

**Question 1. Xoserve's performance: What, if any, concerns do you have with regard to the performance of Xoserve? Do you agree or disagree with CEPA's articulation of network users' concerns about the responsiveness of Xoserve to industry change, and lack of transparency (pp.28-29)? Please provide reasons.**

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- 1.1 We value highly the role that xoserve undertakes within the gas industry and would like to take this opportunity to comment that the overall level of service, support and operational performance that we receive from xoserve on a day to day basis is very good and acknowledge that they consistently perform highly against their performance targets. Further, we value the role and the activities that xoserve undertake to resolve shipper related operational issues and queries as they arise. However, we do have concerns that when there is a requirement for network owners to become involved to support the resolution or escalation of an issue, performance can be slow, often at the pace of the slowest network owner, with outcomes at times lacking the level of quality or standard expected.
- 1.2 With regards to industry change management, we concur with CEPA's articulation in their report that there are issues with responsiveness, transparency and general facilitation of industry change.
- 1.3 At present we believe that the general facilitation of industry change by xoserve and network owners is sub-optimal, something which we believe can be attributed to the current ownership arrangements. The progression of industry changes are at times frustrated or curtailed because of a failure by xoserve or the network owners to do enough to facilitate them.
- 1.4 We agree that the existing process of delivering change through the existing arrangements takes too long; with costs quoted for delivery at times delayed or not being detailed enough, costs being too high and unrealistic, all of which can frustrate attempts to get traction behind the change. Delays in implementation are often encountered, solution design for changes are not necessarily always fit for purpose and there is a general lack of understanding of the prioritisation of individual changes within the wider programme of

change. It is evident that network owners have far too much involvement and influence in the overall process, particularly on changes which have little or no direct impact upon them.

- 1.5 UNC Modification Proposal 0270, is a recent example of how a shipper proposed industry change, was not progressed in a manner in-keeping with reasonable expectations. The purpose of this proposal was to allow shippers to elect, on a voluntary basis, supply points with smart meters installed to be reconciled enabling settlement to be based on actual consumption for these sites, significantly improving the allocation of costs within the market.
- 1.6 The progression of this change was frustratingly slow, predominantly due to conflicts between shipper and network owner views on the provision of cost estimates and implementation timeframes. Shippers were keen to get the change proposal costed in detail, in order to understand the magnitude of the change and to enable proper consideration of the costs versus the benefits and achieve an early implementation. However, network owners had wider concerns about the potential for system investment to facilitate the change, ahead of longer term system changes under Project Nexus.
- 1.7 Ultimately the change drifted towards the network owner position, with a view to a longer term solution delivery under Project Nexus. Disappointment in the failure to progress this proposal has been compounded by a continued lack of clarity as to when Project Nexus will be delivered, resulting in an unacceptable delay of a beneficial change of what could prove ultimately to be in excess of five years from the date of the original proposal.
- 1.8 Presently network owners through xoserve, as highlighted above, have too much influence on the actual progression and implementation of industry change; however the management of their change plans lack transparency and input from suppliers. Decision making around priorities appears to be opaque and is potentially ill-informed with the value of the modification not necessarily being considered above, for example, the date of approval.

- 1.9 The current funding and ownership arrangements of xoserve is the primary issue that causes this particular problem, with network owners placing more focus on xoserve to reduce costs and deliver Gas Transportation licence requirements at the expense of enabling and encouraging xoserve to promote innovation and deliver industry change.
- 1.10 It is therefore essential that going forwards, xoserve play a much more inclusive and engaging role in supporting the development and implementation of changes to industry processes and governance and seek to actively facilitate change and increase focus on transparency and prioritisation when delivering implementation, with increased engagement with suppliers and without the hindrance of network owner influence.
- 1.11 The industry change landscape for the next few years is extensive, with the implementation of significant industry changes, including the Data Comms Company (DCC), Project Nexus, harmonisation of IGT processes and the centralisation of registration activity to name a few. It is therefore essential that the industry urgently becomes better and more efficient at delivering industry change and we believe that this is a critical area that should be addressed expediently with reform of the existing ownership, governance and funding arrangements.

**Question 2. Current arrangements: What concerns, if any, do you have with the current funding, governance and ownership arrangements? Do you agree or disagree with CEPA's assessment of the limitations of the current arrangements for Xoserve (pp.29-32)? Please provide reasons.**

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- 2.1 Further to our comments provided to Question 1, we concur with the CEPA conclusion that xoserve are providing a good and valued level of service delivery, and are constantly meeting the service and performance standards associated with day to day service provision. However, they have not managed to consistently deliver the progression of industry change as effectively as shippers and suppliers require and expect, which we believe is predominantly a direct consequence of their existing ownership and governance model.
- 2.2 The services and change management activities provided by xoserve are critical to suppliers and we believe strongly that there is a case for suppliers to play a more active role in the management and ownership of xoserve, and removing the existing bias of influence and control enjoyed by network owners.
- 2.3 To address the enormity of the challenges that industry reform and change will provide to suppliers over the next few years, along with the corresponding commercial implications that these challenges will bring, it is essential that suppliers must, going forward, have an actual rather than a token, influence in how xoserve is owned, governed and funded.
- 2.4 We agree with the CEPA conclusion that whilst the existing arrangements may have been right and logical at the time of DN separation, it is no longer fit for purpose in an ever evolving energy industry landscape and that reform of the arrangements will address the concerns that have been raised associated with engagement, transparency and responsiveness.
- 2.5 We believe that fundamental reform of xoserve's governance and ownership will be beneficial to all industry parties, particularly xoserve, as it will provide them with the direction, freedom and confidence to pro-actively engage with

the industry on the critical industry reforms required and to deliver their company vision.

- 2.6 The timing of Ofgem's consultation is welcome as we believe that now is the opportune time to undertake and deliver reform, before the RIIO-GD1 price control process is concluded. It is evident that over the period of the next price control 2013-2021, the industry will undertake a huge transformation including an overhaul of all of the key supplier processes within the gas sector i.e. settlement, registration, customer switching etc.
- 2.7 It is essential that the industry does not miss the timing of this opportunity to ensure that the correct structures and arrangements are in place to ensure that the gas sector is best placed to deliver the critical challenges that lie ahead.
- 2.8 Whilst it is acknowledged that the funding of xoserve is a very small part of the overall price control revenues, the level of funding that xoserve receives over the next price control period is essential to deliver the process, system, infrastructure and capability requirements that will be required up to 2020 and beyond.
- 2.9 At this time it is difficult, if not impossible, for xoserve or any other industry party to predict with any accuracy the level of funding that will be required to deliver industry reform, particularly with respect to the cost of system replacement. However, we agree that the price control arrangements will continue to have a key part to play in the funding of xoserve and that funding associated with GT required services, core industry services and relevant system and IT development should continue to be funded through price control.
- 2.10 It is however important that there is an appropriate balance between the identification of efficiencies and control of costs, against the importance of improving service levels, service offerings and investment in the fundamental changes that will be required to enable and deliver industry reform.
- 2.11 Due to the unknown value of future change investment required at this time, it is therefore essential that price control arrangements associated with the

funding of xoserve are flexible and are able to deal with future funding certainty, for core services and systems, as and when it is known.

**Question 3. Options for change: What are your views on the costs and benefits of the three options for change (Chs. 7)? Do you agree or disagree with CEPA's assessment of the options (Ch 8)? Are there any other options not identified by CEPA that we should consider?**

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- 3.1 We agree that changes to the current ownership and governance arrangements would provide wider industry participation and insight in the operational and change management functions of xoserve, providing greater transparency, engagement and responsiveness.
- 3.2 We acknowledge that the proposals summarised by the UNC Mod 334 Review Group do not deliver alone, the more wide-reaching reform of the existing arrangements that are required to deliver an efficient and more responsive solution long term and note that in any case, to date, that there has been an apparent lack of urgency in responding to and implementing the full range of changes recommended.
- 3.3 It is noticeable that since the publication of Ofgem's open letter consultation, there has been acknowledgement and activity by xoserve that some of the reforms discussed under Mod 334 should be introduced. However, we are not convinced that the implementation of these recommendations alone will be enough to address and effectively deal with the more fundamental issues and challenges the gas sector will face in the short, medium and long term and that whilst Mod 334 reform is welcome it is not an enduring solution and should not be considered as such.

**Option A – Changes within current ownership and governance framework**

- 3.4 Whilst this option might be considered the easiest and quickest solution to implement, we do not believe that this option will provide the necessary level of change or incentives required to address the issues that have been identified with the current model and arrangements.

- 3.5 We are not convinced that the introduction of a 'User Requirement Planning Group' within the current ownership arrangements will effectively address the concerns we have with the bias of network owner influence on the progression, prioritisation and delivery of change. Whilst the CEPA report provides an overview of how this may work and how xoserve could be empowered to lead such a group, it is not clear how the issues, concerns and conflicts that we face and deal with today via the existing UNC groups would be any easier to resolve under this new group, without wider reform of governance and ownership arrangements.
- 3.6 With regard to the potential extension of existing User Pays arrangements, whilst this may assist in providing greater transparency over the costs of specific services, User Pays in its current guise is not universally supported across the industry and again, in our opinion, this would not deliver the required outputs without wider reform.
- 3.7 We are not supportive of a negotiated settlement process and agree with CEPA that as the model is largely untested in the regulated UK energy sector it is not clear or evident that this would be an efficient or successful solution. We agree that this solution would introduce a clear risk that Ofgem would ultimately be required to take an arbitration role for disputes over the level or allocation of funding, which will undoubtedly be difficult for the industry to agree under such a process.
- 3.8 The introduction of a User non-executive board member has also been considered by Mod 334 and is discussed within the CEPA report. Whilst this may appear to be a solution which provides a greater degree of transparency in the activities of the board to suppliers, we are not convinced that in practice the introduction of a supplier non-executive board member will necessarily improve the overall approach to the facilitation and delivery of improved change management activity, as expressed by the case study reference within the CEPA report, which states that non-executives are generally appointed to prevent activities and outcomes as opposed to driving strategy and decision making.



- 3.9 We have noted that Project Nexus has been touted by some industry parties as being a 'shining example' of how xoserve can successfully engage with the industry to agree and deliver strategic industry change. Whilst we agree that the work undertaken by the Project Nexus group to date has been useful, the next phase of the project is the most critical and the most difficult within which to achieve industry consensus, as it will seek to finalise business rules, shape modification proposals and define legal text. Whilst we remain supportive of the approach being undertaken, we believe that judgement of the overall effectiveness of the approach should be reserved until its conclusion.
- 3.10 In summary, we agree with CEPA that Option A is not an enduring solution that will fundamentally address and resolve the issues identified with the current arrangements.
- 3.11 We encourage and welcome the engagement of xoserve in the development and delivery of industry change and see this as critical going forwards, however we believe that an Option A solution will continue to stifle their efforts rather enhance them.

**Option B – Separate licence, customer facing GT subsidiary**

- 3.12 Option B involves the removal of the current contractual arrangements and the establishment of xoserve as a separate licenced activity. We do not support this option for a number of reasons.
- 3.13 First, we are mindful of the cost, complexity and time associated with the development and implementation of a new licenced industry entity and the amount of time and resource commitment that this option will place upon Ofgem to establish.
- 3.14 Second, further to our comments under 3.7, we are not supportive of a negotiated settlement process and believe that there are substantial risks associated with this solution, including the strong probability for Ofgem to

become heavily involved where agreement is not reached. There is no reason or evidence to conclude that a xoserve led negotiated settlement process would be any more successful than a network owner led process.

- 3.15 Finally, whilst CEPA state that the model may create a more empowered central service provider agent, it would continue to be directly responsible to network owners and we are therefore not convinced that this model would ensure that xoserve were provided with the freedom to be more responsive to customers needs or that the current issue associated with the lack of supplier influence would necessarily be fully addressed.
- 3.16 Overall, we concur with the CEPA report that in terms of risk and cost this option will be overly complex for a relatively small entity, we have concerns over the introduction of a successful negotiated settlement process and the ability for industry decisions to be agreed without Ofgem acting as adjudicator.

### **Option C – Cooperative body**

- 3.17 We are supportive of Option C and believe that this is the most prudent of all of the three options and is the correct enduring option for the industry.
- 3.18 It is however extremely important to note that there are significant differences between the two types of model referenced within the CEPA report i.e. an Elexon style model and a MRASCo style model.
- 3.19 For clarity, British Gas is supportive of the development of a model akin to the MRASCo model, but is opposed to any model which is similar in nature to that of Elexon.
- 3.20 A MRASCo style model is far more embracing and inclusive of industry parties, enabling individual parties and constituencies to have an appropriate level of influence upon change, both in terms of representation and voting, with transparent arrangements for decision making, prioritisation,

implementation and appeals. Ultimately it provides a model which is accountable to the industry.

- 3.21 In contract, the Elexon model has a completely different structure and does not provide parties will an appropriate level of influence or control over the development of change, decision making or prioritisation and implementation. This model provides a distinct lack of influence to industry parties, lacks appropriate accountability and does not enable appeals to be raised by parties. Overall, a move to a model of this nature could be judged as being a backward step rather than an evolutionary way forward.
- 3.22 Ultimately it is essential that the wider industry moves towards an overarching governance structure, under the Smart Energy Code (SEC) that provides harmonised retail governance with the ultimate migration of SPAA, MRA and relevant sections of the UNC, as this will be the conduit to delivering common cross-fuel switching processes for customers, enabling a more efficient and timely change mechanism.
- 3.23 We believe that the Option C approach would address all of the existing issues that the industry have identified with the current arrangements and will deliver greater transparency, engagement and accountability to suppliers (the customers of xoserve). Ownership issues and the concerns regarding the high degree of influence network owners currently have would also be addressed.
- 3.24 Further, we believe that an Option C model would also be an important enabler for the harmonisation of IGT activity and change governance arrangements and that the industry could finally address the significant issues and costs associated with these disparate set of processes, which have been problematic to shippers/suppliers and the wider industry for so long.
- 3.25 In practice, a MRASCo style model would provide the most appropriate and efficient solution to transparency, ownership and accountability and would provide all industry participants, network owners, suppliers, shippers and

IGT's, with joint ownership of a shell company, which would ultimately appoint xoserve as an outsourced central gas service provider for all activities.

- 3.26 We concur with the CEPA report that the model would also enable the funding of central systems and functions via charging/funding arrangements for the specific groups that benefit from the services provided i.e. the funding of Gas Transporter and NTS driven services and systems could continue to be sourced by network price control allowances, as they are currently. Supplier and Shipper budgets established to fund the functions and services they specifically require and recharged through agreed arrangements. Further, funding and recharging of IGT related activities and services could be undertaken via the development and agreement of appropriate arrangements.
- 3.27 Whilst change management processes for the Uniform Network Code (UNC) would continue to sit with the Joint Office of Gas Transporters (Joint Office), the responsibility for solution design, development costing and delivery of changes would be the responsibility of the new entity (entitled 'UNCCo' within the CEPA report). This new ownership model would greatly improve the degree of transparency and engagement across all industry participants, associated with the delivery of change solution design, prioritisation and implementation.
- 3.28 We do not see any issue with the existing code governance and administration activities being separate from any new entity, as the roles that they undertake and are responsible for are very specific and are easily segmented.
- 3.29 We do however strongly believe that it is essential that reform of the existing constituency of the UNC modification panel, should accompany any move towards an Option C model. The panel currently has overall control and influence on the progression of change proposals and ultimately the recommendation or not for approval. However the current make-up of the panel does not provide a true representation of the whole industry. i.e. presently 95% of all consumers are only represented by two shipper reps

and one consumer focus rep, out of a total of eleven panel members. Further with network owners, including NTS, accounting for five seats on the panel, this currently provides them with a huge degree of influence over the panel voting arrangements and ultimate outcomes.

- 3.30 These existing arrangements are not conducive to always ensuring the delivery of the right outcomes for consumers or indeed the interests of the wider set of industry parties that the panel members represent. These arrangements would also need to be reviewed to ensure that any Option C reform enables appropriate engagement, influence and transparency across all aspects of the change process, including prioritisation and implementation, and not only those elements involving xoserve.
- 3.31 An Option C approach would also assist in the delivery of cross GT/IGT change management, which at present is fragmented and cumbersome. Alignment of settlement activity, harmonisation of processes and centralisation of registration activities are all issues which shippers and suppliers continually call to be addressed. This model would provide a perfect solution for encompassing IGT's with the mainstream and finally enable the delivery of a single service provider for all gas supply points.
- 3.32 The CEPA report noted that there are potential risks associated with the transition to new arrangements at this time of major industry change. We do not agree that these risks are significant or cannot be mitigated by a clearly defined industry delivery programme. In our view the timing of this proposed reform is both opportune and welcome for a number of reasons.
- 3.33 It would be beneficial to the industry for such a decision to be made before the industry enters into an eight year price control, enabling any future flexibility of funding for xoserve, especially for major system replacement, via the price control to be understood and catered for. Further, that because of the amount of industry change that is on the horizon, e.g. DCC implementation, gas settlement reform, future centralisation of registration activities, harmonisation of IGT activities and services, any reform of xoserve ownership, governance and funding instigated now and delivered over the

next 12-18 months would be more ideal than an implementation in say 3-4 years time.

- 3.34 We are particularly concerned that any solution delivered under Option A, should this be chosen as the way forward, would ultimately not deliver the degree of output, engagement and behavioural change required on an enduring basis, therefore introducing a real risk that in one to two years time the industry may need to have again the same discussions as we are having today.
- 3.35 Whilst concerns have been raised by xoserve and others that Option C may prove to be too much of an upheaval at this time, we believe that there is a greater risk of not undertaking more fundamental and much needed reform now and potentially just delaying the introduction of reform until a later date. This we believe to be a much greater risk considering the industry will, in a few years time, be more engaged with the process of actually implementing industry reform.
- 3.36 All businesses go through and successfully negotiate periods of transformation and this should not be used as a valid excuse for preventing reform. We acknowledge that any reform should not disrupt existing levels of operational performance, and we view the ability to deliver operational performance under the existing regime and the reform of ownership, governance & funding arrangements, as distinct and separate activities. Further, we have seen no evidence to conclude that reform of existing arrangements would or should impact operational performance.

## **Summary**

- 3.37 Therefore it is our view that it is much more sensible and practicable to develop and deliver an Option C style solution now, rather than at a future date when the industry will be in the middle of delivering all of the aforementioned industry reforms and when industry participants will be potentially lighter on time, resource and commitment.

- 3.38 Over the years the industry has obtained a great of experience in the development and implementation of new models of this nature, such as MRASCo and SPAA, and we are of the view that the delivery of a similar new entity under Option C, could easily and efficiently be achieved and we can confirm that British Gas would be happy to support and engage in the process for the establishment and implementation of new ownership, governance and funding arrangements associated with the provision of central agency gas services.
- 3.39 We are aware that concerns have been voiced by xoserve and other industry parties that should Ofgem decide to introduce an ownership model under Option C, that there is a risk that such reform could have a negative impact upon the level of service provision performance currently provided by xoserve. We do not agree with these sentiments and do not see any evidence which supports this pessimistic view. The delivery of ongoing service provision would be completely separate to the development of wider ownership and governance arrangements and any industry development work would and should not impact the delivery of day to day operational performance. Therefore this concern should not be seen as a barrier to undertake the reforms necessary for the long term benefit of the industry.
- 3.40 We agree with both the CEPA report and the Ofgem view that *'the current institutional arrangements hinder the ability of xoserve to be customer focussed, and to respond effectively to the wider industry challenges..'* and concur with Ofgem's preliminary view that Option C represents the optimal set of arrangements. Further, we agree that Option B is a high risk approach, with significant cost and complexity associated with its delivery, therefore not making it an attractive or feasible option. Finally, we have concerns over the effectiveness of delivering Option A, we are clear that this will not fully address the issues that shippers and suppliers face today and we do not want the industry to be in a position where we pass up on this ideal opportunity for reform and ultimately end up re-addressing this issue again at a less opportune moment, in a couple of years time.

**Question 4. Critical issues: What are your views on the critical issues identified by CEPA for determining the preferred option (p.73)? Are there any other critical issues we should take into account before making our decision?**

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**Are the activities and systems managed by Xoserve separable from gas transportation businesses?**

- 4.1 The range of services and activities currently provided by xoserve, along with the systems required to manage and deliver these, span across a wide range of different functions and requirements for multiple industry participants: NTS, network owners and shippers/suppliers.
- 4.2 The services provided to NTS and network owners for the purposes of gas transportation can be easily defined and therefore can be accounted for separately. The CEPA report already acknowledges that the funding for core NTS/GT services and systems could continue to be funded by price control revenues.
- 4.3 We believe that with the development of the right set of arrangements there is no reason why the delivery of an MRASCo style Option C model could not protect the requirements for xoserve to deliver gas transportation arrangements whilst still reforming xoserve ownership and governance arrangements and delivering the much required, wider level of engagement and transparency for shippers/suppliers.

**Are the activities performed by Xoserve “cooperative” in nature. With UNC administration under separate governance from Xoserve, is a shared ownership / interest model in this context appropriate?**

- 4.4 Yes, we believe that the activities performed by xoserve are cooperative in nature.
- 4.5 The issue of UNC governance and administration should not be considered as an issue which prevents or hinders the implementation of a MRASCo style Option C solution. Whilst the UNC governance processes, under the stewardship of the Joint Office of Gas Transporters, facilitates the process to



change the legal text of the UNC, it should be remembered that it is the function of xoserve to ultimately engage with the wider industry to assess, develop and implement the changes necessary to industry systems and processes to effect any changes to code. Xoserve's obligations to this extent would not change, although the way that they went about their activities would change for the better, providing shippers and suppliers with much more transparency, inclusion and influence in the assessment, design, development, prioritisation and implementation of change.

- 4.6 However, we re-iterate the views made earlier within 3.29 and 3.30 that alongside Option C, reform of the constituency of the UNC modification panel should also be undertaken.
- 4.7 Therefore we believe that it would be relatively straightforward for arrangements to be developed which enabled the activities performed by xoserve under an Option C solution, to be cooperative in nature with UNC administration and governance.

**What appetite is there amongst industry participants outside the GTs to assume a greater role, responsibility and therefore accountability for Xoserve and its activities?**

- 4.8 Further to the comments we have articulated earlier within this response, we are strongly of the opinion that fundamental reform is required to fully address, both now and in the long term, the issues that are inherent within the existing ownership arrangements.
- 4.9 It is essential that shippers and suppliers have a greater role, responsibility and accountability for xoserve and the critical functions they provide to the gas industry and we strongly believe that this is the ideal time and opportunity to deliver the reforms necessary to deliver this.
- 4.10 British Gas as both a shipper and supplier are keen to play a wider role in the ownership and governance of xoserve and are happy to engage with and assist both Ofgem and the wider industry in the development of any new MRASCo style Option C model and are committed to its delivery.

**Are the systems and services provided by Xoserve of such criticality to the industry during a period of already significant change in the energy sector, that fundamental change to Xoserve funding, governance and ownership raises too great a risk?**

- 4.11 No, we do not believe that fundamental change to the existing xoserve funding, governance and ownership model is too great a risk at this time.
- 4.12 As articulated earlier in our responses under question 3, we see this as being both an appropriate and opportune time to make the necessary reforms, in terms of the decision being taken before the price control is concluded and before the industry is immersed in the actual implementation of numerous industry reforms.
- 4.13 In our opinion, reform of the current xoserve arrangements whether now or later, will be inevitable in order to deliver the right industry conditions and requirements going forward and that therefore there is a much greater risk in delaying reform to a later date in the future, than acting now.

**Question 5. Should we change the current arrangements? If so, what is your preferred option?**

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- 5.1 Yes, we agree that the current arrangements should be reformed.
- 5.2 In summary of the detail provided earlier within this response, we are supportive of Ofgem's preliminary view that Option C – the introduction of a cooperative body, is the right solution to fully address the issues identified.
- 5.3 For clarity, within Option C there are distinct differences between an Elexon Style model and a MRASCo style model and for the reasons already stated we are only supportive of the latter and not the former.
- 5.4 We believe that a MRASCO style Option C model is the only option of those presented that will deliver a solution which will enable the issues associated with IGT service provision harmonisation to be resolved and is an ideal opportunity to finally address and resolve this important ongoing issue.
- 5.5 We do not support Option A, as we do not believe that this will deliver an enduring solution to the issues that have been identified and that whilst such a step may appear to be the easiest solution to implement, it does not address at all the fundamental issues of ownership and in our opinion would ultimately result in a further, future consultation of this nature.
- 5.6 We also do not support Option B, as we believe that this solution will be costly, complex and again will not fundamentally address the underlying issues identified.
- 5.7 We encourage Ofgem to take this opportunity to ensure that a longer term, strategic solution is delivered that will provide a beneficial and enduring solution for the whole gas industry and that this is not risked by a more tactical, easier to implement solution, which we fundamentally believe would not be enduring and would ultimately require reform at a later date.