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Dear Angelita

**MOVING TO RELIABLE NEXT-DAY SWITCHING  
CONSULTATION ON A TARGET OPERATING MODEL**

Thank you for the opportunity to respond to Ofgem's consultation on its proposed Target Operating Model for next-day switching using a new Centralised Registration Service under the DCC ("the CRS TOM"). We are responding in our capacity as the Transporter Agency, responsible for the provision of Agency Services that discharge certain of the Licence and Code obligations (UNC, IGT UNC, SEC and SPAA) of the Gas Transporters (both the GTs and IGTs) and facilitate certain information flows to and from and between market participants.

This is a strategically important programme of work with potentially major impacts for many industry participants, and one which aspires to deliver significant consumer benefits. It is therefore of paramount importance that the programme has a solid foundation, which must include a Target Operating Model that enjoys a high degree of stakeholder support.

Alongside consideration of the proposed CRS TOM requirements as highlighted in the consultation questions (Section 3), our response draws Ofgem's attention to two other important considerations prompted by the consultation. These are the framework for central service provision (Section 1) and interaction with Ofgem's review of Xserve's funding, governance and ownership (Section 2).

Building on Ofgem's decisions regarding next day switching and a centralised registration service (which now appears to feature more DCC obligations than previously envisaged), the key challenge for the programme is to design, develop and implement new arrangements in a way that is cost effective for the consumer, protects the delivery of critical services in a competitive supply market, leverages existing industry capabilities and is efficiently integrated with other industry processes.

## **1. Framework for central service provision**

Ofgem has previously concluded that the commissioning of 'registration services' should become a DCC obligation. The CRS TOM proposes that 'registration services' should include holding and providing meter asset data, as well as data for balancing, settlement and transportation charging and that this obligation should include all but certain large Supply Points. This definition of 'registration services' goes further than the scope previously consulted upon, and the nature and scale of change for GTs, iGTs and other parties that place reliance on existing Supply Point registers and related data and processes is not clear from these proposals. A critical feature of the programme will therefore be to ensure that there is absolute clarity of the respective Licence and Code obligations of the DCC and of Network Operators, and likewise of the contractual responsibilities of licensees' agents and service providers.

A key theme of the proposals is that Suppliers should have a single point of interface for all Supply Points on all gas and electricity networks (except for those that are directly connected to transmission networks), by implication to enable the maintenance of register(s) for gas and electricity networks and for the smart meter infrastructure. The gas industry already features efficient arrangements for management of the gas Supply Point registers for GTs' networks, including the exchange and dissemination of information as required, the quality of which is being sustained and assured through major investment in replacement systems. In addition, the industry will shortly be taking further advantage of this model through the introduction of a single service provision for independent Gas Transporters. The management of supporting systems for the register of gas Supply Points is integrated with the corresponding gas allocation systems and ultimately the GT transportation and energy balancing billing processes and systems, giving an effective and efficient 'one stop shop' for gas Supply Points.

The design of a future framework for centralised registration service provision needs to ensure that the benefits of the current design features are retained and protected for the industry and, ultimately, consumers, whilst enabling the 'front end' efficiencies of a single registration arrangement for Suppliers, particularly those in the dual fuel market with a smart metering portfolio. If this can be achieved, the efficiency of prevailing central service provision may be leveraged, minimising additional costs to consumers that would detract from any next-day switching benefits that might otherwise accrue. To some extent, this opportunity could be realised and risk mitigated through a DCC procurement strategy that provides for some flexibility around a competitive tender approach.

We would welcome Ofgem's continued consultation with relevant parties whilst providing leadership and direction on this topic, making this a priority matter for planned industry discussions on the CRS TOM.

## 2. Ofgem review of Xoserve funding, governance and ownership

Ofgem has previously concluded that changes are to be made to arrangements for the funding and governance of Xoserve<sup>1</sup> (“the FGO Review”). A key conclusion of the FGO Review is that it is efficient for the scope of services provided by Xoserve in its prevailing role as the Transporter Agency to remain whole, but that these services are to be ‘re-branded’ as ‘Central Data Services’, delivered by Xoserve as the Central Data Services Provider (“CDSP”). An industry programme has been established to give effect to Ofgem’s conclusions, working to an April 2016 target for implementation. Future arrangements are expected to incorporate certain key features including a change from price-controlled to co-operative funding of central services, the establishment of Xoserve as a ‘not for profit’ company, changes to Xoserve’s corporate governance (including its Board) and the repositioning of certain GT obligations as set out in the UNC and other industry Codes. Dependent on additional clarity regarding the scope of ‘registration services’ envisaged in this CRS TOM consultation, a number of those obligations may fall within the scope of the proposed DCC’s obligations.

Certain features of the CRS TOM proposals are significantly at odds with aspects of the FGO Review conclusions, including:

- a) The funding model for central services, which under the FGO Review will switch from an *ex ante* price control to a co-operative funding model, but then to an *ex post* price control for the DCC;
- b) The governance of the central service provider, which under the FGO Review will switch from a licensee-led model to a co-operative not for profit model, but then back to a licensee-led commercial model under the CRS arrangements; and
- c) The positioning of Code obligations, where there is an industry consensus that the FGO Review requires a review of UNC obligations, but the proposed Significant Code Review for the CRS TOM may move a number of those same obligations into the Smart Energy Code.

We would therefore ask Ofgem to consider its priorities for the reform of CDSP and CRS arrangements, and to provide clear direction on target outcomes for the FGO Review in the light of the proposed CRS TOM. We believe that the two initiatives could be reviewed together to deliver complementary and efficient strategic outcomes, whereas at present they appear at best to risk duplication of effort and, at worst, development of diametrically opposed arrangements.

## 3. Scope and Nature of Requirements

In this Section, we address the consultation questions about the CRS TOM requirements, their sufficiency as a basis for moving to the next phase of the programme, and their completeness. We have structured our response under three headings, namely the scope of the service, amendment to Codes and Licences, and the relationship between Gas Transporter and Gas Shipper.

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<sup>1</sup> See <https://www.ofgem.gov.uk/ofgem-publications/86614/xoservedecisionoct13.pdf>

We note also that the CRS TOM proposals acknowledge the need to address matters relating to ‘cooling off’ arrangements under the Consumer Rights Directive and the objections process. Given the criticality of these to achieving reductions in switching timescales, we would expect the forward programme to give these matters greater attention than appears to be the case in the CRS TOM.

a. Scope of Centralised Registration Service

Ofgem has previously concluded that there is a case for a single CRS and in this consultation sets out a further definition of the proposed TOM. Given the objectives of the programme, we do not understand the definition and purpose of proposals to include a suite of requirements to hold gas (but not electricity) metering equipment and site data, and to provide and hold data to support balancing and settlement, transportation charging and data enquiry services. We would welcome the opportunity to participate in work to articulate more clearly the definition of the envisaged boundaries of responsibility between licensees and therefore of the services that each industry party would take from the CRS.

Ofgem has not given any indication previously to the industry through either Change of Supplier Expert Group meetings or formal Requests for Information and consultations of its intention to include these requirements within the scope of DCC obligations. We consider that these requirements are materially over and above those that are necessary to facilitate a next day Supplier switching process, and would therefore require significantly more time, cost and risk to implement. We would therefore welcome clarification from Ofgem of the purpose for their inclusion and how they are expected to contribute to delivery of the programme’s objectives.

We note the proposal for centralised registration services to be for all Supply Points except those that are directly connected to transmission networks. The design of gas industry processes and systems needs to ensure that offtake data for all Supply Points is capable of being aggregated in a single place for the purposes of running energy allocation, balancing and settlement processes and calculating transportation charges. We assume that this function would continue to take place in Transporter Agency systems, but would welcome clarification from Ofgem on this matter.

Whilst the consultation proposals endeavour to provide specificity of requirements in some areas (for example, within day cut off times for next day effective transfers and timescales for data transfer between parties), other functions are only loosely defined and will require greater granularity before a CRS TOM baseline can be approved. Care also needs to be taken to avoid operating models being unduly prescriptive at an early stage in the development of the CRS TOM, as this may inadvertently constrain thinking in other areas.

In particular, we note that further consideration needs to be given to the potential impacts on processes that, from a GT-Shipper perspective are ‘downstream’ of the registration and switching processes, including energy forecasting and allocation processes which currently require and will continue to require ‘stable’ data sets to specific timescales.

b. Amendment to Industry Codes and Licences

Ofgem has concluded that the DCC is to have obligations to provide a Centralised Registration Service, and proposes that these be introduced by way of amendment to the DCC Licence, with detailed rules for switching and the management of registration services being set out in the SEC. Consequent changes would be required to a number of other Licences and industry Codes.

In comparison to the weight given in the consultation to service requirements and delivery approach, the CRS TOM proposals are relatively light on the scope and nature of amendment to industry Codes and Licences. Going forward, we would expect the programme to determine the required changes to the regulatory framework so as to build certainty as to which licensees have what obligations, ahead of developing detailed requirements, contracting for services and designing systems solutions.

There is a risk that the placing of Licence and / or SEC obligations on the DCC over and above those necessary to maintain a Supply Point Register and facilitate the Supplier switching process would introduce greater complexity to the regulatory framework than would otherwise be the case, with consequent cost, risks and time to implement arrangements. In order to run their businesses, Networks will continue to need access to relevant data and under the TOM it would appear that they would have an unnecessarily increased dependency on the discharge by the DCC of its SEC obligations to in turn deliver their own obligations under the UNC.

c. Gas Shipper / Gas Transporter Relationship

We welcome recognition in the proposed CRS TOM of the need to consider the role of gas Shippers. Whilst the new arrangements would be likely to define registration obligations in the DCC Licence and the SEC, thereby creating contractual responsibilities between the DCC and Suppliers, it is vitally important that all Gas Transporters have the ongoing ability to maintain a record of the registered gas Shipper at each Supply Point, in order to ensure the effective operation of the UNC and the iGT UNC and to strike the contractual relationship.

As the CRS TOM is developed, further work needs to be undertaken to define both the extent of repositioning of prevailing GT and iGT Licence and Code obligations appertaining to registration, and the consequent requirements for the physical flows of data between service providers that are appointed by Licensees to discharge those obligations. Processes and data flows should be designed in such a way as to ensure alignment across the different registers of the Supplier, Shipper and Gas Transporter relationships.

The CRS TOM proposes that the existing Licence requirements on GTs (and DNOs) to provide registration services would be removed. In our response to Ofgem's initial consultation on next-day switching, we observed that there might be little or no need to amend GT Licences, although changes to UNC Section G might be required. We consider that these observations, which are reproduced at Appendix 1, remain valid, and would encourage Ofgem to give them due consideration as the programme develops the detail of the amendments to Codes and Licences required to give effect to the CRS TOM.

## **Next Steps**

We are happy for you to publish this letter and the supporting Appendix, and we would also like to take this opportunity to register our interest in participating in the proposed industry expert groups to review responses to the consultation.

If you would like to discuss further any aspect of our response, please contact Martin Baker, External Affairs Manager, on 0121 623 2692 or e-mail [martin.baker@xoserve.com](mailto:martin.baker@xoserve.com).

Yours faithfully

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## Appendix 1 – Observations on amendments to GT Licence and UNC

These observations have been reproduced from our response to Ofgem’s initial consultation on next-day switching.

1.1 We observe that, from Standard Special Condition A31 (“SSC A31”) of the GT Licence and relevant UNC provisions:

- (a) The GTs have prevailing Licence obligations to:
  - (i) Establish, operate and maintain a Supply Point Information Service;
  - (ii) Maintain a register of Supply Point data;
  - (iii) Amend that data to reflect a change of Supplier;
  - (iv) Provide Supply Point data to eligible parties; and
  - (v) Provide and publicise a Supply Point enquiry service;
- (b) Based on the above, there is no explicit GT Licence obligation to administer the Change of Supplier process; and
- (c) UNC Section G contains detailed provisions in respect of Supply Point registration, including GT and Shipper responsibilities to flow data to relevant parties in relation to the Change of Registered Shipper process, thereby enabling the GTs to discharge their SSC A31 Licence obligations.

1.2 It would appear therefore that, for the GTs, there may be little or no need for change at a Licence level. Dependent upon the scope of the DCC registration service, there would potentially need to be changes to the SEC and / or the UNC such that the Change of Registered Shipper could be notified to Xoserve in its capacity as Transporter Agency. We anticipate that there would be similar changes for the iGT arrangements.