Quarter 2 2020/21 Forecast Update to CoMC (December)

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Context

We submitted a paper to the November 20 CoMC summarising the key themes arising from the quarter 2 (Q2) 2020/21 forecast. However, at the time of submission, the Q2 process remained open due to ongoing internal challenges on the phasing of investments particularly in the second half of the year. Now the exercise has been concluded, the November paper has been updated to reflect the final forecast position. In addition, we have included an update on the material increase to the CSS programme forecast which wasn't included in the Q2 forecast but has implications on the year end rebate position. Contract Managers are asked to NOTE the contents of this paper.

1) What are the key themes arising from the Q2 forecast?

a. Q2 totex forecast currently stands at £90.6m which is £4.6m lower than our budget of £95.2m.

b. MTB forecast is broadly neutral. Whilst working locations have changed during the pandemic, we still have commitments to cover existing and ongoing lease costs; ensuring staff are meeting all HSE requirements when working from home and to cover security and cleaning requirements in a Covid secure environment for staff who require access to onsite facilities. As such, our run costs have not materially reduced, and any savings have been redirected to looking at the long-term future of Lansdowne Gate and how we use this building.

c. Project activity is 36% complete to August, with 27 out of 56 projects live.

2) How are we progressing with our investment programmes?

a. Referring to Appendix 1, about half of defined investment programmes have now begun and overall spend remains within budget. Recommended projects have been impacted by Centrica appeal and costs are backend loaded but the rest are broadly in line with anticipated completion rates. A few notes have been provided below regarding progress:

   i. Move to Cloud is backend loaded this financial year hence the completion is at lower end of 13% but second half of the year will see increase in costs and activity levels.

   ii. Following on from the re-baseline of CSS programme costs in late October, the updated forecast spend for 2020/21 is £0.9m higher than budget. This increase will be included in the Q3 forecast.

   iii. As customer change is prioritised in H1 general change activities have progressed in line with expected levels. DSC Change budget is forecasting an underspend of c£1m. This variance (and subsequent rebate position) may well be impacted by the CSS forecast increase and when the scope of the June 21 and November 21 releases becomes clearer.

   iv. Gemini Re-platforming and Gemini system enhancements are running very close to expectations and once Gemini Re-platforming is complete we are anticipating a rebate of c£1m for un spent contingency in the program.

   v. Customer Experience is slightly behind vs expected levels of completion this time of the year but is expected to pick up pace in H2.

vi. Cyber security is impacted by Centrica appeal and specifically NIST activity has slowed down as a result, second half of the year will see increase in spend and costs are weighted more towards the end of the year.

vii. Data investments including DDP are impacted by Centrica appeal and currently are behind in terms of spend and completion as work had to be slowed down. In H2 it is expected that spend and activity levels will pick up pace.

viii. Other Xoserve Change projects are also expected to have more activity in H2 as in H1 completion rate is below expected levels due to Covid 19 related changes taking priority in H1 pushing planned Xoserve change projects into H2.

b. In terms of progress against other projects carried forward from 2019/20:

i. Retro (RAASP) is currently on hold and may require potential COMC intervention to determine next steps, funds may will be returned if agreement not reached for enduring solution.

3) What are the initial views on rebates and deferrals?

a. Given the MTB position is broadly neutral, there are no material impacts to the existing constituent charging splits.

b. From an Investment perspective: -

   a. Once the Gemini replatforming programme PIS has concluded we anticipate returning c£1m to National Grid. There is also potential to defer £300k of Gemini Enhancements spend into 2021/22.

   b. The Change Budget underspend (currently c£1m) mostly benefits Shippers. There is the option to offset the forecast increase in CSS with this underspend.

   c. Depending on guidance provided by customers funds prepaid for the Retro project can either be returned or deferred.

   d. There is also the potential to defer c£0.5m for move SAP to cloud and c£0.5m for Customer experience projects into 2021/22.

4) What forecast activity is planned for the remainder of the year?

a. We are planning on delivering at least one more forecast update during this financial year. The Q3 forecast will be based on 9 months actuals and 3 months forecast. The outputs will be used to calculate the values of any additional funding or rebates which will be carried forward to 2021/22 charging year.

b. In April 21 we shall also aim to provide CoMC with an early indication of the year end position with particular attention to any material changes to rebates and deferrals resulting from Q4 actual results.

Should you have any queries on this update please contact nick.stace@xoserve.com directly.

Appendix 1: Investment Projects status at Q2 2020/21

Investments YTD Aug 2020	% defined projects live	% drawdown of budget	% work complete
Mixed Customer Investment-Move to Cloud	100%	14%	13%
Mixed Customer Investment-Other	31%	44%	55%
Retail Specific - CSS	100%	50%	47%
Transmission Specific - Gemini	80%	39%	41%
Xoserve Change - Customer Experience	60%	34%	37%
Xoserve Change- CISO	100%	25%	25%
Xoserve Change- Other	37%	13%	21%
Xoserve Change- Data	100%	23%	23%
Total Live portfolio	48%	35%	36%

Approximately 56 projects are defined as at the end of August 2020 and 27 are live