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11 August 2014

Dear Andrew,

Consultation on Ofgem's proposals for moving to reliable next day switching.

Scotia Gas Networks (SGN) welcomes the opportunity to respond to Ofgem's consultation on moving to reliable next day switching.

Our response below should be considered in relation to gas customers only, as we are not active in the UK electricity sector. Similarly, as a gas transporter we do not supply energy to end users and therefore do not provide comment on whether Ofgem's proposals satisfactorily meet the current standards under consumer legislation for the supply of energy to customers.

Summary of our response

SGN is supportive of Ofgem's policy objectives in this area and agrees that any proposals to improve the customer switching experience should be encouraged.

The option of progressing with one day switching will have significant impacts on the industry, and appropriate scrutiny and controls will need to be applied to ensure that customers do not experience significant increases in the costs of providing an effective switching service. For instance, it will be incumbent upon Ofgem to demonstrate to customers that the services provided by the Data and Communications Company (DCC) are procured in a transparent and efficient way to ensure that customers receive the best value for money for the delivery of the services they require.

We consider the transition to one day switching represents significant risks to the industry and customers, particularly as reliable and accurate switching should be the first prerequisite of any new arrangements. Failure to achieve reliable and accurate switching will not meet the needs of customers, irrespective of the time it may take to complete a switch from one energy supplier to another.



Ofgem will be aware that central registry services in the gas sector are currently provided by Xoserve (in addition to other services provided to the gas industry). SGN consider it may be inefficient to have separate parties providing different services that could be combined and resulting in greater inefficiency for the industry and its customers. Furthermore, the gas sector is embarking upon a fundamental review of the future governance and ownership (FGO) arrangements of Xoserve, and we would encourage Ofgem to ensure the various roles of suppliers and shippers in providing energy to gas customers is adequately reflected in the future development of next day switching.

We are concerned that industry participants are potentially being asked to facilitate and assist with the implementation of multiple major projects at the same time such as UK Link, Project Nexus and smart meter roll-out. This will place significant strain on already stretched resources within the industry as the knowledge and skill base is not a finite resource. We would therefore welcome further demonstration from Ofgem of how these major projects link together, to ensure there is no duplication of services being provided by parties, and that responsibilities for the delivery of specific services by industry participants can be better defined.

We have chosen to respond to each of the individual questions raised in Ofgem's consultation as set-out below.

Chapter 2

1. Do you agree that we have accurately described the benefits of improving the switching process?

We generally agree with the benefits of next day switching as identified by Ofgem. However, the scale of amending current industry arrangements to facilitate next day switching should not be underestimated. If detailed implementation plans are not agreed or delivered there is a very high risk any benefits will be outweighed by the costs of transitioning to, and operating, next day switching. Much work needs to be undertaken in designing robust regulatory and industry code frameworks to achieve this.

Chapter 3

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?

Ofgem should already be fully conversant with the UK Link programme to update new systems and the recent modifications to the Uniform Network Code (UNC) to improve customer switching times in the gas sector. We consider Ofgem's impact assessment should more fully explore the potential of a phased approach to implementing next day switching (i.e. a first step may be to initially move towards five day switching and then progress to next day switching rather than attempting to achieve this transition at a single point in time).

2. Do you agree with our proposal to implement next-day switching on a new centralised registration service operated by the DCC?

We consider it is absolutely vital that any service provider (whether this is the DCC or another third party) is appointed in a transparent way that clearly demonstrates the services being provided are least cost and offer value for money for customers. It is difficult to provide a detailed answer to this question at this stage, given the current lack of detail around the scope of the project, but Ofgem will need to ensure there is clear delineation between the services it is proposing DCC undertakes and other services currently provided by other parties (namely Xoserve and Elexon).

We consider the DCC's priority should be to establish the smart meter communications system. Care will need to be taken to ensure any service provider, including the DCC, is able to facilitate and implement multiple major projects of this nature at the same time and to the standards required.

We are supportive of a centralised registration service having a robust governance framework across both the gas and electricity sectors, and against which all parties will need to comply. We are concerned that without an equitable governance framework, the incentives for respective parties to comply with requirements will be diminished.

3. Do you consider that fast (next-day) switching will not have a detrimental impact on the gas and electricity balancing arrangements?

SGN does not consider that faster switching will have a negative impact on gas balancing arrangements from a gas transporters perspective and based upon the information contained in Ofgem's consultation document.

Chapter 4

1. A central electricity metering database is not currently included within our proposed package of reforms. Do you agree it should be excluded?

SGN does not have any comment to make on this question as this will be a question for electricity market participants to answer.

2. If a central electricity metering database is included within our proposed package of reforms, 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?

SGN does not have any comment to make on this question as this will be a question for electricity market participants to answer.

Chapter 5

1. Do you agree with the implementation principles that we have identified?

SGN agrees with Principle 1 (focus on consumer outcomes).

In respect of Principle 2, while we fully support any change that improves customer outcomes, we consider it may be difficult for Ofgem to implement next day switching earlier than 2018. We set-out our detailed reasons for this further on in this response.

Principle 3 seeks to maximise industry expertise and we fully support. In our view, this will be critical for the overall success of the project. It is essential that Ofgem acknowledge the degree of skill and expertise this will require and ensure that any potential service provider, including the DCC, is able to deliver on these expectations and appropriately balance competing priorities. This also needs to be considered when placing additional responsibilities upon network operators who do not have a finite resource to assist with the delivery of multiple projects of this scale at the same time.

SGN agrees with Principle 4 and the importance of properly identifying and managing risks.

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, centralised registration)?

SGN agrees with the risks identified, especially the requirement to avoid conflicts with ongoing regulatory work streams and new and existing licence obligations. For example, we note the review of the FGO arrangements for Xoserve could change licence obligations relating to gas supply point registration services. Decisions made under this review are highly relevant to the proposals for next-day switching, and Ofgem must ensure there is consistency in the requirements that will be placed upon network companies.

3. Do you agree that we have identified the right implementation stages?

We consider the identified implementation stages to be appropriate, although these will be challenging.

4. What do you think is the best way to run the next phase of work to develop the Target Operating Model (TOM) for the new switching arrangements?

We consider it is essential for all industry parties to be involved in the design of the TOM for the new switching arrangements. We would advise against a single body leading this work given the size of the task at hand.

The gas and electricity industries possess the regulatory expertise to assist and work alongside Ofgem to deliver the necessary regulatory framework that will be required for this project.



5. What do you think are the advantages and disadvantages of the DCC being directly involved in the design of a TOM for the new switching arrangement, and the development of the detailed changes required?

We consider the DCC should be involved in the development of the TOM, but do not consider the DCC, or any other chosen service provider, should lead this workstream. This is because a service provider should not be in a position whereby it can define the service that it may be contracted to deliver.

In the specific case of DCC, the TOM will need to be delivered alongside the Smart Metering Programme and that project should remain the priority of the DCC.

6. Do you agree that an SCR is the best approach to making the necessary regulatory change to improve the switching arrangements?

We agree that a Significant Code Review (SCR) is probably the best way to proceed based upon the limited information available within the Ofgem consultation paper. However, this should become clearer as the regulatory framework and design is developed further and it is critical that industry expertise is utilised wherever possible within the SCR process.

7. Do you agree with the proposed implementation timetables?

We do not object to the proposed implementation timelines, although we strongly suggest some important factors should be considered further by Ofgem before commencing with any aspects of next day switching.

For instance, smart roll-out is due to be completed by 2020 and therefore next-day switching will have to work for both traditional and smart meters. This is likely to increase the complexity and cost of both of these projects.

As noted previously, we are concerned that industry resource is already committed to smart roll-out and Project Nexus. Introducing another major industry change programme at the same time will be challenging, and bringing forward the go-live date before 2018 could negatively impact the deliverability of these major projects. This is further compounded by a limited skills and knowledge base across the industry which is already focusing on the delivery of other major regulatory driven projects, such as Project Nexus, smart meter roll-out, interfaces with DCC systems and the ongoing review of Xoserve FGO arrangements.

As noted above, we believe there are already significant risks associated with the proposed timetable. Bringing forward the go-live date will intensify these risks and introduce new ones, specifically in relation to the availability of industry and supplier-specific resource and expertise.

Appendix 3, 4 and 5

We do not have any additional comments to make in relation to the questions asked under Appendices 3, 4 and 5. However, our response to earlier questions can also be applied here.



SGN would be happy to work with Ofgem moving forward and assist in any way we can to facilitate better outcomes for consumers.

If you should require any further information, or background to this, then please do not hesitate to contact me at paul.mitchell@sgn.co.uk .

Yours sincerely,

Paul Mitchell
Regulation Manager