

RIO2 Update (November 2019)

Introduction

This document sets out Xoserve's updated RIO2 position. This position has been aligned with our annual business planning cycle and has been created by consulting with customer constituencies.

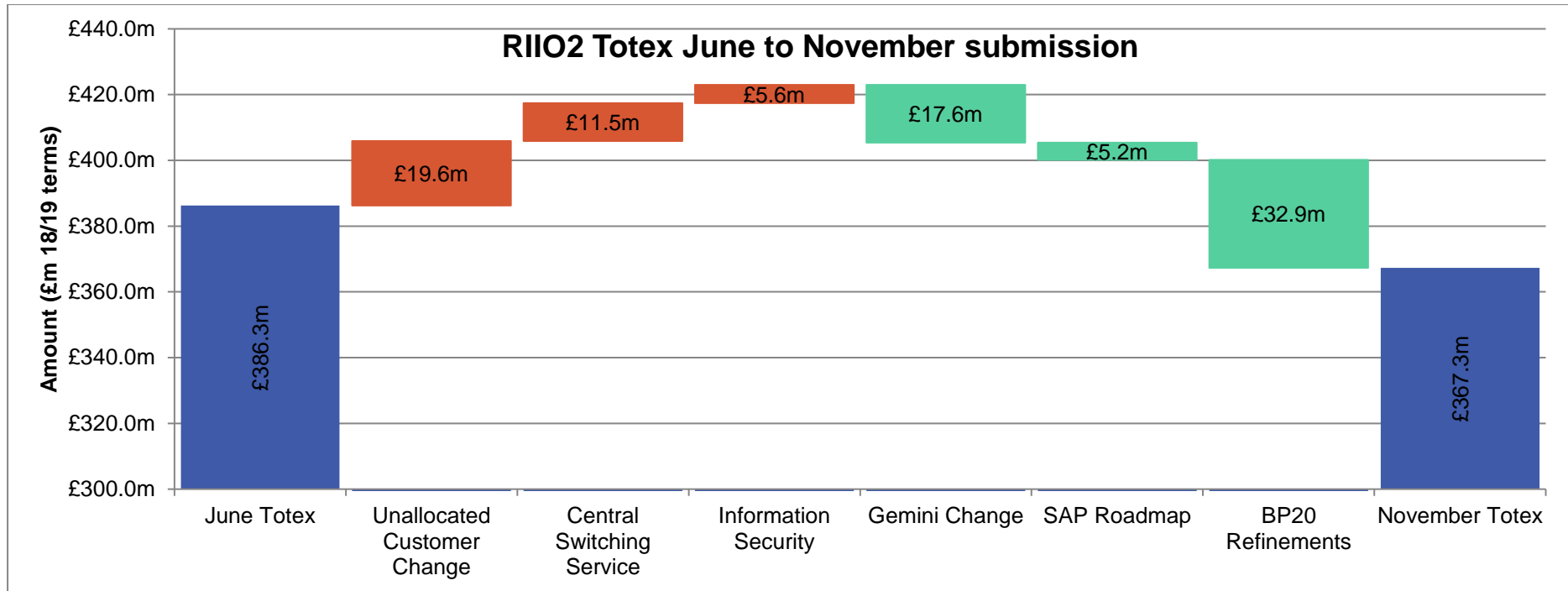
In May, Ofgem agreed with our sentiment to allow for a pass-through funding method. This was driven by our intimation that we operate in a rapidly changing market with technological changes being difficult to predict 5/6 year ahead. The changing market has also meant that our investment focus areas have been further refined and as such some investments have been pushed earlier within the RIO2 period, some have been pushed back and some investments require prioritisation (such as our investment in UK Link) and therefore this will take place within the RIO1 period.

The total expenditure (totex) that we are now predicting is £19m lower than our June estimates. This is mainly due to the re-phasing of some investments moving earlier (and therefore not within the RIO2 period) and a reduction in our overall investment spend. We've taken customer concerns regarding overall spend into account and have built our business plan accordingly, this reduction is now reflecting within our RIO2 assumptions.

Latest Totex Position

The table below sets out the variation between our June totex and our current position.

Since the June position had been created, we have commenced our annual business planning process. Through this process, we liaise with customers to validate our investment proposals. We have seen some changes to initiatives based on customer requests and a desire to move some investments earlier. The variations between our June submission and our current position have been highlighted in the table below.



The totex position shows cost increases (in Red) and decreases (in Green). The key topics that have pushed costs to increase are;

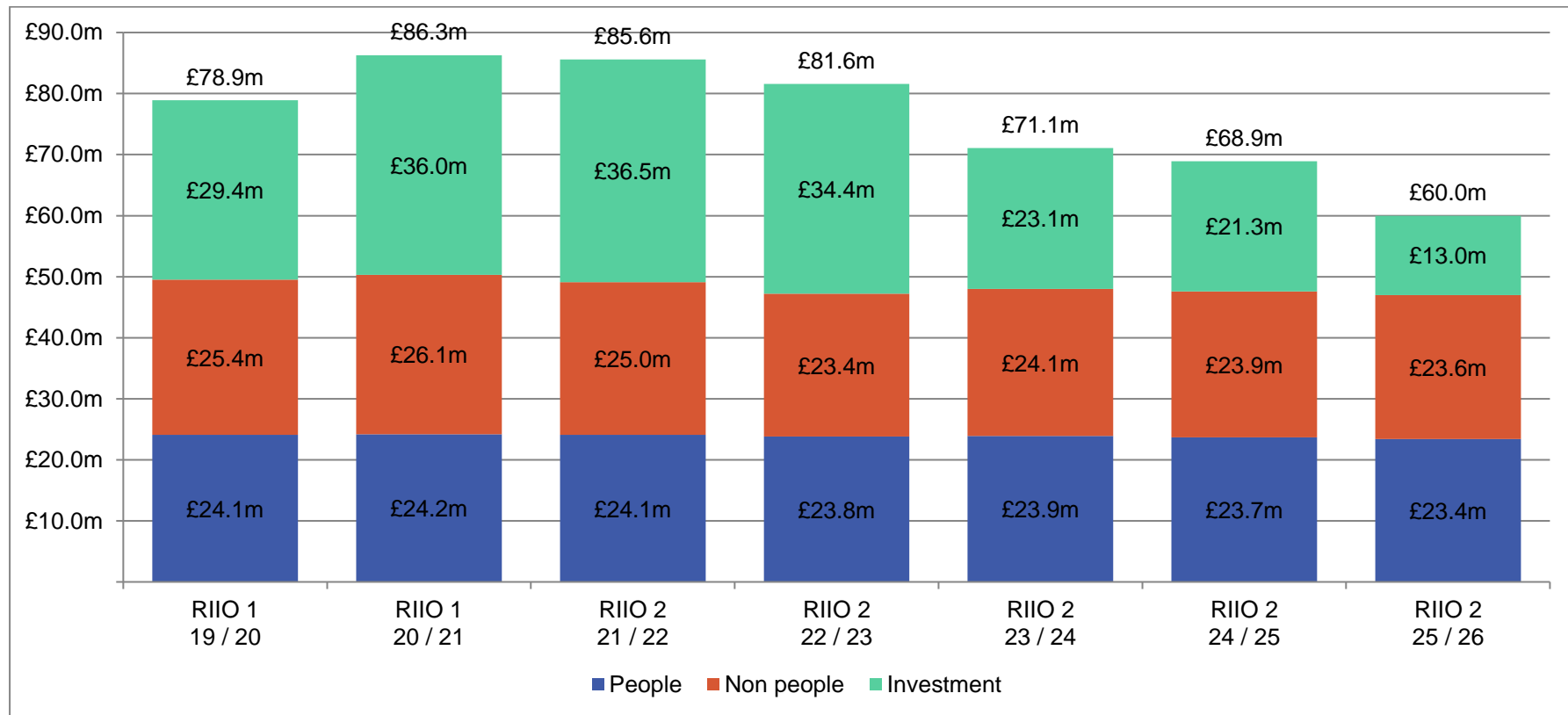
- Unallocated Customer Change
- Central Switching Service
- Information Security

The key topics that have caused costs to decrease are;

- Gemini Change
- SAP Roadmap
- BP20 Refinements

The net impact of the various changes result in a reduction in totex value overall, £386m in the June submission and £367m as our current working assumption, BP20 Refinements make up a bulk of this swing. This topic relates to the changes that were made during the annual business planning process. Having consulted with customers, our thinking has now evolved and we've prioritised and focussed on topics that deliver the benefits that customers have requested.

To further define the year on year totex position, the graph below highlights the people, non people and investment values for each year of the RIIO2 period. We have also included the projected costs for the final 2 years of RIIO1, which can be used as a comparison.



Updated Investment List

We've moved away from the investment designation we used earlier in the process and aligned our approach to our business plan. This contains 8 investment focus areas listed below;

- Digitising our Business
- Protecting against Cyber Security Threats
- Moving to the Cloud
- Operation Excellence
- Gemini Services
- Customer Centricity
- Central Switching Service
- General Annual Customer Change

The tables below highlight the individual initiatives that make up each investment area. Further details regarding each investment focus area can be found in our business plan published on our website.

Digitising our Business

Description	Investment amounts (£k)					
	Total RIIO2	RIIO 2 21 / 22	RIIO 2 22 / 23	RIIO 2 23 / 24	RIIO 2 24 / 25	RIIO 2 25 / 26
Big Data Platform	1,114	821	293	-	-	-
Digital	2,151	342	342	489	489	489
Data Access Platform (DAP)	2,092	528	391	391	391	391
Total	5,357	1,691	1,026	880	880	880

Protecting against Cyber Security Threats

Description	Investment amounts (£k)					
	Total RIIO2	RIIO 2 21 / 22	RIIO 2 22 / 23	RIIO 2 23 / 24	RIIO 2 24 / 25	RIIO 2 25 / 26
Information Security ISO27001 Compliance	10,753	1,955	2,199	2,199	2,199	2,199
Information Security Alignment with NIST	6,843	3,910	2,933	-	-	-
Total	17,595	5,865	5,132	2,199	2,199	2,199

Moving to the Cloud

Description	Investment amounts (£k)					
	Total RIIO2	RIIO 2 21 / 22	RIIO 2 22 / 23	RIIO 2 23 / 24	RIIO 2 24 / 25	RIIO 2 25 / 26
UK Link Strategic Roadmap - Capacity for Change	1,955	-	1,955	-	-	-
UK Link Strategic Roadmap - Core Platform Migration	7,820	5,865	1,955	-	-	-
Total	9,775	5,865	3,910	-	-	-

Operational Excellence

Description	Investment amounts (£k)					
	Total RIIO2	RIIO 2 21 / 22	RIIO 2 22 / 23	RIIO 2 23 / 24	RIIO 2 24 / 25	RIIO 2 25 / 26
Service Management Transformation	196	196	-	-	-	-
Improvements to Testing, Tooling & Automation	98	98	-	-	-	-
People Platforms Evolution	1,026	293	293	147	147	147
Application Performance Monitoring	587	196	98	98	98	98
Customer Service Centre	196	196	-	-	-	-
Software Asset Management	758	152	152	152	152	152
Infrastructure General	2,444	489	489	489	489	489
CMS Review	293	293	-	-	-	-
Total	5,596	1,911	1,031	885	885	885

Gemini Services

Description	Investment amounts (£k)					
	Total RIIO2	RIIO 2 21 / 22	RIIO 2 22 / 23	RIIO 2 23 / 24	RIIO 2 24 / 25	RIIO 2 25 / 26
Gemini Enhancements	14,565	2,913	2,913	2,913	2,913	2,913
Future of Gemini	23,363	2,346	2,444	10,264	8,309	-
Total	37,928	5,259	5,357	13,177	11,222	2,913

Customer Centricity

Description	Investment amounts (£k)					
	Total RIIO2	RIIO 2 21 / 22	RIIO 2 22 / 23	RIIO 2 23 / 24	RIIO 2 24 / 25	RIIO 2 25 / 26
Customer Training and Education	797	159	159	159	159	159
Customer Journey Continuous Improvement	98	49	49	-	-	-
CRM	489	98	98	98	98	98
Improvements in Customer Communications	538	147	98	98	98	98
Total	1,921	453	404	355	355	355

Central Switching Service

Description	Investment amounts (£k)					
	Total RIIO2	RIIO 2 21 / 22	RIIO 2 22 / 23	RIIO 2 23 / 24	RIIO 2 24 / 25	RIIO 2 25 / 26
Central Switching Service	11,535	11,535	-	-	-	-
Total	11,535	11,535	-	-	-	-

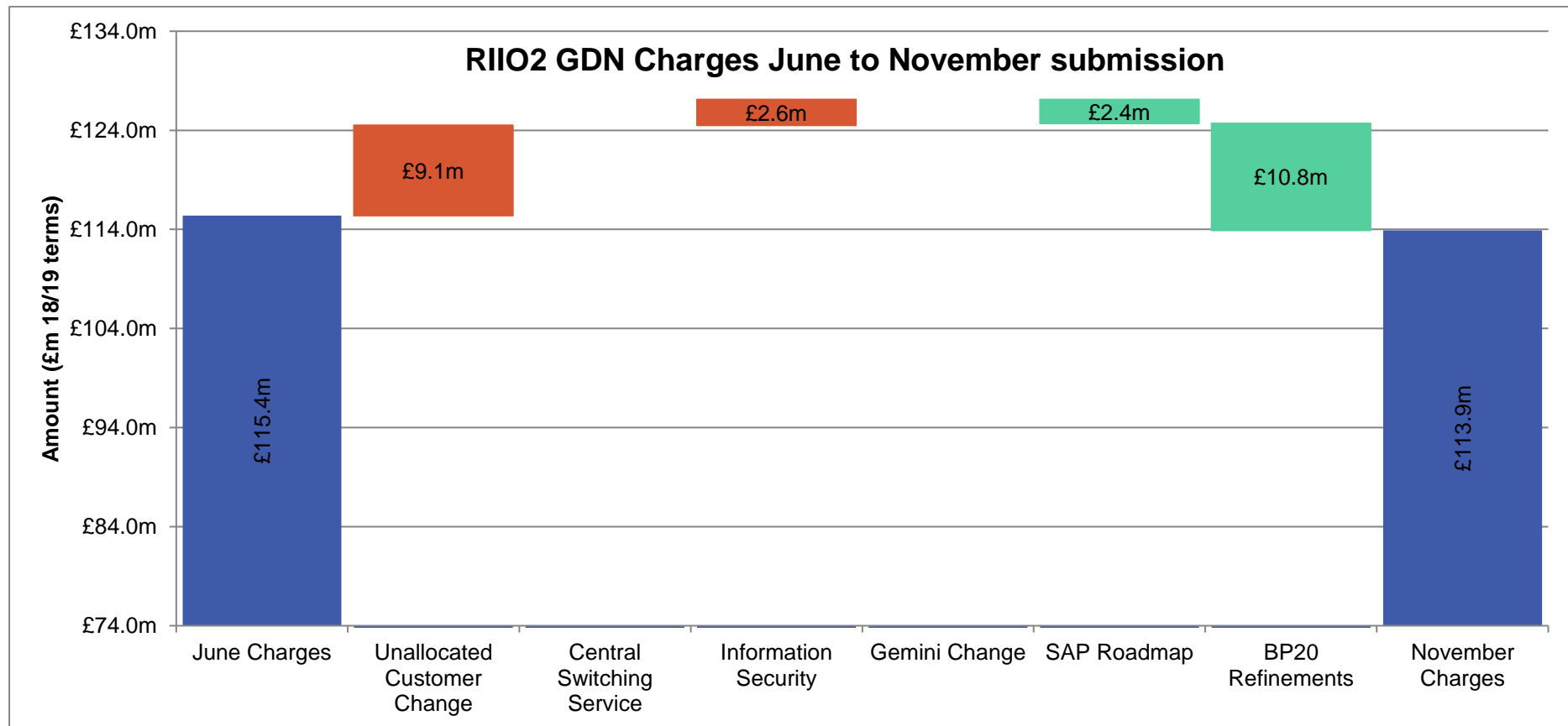
General Annual Customer Change

Description	Investment amounts (£k)					
	Total RIIO2	RIIO 2 21 / 22	RIIO 2 22 / 23	RIIO 2 23 / 24	RIIO 2 24 / 25	RIIO 2 25 / 26
DSC Change Budget	14,663	2,933	2,933	2,933	2,933	2,933
Minor Release Delivery	2,366	473	473	473	473	473
Unallocated Change Pot	19,550	-	13,783	1,857	1,955	1,955
Non-Standard Items for Data Reporting	108	108	-	-	-	-
Market Reform	978	196	196	196	196	196
Industry Performance Insights	978	196	196	196	196	196
Total	38,641	3,904	17,580	5,654	5,752	5,752

Customer Impact

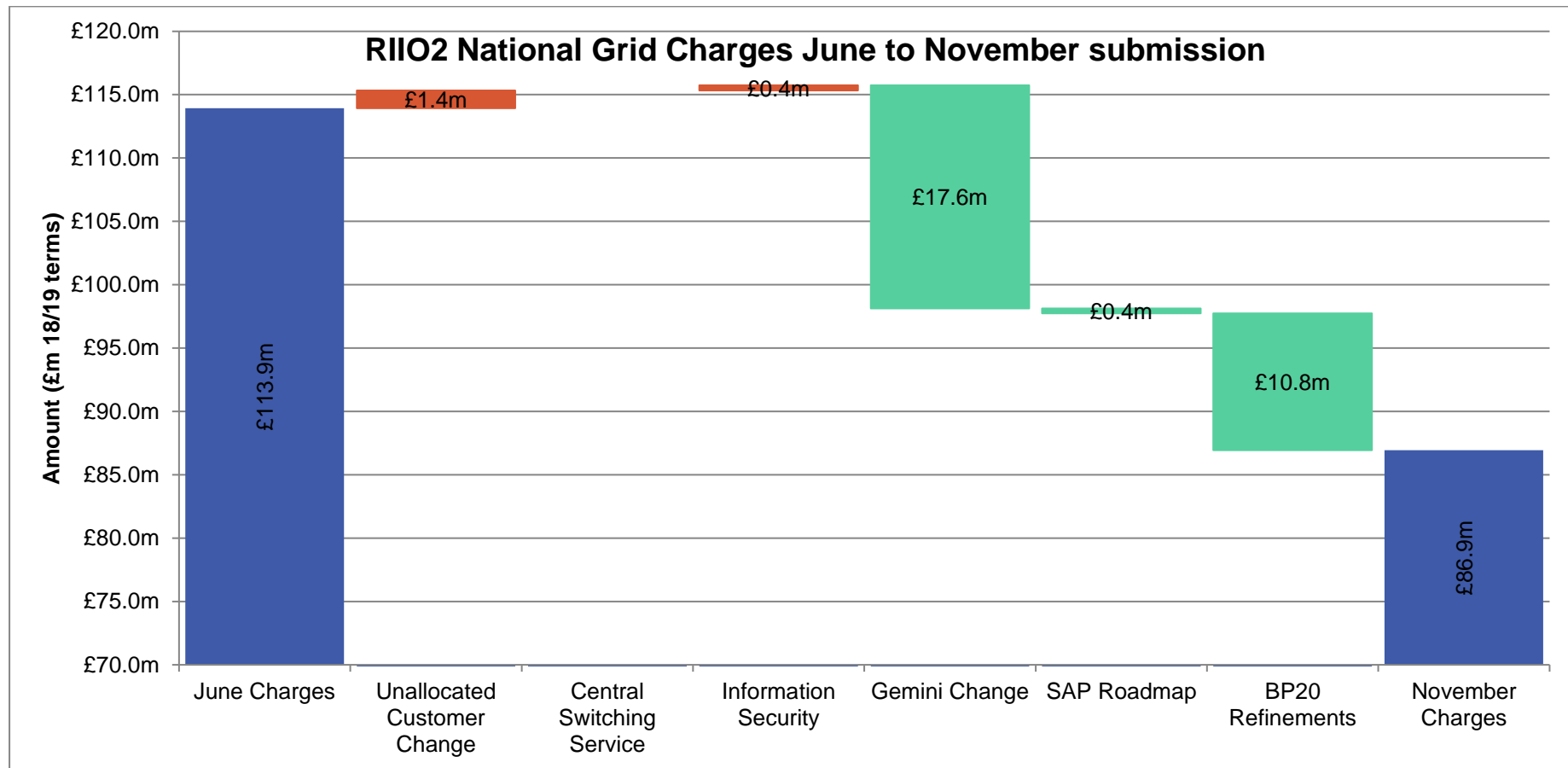
Distribution Networks

It's important to understand the impact that these changes may have on individual customer constituencies. The table below highlights the variation from our June position to our current position. For our Distribution Network customers, there is a totex decrease of £1.5m over the RII02 period. This is mainly due to the inclusion of an Unallocated Customer Change pot. Through our business planning process, customers had requested that we include a realistic investment profile that remains broadly flat over the plan period.



National Grid

The table below highlights the profile for National Grid. Over the course of the last 3 months we have been working closely with our National Grid colleagues to define the roadmap for the Gemini solution. We have chosen to steer away from a full system re-write and will instead embark on a programme to sustain the system. As we will no longer be re-writing the Gemini system, this has resulted in a decrease of £17.6m from our June estimates. A further reduction of £10.8m has arisen through revising our MTB and Investment forecasts to reflect assumptions and calculations used in our BP20 (draft 2) submission. £8.6m relates to reductions from MTB updates, the majority of which are attributable to savings in Gemini operate costs resulting from the DC Exit programme.



Turnover Analysis

	Xoserve Enterprise					Xoserve CDSP Scope					RIIO-GD2/T2					RIIO-T2					RIIO-GD2				
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP	CDSP
	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Charges to Networks																									
User Pays Charges																									
Price Control General Services	18,343	17,736	17,559	17,383	17,209	18,343	17,736	17,559	17,383	17,209	18,343	17,736	17,559	17,383	17,209	6,042	5,943	5,884	5,825	5,767	12,302	11,793	11,675	11,558	11,442
GT Specific Services																									
GT Additional Services																									
GT Change and Investment	24,013	26,983	24,655	22,673	14,286	24,013	26,983	24,655	22,673	14,286	24,013	26,983	24,655	22,673	14,286	9,184	10,114	16,811	14,831	6,491	14,829	16,870	7,844	7,842	7,795
CDSP GT Costs	42,357	44,719	42,214	40,056	31,495	42,357	44,719	42,214	40,056	31,495	42,357	44,719	42,214	40,056	31,495	15,226	16,057	22,695	20,656	12,258	27,131	28,662	19,518	19,400	19,238
CDSP services to Shippers	42,661	36,296	28,387	28,223	28,016	42,661	36,296	28,387	28,223	28,016	42,661	36,296	28,387	28,223	28,016										
CDSP services to LGTs	603	696	543	540	535	603	696	543	540	535	603	696	543	540	535										
CDSP Services	85,621	81,711	71,144	68,819	60,046	85,621	81,711	71,144	68,819	60,046	85,621	81,711	71,144	68,819	60,046	42,357	44,719	42,214	40,056	31,495	15,226	16,057	22,695	20,656	12,258
Non CDSP Services																									
Non CDSP Projects																									
Non CDSP costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	85,621	81,711	71,144	68,819	60,046	85,621	81,711	71,144	68,819	60,046	85,621	81,711	71,144	68,819	60,046	42,357	44,719	42,214	40,056	31,495	15,226	16,057	22,695	20,656	12,258
						Ok	Ok	Ok	Ok	Ok															
Gross Charges to Networks																									
Network	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
East of England	4,968	5,248	3,574	3,552	3,522	4,968	5,248	3,574	3,552	3,522	4,968	5,248	3,574	3,552	3,522	4,968	5,248	3,574	3,552	3,522	4,968	5,248	3,574	3,552	3,522
London	2,804	2,962	2,017	2,005	1,988	2,804	2,962	2,017	2,005	1,988	2,804	2,962	2,017	2,005	1,988	2,804	2,962	2,017	2,005	1,988	2,804	2,962	2,017	2,005	1,988
North West	3,321	3,508	2,389	2,374	2,355	3,321	3,508	2,389	2,374	2,355	3,321	3,508	2,389	2,374	2,355	3,321	3,508	2,389	2,374	2,355	3,321	3,508	2,389	2,374	2,355
West Midlands	2,424	2,561	1,744	1,734	1,719	2,424	2,561	1,744	1,734	1,719	2,424	2,561	1,744	1,734	1,719	2,424	2,561	1,744	1,734	1,719	2,424	2,561	1,744	1,734	1,719
Northern Gas Networks	3,136	3,313	2,256	2,242	2,223	3,136	3,313	2,256	2,242	2,223	3,136	3,313	2,256	2,242	2,223	3,136	3,313	2,256	2,242	2,223	3,136	3,313	2,256	2,242	2,223
Scotland	2,264	2,391	1,628	1,619	1,605	2,264	2,391	1,628	1,619	1,605	2,264	2,391	1,628	1,619	1,605	2,264	2,391	1,628	1,619	1,605	2,264	2,391	1,628	1,619	1,605
Southern	5,084	5,371	3,658	3,636	3,605	5,084	5,371	3,658	3,636	3,605	5,084	5,371	3,658	3,636	3,605	5,084	5,371	3,658	3,636	3,605	5,084	5,371	3,658	3,636	3,605
Wales & West Utilities	3,131	3,308	2,252	2,239	2,220	3,131	3,308	2,252	2,239	2,220	3,131	3,308	2,252	2,239	2,220	3,131	3,308	2,252	2,239	2,220	3,131	3,308	2,252	2,239	2,220
Total GDN Charges	27,131	28,662	19,518	19,400	19,238	27,131	28,662	19,518	19,400	19,238	27,131	28,662	19,518	19,400	19,238	27,131	28,662	19,518	19,400	19,238	27,131	28,662	19,518	19,400	19,238
NTS	15,226	16,057	22,695	20,656	12,258	15,226	16,057	22,695	20,656	12,258	15,226	16,057	22,695	20,656	12,258	15,226	16,057	22,695	20,656	12,258	15,226	16,057	22,695	20,656	12,258
Total GT Charges	42,357	44,719	42,214	40,056	31,495	42,357	44,719	42,214	40,056	31,495	42,357	44,719	42,214	40,056	31,495	42,357	44,719	42,214	40,056	31,495	42,357	44,719	42,214	40,056	31,495
LESS: Capital Contributions																									
Network	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
East of England	- 940	- 682	- 104	- 106	- 106	- 940	- 682	- 104	- 106	- 106	- 940	- 682	- 104	- 106	- 106	- 940	- 682	- 104	- 106	- 106	- 940	- 682	- 104	- 106	- 106
London	- 530	- 385	- 59	- 60	- 60	- 530	- 385	- 59	- 60	- 60	- 530	- 385	- 59	- 60	- 60	- 530	- 385	- 59	- 60	- 60	- 530	- 385	- 59	- 60	- 60
North West	- 628	- 456	- 70	- 71	- 71	- 628	- 456	- 70	- 71	- 71	- 628	- 456	- 70	- 71	- 71	- 628	- 456	- 70	- 71	- 71	- 628	- 456	- 70	- 71	- 71
West Midlands	- 459	- 333	- 51	- 52	- 52	- 459	- 333	- 51	- 52	- 52	- 459	- 333	- 51	- 52	- 52	- 459	- 333	- 51	- 52	- 52	- 459	- 333	- 51	- 52	- 52
Northern Gas Networks	- 593	- 431	- 66	- 67	- 67	- 593	- 431	- 66	- 67	- 67	- 593	- 431	- 66	- 67	- 67	- 593	- 431	- 66	- 67	- 67	- 593	- 431	- 66	- 67	- 67
Scotland	- 428	- 311	- 48	- 49	- 49	- 428	- 311	- 48	- 49	- 49	- 428	- 311	- 48	- 49	- 49	- 428	- 311	- 48	- 49	- 49	- 428	- 311	- 48	- 49	- 49
Southern	- 952	- 698	- 107	- 109	- 109	- 952	- 698	- 107	- 109	- 109	- 952	- 698	- 107	- 109	- 109	- 952	- 698	- 107	- 109	- 109	- 952	- 698	- 107	- 109	- 109
Wales & West Utilities	- 592	- 430	- 66	- 67	- 67	- 592	- 430	- 66	- 67	- 67	- 592	- 430	- 66	- 67	- 67	- 592	- 430	- 66	- 67	- 67	- 592	- 430	- 66	- 67	- 67
Total GDN Charges	- 5,133	- 3,725	- 570	- 582	- 582	- 5,133	- 3,725	- 570	- 582	- 582	- 5,133	- 3,725	- 570	- 582	- 582	- 5,133	- 3,725	- 570	- 582	- 582	- 5,133	- 3,725	- 570	- 582	- 582
NTS	- 37	- 281	- 70	- 72	- 72	- 37	- 281	- 70	- 72	- 72	- 37	- 281	- 70	- 72	- 72	- 37	- 281	- 70	- 72	- 72	- 37	- 281	- 70	- 72	- 72
Total GT Charges	- 5,170	- 4,006	- 640	- 653	- 653	- 5,170	- 4,006	- 640	- 653	- 653	- 5,170	- 4,006	- 640	- 653	- 653	- 5,170	- 4,006	- 640	- 653	- 653	- 5,170	- 4,006	- 640	- 653	- 653
Revenue Charges to Networks																									
Network	2022	2023	2024	2025	2026	2022	2023																		