open until Friday 26th July, and you'll find information on how to respond on . We will set aside a significant part of the Data Services Contract (DSC) Contract Management Committee meeting on Wednesday 17th July to discuss our approach.

I look forward to receiving your valuable feedback.

Kind regards

Sian Jones

Chief Executive Officer

Introduction

This document marks the start of our annual process to engage our customers in the strategic direction of Xoserve and specifically to seek feedback on the initiatives we believe will deliver the greatest value during the period April 2020 to March 2023.

Our aim is to provide our customers with a thorough understanding of the market context we believe we must respond to, our cost drivers and the assumptions we have made along the way. We plan to give our customers ample opportunity to review, understand and challenge our thinking, ensuring what we do enables and supports their business strategies.

Following last year's business planning process, we invited our customers to provide feedback on what they felt went well and what could have gone better. We've reviewed the feedback we received and identified three key areas of learning:

- **Ensuring information is detailed and concise** - the information about our proposed investment topics should be clearly articulated, in plain English, making it easier to understand.

- **Communication and stakeholder engagement** - our customers want to know what business planning information we intend to share, for what purpose and with whom, and for information that supports the plan to be available at the earliest possible opportunity.

- **Change control** - you asked us to ensure that we implement change controls that ensure traceability as we develop the plan and ensure consistency between all products we share with customers, from plans through to charges.

We have listened to your feedback and taken it into consideration when planning this year's business planning process. We hope that you will see improvements to our approach that reflect your feedback, and as a result your experience will be better. We will continue this process through this year's business planning cycle, and we would welcome further feedback from all of our customers at any time.

We described our strategy in some depth in our 2017/18 Annual Report; and again, in our 2019 Business Plan Principles and Approach document. We will not repeat it again here, but you can find a summary of our strategy and importantly the detailed ambitions we have set within each strategic pillar on **Xoserve.com**. Our strategy remains unchanged during this next business planning period, but the market context has changed dramatically.

Looking backwards, a thorough review of our historical performance will be published in mid-August in the form of our 2018/19 Annual Report and therefore this 2020 Principles and Approach document looks forward only.

Context

Our core business continues to be the Gas Industry's Central Data Service Provider (CDSP), collectively funded and governed by Shippers, Gas Distribution Networks, National Grid Gas Transmission, and the Independent Gas Transporters.

However, the market we sit at the heart of is becoming more, not less, complex in the near term. During this business planning period, we will see new participants enter the central bodies landscape via both the Central Switching Service Programme (CSSP), led by Ofgem and the Data Communications Company (DCC) and the introduction of the Retail Energy Code, which in turn will impact how the gas market introduces and manages change.

The cost pressures that RIIO2 and the energy price cap will place on our customers are unprecedented. We have worked with KPMG to benchmark our costs to Maintain the Business (MTB). We have discovered that we benchmark in the mid and upper quartile of companies world-wide and this is reassuring. However our core invoicing processes do not benchmark so favourably. We are finalising this benchmark and will share it transparently with customers during our Business Plan timeline.

Continuing on the theme of cost pressures, our experience over the last 18 months in leading the analysis of Unidentified Gas (UIG) has taught us that as margins get tighter, finding the upside requires deeper and deeper analytical skill. Xoserve sits on top of an incredible amount of data and insight that we have historically only stored for posterity. The commercial upsides for customers could be significant if we changed our focus and mindset to one of mining the value.

The volume of data we need to process will increase exponentially as our market is driven, as a result of the introduction of smart-meters and the design of the CSSP, from a predominantly batch based, flat file sharing dynamic, to one based on real-time messaging. This transition is easy to describe on paper, but in practice the ramifications of this transition will touch every customer and every touch point with Xoserve.

We expect we will largely open up our data on behalf of our customers in-line with the recommendations of the Energy Data Task Force (EDTF). At a minimum we will open up our data to other participants within the energy market, but our plan assumes our data will become wholly open to researchers and innovators not currently or traditionally seen in our sector.

Perhaps most significantly, Xoserve became a truly stand-alone business during 2019

Perhaps most significantly, Xoserve became a truly stand-alone business during 2019, migrating over 130 services historically provided by National Grid. This migration included physical and cyber security, which we have not previously included in any business plan or forecast. We have analysed the threat landscape and will need to set an investment and operational pattern congruent with our central position in the Industry and changing risk appetite of our customers, many of whom are subject to critical national infrastructure controls.

Against this market backdrop, we have identified several areas of focus, which together form our strategic response and the basis of our investment planning for the next three years. We welcome feedback from our customers regards the extent to which we have identified the right focus areas and we have posed a number of questions on **page 16** that seek to explore this.

Focus Areas

1. Digitising our business and opening up our data

World-class digital businesses create engaging touchpoints for customers which enable them to get what they need done, right first time, with low or no customer effort, or increasingly, using fully automated machine-to-machine processes. Well-designed digital touchpoints will drive up self-service by our customers and machine-to-machine relationships, driving down Xoserve's costs. More importantly they will make transacting with Xoserve a lower cost for our customers, who are already factoring these assumed efficiencies into their plans and depend on us getting this right.

> **Our digital touchpoints will not only provide a great experience for our customers, they will be underpinned by highly automated transaction processing**

Our digital touchpoints will not only provide a great experience for our customers, they will be underpinned by highly automated transaction processing behind the scenes, ensuring that our people, data and processes are joined up end-to-end to create a seamless customer journey. This will create the space for Xoserve people to focus on data quality and open data as the new norm.

Xoserve has been deeply engaged in the work of the Energy Data Taskforce, helping to shape the outcomes, whilst building the findings into our plans. Xoserve supports the notion that there are three main types of data in the energy sector:

- **Consumer data** - belongs to and is controlled by consumers. They must give their consent for this data to be shared.

- **System data** - is common data that moves between parties in the energy sector to get work done as a consequence of how the market is designed. Whilst companies may take legal ownership of such data at various stages, it really belongs to no single party.

- **Proprietary data** - is created by parties in the energy market, as a consequence of their own investment and initiative and offers competitive advantage.

Xoserve processes and stores large volumes of system data and a small volume of consumer data. We believe there are immeasurable benefits in opening up our system data to our customers and other market participants. This needs to be done carefully, with the right security and access controls; this will necessitate investment and new skills to manage this well over time. Xoserve will likely also be required, through the regulation of our customers, to open up its data more broadly, realising the government's vision of completely open data. But at a minimum we must provide a data platform that provides our customers with self-service reports, data visualisation / exploration, machine learning and Artificial Intelligence capabilities.

Focus Areas

1. Digitising our business and opening up our data (continued)

Of equal importance in a world of open data is the ability for Xoserve to leverage its unique industry expertise to provide an analysis capability to its customers, already an area of increasing demand for Xoserve to realise data's true value we will need to analyse whole market data-sets, which not all participants will have the right to access. This will require whole industry datasets to be aggregated in a safe place, based on common data standards and definitions and often linked with data sources from outside the energy sector.

We believe Xoserve must step into the space of analysis and insight because, more often than not, for the very tricky issues, our unique expertise and position in the Industry will make us the only party capable of efficiently finding answers; as has been the case in our analysis of Unidentified Gas (UIG). We will need to be able to deploy machine learning and advanced data science again and again, as we did for UIG, to an ever-broader range of questions.

We are well placed to do this and our workforce transformation, coupled with our investments in data will enable us to offer increasingly industry-wide value and insight.

Focus Areas

2. Protecting against an ever-increasing cyber security threat

The energy sector faces an ever-increasing cyber security threat. Whether relating to theft, hacking or denial of service to our vital systems, protecting ourselves and our customers against cyber threats has become a major part of what Xoserve does. The risk is only growing and Xoserve expects that the cost and effort of protecting its vital assets will only become more intense.

The security challenge is exacerbated by the open data opportunity and the reality of Xoserve sitting right in the middle of critical national infrastructure. We can only realise the benefits of open data and avoid becoming the weak link in the UK's national infrastructure through continued investment in security. Our investment is directly proportional to investments being made by our interconnected customers.

Security represents a significant additional investment for Xoserve not present previously. This is because prior to 2017, Xoserve benefited from shared security services provided by National Grid. Since our separation, Xoserve has been steadily building a security team from a standing start and building out the third-party contracts required to support our central position and its associated risk profile.

Xoserve has a contractual obligation to meet certain security standards, some of our customers must meet stricter security standards. Therefore by default we must also meet these standards as we manage our customers' data. Xoserve would like to provide assurances to customers that we are managing their data responsibly. Our investment planning will include a level of voluntary compliance with National Institute of Security and Technology (NIST) standards.

Xoserve has the option not to mirror the increasing security standard of our customers, but this creates a cascade of risk which we know some of our customers are unwilling to accept. We will be selective in how we apply NIST controls, seeking to maximise our safety and security, whilst recognising the cost pressures on our customers.

We will deploy the following security interventions:

- Centralised Identity and Access Management
- Secure Microsoft Active Directory Design and Build
- Encryption, Privacy and Security by Design
- Biometric Authentication (MFA) including System and Building Secure Access
- Cloud Access Security Broker (CASB)
- Identity Risk Reporting

Focus Areas

3. Moving our infrastructure to the cloud

Traditional on-site data centres are becoming a thing of the past. They are inflexible and costly to run and secure. The public cloud is now the de-facto strategic choice for the majority of companies in the UK and Xoserve is no different. Moving one of the largest SAP implementations in the world to the cloud will be no small undertaking.

We intend to use this opportunity to do more than just move the infrastructure. We want to build more flexibility into UK Link, by transitioning away from the aspects of UK Link which are inflexible, onto highly scalable, super-fast and super-flexible alternatives that deliver greater choice and value to the Industry. In addition we will take this opportunity to upgrade all of UK Link to utilise in-memory databases which will provide a platform to combine Xoserve's historical data with the raft of new real-time smart information about consumption and market behaviour, as well as ensuring we can comfortably in parallel provide real-time, self-service, advanced analytics to the industry based on very large data sets.

> **We will actively explore and be open to alternatives to our traditional SAP-based roadmap**

This will largely be achieved by following the SAP roadmap, (e.g. upgrading to HANA, S4, SAP 4 Energy) and is consistent with Xoserve's historic approach of sustaining and upgrading our platforms' core components to ensure we reliably and safely maintain services to our customers. However, during this planning period we will actively explore and be open to alternatives to our traditional SAP-based roadmap.

The key drivers for our transformation journey onto the cloud are:

- The smart meter roll-out will create exponential increases in data volumes
- Supporting and sustaining our business as SAP support for older versions ceases
- Major change programmes driving requirements which benefit from a cloud-first approach e.g. Central Switching Service Programme and Retrospective Adjustments

UK Link will move out of our data centre and into an Azure cloud, giving us greater infrastructure flexibility, enhanced resilience, and the potential to increase the volume of change we deliver efficiently. It also allows for cost savings through the deployment of environments when needed, standing them down when not in use.

Focus Areas

4. Realising our vision of Operational Excellence

We expected and planned for the worst, when UK Link went live as part of Project Nexus in 2017. Typically new system implementations of this scale experience major operational challenges and require extensive continual development to correct design problems not caught by pre-launch testing.

Surprisingly for Xoserve and our customers, the first 12 months after Nexus go-live were relatively pain-free versus our collective expectation. We released all of the additional headcount we held back for resolving the expected post launch problems. However, the problems were merely masked and in 2019 we have experienced major challenges with our invoicing processes.

Whilst we expect to have resolved these deep-rooted design problems before the start of this new Business Plan, we would be naive to immediately roll-off the expertise we have had to re-build this year. Instead we propose to retain this resource for the first full year of BP20, as a protective mechanism and to expedite the automation of our processes and the transformation of our workforce. This is described in more detail on the next page.

5. Gemini Services

As we enter into the BP20 period, we will build upon our historic support of Gemini by undertaking activities to refresh, re-platform and sustain the platform, in addition to delivering the functional change required by industry.

Given the fact that Gemini has been deployed for 15 years, we are also looking at the best long-term options for the operation of the system; this includes sustaining the current platform, but also the delivery of enhancements to provide a next generation Gemini system.

Investment in the next sustain activity and modernisation will start in 22/23, following investment to confirm health, approach and solution in 20/21 and 21/22.

Focus Areas

6. Re-shaping our business

The technology platforms that Xoserve evolves, manages and uses were built in an age where technology was capable of assisting humans, making manual tasks easier and providing a single version of data for the industry to transact. At the turn of the century everyone talked of complete automation and the use of robots to do the jobs of humans, but the technology was not yet capable of supporting this vision. As technology has evolved, our industry has been hampered by poor quality data and inconsistent behaviours, which has continued to stand in the way of full robotic automation. As a result, the Xoserve workforce is still disproportionately geared towards people running processes that are assisted by technology, but still heavily dependent on human intervention.

Xoserve will transform its workforce, embracing the latest automation techniques which are now capable of handling complex scenarios and imperfect data. We aim to free up 30% of our operations workforce between now and 2023, redeploying our people into roles focused on data quality, data profiling, technology design, digital and performance assurance. This will dramatically change the shape of our business.

Overall our underlying costs will stay flat in year one in order to face into delivering our vision of operational excellence once and for all. Costs will then reduce by 1% year-on-year through the remainder of BP20 and beyond. This modest efficiency masks a dramatic change of skills mix which is taking place underneath the aggregate headline; as well as our avoidance of an increasing cost base if we had not recognised and laid down ambitious plans to face into the challenge of our existing processes now.

We want to undertake this in a way that creates sustainable flexibility in our workforce. Large scale leaver and re-hire programmes are expensive, creating a cycle of boom and bust, leaving those with yesterday's skills stranded in a UK economy already suffering from declining levels of productivity. Xoserve intends to set an example in the Energy Sector, by creating sustainable workforce flexibility, which will enable us to reshape our skills base every few years. We will achieve this through world-class training, coaching and accreditation programmes which support our people to completely change career pathways. Such a strategy will ensure we retain the richness of our energy market knowledge and expertise, whilst ensuring we deliver on our promises to digitise our business and open up our data. This will enable us to respond to whatever demands will be placed on us in the future.

> **We aim to free up 30% of our operations workforce between now and 2023**

Focus Areas

7. Customer Centricity through improved communications

The transformation of Xoserve has seen wholesale change of the business that wasn't previously structured or positioned to support a broad customer base. From the transformation of our governance arrangements, the restructuring of our business and the creation of explicit targets and programmes to deliver customer centricity. We have made great progress – in fact we were the UK's second most improved company for customer service in 2019, exceeding our own target and almost achieving our stretch target on customer satisfaction.

However, this masks how much more there is to do, particularly around communication, which is the main area we intend to invest in during the next business planning period. Our communication is inconsistent, immature, sometimes unreliable and frustrating for our customers. We have heard you and we intend to invest deeply in resolving and improving this critical aspect of how we operate our business.

We recognise that during such an intense period of cost pressure and cost scrutiny, we need to make this investment through delivering savings elsewhere. Therefore, we intend not to ask to for additional investment in customer centricity in BP20. Instead we intend to get more out of the investments we have already made and in-fill capacity where we need to through efficiencies delivered via the reshaping of our workforce described in section 6.

8. Central Switching Service Programme

In 2017, we set out our case to Ofgem to leverage the UK Link asset to provide the Central Switching Registration Platform (CSRP), as an alternative to procuring a third party to build a new system, which would in-turn require us to artificially break apart UK Link (which already performs switching for the gas market) in order to interface with this new system. It was with great disappointment that we learnt earlier this year that we were unsuccessful in our bid to become the Central Registration Service Provider. The consequence of this loss is that we will now not be able to realise the £4m to £8m reduction in charges we had previously intended to pass on to customers in BP20.

Furthermore, the consequential changes to our systems as a result of the introduction of the CRSP are significant, as we outlined in last year's business plan. As the largest incumbent with a vertically integrated platform, which now needs to be broken up, we have the largest amount of change to deliver within what is already a complex program. The Programme is already experiencing delays and we are assuming a significant re-plan will be required within this business planning period.
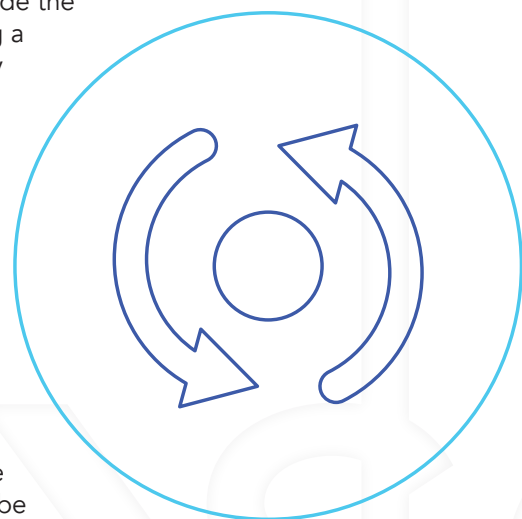
9. General annual customer change

Xoserve at the request of its customers, maintains an annual budget for bi-annual releases of customer driven change (such as retrospective adjustments) and small unplanned changes to software and infrastructure. We expect the levels of customer change to follow a similar profile to previous years, although this assumption may change as we engage customers more deeply through the BP20 process.

Key Assumptions

We recognise that during the development of our business plan it will be necessary to make planning assumptions, and to recognise the risks associated with planning based on assumptions versus fact. We will be wholly transparent with our customers about the assumptions underpinning the draft plan and will test their robustness throughout the consultation process.

With that in mind, set out below are some key early planning assumptions:

- We assume MTB will remain flat in the first year of the business plan and then reduce by 1% in years two and three, excluding incremental investment in information security and the continuation and expansion of the analysis capability we built to support UIG.

- We plan to invest in the latest automation techniques to drive through significant operational efficiencies with the ambitious target of reducing our operational effort and headcount by around 30%. We will then deploy our people into roles focused on data quality, data profiling, technology design, digital and performance assurance.

- We will invest more significantly in training to support this volume of skills movement, but at significantly less cost than exit and recruitment charges.

- We intend to substantially invest in our information security capability to protect against the ever-increasing cyber security threat, particularly in light of government plans to open up energy market data.

- We will use the 2019 Business Plan plus our Q1 forecast as the baseline for formal change control tracking purposes. Each change will be documented with a narrative to explain any line that varies by more than £100k in value per year.

- Based on a more stable starting point this year we are able to provide an indicative view of charging implications to customers at an earlier stage in the Planning cycle (September as opposed to November in BP19).
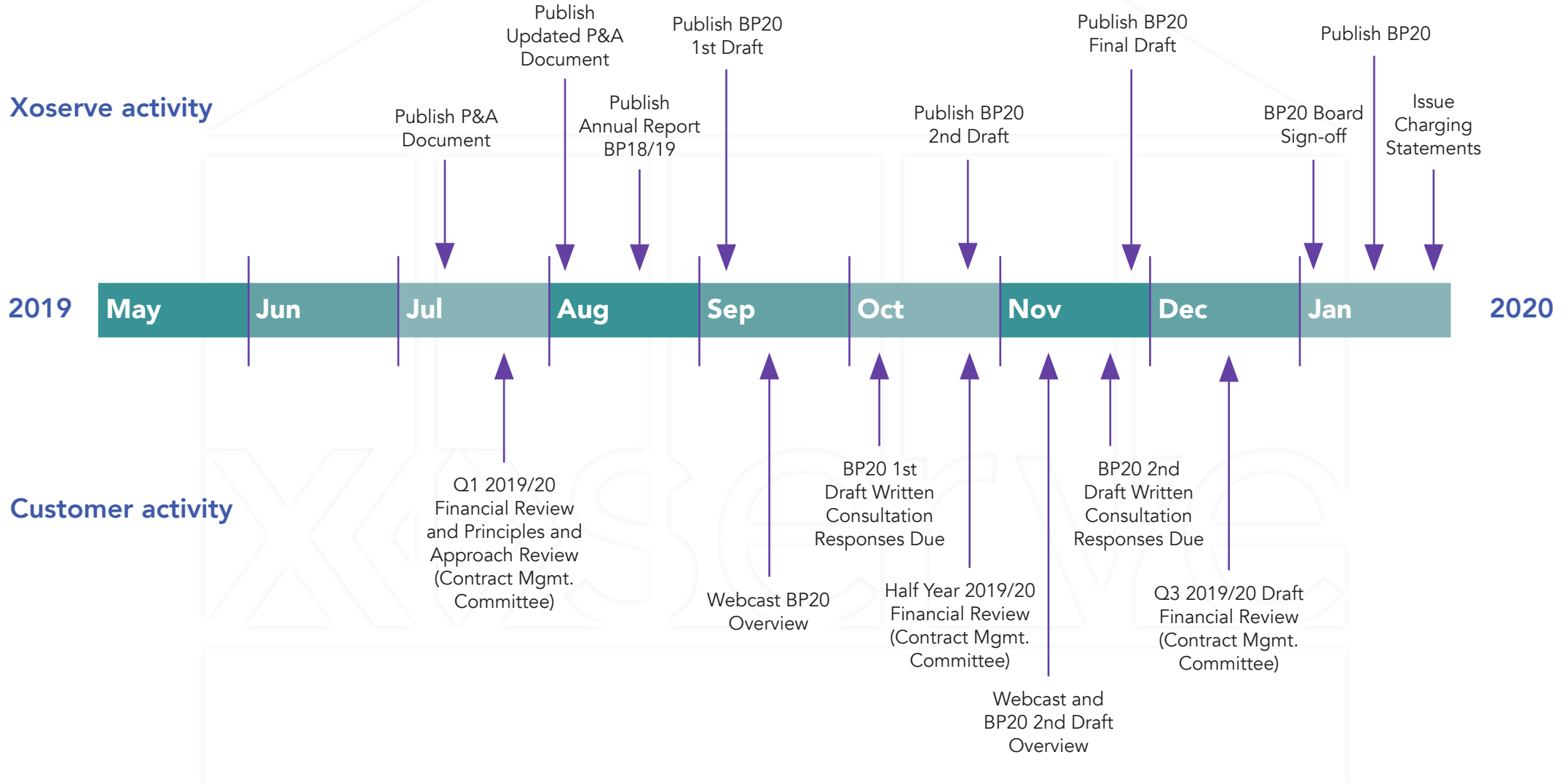
Key Assumptions

Continued

- Our historic profit reserves have been depleted as a result of recent re-structuring activities. We anticipate a need to build up and maintain future profit reserves above the current level of £1m to around £3m per annum (circa 4% of annual funding) over the mid-term to reinforce our going concern status, improve the credit rating of the company, provide working capital headroom and leverage short term investment opportunities. We propose to achieve the circa £2m increase in profit reserves gradually over the next three years. Please note, since the introduction of the Funding Governance and Ownership reforms, Xoserve cannot return any profit reserves to shareholders.

- We will not be able to realise the £4m to £8m of savings for customers previously identified, were we to be selected as the CSSP Central Registration Service Provider.

- Any material true up adjustments identified at Q1 forecast relating to the active year will be captured to ensure that flow through impacts appear. One such anticipated update concerns the higher cost of new vacancies vs average salaries on our books, given current market conditions.

- We intend to maintain a modest operating cost risk margin expressed as circa 2% of MTB costs in BP20.

- Provided there are no strong calls for immediate change, we propose to keep the charging methodology unchanged for BP20 given the transient state of our operating model and IT estate, and Governance 2020 review outcomes yet to be determined. Instead, we propose to use the Contract Management Committee to share our thoughts, evolve options and formulate a route forward. Where there is clear evidence to update certain cost-allocations caused by a shift in service line mix then we will seek to do so at the earliest opportunity.

- We acknowledge that 2020/21 year is the final year of the current price control for Gas Transporters and so will remain sensitive to the phasing and level of investment for the affected customer groups, especially in the context of moving to a pass-through arrangement after that.

Customer Timeline

We are keen to offer as many opportunities as possible for all our customers to provide us with their feedback on the draft Plan, therefore propose the following timeline and milestones, with the opportunity to provide feedback through several channels including face-to-face, in writing and via webex.

Xoserve activity

Publish P&A Document

Publish Updated P&A Document

Publish Annual Report BP18/19

Publish BP20 1st Draft

Publish BP20 2nd Draft

Publish BP20 Final Draft

BP20 Board Sign-off

Publish BP20

Issue Charging Statements

2019 | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | **2020**

Customer activity

Q1 2019/20 Financial Review and Principles and Approach Review (Contract Mgmt. Committee)

Webcast BP20 Overview

BP20 1st Draft Written Consultation Responses Due

Half Year 2019/20 Financial Review (Contract Mgmt. Committee)

BP20 2nd Draft Written Consultation Responses Due

Webcast and BP20 2nd Draft Overview

Q3 2019/20 Draft Financial Review (Contract Mgmt. Committee)

Questions and Participation

What we need from you

This document is the first step in working with our customers to develop our business plan. We welcome your views on all the information we have set out and on anything that you think we may have missed.

We have set out below some key questions, where we would appreciate your comments. Please send these to **xoserve.customeropscomms@xoserve.com** by Friday 26th July.

1. Do you think that we have identified all the significant matters that we should consider during Plan development? Have we missed anything significant?

2. Do you agree with our planning assumptions? Please tell us if you think we that should be adopting different assumptions when we prepare the draft Plan.

3. Do you think that our approach offers sufficient engagement opportunities for your organisation?

4. What constraints and opportunities do you have or foresee following the introduction of smart meters? Is Xoserve considering and offering sufficient capability and services such that you can take full advantage of the move to real-time meter reads?

5. Can you think of any investments you are undertaking, which you believe many other customers in your segment will also be undertaking, where an alternative single service offered by Xoserve could avoid duplicate investment?

6. Is there more that Xoserve should be doing to support Ofgem's agenda for vulnerable consumers?

7. We propose to keep the charging methodology unchanged for BP20, do you agree with this approach?