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Dear Rachel

UK Link and the Proposed Central Switching Service

Thank you for the opportunity to provide our views on the Ofgem consultation covering UK Link and the proposed Central Switching Service (CSS).

Our response largely concentrates on the costs, benefits and risks of building on the UK Link system and says less on possible XoServe governance changes. In addition to responding to consultation questions our response includes clarification of DCC's activities and associated costs in supporting development and procurement of a new CSS.

Key Messages

Before setting out our more detailed points, we feel it is important to re-emphasise the key principles and vision that shape the overall switching programme. It is fundamentally about delivering a harmonised, faster, reliable and efficient switching solution to benefit consumers. Many consumers don't switch their energy supplier because they consider the process to be a hassle and fear that something will go wrong during the switch. These consumers could miss out on £100's cost savings as a result of remaining with the same energy supplier. A better switching system should help both domestic and business consumers realise cost savings and could support the delivery of future market innovation, promoting future competition in the provision of energy services.

However, we recognise that the costs of the switching programme, including costs incurred by industry parties, will ultimately be borne to a greater or lesser degree by the end consumer and these 'pass through costs' must not outweigh the consumer benefits.

Although the CSS design work is yet to be concluded, it is already clear that it will be comprised of a number of services and deliverables and these might be procured separately or in different combinations. We consider that competitive tendering is an important way to assess the value for money achieved via different delivery options (and associated integration/implementation risks) thereby delivering consumer benefits and enabling innovation. We therefore welcome bids from all organisations, including XoServe.

However, we are concerned that the process to change XoServe's governance could result in a delay to the commencement of the tendering process with the potential to adversely impact the Switching Programme Go Live date, delaying the realisation of consumer benefits. We do not think this risk should preclude XoServe from participating in the procurement process but consider that an early independent evaluation by Ofgem of the capability of the UK Link system to deliver the new switching requirements would be valuable. The results of this capability assessment could be used to inform any decision on governance changes.

We would like to stress that the development of the Central Registration System (CRS) Technical Specification does not commence until late October and it is therefore impossible for any party to assert at this point in time that they possess a solution that is compliant with the new CSS requirements. Early evaluation of any system, regardless of whether that system is already in use or a new prototype development, can therefore only demonstrate future capability. It does not preclude the requirement for full participation in the procurement process and regardless of the extent of any early assessments that are undertaken we consider that proposals put forward by any party during the procurement process should be accompanied by proof of concept testing. We intend to provide an innovation harness to support this testing activity during H2 2018.

UK Link: Potential benefits and risks

At this stage, without either the detailed design for the CSS or an in-depth knowledge of UK Link, we can only conclude that building on UK Link may offer some benefits in developing CSS. More broadly, and in the interests of a successful and cost-effective development of CSS, we support an inclusive approach and would encourage any parties who might offer benefits to developing CSS to consider participation in forthcoming pre-procurement events which will be publicised on the DCC website.

At paragraph 3.4 the consultation raises the substantial industry investment that might be leveraged from UK Link. We understand that a significant proportion of UK Link has been developed to support gas settlement activities and that gas switching is a relatively small function within the wider system. It would be helpful in the consultation response to clarify the elements of UK Link that are under consideration, thereby avoiding the risk of overstating the investment in switching functionality to date. DCC considers that an approach

'to minimise the redundancy of existing systems' that are used mainly for purposes other than switching should be secondary to defining a CRS Technical Specification and implementing a sourcing strategy that best delivers consumer benefits.

The potential benefits listed at Paragraph 3.7 would each seem plausible but DCC is concerned that they:

- are built on an entirely untested assumption about meeting the requirements of the Switching Programme
- are not quantified. For example, we anticipate that system and process changes will be needed from industry participants to accommodate the new switching business processes in any case and the extent to which building on UK Link reduces the overall task is unknown.
- are presented without contextual information on other assets or organisations that might add value to the new CSS.

Whilst the suggested benefits at 3.7 may appear quite compelling they create concerns around structuring a fair procurement. DCC is open to a governance change to allow XoServe to tender, however we feel it is important to avoid creating any sense that an organisation has a significant advantage in the procurement process. As Ofgem consider the options for UK Link going forward there may be value in distinguishing between UK Link as an industry funded 'asset' and XoServe as a company. Subject to the agreement of relevant industry funders we would support consideration of any potential tenderers gaining access to the UK Link 'asset' in framing (and subsequently delivering if successful) their proposals. We believe that allowing different organisations to use this industry funded asset may support the recovery of existing sunk costs (if that is a concern for industry parties) and help to stimulate the market for delivering CSS.

Points have been made on DCC's procurement approach from 4.17 to 4.24. DCC do intend to come forward with more detail on tender evaluation and an approach to ensuring fairness in consideration of bid responses across different 'economic operators'. Whilst the evaluation criteria and procurement approach are in early stages of development we do not anticipate that they would be incompatible with, or a barrier to, consideration of a possible XoServe proposal.

XoServe governance issues

We agree with the points at paragraph 4.4. relating to governance change. However any change should not go as far as to leave XoServe with an advantage or disadvantage. If a change is made to governance we consider that it should relate to the ability to tender for relevant contracts and to enable timely modifications to the switching solution. In terms of the extent of the limitations on XoServe, DCC has no strong view but we do agree that these

should not imply any expectation about the CSS contract costs or delivery dates.

We also agree that care is needed – if XoServe is to have a CSS contracted role – that recovery of CSS charges does not in any way conflict with XoServe’s wider engagement with, and costs recovered from, the gas sector. We have no concerns about the model of a subsidiary business but agree that the conditions at paragraph 4.16 relating to Elexon are important.

The DCC role

DCC published a Business Case for the Transitional Stage of the Switching Programme which including a cost of £24million. This reflected a high degree of uncertainty around the extent of activities to be undertaken during the stage. We understand that this figure may have been misinterpreted by some parties and quoted as the cost of the DCC led procurement activity. For clarity, this cost encompasses the full extent of DCC’s involvement in the Transitional Stage including, for example, support to the development of the E2E Business Process Design and the CRS Technical Specification. We encourage parties to refer to the DCC Business Case or contact the DCC Switching Programme Director if they have any questions relating to these costs.

DCC is currently re-baselining the DCC Programme Plan in accordance with the recently published DB2 consultation and this plan has been subject to independent review. We will be publishing a revised Business Case in Q3 2017 setting out this plan and costs to the end of the Transitional Stage.

I hope that these comments are valuable. Please don’t hesitate to contact me if you would like to discuss any of the points raised in our response.

Yours sincerely



Helen Fleming

Director of Corporate Affairs