Andrew Wallace
Smarter Markets
Ofgem
9 Millbank
London
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11 August 2014

Dear Andrew,

Re: Moving to reliable next-day switching consultation

Thank you for the opportunity to respond to your consultation. Northern Gas Networks (NGN) response is provided in respect of the changes to the gas industry and the activities of Xoserve who act as our Agent in providing centralised supply point services for Gas Transporters in accordance with Standard Special Condition A15. We have set out the answers to the specific question in appendix 1.

In respect of this consultation we are disappointed that the relationship between shipper and transporter, and shipper and supplier has not been identified as critical to ensuring that industry processes are fully aligned. The Gas Transporter systems, managed by Xoserve, are designed primarily to maintain the shipper to transporter relationship for energy balancing and transportation billing purposes. This single centralised system keeps supplier information for use in the wider industry but it is not the key data item and can be subject to more than one method of completing a change of supplier if change of shipper is not also required.

These proposed changes are significant and NGN is pleased to see that consideration of other industry changes is identified as a key risk area. The proposed changes have not specifically been assessed against the future systems and processes which are currently in flight with Project Nexus and the UK Link Programme, and this makes consideration of the benefits case for such substantial changes difficult to assess. Further consideration of how these changes may lead to obsolete areas of new systems will need to be assessed during the regulatory design element of the programme together with the realignment of obligations between parties.

We would welcome a better definition of registration in respect of the DCC and how they may be required to provide information or processes relating to shipper registration alongside the supplier element. While this has little impact on consumers, it is of importance for the integrity of the end-to-end industry processes and commercial arrangements.

As this change would see both gas and electricity changes that would need to align NGN agrees that a Significant Code Review (SCR) would be the best way to manage the interaction with all industry codes and parties. This approach would also need to consider how the proposed changes may impact on GT Licence obligations, in particular Standard Special Condition A15: Agency and Standard Special Condition A31: Supply Point Information Service.

I hope you find these comments useful and please contact me should you require further information.

Yours sincerely,

Joanna Ferguson
Network Code Manager

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Moving to reliable next-day switching

Chapter 2, Question 1: Do you agree that we have accurately described the benefits of improving the switching process?
There are undoubtedly issues with the current consumer switching arrangements in which complex industry arrangements are not transparent to consumers creating frustration and lack of confidence. The three aspects of reliability, timeliness and complexity have been subject to considerable discussion over recent time with the timeliness aspects being the main focus with two UNC Modifications being approved in the last two years: "*0403-EU Third Package: 21 day switching with flexible objection period"* which was implemented into the central systems in November 2013, and "*0477-Supply Point Registration – Facilitation of faster switching"* which is due to be implemented in November 2014.

Although UNC0477 is not yet implemented, this consultation focuses further on the time aspect of switching without considering fully how the implementation of this Modification will impact on the practical aspects relating to timeliness of switching for consumers.

Reliability, characterised by looking at erroneous transfers and billing issues, would appear from the consumer research presented to have a larger impact on the consumer experience than timeliness. Further industry work as part of the Smart Metering Implementation Programme, Ofgem's request to industry to consider change of supplier reads and the recently initiated data quality working groups are also focused on identifying incremental changes and assigning which party is primarily responsible for the transfer reads and data provision. Clarity in this area should improve industry processes but these have yet to be taken forward in a practical manner or the impacts of these on the consumer experience been fully assessed.

The complexity of the switching process is mainly behind the scenes for the consumer. In gas the central systems are designed and function as the register for the shipper-transporter relationship with the supplier identity being of note rather than the main driver. The processes have, however been developed to include supplier aspects such as a window for objections to facilitate the full industry requirements. It is possible, but not common, for supplier to change without a change of shipper and this is subject to a simpler process which can be completed within a day. While use of this would allow supplier to change quickly this can create misalignment of the shipper-supplier relationship which industry parties have said they wish to keep aligned. This process is primarily used in group companies where rationalisation of their supplier or shipper organisations is being carried out.

Chapter 3, Question 1: Do you agree with our impact assessment on next day, two-day and five-day switching based on either a new centralised registration service operated by the DCC or enhancing existing network run switching services?
The assessments provided appears to consider existing transporter systems without reference to the ongoing UK Link Programme which will introduce new systems in 2015. This will place the existing processes onto new platforms for which cost, speed and complexity of change is not yet known. This makes the assessment factors chosen not fully relevant to gas, particularly in respect of reliability, implementation risks and costs.

Efficiency of market arrangements will need to consider the implications of any changes to the supplier-consumer relationship to that of both shipper-supplier and shipper-transporter for the gas market. It is essential that transporters continue to hold accurate information relating to registered shipper in order to carry out transportation billing and any changes

that disaggregate the currently largely single process for changing supplier and shipper would need to be fully considered to ensure alignment continues.

Chapter 3, Question 2: Do you agree with our proposal to implement next-day switching on a new centralised registration service operated by the DCC?
Moves to align gas and electricity into a single point at the DCC for suppliers will not remove the need for transporters to maintain a shipper-transporter register should shippers not also be included within the change. Provided shipper information can continue to be accurately provided to transporters in a timely manner then we would have no issues moving the change of supplier to a DCC operated service if this benefits consumers.

Chapter 3, Question 3: Do you consider that fast (e.g. next-day) switching will not have a detrimental impact on the gas and electricity balancing arrangements?
It is important for gas balancing purposes that the shipper-supplier relationship is aligned during the switching process. Current systems transfer both with sufficient advance notice so that before the day allocations and after the day balancing is carried out for shippers effective from their first day of registration to a supply point. Consideration of how much notice is required for shippers to procure sufficient gas for balancing purposes will need to be included in any review of the change of supplier process. Insofar as both shipper and supplier processes are considered and changed to ensure that they remain aligned balancing activities could be subject to minimal or no impacts.

Chapter 4, Question 1: A central electricity metering database is not currently included within our proposed package of reforms. Do you agree it should be excluded?
N/A for NGN

Chapter 4, Question 2: If a central electricity metering database is included within our package of reforms, do you do you consider that it should cover both AMR and traditional meters? Do you think that there would be any benefit in extending the central electricity metering database to cover smart meters?
N/A for NGN

Chapter 5, Question 1: Do you agree with the implementation principles that we have identified?
The implementation principles identified appear to ensure that the consumer experience remains the key focus using the experience of industry to ensure success. NGN agrees with this approach to the project.

Chapter 5, Question 2: Do you agree that Ofgem has identified the right risks and issues when thinking about the implementation of its lead option (next-day switching with centralised registration)?
NGN is pleased to see that competing industry priorities is identified as a key risk. Implementation of numerous changes can adversely impact on projects particularly where numerous parties are required to co-ordinate system and process changes. Costs, delays and transition arrangements are also appropriate risks and full engagement with industry parties throughout can help to mitigate these.

Chapter 5, Question 3: Do you agree that we have identified the right implementation stages?
NGN broadly agrees with the implementation stages and welcomes early consideration of the regulatory framework which will need to realign obligations substantially to move

responsibilities. For such substantial changes it is important to carry out early "as-is" analysis and while this consultation is based on existing processes there are a number of changes that will be implemented prior to needing to make the further changes proposed. These include UNC0477, Project Nexus and UK Link Programme, DCC go-live and the review of Funding, Governance and Ownership of Xoserve, all of which may move the starting position for change in the future.

Full consideration of all industry codes and licenses will be required to ensure that the final arrangements are fit for purpose.

Chapter 5, Question 4: What do you think is the best way to run the next phase of work to develop the Target Operating Model for the new switching arrangements?
It is important that all impacted parties are involved in the next phase and work together to develop the most practical solution. A clearly defined project will need to be established in a manner that is accessible to all parties.

Chapter 5, Question 5: What do you think are the advantages and disadvantages of the DCC being directly involved in the design of the Target Operating Model for the new switching arrangements, and the development of the detailed changes required?
All impacted parties, including the DCC, should be directly involved in the design of the Target Operating Model. This will ensure that full consideration of consequential impacts are taken into account and resolved at their earliest opportunity. This is particularly important for the gas industry as the DCC does not currently have any relationship with gas shippers who also need to be involved to ensure that a suitable full industry solution is identified.

Chapter 5, Question 6: Do you agree that and SCR is the best approach to making the necessary regulatory changes to improve the switching arrangements?
We welcome a collaborative approach and given the complexities of co-ordination between gas and electricity codes NGN believes that a SCR is the most practical way forward. This has the added advantage of creating an effective freeze on changes on the impacted areas of the codes which will provide for a more stable project basis. While this is noted as an alternative to industry led process NGN believes that it is critical that industry expertise is utilised wherever possible within the SCR process.

Chapter 5, Question 7: Do you agree with the proposed implementation timetable? Are there ways to bring forward our target go-live date?
The proposed timetable appears to provide suitable time for the changes to be made. Many of these changes will come fast on the heels of change that is currently in-flight. It is important that new processes and systems that are being delivered are allowed to complete their current projects before being subjected to further change to minimise risk.

Appendix 3, Question 1: Do you agree that we have accurately identified and assessed the main reforms that could improve the switching process?
We acknowledge that the main reforms have been identified, but are disappointed that the impact on the shipper relationships in the gas market has not been included within this consultation. This is an important aspect of the existing process and needs to be fully considered when developing changes.

Appendix 4, Question 1: Do you agree that our approach, methodology and assumptions are appropriate to identify the quantified impacts of our reforms?

The overall approach, methodology and assumptions appear to be reasonable, however the impacts of the current Project Nexus and UK Link Programme make accurate identification of quantified impacts difficult to confirm.

Appendix 4, Question 2: Do you agree with our approach for approximating the direct costs for market participants of investing in upgrading existing registration systems to real-time processing and the ongoing costs of operating these systems?
It is not clear to NGN to what extent this approach takes account of the costs associated with other industry changes currently in flight that will impact on future changes. Without this being detailed it is difficult to have confidence in the outcomes.

Appendix 4, Question 3: Do you agree with our assumption that the direct costs for market participants of investing in systems to shorten the objections window and the ongoing cost of operating these systems would be similar for a two-day and a one-day objection window?
This would appear to be correct based on information provided.

Appendix 4, Question 4: Do you agree with our assumption (see Annex Figure 3) that 100% of the counterfactual change of supplier electricity meter read costs provided by market participants should be attributed to AMR meters?
N/A for NGN

Appendix 4, Question 5: Do you agree with our assumption (see Annex Figure 2) on the reduced efficiency of operating a central electricity metering database for traditional and AMR as the numbers of traditional meters declines?
N/A for NGN

Appendix 4, Question 6: Do you think there is efficiency potential for shortening the objections window to one day combined with: (a) upgrading the existing gas and electricity registration systems to real-time processing; or (b) centralising registration with real-time processing? If so, what do you estimate this efficiency potential to be?
Without full consideration of the extent to which the change of shipper and change of supplier processed will both be changed it is not possible to consider these with confidence.

Appendix 5, Question 1: Do you think the results set out in this appendix are comprehensive enough to show the potential direct cost impacts of the reform packages we have considered?
The lack of identification of how the change of shipper process will be dealt with makes it difficult to have confidence in these results. Furthermore, accurate costs of incremental changes to the future Xoserve systems have not been identified fully due to the progress of Project Nexus and the UK Link Programme. Changes that make some of the functionality of this obsolete will result in additional sunk costs in the gas market.