Rachel Clark
Switching Programme
Ofgem
9 Millbank
London
SW1P 3GE

Email to: Switchingprogramme@ofgem.gov.uk.

29 September 2017

Dear Rachel

UK Link and the proposed Central Switching Service

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, storage, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We continue to support Ofgem's intent to simplify and harmonise the gas and electricity switching arrangements where this is done in a manner which delivers value for money for customers, and welcome the opportunity to respond to this consultation.

We remain unclear on the quantifiable benefits to be gained by implementing a Central Switching Service (CSS). It is not evident how the CSS will deliver improved switching reliability either at a cost or in a manner that is not achievable through enhancements to the existing registration systems. Alignment of switching processes across the fuels, together with access to better quality address data, should deliver the same benefits but at a much lower cost. Ofgem need to do more to articulate the benefits of a CSS before progressing with this approach, whoever might provide that service.

We also have concerns about progressing development and implementation of a CSS at a time of significant technological evolution. Emerging technologies such as blockchain have the potential to deliver significant benefits to switching and other industry processes. It must be ensured that any investment in a CSS now does not become regret spend in the coming years, and that any solution will remain in place long enough to pay back any investment in it. It might be prudent to make smaller incremental changes now, and make a more significant step change in the coming years as new technologies emerge.

Should a CSS be progressed as part of the reform of the switching arrangements, every opportunity must be taken to ensure that CSS is delivered as cost effectively as possible, while delivering a more reliable switching experience. We strongly agree that the UK Link systems should be considered as a potential option for delivery of the CSS if this will result in lower costs without compromising on improved switching reliability.

EDF Energy
40 Grosvenor Place, Victoria
London SW1X 7EN
Tel +44 (0) 20 7752 2187

edfenergy.com

As an industry, we have made a significant investment in the UK Link systems as part of Project Nexus, and we should be looking to leverage that investment if possible. As well as potentially reducing implementation costs through re-use of the existing solution architecture, use of the UK Link systems also offers the opportunity to reduce delivery risk by reducing the overall amount of change required to move to a CSS.

While UK Link should be considered for the CSS, and would appear to be a strong candidate for that role, we believe that robust procurement process will still need to be undertaken before any contracts are awarded. It must be proven that not only can UK Link meet and deliver the agreed requirements for a CSS, but that it can do so at a cost, and in a manner, that cannot be achieved by alternative providers. Pre-judging that procurement process could result in increased costs or sub-optimal solutions. At the same time, should be become obvious early on that UK Link, or any other solution, is a clear front runner for the CSS, then it should be possible to avoid unnecessary expense and shorten that procurement process.

While the UK Link systems could prove to be the right platform for delivery of a CSS, there are a number of concerns that we believe would need to be addressed first. These are set out in detail in our responses to the questions posed in the consultation. These mainly relate to the ability of Xoserve as an organisation to be able to deliver a CSS effectively, and the impact that any work on a CSS would have on their current obligations and support for the UK Link systems. We are especially concerned about their ability to resource to meet all of their obligations, and the potential for resource prioritisation calls to need to be made. Consideration should be given to whether another party, potentially in conjunction with Xoserve, would be better placed to undertake this work.

This might also help to alleviate our concerns about the funding arrangements for any potential bid, and how these will be recovered from parties. Funding arrangements and governance issues should not be an insurmountable barrier to progressing the most-effective CSS solution. At the same time, we are concerned that we are being asked to provide additional funding for Xoserve's bid for the CSS without a clear view of what those costs will be, and the mechanism for recovering them.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Paul Saker on 07875 110937, or myself.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

Paul Delamare
Head of Customers Policy and Regulation

Attachment

UK Link and the proposed Central Switching Service

EDF Energy's response to your questions

CHAPTER: Three

Q1. Do you agree with the benefits outlined in 3.7 a-c below. If so, how significant do you consider these benefits could be for the purposes of implementing more reliable, faster switching?

We broadly agree with the potential benefits of using UK Link outlined in the consultation.

Solution Architecture

In regards to solution architecture, it would seem reasonable to assume that using an existing system to deliver the CSS should be less complex, and therefore less costly, than implementing brand new systems. It would also seem sensible to leverage the significant investment that the industry has made in the UK Link systems if this will deliver the right outcomes. We must seek every opportunity to deliver any new switching arrangements in the most cost-effective way possible, without compromising the robustness and accuracy of the switching process.

It is not clear as to the extent to which the UK Link systems will need to be changed or developed in order to deliver the proposed CSS functionality. While the SAP_ISU product provides switching functionality for gas, we believe that this will require extensive customisation to deliver all CSS requirements. We have concerns about the ability of SAP-ISU to support dual fuel switching, as well as the real time operation which is critical to the CSS. Such customisation might not only mean significant development costs, but this could increase the support costs the more the product changes from the standard functionality that the product is designed to support. Furthermore, it is critical to ensure that the CSS is not designed solely around what is possible within UK Link. Such an approach could introduce unnecessary barriers and deliver a suboptimal outcome. Therefore, this is an area which we would be keen to understand further.

We do not believe that is necessarily accurate to assume that the current links to the UK Link systems would form the basis of the CSS, or that this would necessarily deliver material saving compared to alternative solutions. As noted elsewhere in this response, the CSS should be regarded as being a logically separate function, even if it is hosted on existing system architecture. The fact that the CSS is hosted on the UK Link systems should in effect be transparent to the parties that interface with it.

In the case of communication of dataflows in the electricity market the number of parties that our systems need to interface with is not an issue as the Data Transfer Network provides connectivity for all parties in the market. All dataflows are communicated using the same mechanism and just need to be 'addressed' to the right recipient. Adding

additional parties or systems to that infrastructure does not materially increase the complexity of that communication, and the same should in theory apply to introduction of a CSS. We support the implementation of a single communication infrastructure across all market participants for both fuels, to simplify communication and reduce costs.

It should also not be assumed that the current interfaces that parties have with the UK Link systems would be used for communications with a CSS function. The method of communication of information between industry parties and the CSS should be based on clear functional and non-functional requirements that deliver the right outcomes, and an accurate and robust switching process. It must also be remembered that many parties that will need to interface with the CSS will not currently have any interaction with UK Link.

Reducing Delivery Risk

We agree that the use of an existing platform should reduce the level of risk associated with the delivery of a CSS. We have seen numerous examples of the types of issues that are created through the implementation of brand new systems, even after what would appear to be comprehensive pre-implementation testing has been undertaken. It would also seem reasonable that removing the need to migrate data from the UK Link systems to the CSS should further reduce delivery risk. It is likely that the data that is held within UK Link will need to be changed or adapted in order to meet the CSS requirements and this would need to be investigated.

Use of an existing platform does however come with its own set of risks that will need to be actively managed. The UK Link systems provide critical functions in the gas settlement arrangements. Any changes to the UK Link systems create a risk that critical functionality will be adversely affected, which would have a material impact on parties in the gas market. Comprehensive and robust testing, including full regression testing, will be required to mitigate these risks.

Investment and cost to serve

We strongly agree that all opportunities to reduce the cost of implementing a CSS without compromising the accuracy of the switching process should be explored. Customers will ultimately pay for the implementation of the CSS, and we need to manage the impact on their bills. Using existing systems, as well as sharing service management resources and other costs would seem to provide a clear route to delivering a CSS in a cost-effective manner, and we strongly support exploring this opportunity further. However, it must be ensured that any assessment of the costs associated with use of the UK Link systems as the CSS are reflective of the full cost to industry, including changes required to mitigate any impacts on gas settlement processes.

Q2. Are there other benefits that we have not identified?

One potential benefit associated with using Xoserve as a delivery partner, rather than using the UK Link systems themselves, is that Xoserve have recent experience of an

implementation of the size and complexity of the CSS in the energy market through Project Nexus.

While we recognise that the implementation of Project Nexus was a difficult process, we would expect there to be clear lessons learnt from that piece of work that could applied to implementation of a CSS. Even if Xoserve are not ultimately chosen as the delivery partner for the CSS, there would seem to be significant value in ensuring that the lessons learnt from Nexus are captured and used to inform the progression of the CSS.

It is also worth noting that as an existing industry party managing a critical shared service Xoserve already has a strong operational relationships with a significant proportion of the parties that will need to interface with the CSS in the future. There would seem to be some benefit to be gained from leveraging the current role that Xoserve has within the wider industry arrangements, when progressing the design and implementation of a CSS.

Q3. Do you see any particular risks or disadvantages? If so, please outline them.

While we are supportive of considering UK Link as a platform for delivery of a CSS, we believe that there are some risks and issues that will need to be considered as part of this process.

Our primary concern is whether Xoserve has the bandwidth to be able to be involved in tendering for, let alone running, the CSS. We would like to understand what impact their involvement will have on their ability to meet their current obligations and deliver their core services. It is not clear how Xoserve will have the capability to take on any additional work without there being an adverse impact on their current activities.

As an example, we are still waiting for Xoserve to deliver the changes required to enable retrospective amendments, which were originally intended to be part of the core Nexus implementation. There are also a number of other changes that are in various stages of the change process, and which may need to be implemented. Involvement in the CSS could serve to be a distraction to Xoserve, and impact delivery of their core services both now and in the future. It is not clear how resource would be allocated across the CSS and settlement functions, and what might happen in the event that there is contention for resources. While there may be synergies to be realised by having this managed by a single organisation, there are clear risks that this can cause contention for resources which requires prioritisation.

As noted previously, the UK Link systems have a functional remit that is much wider than the switching process for gas metering points. As far as possible any CSS functionality on the UK Link system will need to be ring-fenced from the rest of the system to mitigate the risk of adverse impact on UK Link's other functions both during implementation and post implementation.

Xoserve is an experienced participant in the energy market, however, their current experience is limited to gas operations. It is not clear that they have a detailed understanding of the electricity arrangements, and the requirements the CSS would need

to meet in order to support the effective operation of those arrangements. While this may not be an issue that is unique to Xoserve when it comes to bidding for or delivering the CSS, they will need to demonstrate that they have the capability and resource capacity to acquire and retain this knowledge in order to deliver an optimal solution.

While we believe the UK Link systems have the potential to be a suitable candidate for hosting of the CSS, we have a number of concerns as outlined above. Consideration should be given as to whether a separate organisation, wholly focussed on the CSS and working in conjunction with Xoserve would be better placed to deliver and manage the changes to that platform.

CHAPTER: Four

Q4. Under the current Xoserve CDSP governance do you believe there are any substantive obstacles to Xoserve's ability to participate in a competition? If so how could these obstacles be overcome?

We agree that the current CDSP governance does appear to be a barrier to Xoserve's ability to participate in a competition. These issues need to be resolved as early as possible in order to provide clarity as to whether it is viable for Xoserve to proceed with a bid. We must avoid the situation whereby Xoserve, and the industry participants that provide their funding, spend time and money on engaging a process they are not actually able to successfully compete in.

EDF Energy agrees with the challenges that are set out in the consultation document in regards Xoserve participating in CSS procurement. It is clear, from the detail set out in the document that Ofgem acknowledge the complexities that are involved in amending the arrangements to allow the CDSP to tender for CSS. Notwithstanding this, the matter of funding is an issue that needs to be addressed in the immediate term, prior to potentially exploring governance changes needed.

The process to establish the CDSP via the FGO programme was a long and protracted, throughout the process there was a significant challenge around engagement from key industry participants. Establishing the CDSP involved substantial involvement of legal representation and consultancy support. For these reasons, we would be concerned about the ability of industry and Xoserve to robustly engage in a further programme of change, without engaging additional external support. Furthermore, a key consideration for all parties, particularly Xoserve, should be ensuring that they do not lose focus on the existing operational challenges, to fully establish the CDSP co-operative model in a post Nexus environment.

As set out above, one of the key considerations is how Xoserve intends to fund the initial work that has already begun and will be required to tender for CSS. Xoserve is likely to need to enlist support and expertise from external parties in order to develop a comprehensive tender submission. Under the existing funding and governance arrangements funding of this nature should be included and agreed through the annual business planning exercise. EDF Energy do not believe it is appropriate that this funding is

managed through the existing budget, as the vires to tender for services of this nature does not currently exist.

Given the complexities set out above and within the Consultation document, EDF Energy would be supportive of Xoserve seeking to establish a separate business that allows Xoserve to develop a CSS proposal outside of the newly established CDSP services. We consider this will provide the clearest governance framework, would avoid any funding issues as well as allowing Xoserve to enter into commercial contracts with parties to support their tender.

As noted previously, consideration should be given to how a new separate organisation to Xoserve, unencumbered these governance restrictions, could be used to bid for and potentially implement the CSS on the UK Link platform.

EDF Energy
September 2017